Consultation:

UK Link and the proposed Central Switching Service

Response from E.ON

General Comments:

We support the option to include the current UK Link system in the evaluation for the procurement of a new Central Switching Service (CSS).

Significant sums have been spent by participants in the downstream gas industry in developing and implementing the new UK Link system via Project Nexus. This project lasted for 10 years and saw many millions of pounds of investment spent by a significant number of parties across the industry. Utilising this SAP based IT solution for other purposes would therefore seem to be an efficient and logical thing for the industry to consider.

We appreciate the complexities with the governance arrangements that will need to be overcome. Concerns will be raised by some parties regarding the additional costs and risks that this option may present to the gas settlement processes. These are performed by Xoserve and the UK Link systems and industry participants rely upon these functioning to ensure that their own commercial activities can be successfully undertaken.

These arguments and challenges are similar to those raised during Elexon's attempt to expand its operating model and to bid for other commercial opportunities. We can learn from this experience and understand how to address the concerns and to develop safeguards to ensure that the existing service is not denigrated in any way.

Ultimately Elexon were successful in expanding their activities to support the implementation of new reforms in the electricity sector including the Electricity Market Reforms. This allowed the industry to leverage the skills and investment that had been made in Elexon for the benefit of future consumers. There is no reason to suggest that a similar benefit could not be realised from using Xoserve's systems and personnel.

We therefore see the opportunity here to explore whether an existing industry asset could potentially be leveraged to provide a useful solution for a new industry requirement.

We also agree with Ofgem that UK Link should form part of a competitive procurement or similar robust evaluation exercise and be pitted against other options using a transparent and rigorous process.

This assessment is needed as other alternative options may ultimately turn out to be a better choice for the industry. It would not be appropriate to make assumptions with regard to what is the best IT solution to take forward without having assessed all the potential options.

Xoserve does have skills gaps that will need to be filled in order to allow it to properly be considered in a procurement bid for the CSS and we note that they have partnered with other organisations to provide this. We welcome this development and believe that it strengths the case for their inclusion in an assessment. This proposal also opens for discussion what entities will be needed in the future build, test and implementation phases of the project and how these should be procured by the project and funded by the industry. We would welcome dialogue with Ofgem regarding this during the next phase of the project.

Xoserve is established as a non-profit making organisation whose purpose is to provide central services for the industry. It therefore has no need for the specialist staff and skill set needed for a commercial bid.

The funding of this new additional activity will therefore be one of the key issues that will need to be addressed. Ultimately these costs will be borne by the current users of Xoserve's services and as one of these parties we are comfortable that it would be a prudent investment to ensure that the Ofgem switching reform project explores all available options.

Should UK Link and Xoserve prove to be the most logical solution for the CSS then there will be a number of questions to answer with regards to the evolution of the existing governance arrangements. None of these are insurmountable and could be managed within the scope of the proposed new Retail Energy Code and the existing CDSP governance arrangements.

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

    a) *Solution architecture:*

Leveraging the use of an existing industry system rather than procuring a new one should in theory be cheaper and therefore exploring whether this is true or not via a competitive tender exercise or a similar evaluation process including the UK Link system is something that we would support.

As we already have working operational connectivity to the UK Link system the implementation costs for ourselves would be lower than building and testing links to a new system.

Whether our enduring operational costs would be lower is something it is not possible for us to quantify at the moment as we do not understand in detail how the future CSS element of UK Link would function.

    b) *Reducing delivery risk:*

We agree that it would reduce the risk of the switching programme's delivery to use an existing system that already includes half of the industry data. Risk would continue to exist with the data migration for electricity customers.

    c) *Investment and cost to serve:*

Compared to the building, implementation and testing of a new IT solution the use of an existing application should be cost effective although this should be tested to prove the hypothesis.

The enduring maintenance costs again in theory should be lower from having one application versus having two although again this is something that needs to be substantiated.

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

Having a single service provider for the CSS and gas settlement activities may provide a benefit to the industry from enhanced opportunities for Xoserve staff retention and individual development.

This is difficult to quantify but one of the key strengths of industry code administrators and service providers is their ability to offer a quality service in support of industry participants. Anything that can promote and enhance this would be welcome.

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

Some potential risks include:

- There are additional risks from grouping a number of key industry processes and systems into one single point of potential failure.
- The implementation of the CSS onto the existing gas settlement systems may potentially introduce risks around the stability and performance of these existing processes.
- Having too many industry central services provided by a single service provider may in time limit the competition that exists for these services and ultimately lead to overall less efficient service delivery.

We would envisage that these risks could be mitigated and that they should be included in the evaluation process to understand whether using UK Link as the CSS is the right way to proceed.

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 could be overcome?*

It is useful to split the governance question into two distinct phases.

The first is the funding and governance of permitting Xoserve to bid for this specific activity.

The second involves understanding what the enduring governance and funding arrangements might look like should it be decided that UK Link should provide the CSS service.

There is time pressures on the first of these issues with a decision and way forward needed fairly quickly. This would permit Xoserve and its partner organisations time to prepare for a potential bid and will also ensure that the switching project does not experience undue delays.

We believe that it is possible within the scope of the existing DSC to agree for this activity to be undertaken by Xoserve as an Additional Service. Current DSC members would all

potentially benefit from the use of UK Link as the CSS so there should be a consensus view that this activity and cost is worthwhile.

The longer term governance arrangements and changes that may be needed to Licences, the DSC and the new Retail Energy Code are all issues that could be explored and resolved later in the project once it is clear that UK Link is going to be used. None of these issues should be insurmountable and present too much of a challenge to the potential use of UK Link for the CSS.