

# UK Link and the proposed Central Switching Service

## Consultation

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### Overview:

Ofgem will consult shortly on the proposed design of new harmonised switching arrangements for electricity and gas. We expect the design of those arrangements to include the creation of a Central Switching Service (CSS) which would provide a single, harmonised, dual fuel switching process for gas and electricity. The CSS would replace the switching processes currently in place in electricity (supported by MPRS) and gas (supported by UK Link). Our view is that the CSS should be procured through a competitive process.

In April 2017, the new governance arrangements for Xoserve were completed. Following go-live of the refresh of UK Link (Project Nexus) on 1 June this year, Xoserve has indicated that it would see value for the energy sector from leveraging the industry investment in Project Nexus and considers that it is now in a position to provide a CSS, built on UK Link, and would welcome the opportunity to do so. However, Xoserve's existing governance arrangements could prevent it from competing in a competitive procurement for CSS provision. Ofgem is seeking stakeholders' views on:

- whether there would be particular benefits, disadvantages or risks from basing a CSS on the new UK Link system
- whether there are substantive barriers to Xoserve participating in a competitive procurement for a new CSS
- the potential to remove or reduce those barriers in order to enable them to do so.

The DCC, service users, customers and their representatives and other interested parties should read this document.

## Associated documents

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The potential role of UK Link and Xoserve in faster switching. Xoserve, 25 July 2017  
<http://xoserve.com/wp-content/uploads/UK-Link-and-Xoserve-Faster-Switching.pdf>

Moving to reliable and fast switching: Switching Programme business case including Design Baseline 1. Ofgem, 19 January 2017  
<https://www.ofgem.gov.uk/publications-and-updates/moving-reliable-and-fast-switching-switching-programme-business-case-including-design-baseline-1>

Smart DCC Ltd Procurement Strategy. DCC, August 2016  
[https://www.smartdcc.co.uk/media/410997/dcc\\_procurement\\_strategy\\_v\\_5.0.pdf](https://www.smartdcc.co.uk/media/410997/dcc_procurement_strategy_v_5.0.pdf)

Decision: DCC's role in developing a Centralised Registration Service. Ofgem, 17 May 2016  
<https://www.ofgem.gov.uk/publications-and-updates/decision-dccs-role-developing-centralised-registration-service>

Moving to reliable and fast switching: Updated Target Operating Model and Delivery Approach: Decision. Ofgem, 17 November 2015  
<https://www.ofgem.gov.uk/publications-and-updates/moving-reliable-and-fast-switching-updated-target-operating-model-and-delivery-approach>

DCC's role in developing a Central Registration Service and penalty interest rate proposals. Ofgem, 28 July 2015  
<https://www.ofgem.gov.uk/publications-and-updates/dccs-role-developing-central-registration-service-and-penalty-interest-rate-proposals>

Moving to reliable next-day switching: Decision. Ofgem, 10 Feb 2015  
<https://www.ofgem.gov.uk/publications-and-updates/decision-moving-reliable-next-day-switching>

Smart Meter Communication Licence  
<https://epr.ofgem.gov.uk/Content/Documents/Smart%20DCC%20Limited%20-%20Smart%20Meter%20Communication%20Consolidated%20Licence%20Conditions%20-%20Current%20Version.pdf>

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## Executive summary

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### Overview

This consultation is seeking to understand any benefits and risks associated with the use of UK Link and whether there are regulatory changes required to remove barriers to Xoserve bidding for the CSS procurement to allow the opportunity for and benefits to be realised.

### Summary

The Faster and More Reliable Switching Programme (Switching Programme) has the overarching programme objective of improving consumers' experience of switching, leading to greater engagement in the retail energy market, by designing and implementing a new switching process that is reliable, fast and cost-effective. In turn, this will build consumer confidence and facilitate competition, delivering better outcomes for consumers.

Ofgem<sup>1</sup> published a Strategic Outline Business Case<sup>2</sup> setting out three potential reform packages to deliver this outcome. Two of those reform packages included the creation of a Central Switching Service (CSS) which would provide a single, harmonised, dual fuel switching process for gas and electricity. The CSS would replace the switching processes currently in place in electricity (supported by MPRS) and gas (supported by UK Link). After we have evaluated the costs and benefits of the options and engaged further with industry, we expect to consult formally in autumn 2017 on a proposal to move ahead with the creation of a CSS.

