

Via email: [switchingprogramme@ofgem.gov.uk](mailto:switchingprogramme@ofgem.gov.uk)

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Dear Rachel

### **UK Link and the proposed Central Switching Service**

Thank you for the opportunity to respond to the above consultation.

The challenges faced by all market participants are heavily contextualised by the unprecedented energy market transformation now taking place, and the proposed switching reforms are a significant dimension to this.

Gemserv's wide-ranging expertise, including 15 years as a central industry body, means that we are involved in many of the major policy developments and industry initiatives across the energy sector. This includes in our capacity as a code administrator for the Master Registration Agreement (MRA) which oversees electricity switching practices and supports the settlement processes under the Balancing and Settlement Code (BSC); for the Smart Energy Code (SEC) which sits at the heart of the implementation of GB smart metering; and for the iGTUNC the Independent Gas Transporters network code.

Consequently, we are at the forefront of addressing the day-to-day operational challenges and issues with which all energy market participants are wrestling and help to design and deliver solutions that achieve the 'effective and efficient' aims of the market.

We highlight that the challenge of driving forward with reforms on this scale, whilst trying to keep down energy costs, is a significant endeavour. Indeed, the UK Government commissioning its 'Cost of Energy Review' – headed by Dieter Helm<sup>1</sup>, with terms of reference that include transforming the power sector and creating energy policy with 'minimum cost and without imposing any further costs on the exchequer', gives a clear emphasis that the cost to consumers should be a fundamental driver.

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<sup>1</sup> <https://www.gov.uk/government/news/independent-review-to-ensure-energy-is-affordable-for-households-and-businesses>

With respect to the reuse of existing systems, in this case UK Link, our starting position is to ensure that, given the need to drive transformational reform against a consumer led agenda, we move forward subject to three core principles:

1. Introduce competitive pressures to drive efficient practices, costs, benefits and innovation;
2. Examine how existing investment can be leveraged to support change before seeking out new investment; and
3. Evaluate new technologies against other options to ensure that there is sufficient confidence of delivering a more effective outcome in the longer term without unduly disrupting today's competitive markets.

Our response to the 'UK Link and the proposed Central Switching Service' consultation is therefore framed by these drivers and included as an appendix. In summary, our overall position vis-à-vis the UK Link and the proposed Central Switching Service is as follows:

- a) Examining the use of the UK Link as a CSS candidate is the right way to go. However, it must also stand up to proper scrutiny, including its ability to handle future change quickly and efficiently when responding to the rapid evolving energy market needs;
- b) Enabling organisations such as Xoserve to compete for services is good for competition, but must be delivered in a manner that ensures such organisations are exposed to the full effects of competition pressures, and avoid any perceived or real cross subsidy. Whether this can be achieved under a not-for-profit set-up is an arguable point, but could, nonetheless, be delivered with the right mechanisms, providing there is full cost and performance transparency;
- c) Use of tried and tested systems is a very helpful approach to support the Switching Programme. Existing systems are likely to provide a sound platform, providing they deliver agile and cost-effective outcomes; and
- d) We believe there are material challenges to Xoserve's governance framework and their ability to participate in a competitive tender. Whilst not insurmountable, it will require an appreciable change to their funding and governance framework. For example, the CSS switching relationship will be with Suppliers and not, as currently in UK Link, with Shippers. Moreover, as Ofgem notes, there are substantial third party service provisions to consider. Ensuring the right outcome is achieved within the proposed procurement timescale will be demanding.

Gemserv believes that central systems and their governance will need to undergo fundamental reform to ensure they are fit for the future. Ofgem will be aware that Gemserv and Xoserve have entered into a collaboration to develop a Market Intelligence Service (MIS) in support of the Switching Programme.

Gemserv is a strong advocate of this approach, seeing the distinct benefits of bringing together gas and electricity governance. Our work with Xoserve to provide a MIS solution demonstrates that both organisations recognise the reform agenda and are keen to support the energy industry move forward as efficiently as possible reducing the dual governance challenges that lead to inefficient costs and consequences for industry stakeholders. We note Xoserve's recognition<sup>2</sup> of the relative ease at which electricity data will be provided and integrated to the gas systems, and whilst the potential complexities here should not be underplayed, we understand that this ease of data migration should be the same for gas data into the electricity systems for use in the MIS.

Gemserv is uniquely placed to comment upon the future role of Xoserve. As a central body that has made the successful transition from Special Purpose Vehicle (SPV) to a fully-fledged commercial organisation, we have an unparalleled historical understanding of the critical importance for an organisation to have the appropriate governance regime in place before extending its remit into competitive diversification.

Our history of transforming the MRASCo services from an 'in-house' model to a contracted model may well provide useful insights in the considerations. We would be pleased to help inform Ofgem's considerations and support Xoserve and the CDSP's understanding of the broader roadmap, if this would be useful.

