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1 February 2017

Dear Laura

Industry Code Governance: Initial consultation on implementing the Competition and Market Authority's recommendations

Thank you for the opportunity to respond to Ofgem's initial consultation on implementing the Competition and Market Authority ("CMA") recommendations in respect of industry code governance. We are responding in our capacity as the Transporter Agency and as the gas industry Central Data Services Provider ("CDSP") designate. Whilst not being party to any of the industry codes, our role as the GB gas industry central delivery body has afforded us considerable experience of participating in and contributing to the definition of market reforms and delivery of central IT systems to enable those reforms.

We have learnt valuable lessons both for the industry and for Xoserve from our experiences in recent years, including our involvement in the development of requirements for and delivery of Project Nexus and other significant industry changes. Additionally, in its people, Xoserve has considerable experience and knowledge and, in the new UK Link platform, will have a significant tool to use to be successful for customers' benefit in its future role. We are keen to take a proactive, pan-industry approach to engaging with industry participants to develop our view of the future, and are determined to use our experience and capabilities to build on Xoserve's unique position and to play a leading and central role in moving the UK energy industry forward to provide efficient (quicker, better value, better coordinated and more transparent) change services in response to evolving customer needs.

We believe that to achieve the ambitions outlined in the consultation and to enable Xoserve to maximise its contribution to these ambitions, a fundamental review of governance arrangements

and to the commercial models for code and delivery bodies is essential for the long term benefit of consumers.

We set out below in Annex 1 our response to your specific consultation questions, and building on the consultation themes, we have included in Annex 2 examples of Xoserve's recent experience of industry code governance and change delivery, with observations on the strengths and weaknesses of those arrangements and our thinking on the potential application of 'lessons learnt' to future governance. Our key insights are that:

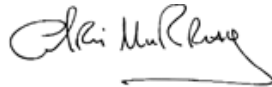
- Any newly created / appointed body has to show true leadership of issues, must be able to guillotine debate, and needs to demonstrate to all parties that it is working collaboratively with the appropriate authority;
- There has to be clarity of customer benefits at all times;
- There has to be confidence that any new body is working for the benefit of customers;
- There must be a willingness to listen to views and an independence when it comes to decision making; and
- When system change is required, experienced and engaged representatives from all parties must be secured, and there must be realistic and clearly defined timetables, targets, requirements and expectations for all impacted parties from the outset.

In addition, we have identified three key areas for development that can give practical effect to the overarching purpose of the strategic direction and consultative board:

- a. Taking guidance from the strategic direction, the designated body or bodies (probably Code Manager(s) in line with the language used in the consultation) should have the authority to exercise control over change demands on the codes for which they are responsible, enabling a more efficient change definition and delivery process that parties are able to properly resource;
- b. Building on the work of the consultative board, Ofgem should mandate the role of 'Industry Change Manager' (potentially one for gas and one for electricity), with a remit and authority to direct the planning, prioritisation and execution of multi-party programmes to time and quality; and
- c. The Code Manager and 'Industry Change Manager' roles enable service delivery bodies to plan with greater confidence and certainty, and they are empowered to work collaboratively to seek out cross-market central systems development opportunities which maximise the use of industry assets and deliver change efficiently for the benefit of consumers.

We welcome the opportunity to discuss our thinking further with Ofgem, particularly with regard to the future model and the key role that Xoserve can play. We are happy for Ofgem to publish our response in full, and if you would like to follow up on any particular aspect of our response, please contact Nick Salter, Director – Customer Engagement, on 0121 623 2305 or send an e-mail to nicholas.j.salter@xoserve.com.

Yours sincerely

A handwritten signature in black ink, appearing to read "Chris J Murray". The signature is fluid and cursive, with a long horizontal flourish extending from the bottom of the name.

Chris J Murray MBE

Chief Executive Officer

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INDUSTRY CODE GOVERNANCE CONSULTATION
ANNEX 1 - RESPONSES TO QUESTIONS

Introduction

In addition to our detailed responses to the consultation questions which are set out below, we would strongly advocate that, in order to protect consumer interests, conclusions and further proposals arising from the consultation should be subject to a cost benefit assessment before any implementation decisions are made.