Ofgem's view, reflected in the design of the Switching Programme, is that the CSS (and any other requirements to deliver the new switching arrangements) should be procured through a competitive process. A competitive process would enable all potential service providers to bid for the CSS role, or aspects of it, and allow us to consider new and innovative approaches to provision of the CSS.

In April 2017, the new governance arrangements for Xoserve under the Funding, Governance and Ownership (FGO) review were completed. Following go-live of the refresh of UK Link (Project Nexus) on 1 June 2017, it is apparent that there is now a functioning switching service in UK Link<sup>3</sup> that at a very broad level has the capability to expand to include electricity switches and change to deliver the new switching processes that are being designed in the Switching Programme. Xoserve has indicated that it would see value for the energy sector from leveraging the industry investment in Project Nexus and consider that they are now in a position to provide a CSS, built on UK Link, and would welcome the opportunity to do so.

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<sup>1</sup> The Office of the Gas and Electricity Markets Authority (Ofgem) supports the Gas and Electricity Markets Authority ('the Authority') in its day to day work. In this document, 'us/we', 'Ofgem' and 'Authority' are often used interchangeably

<sup>2</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/01/switching\\_programme\\_-\\_strategic\\_outline\\_case.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/01/switching_programme_-_strategic_outline_case.pdf)

<sup>3</sup> We note that it is very soon post go-live and the project is still in Post Implementation Support (PIS).

However, Xoserve's existing governance arrangements, described in section four of this paper, could prevent them from competing in a competitive procurement for CSS provision.

Ofgem is working with the Data and Communications Company (DCC) to deliver the Switching Programme. DCC is responsible for procuring the services and functionality required to deliver the outcomes of the programme. This would be achieved through a competitive procurement process in line with DCC's licence obligations and Procurement Strategy<sup>4</sup>. Subject to a decision following consultation on the proposed reform package in the autumn, DCC's role is currently expected to include procurement of a CSS and the ongoing operation of and support for a CSS. The details of the DCC's approach to this procurement are being developed within the Switching Programme and we have published a Procurement Framework<sup>5</sup> setting out the high-level approach.

This consultation is not seeking to change this position to deliver a competitive procurement, it is seeking to understand any benefits and risks associated with the use of UK Link and whether there are regulatory changes required to remove barriers to Xoserve bidding for the CSS procurement to allow the opportunity for and benefits to be realised.

The objectives of the Switching Programme are not limited to introducing new, harmonised, more reliable and faster switching arrangements in the immediate term. They also include delivering system architecture that is capable of efficiently adapted to future requirements and encouraging more effective competition by minimising barriers to entry for new entrants to the market. Any evaluation by DCC of potential routes to provide the CSS will need to take into account of a number of different factors that include:

- the cost of delivering the central CSS functions;
- the full cost to industry, and therefore to consumers, of implementing the new CSS
- the ability to support innovation and change and the effect on barriers to entry
- delivery of all the specific functionality required to support the new switching arrangements.

Ofgem has a role in agreeing the evaluation criteria for the procurement with DCC. We will be thinking about how the evaluation criteria for CSS provision should be established to take into account all relevant factors as identified above. DCC are responsible for evaluating the bid responses against the agreed criteria and awarding contracts.

The intention of this consultation is to ensure that there is a clear understanding of whether a UK Link option could offer significant customer and industry wide benefits and, if so, how to ensure that those benefits can be appropriately assessed alongside all other relevant criteria. For the avoidance of doubt, this consultation should in no

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<sup>4</sup> [https://www.smartdcc.co.uk/media/410997/dcc\\_procurement\\_strategy\\_v\\_5.0.pdf](https://www.smartdcc.co.uk/media/410997/dcc_procurement_strategy_v_5.0.pdf)

<sup>5</sup> <https://www.ofgem.gov.uk/publications-and-updates/switching-programme-procurement-framework>

way be taken to indicate an Ofgem preference for a CSS built on UK Link. Ofgem is seeking stakeholder views on:

- whether there would be particular benefits, disadvantages or risks from basing a CSS on the new UK Link system
- whether there are substantive barriers to Xoserve participating in a competitive procurement for a new CSS
- the potential to remove or reduce those barriers in order to enable them to do so.

