

By e-mail to: switchingprogramme@ofgem.gov.uk

Rachel Clark
Programme Director, Switching Programme
Ofgem,
9 Millbank
London
SW1P 3GE

27 September 2017

UK Link and the proposed Central Switching Service – ELEXON comments

We welcome the opportunity to comment on your consultation on UK Link and the proposed Central Switching Service (CSS).

As you are aware ELEXON manages the code, systems and processes that support the BSC arrangements. We note the references to ELEXON within your consultation document and recognise the parallels between the challenges faced by Xoserve and those that ELEXON have long been wrestling with. These being, how as providers of central services we may bring further benefit to industry and the consumer through a wider application of our services, skills and assets given the limitations on such organisations.

We welcome Ofgem's discussion on the potential for existing services and infrastructure to be considered as an option for future market services and solutions. We also welcome Ofgem's discussion on levelling the playing field by encouraging procurement approaches to consider how alternative business models (such as not for profit or limited liability) can be assessed against other tenders.

Question 1: Do you agree with the benefits outlined in 3.7 a-c. If so, how significant do you consider these benefits could be for the purposes of implementing more reliable, faster switching?

ELEXON is not a user of the UK Link system and cannot comment on the specific merits of that system versus other solutions. However we do believe that, until there are clear reasons why a particular solution should be ruled out, the industry should have the opportunity to consider all competing solutions in parallel. We therefore believe that all potential bidders should be provided the opportunity to demonstrate the capability and suitability of their solution as part of a competitive tender process.

Question 2: Are there other benefits that we have not identified?

Yes, there is the significant benefit of allowing as open a field as possible of potential service providers to ensure there is a greater competitive choice for the tendering organisation and greater incentives on the bidders to offer robust and cost effective solutions.

There is a potential benefit that arises from the participation of existing central service providers in bidding for new/adapted central services, in so far as, should an existing provider be successful it reduces the complexity of the central services landscape for users. A further proliferation of central bodies providing core industry services simply adds further complexity to an already complicated framework and creates challenges for implementing cross code changes to deliver policy goals for an energy system that is transforming.

We would also suggest that allowing a not for profit body to provide the service is likely to represent a more cost efficient solution. This is particularly the case in the early stages where changes and adaptability will be significant and are typically where users can risk ending up making material cost of change payments to a for profit commercial provider.

Question 3: Do you see any particular risks or disadvantages? If so, please outline them.

There a risk that industry and Ofgem takes the time to assess the potential benefits of an Xoserve bid based on using UKLink but the DCC concludes it cannot accommodate alternative business models in its tender approach. The risk is that industry therefore could partially fund a wasted bid. This happened when ELEXON explored how it might meet the Gas Assurance tender.

If Ofgem believes the CSS role could take on more roles in the electricity industry post half hourly settlement, the evaluation of the system platform should not be limited to the scope of CSS services but for the potential to enable innovation and change at a pace and at a low cost. If the successful bidder's systems lock the industry to an overly expensive and constrained solution, the cost to industry would be significantly bigger than just this bid.

Question 4: Under the current Xoserve CDSP governance do you believe there are any substantive obstacles to Xoserve's ability to participate in a competition? If so how could these obstacles be overcome?

We believe the potential obstacles to Xoserve's participation in tendering for the CSS work (or other tenders) are similar to those that have affected ELEXON in the past. Therefore it is appropriate to learn lessons from the past regarding relaxation of licence constraints and creating the opportunity for a wide range of participants to tender for central energy services by ensuring that different delivery, risk and reward options can be considered.

Amending of licences as an enabler for Xoserve to undertake activities

We note Ofgem refers to amending licences (of the Gas Transporters) to specifically allow for Xoserve to participate in this activity. This is what has happened previously in the case of ELEXON, as BSCCo, where the Electricity Transmission Licence prevented ELEXON, as BSCCo, from undertaking additional activities and the licence had to be amended firstly to allow ELEXON to administer the Warm Homes Discount reconciliation service and then later to provide the EMR settlement services. However. it is a cumbersome and lengthy process to amend a licence for each occasion. We would observe that, given the potential transformation of the energy landscape and government policy ambitions, there may be other circumstances in the near future for which Xoserve would be well suited but which could therefore require amendment of licences to permit this. Consequently it may be more prudent to remove the prohibition in the licence (to avoid the need for piecemeal licence changes) and introduce a simpler approval process as a safeguard, such as approval by Ofgem. This would then allow for future amendments to be managed through less onerous, and less timely, provisions than licence changes whilst providing a safeguard against Xoserve embarking on unacceptable activities. A similar approach was adopted by Ofgem when it removed the prohibition in the Electricity Transmission Licence that prevented ELEXON, as BSCCo, from undertaking additional activities. There was still a safeguard, namely that the ability to undertake additional activities was subject to a regulatory approval process (in the case of the BSC, this is Ofgem approval of a Modification to the BSC itself). In summary, for Xoserve, we would suggest the removal of the restriction in the licences and the introduction of a regulatory approval safeguard similar to that applicable to ELEXON.

Consideration of conditions necessary to ensure an open competition

We would agree with Ofgem's views that tendering organisations should seek to obtain as wide a field as possible for bidders by considering whether service providers with different operating models, such as not for profit, limited liability structures can compete for services. This should be considered by understanding the appropriate balance of potential risks and rewards and the use of non-financial levers to incentivise performance. It is our experience, learned from the BSC (and especially from our wholly owned but separate EMR settlement subsidiary which contracted with a third party systems provider), that having a contract with a third party where that contract contains significant liabilities does not guarantee delivery. Instead as we have demonstrated to BEIS and LCCC/ESC when we terminated our contract with that provider, it is more important to have a company (in our EMR example, that was ELEXON) with the correct culture, domain knowledge and stake in the industry, to see the project through to success.

For example, ELEXON has now been recognised, as evidenced by Ofgem's own code administrator survey, as a 'best in class' code administrator. So it would be ironic if we were not able to leverage this expertise to the benefit of our industry and ultimately the electricity consumer, because of our operating model. Therefore we support the principle of opening up future competitive tenders to those best able to fulfil the role no matter what their operating model.

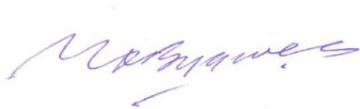
Conditions to be met for Xoserve to operate outside the CDSP

In Section 4.16 you refer to four conditions that should be met to allow Xoserve to operate services beyond the CDSP. ELEXON recognises these as they mirror the conditions Ofgem have previously suggested for any ELEXON diversification. We note that scope for interpretation of these can vary significantly. We would also note that there may be a case where consumers could be the end beneficiaries of any diversification into particular services (such as the CSS) and this is worth considering alongside the proposed conditions.

The views expressed in this response are those of ELEXON Ltd, and do not seek to represent those of the BSC Panel or Parties to the BSC.

If you would like to discuss any areas of our response, please contact Mark Bygraves, Chief Executive, on 020 7380 4137, or by e-mail at mark.bygraves@elxon.co.uk.

Yours sincerely,



Mark Bygraves
CEO, ELEXON