CHAPTER 2: Scope of the new arrangements

Question 1: *Do you agree that the codes and functions we have identified (ie. the codes within the scope of the CACoP and their associated central system delivery functions) should be within scope of the new regime?*

Question 2: *Are there any other codes or systems that should be within scope and if so please give your reasons?*

Question 3: *Are there any other factors you think we should consider when making this decision?*

1. We are broadly supportive of the inclusion of the proposed codes and their associated system delivery functions within the scope of the new regime. The scope of delivery should embrace not only the central function but also the changes required to be made by individual code parties.
2. Effective change management needs to take an 'end to end' view of change encompassing both code governance processes and the consequent solution development and delivery activities. This approach would allow for the necessary iteration between market rules and service solutions to test deliverability of requirements and mitigate the risk that certain requirements demand a disproportionate level of solution investment. There should therefore be a logical consistency in the selection of codes and functions, in that the placing of a selected code in scope should also require the inclusion of the associated system delivery function.
3. We note that, whilst there is a significant correlation between the Uniform Network Code ("UNC") and the scope of CDSP Services¹, current CDSP services also discharge parties' obligations under other codes, including the independent Gas Transporters' UNC (following Project Nexus implementation), the Supply Point Administration Agreement, and the Smart Energy Code. If codes are to be brought into the new regime on a transitional basis, they should be grouped logically so as to enable cross-code changes to be managed holistically.
4. We observe that the selection of codes could be informed by modification history (including modifications arising out of Significant Code Reviews) where this shows that parallel modification of multiple codes has been necessary to achieve reforms.

¹ CDSP Services are defined by Standard Special Condition A15A of the GT Licence and by UNC Modification 565.

CHAPTER 3: Licensing and competition

Question 1: *What are your views on our proposed approach of including the code manager and delivery body function in a single licence?*

Question 2: *What are your views on strengthening the licence of NGET to include new code management requirements rather than holding a tender to identify an appropriate code manager?*

Question 3: *What are your views on the merits and drawbacks of the four identified models for competitively licensing code management where applicable?*

Question 4: *What are your views regarding which model(s) may be appropriate for different codes, or types of codes?*

1. We are supportive of the Code Manager concept, and recognise that this would be a significantly broader role than that of Code Administrator. We would encourage Ofgem to develop a Code Manager role definition to aid understanding of the functions that, once implemented, would deliver consumer benefit.
2. Both the consultation paper and Ofgem's remarks at the stakeholder workshop on 12 January 2017 make it plain that a licencing process is not possible in the near to medium term, and that the dependency on BEIS for primary legislation adds considerable uncertainty.
3. We consider therefore that Ofgem should give much greater attention to considering alternative or transitional remedies. We think that mandating the role of 'Industry Change Manager' with a remit and authority to direct the planning, prioritisation and execution of multi-party programmes to time and quality would fill an existing void. We have included two possible candidates for transitional arrangements in our response to the questions posed in Chapter 6, below.
4. Competitive licencing carries potential considerable risk for consumers, in that it could result in loss of opportunity to leverage value from existing industry parties, investments and skilled resources, without the certainty that it will realise overall qualitative and cost efficiency benefits.
5. We believe that the proposal to include both the code management and central delivery functions under a single licence must have due regard for the governance models of the licenced entities.
6. It is important to recognise that whilst delivery of strategic change will inevitably rely on any central delivery body, there is also a need for all code parties to deliver changes to their own processes and systems. In that context we believe that the Code Manager should be able to give clear instruction that both the central delivery body and individual code parties are required to follow.
7. Regarding the models for the competitive licencing process, we believe that the initial priority should be to define the target model, before considering how to establish.

CHAPTER 4: Strategic direction

Question 1: *Do you agree with the purpose of the strategic direction?*

Question 2: *Do you have any views on how the strategic direction should be developed and implemented?*

Question 3: *How much detail do you consider should be included in the strategic direction?*

Question 4: *Which specific projects do you consider should be included in the initial strategic direction?*

1. We agree that the purpose of the strategic direction should be to define and communicate priorities for policy changes that focus on consumer interests and are to be achieved through changes to industry codes. We also support the principle that the strategic direction should determine the scope of work of the consultative board and of the parties responsible for delivery of code reforms and associated systems solutions. We believe that Ofgem would naturally take on 'ownership' of the strategic direction, and are keen to work alongside Ofgem to help to shape it.
2. We consider that Ofgem should apply the following principles to development and implementation of the strategic direction:
 - a) It should demonstrate alignment to a clear statement of strategy and policy that is communicated to stakeholders prior to the setting of the direction;
 - b) It should be informed by a collaborative process between code administrators, code panels, code parties / licensees and central delivery bodies, potentially drawing on the Joint Industry Workplan that has been developed recently under the auspices of the Code Administrators' Code of Practice;
 - c) Items for inclusion should satisfy one or more of a number of objective criteria, for example:
 - i. There are quantifiable consumer benefits;
 - ii. There are impacts on multiple Codes;
 - iii. The 'end to end' code governance process and solution delivery duration exceeds a defined period of time; and
 - iv. There are impacts on the systems of central delivery bodies and code parties; and
 - d) The proposed direction should be subject to industry consultation prior to its formal adoption and implementation.
3. It is recognised that smaller or less complex changes are unlikely to meet these criteria. Whilst it would not therefore be appropriate to include such changes in the strategic direction, they should nevertheless be tested against the strategic direction whilst being taken forward by the industry under prevailing code governance and change delivery processes.