**We welcome your views on this consultation, and in particular on the questions in this document. We will consider all comments we receive.**

**Please send responses to [switchingprogramme@ofgem.gov.uk](mailto:switchingprogramme@ofgem.gov.uk) by 29 September 2017.**

# 1. Introduction and background

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## The Faster and More Reliable Switching Programme

1.1. In February 2015 we issued our decision to lead a programme of work to implement reliable next-day switching by introducing a centralised registration service to be procured, and run by, the Data Communications Company (DCC). At the same time, we published a target operating model to act as a reference and a guide for the design and implementation of the programme. This model was updated in November 2015 to reflect our updated thinking, at which point we launched a Significant Code Review process to make the necessary changes to industry codes. At the same time, we signalled our intention to convene a series of industry working groups to develop the 'blueprint' for the new switching arrangements. In January 2017 we published a Strategic Outline Business Case which set out the objectives for the programme and identified three potential reform packages on which we wanted to gather information on cost.

1.2. The overarching objective of the programme is to improve consumers' experience of switching, leading to greater engagement in the retail energy market, by designing and implementing a new switching process that is reliable, fast and cost-effective. In turn, this will build consumer confidence and facilitate competition, delivering better outcomes for consumers.

1.3. The programme has three subsidiary objectives:

- 1) To improve consumer experiences and perceptions of changing supplier, leading to increased engagement in the market, by delivering a switching service that:
  - a. is more reliable, thereby reducing the instances of consumers being let down by delayed, unsuccessful or unwanted switches;
  - b. offers consumers control over when they switch, including providing the capability of doing so as fast as possible, and, if the customer wishes, by no later than the end of the following day after a consumer has entered into a contract;
  - c. minimises any differences in consumer experiences of the switching process, to the extent that is possible, taking into account any physical constraints imposed by metering and issues relating to consumers indebtedness.
- 2) To deliver a simple and robust system architecture design that harmonises business processes across the gas and electricity markets where possible, and is capable of efficiently adapting to future requirements.

- 3) To encourage more effective competition by minimising barriers to entry for new entrants to the market, including the extent to which a successful switch may rely on the actions of an incumbent, and by having appropriate safeguards in place where this is not possible.

1.4. The potential reform packages were based on different levels of ambition for harmonising the systems used by the industry for the switching process and to provide access to the data used to support the switching process. They were:

**Reform Package 1:** the existing industry systems architecture would be retained and gas and electricity processes would not be harmonised. Existing systems and processes would be modified to shorten switching times. This option would shorten the minimum switching period to between three and seven calendar days, depending on weekends and bank holidays. This would require amending the existing systems supporting switching but would not involve procurement of any new systems or services.

**Reform Package 2:** the switching functionality that currently exists within separate gas and electricity switching services would be replaced by a single central switching service (CSS). This would harmonise the gas and electricity switching processes where appropriate. In gas, suppliers would initiate a switch, rather than shippers as is currently the case. This option would allow a switch to be completed by the start of the next calendar day where a switch request has been confirmed by the CSS by 5pm. In this package DCC would be responsible for procuring the new central switching service and any associated services.

**Reform Package 3:** in addition to the changes outlined in reform package 2, the currently separate gas and electricity enquiry services would be superseded by, or made accessible through, a single market intelligence service (MIS), allowing users to look up information relevant to a particular switch, that would cover both gas and electricity data. We identified that a MIS could be procured by DCC, but noted that it had been suggested that one or other of the existing industry enquiry services (ECOES and DES) could be substantively enhanced to deliver a MIS. Gemserv and Xoserve have recently issued a Statement of Intent to work together to provide a MIS. In the light of this development, and taking account of our initial analysis of the costs and benefits of a new centrally procured MIS, we do not expect to take forward proposals for procurement of a new MIS<sup>6</sup>.

1.5. In the light of ongoing evaluation of the costs and benefits of the three reform packages we have developed a new reform package, which is in all key respects Reform Package 2 but with a short objections window operating on

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<sup>6</sup> We will set out our position on this, and the rationale for it, in a consultation on the proposed new switching arrangements that we expect to publish in the autumn.

working days rather than instant reactive objections operating on calendar days, that we expect to form the basis of a firm proposal on which we will consult in the Autumn. That new reform package does not make any significant changes to the role of the CSS as set out in reform package 2, so for the purposes of this consultation stakeholders can assume that where we talk about the CSS it is essentially as defined in reform package 2 in the SOC<sup>7</sup>.