Yours sincerely

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<sup>2</sup> <http://xoserve.com/wp-content/uploads/Xoserve-Faster-Switching-Consultation-Response.pdf> - RAG rating and rationale in Xoserve consultation response

## **APPENDIX 1: GEMSERV RESPONSE, UK LINK AND THE PROPOSED CENTRAL SWITCHING SERVICE**

### **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?**

As discussed in our accompanying letter, Gemserv supports the principle of reusing existing infrastructure to provide workable and reliable solutions for the industry. We agree that using existing infrastructure can reduce not only delivery risk, but also the impact on related systems. Furthermore, leveraging the skills, expertise and knowledge already available has the potential to save the industry and consumers both time and money.

However, any proposed system solutions, based on existing infrastructure or otherwise, should clearly demonstrate that it can successfully meet the specified requirements, in both a timely and cost-effective manner, and all claims of benefits or added value services should be subject to robust scrutiny and challenge.

Gemserv is a strong advocate of market based solutions and, as such, strongly supports a competitive tender process. The positive role of competition and the benefits this brings has always been central to our company philosophy and, as such, we continue to promote the use of market based solutions.

### **2. Are there other benefits that we have not identified?**

Leveraging existing skills and capabilities from central bodies provides a stronger intellectual approach to design and change, and reduces risks for market reform initiatives. Many of Gemserv's employees are drawn from the very markets we serve, meaning that, not only do we understand gas and electricity governance and its application, but the challenges that arise for energy companies on a practical day-to-day basis. The key is recognising the complementary skills and capabilities that the different bodies have at their disposal and deploying these accordingly. It was these complementary capabilities that led to the collaboration between Xoserve and Gemserv with respect to the MIS.

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

The hypothesis that, expansion of UK Link to provide CSS may be relatively straight forward, would need to be evidenced and subject to comprehensive analysis, as would any competing bid, particularly to demonstrate delivery certainty. Industry need to be assured of not just system capability but also the ability to deliver on time and within budget. Gemserv notes that the implied simplicity of using the UK Link to provide the CSS is untested.

The switching element currently within UK Link is a Shipper switching system. The Shipper information will need to remain within UK Link to enable it to continue with its other Shipper functions,

such as transportation billing and settlement. However, in line with the defined requirements for Faster Switching, additional development will be required to move the switching element to a Supplier focused system. It is the Supplier switching information that will be needed to feed into the CSS solution.

To date, little focus has been given to the logical separation of the Shipper and Supplier switching systems and the potential complexities here. These implications go to the heart of the Xoserve vires and governance framework and how they might be able to drive change and innovation.

**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?**

The current CDSP governance model under which Xoserve operates will pose some challenges to participation in a competitive tender process. Ofgem have clearly articulated these challenges (including third party liabilities). Whilst the governance solutions suggested in the consultation might offer Xoserve permission to participate, there are wider considerations that need to be addressed, including Xoserve's not-for-profit model and how incentives to act can be delivered when any sanctions will ultimately be borne by market participants.

The financing of Xoserve's tender submission is an important consideration and, under current funding arrangements, would be effectively supported by UNC Parties. Participating in a major procurement exercise is a significant investment and, if financed by the industry without the appropriate governance (including transparency), competing companies may perceive this as a disincentive to participate.

That said, these challenges are not insurmountable. They do, however, have to be addressed correctly. Unfortunately, this may mean re opening the funding and governance framework within which Xoserve operates. One alternative is to require a subsidiary model approach, whereby Xoserve is required to operate independently of its main organisation with dedicated staff and systems.

The subsidiary model would allow Xoserve to create a company specifically to deliver a CSS solution. It would enable them to ring-fence the switching element of UK Link (which we understand is just one of the 149 processes that are active in UK Link). This, combined with a clear set of roles and responsibilities, would give the industry confidence that there were no cross subsidies in the provision of the CSS solution and that any bidding performed by the 'CSS company' would be performed on an equal footing to any other market participant.

In the case of Gemserv (by way of example), we moved from a Special Purpose Vehicle (SPV) to a fully-fledged commercial organisation in 2002. One of the reasons why this happened, was to avoid a

contracting model being funded via a Licence condition on Distribution businesses, who understandably were unwilling to fund activities which were not related to their core functions.

A subsidiary model effectively means creating special purpose vehicles for each subsidiary. This approach could be adopted by a 'New Xoserve' as a commercial choice under the contracting model. The contracting model has been adopted by other core industry documents, such as the MRA, Distribution and Connection Use of System Agreement (DCUSA) and Supply Point Administration Agreement (SPAA) and, to a lesser degree, the Uniform Network Code (UNC)/Independent Gas Transporters (IGT) UNC. These examples provide a solid substantiation of the evolution and success of such arrangements and the breadth of useful experience that code parties have in managing appropriate contract terms and negotiations.