4. When setting the strategic direction, we encourage Ofgem to draw on the gas central services Change Horizon that has been developed by Xoserve with input from across the industry and is reviewed quarterly by the Change Overview Board². The code administrators have adopted the Change Horizon model in preparing their initial Joint Industry Workplan, and have demonstrated the flexibility of the model to accommodate multiple codes.
5. For each item on the Change Horizon, we present a view of the change driver, of the scale of potential impact of the change on services and systems, of the level of definition of the change, and of the possible timeframe for solution implementation (ranging from within year to more than five years ahead). Supplementary schedules provide further information, including potential system and process considerations, dual fuel impacts, interdependencies with other items, and impacted stakeholders.
6. Change Horizon reviews seek to focus on the medium to longer term changes, as to this timeframe there may be opportunity to influence the scheduling of changes in order to extract delivery synergies and efficiencies, and to mitigate the risk of delivery congestion or constraint.
7. The Change Horizon does not represent a 'managed plan' for the delivery of changes to gas industry central services and systems, although we consider that such an evolution could be achieved through the establishment of the Industry Change Manager role, backed by appropriate authority.

CHAPTER 5: Consultative board

Question 1: What do you see as the core role and functions of the consultative board?

1. An effective consultative board is an essential part of the package of remedies under consideration. We have set out below our thoughts on its role and functions, noting that effectiveness in discharging these duties is dependent upon Ofgem vesting appropriate authority in the board, and upon all code parties taking full responsibility for the timely delivery of changes included in the strategic direction (and the resolution amongst themselves of issues that arise) with ultimate accountability for such delivery to the consultative board or Ofgem.
2. We consider that the consultative board should:
 - a) Have a primary responsibility to maintain the strategic direction;
 - b) Engage with Ofgem to review and validate or update the direction from time to time;
 - c) Engage with consumer body representatives to test that the direction is structured so as to maximise the delivery of consumer benefits;

² See <http://www.gasgovernance.co.uk/COB>

- d) Provide an industry wide programme management function that *inter alia* tests the alignment of code proposals against the strategic direction at key stages in the code governance process;
- e) Engage with Code Managers with regard to the setting of work plans, ensuring alignment with the strategic direction; and
- f) Exclude from its scope any roles or functions that would replicate the work or accountabilities of Ofgem, Code Managers, Code Panels and central delivery bodies.

CHAPTER 6: Moving to new arrangements

Question 1: *What are the main impacts of the proposed new arrangements on existing projects?*

Question 2: *Would Ofgem's enhanced powers over strategically important modification proposals mean that our Significant Code Review (SCR) powers will be obsolete, and will the new powers form an effective substitute? Please explain your reasoning.*

Question 3: *What are your views on staggering the implementation of competitive applications for licences?*

1. We consider that there should be largely no impact from the proposals on the strategic direction for any individual existing projects. However, these should be reviewed to identify candidates for inclusion in the initial strategic direction using the criteria suggested above. The case for any existing project should have already been made, i.e. tested for consumer benefit and in alignment with Ofgem's stated strategy and policies.
2. Dependent on the position of any existing project in the change lifecycle, the process for the setting of the initial strategic direction should allow for dialogue with the relevant Code Administrators and Code Panels to test on a case by case basis the extent to which changes to code governance and change delivery responsibilities might be applied to existing projects in a manner that enhances their timely progression, delivery and realisation of consumer benefits.
3. An existing candidate project could be the Switching Programme. Whilst it would appear that licencing would be too late as a remedy to move this forward more effectively, it might be that transitional arrangements could be tested in this context.
4. An additional candidate relates to post go-live arrangements for Project Nexus. Ofgem has signaled that post go-live, they would expect cross-industry Nexus responsibilities currently with Ofgem/PwC to migrate to Xoserve. This change will be an opportunity, under the FGO model, but ahead of further formal changes, to test the arrangements for an industry body 'stepping up to new responsibilities' in line with the direction proposed in the consultation.