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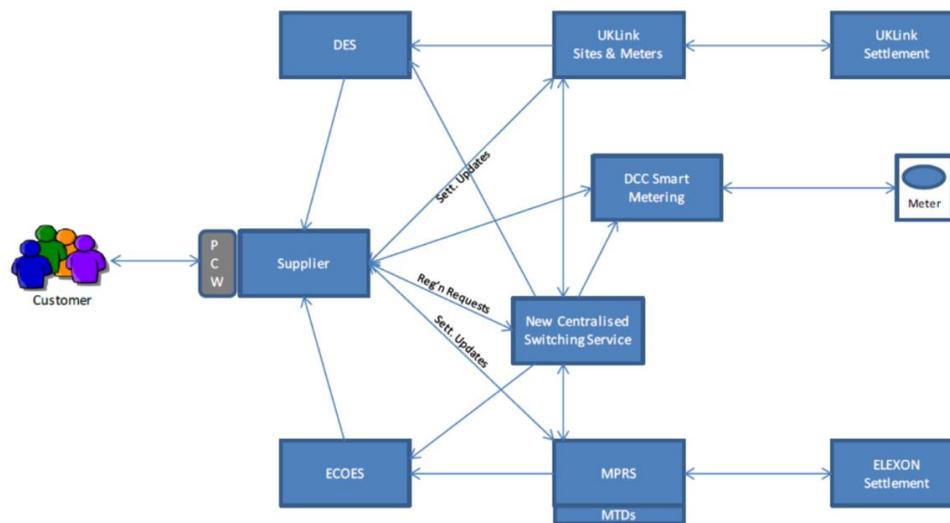
<sup>7</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/01/switching\\_programme\\_-\\_strategic\\_outline\\_case.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/01/switching_programme_-_strategic_outline_case.pdf)

## 2. The CSS

### What is the CSS?

2.1. The implementation of a new CSS would involve removing switching functions from UK Link and MPRS and adding some new functions. This is reflected below.

Figure 1: High-level solution architecture diagram



2.2. The new CSS would be developed to support the following features:

- suppliers would submit switch requests to CSS for validation, testing for objections and confirming to suppliers and other interested parties that the switch would take place on the specified date. These features would allow a switch to be effective by the next day, with harmonised arrangements across gas and electricity;
- the CSS would execute switches on the specified date and maintain the register of which supplier is responsible for each active meter point. Relevant parties would be notified that a switch has become effective;
- the CSS would record a premise served address, linked to a standard GB address list. The CSS provider would be obliged to undertake data stewardship activities (e.g. processing updates to the standard GB address list) to ensure ongoing maintenance and improvement of the quality of the data;
- where requested, dual fuel (and other multi-switches) would be executed on the same date, using a one-fail-all-fail option;
- for each meter point only one confirmed pending switch may exist at any time. Switching requests may be withdrawn between the points of confirmation and execution by the supplier that raised the switch request. Once an Erroneous Transfer ("ET") has been agreed (using established ET

- procedures) the CSS would also process an ET switch to return the meter point to the correct supplier (in the same way it would a regular switch);
- consumer type (domestic or non-domestic) would also be included in the switch request and recorded in CSS;
  - the CSS would provide information to DCC for access control to smart meters;
  - the CSS would provide updates to industry enquiry service so that switching data is available for enquiry purposes, including the identification of switches that have been requested or are 'confirmed awaiting execution'.

2.3. Further information about the role and requirements of the CSS can be found in the appendix 1 of the SOC.

## Procurement of a CSS

### DCC's role in procurement

2.4. DCC is a central communications body appointed to manage communications and data transfer for smart metering. It is responsible for providing the data communications service that links smart meters in homes and small businesses with the systems of energy suppliers, network operators and other companies. The Department for Business, Energy and Industrial Strategy ('BEIS'), formerly the Department for Energy and Climate Change ('DECC'), granted the licence to DCC on 23 September 2013 following a licence competition. The Licence is for 12 years and will remain in place until 22 September 2025, unless it is extended or revoked. BEIS also established price control arrangements that restrict DCC's revenues and which are operated by Ofgem, to counter its monopoly position.

2.5. Following consultation in December 2015, a decision was taken by us to modify the smart meter communication licence in May 2016 to give DCC new obligations and set out the funding arrangements for its role in the Switching Programme. The changes were outlined within "DCC's role in developing a Centralised Registration Service (CRS)"<sup>8</sup>. We expect DCC to have a crucial role in developing the new registration and switching arrangements<sup>9</sup>, including the procurement of the CSS, which could constitute a part or all of the CRS.

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<sup>8</sup> Decision: DCC's role in developing a Centralised Registration Service. Ofgem, 17 May 2016 <https://www.ofgem.gov.uk/publications-and-updates/decision-dccs-role-developing-centralised-registration-service>

<sup>9</sup> The 'switching arrangements' are the processes by which a consumer switches from one gas or electricity supplier to another.

## DCC requirements in relation to CRS

2.6. Through the obligation placed on DCC by condition 15 of its licence DCC is required to:

(a) contribute to the achievement of a full and timely design for an efficient, economical and secure Centralised Registration Service that would, if implemented, provide a platform for fast and reliable switching for all Supply Points in the GB market;

(b) make all relevant preparations for the procurement of Relevant Service Capability to deliver and operate a Centralised Registration Service; and

(c) procure Relevant Service Capability to deliver and operate a Centralised Registration Service that:

(i) reflects the design of a Centralised Registration Service which has been designated by the Authority for this purpose (including any amendments to that designated design); and

(ii) would, if executed, in all likelihood, give effect to an efficient, economical and secure Centralised Registration Service that would provide a platform for fast and reliable switching for all Supply Points in the GB market

## Procurement requirements

2.7. Relevant Service Capability that is provided in respect to the Centralised Registration Service is defined within DCC's licence as Fundamental Registration Service Capability. This dictates that DCC must run a full competitive procurement in accordance with the five licence procurement principles outlined within Condition 16. Condition 16 sets out the nature of the procurement and aspects of the contractual terms that must be appropriately included. This includes requirements in relation to business continuity, ability to replace the capability provider and ensuring suitable and appropriate capability providers are contracted.

**Principle 2** relates to the principles of an open and transparent competitive tender. "Relevant Service Capability must be procured competitively wherever practicable and proportionate, and with due regard for

(i) the principles of equality and non-discrimination between economic operators and

(ii) the employment of transparent and objective procurement processes."

2.8. DCC is also governed by its Procurement Strategy which sets out the procurement process and for relevant service capability the principles

underlying a “make or buy” assessment. DCC licence (LC16.24-26) requires DCC to review the Procurement Strategy at least once every regulatory year and if necessary propose revisions to Ofgem. Ofgem can consult with industry on changes to the DCC Procurement Strategy and then direct DCC to make any changes it concludes should be made. Ofgem intends only to consult and direct changes where the proposed amendments are considered to be material. The procurement strategy was last updated in August 2016.

## Requirements relating to contracts

2.1. DCC also has a number of requirements for the contracts it enters into. These are set out in Licence Condition 16 and some aspects further outlined in schedules to the DCC licence. Aspects of these are likely to be challenging for not-for-profit industry bodies to be able to fulfil relative to standard commercial organisations. Principle two in relation to non-discrimination of other economic operators should account for this.

**Principle 4** states that Relevant Service Capability must be procured in a manner that:

- (a) secures value for money in terms of the combination of quality and cost over the lifetime of the contract;
- (b) delivers the required goods, services, or works to the appropriate standards according to the needs of service users;
- (c) takes account of the potential need to replace from time to time the persons engaged in providing the capability; and
- (d) incorporates (at a cost that is not disproportionate to any expected benefit) sufficient flexibility to adapt to changing service user requirements over the duration of the contract.

**Principle 5** states that Relevant Service Capability must be procured under contractual arrangements that make provision for the full and enduring protection of business continuity, including:

- (a) appropriate provision to secure the Licensee’s ability to exercise all of the Relevant Functions in the event of any material financial default of an External Service Provider;



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(b) appropriate provision to secure the Licensee's ability to exercise all of the Relevant Functions in the event of any operational failure of an External Service Provider; and

(c) appropriate provision to secure the transfer or novation of the contract in the circumstances of a handover of the business of the Licensee to a Successor Licensee following the expiry or any revocation of this Licence (as to which, see paragraph 14 of Condition 43 (Arrangements for the handover of business) for further relevant provision).

## 3. UK Link considerations

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### Question Box

**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?

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

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

### UK Link

3.1. Xoserve has been appointed by the principal Gas Transporters (“the GTs”) as the Central Data Service Provider (“CDSP”) with responsibility for delivery the CDSP Services. The CDSP Services are set out in the Uniform Network Code (“UNC”) and are broadly such services as are required to give effect to the transportation arrangements set out in the UNC or the independent GTs UNC (the “IGT UNC”).

3.2. These services include but are not limited to the allocation, balancing and settlement of gas, the issuing of transportation and energy balancing invoices, managing the booking of capacity and supply point administration. This latter service includes the change of shipper & supplier functions that underpin customer switching in the gas industry and have been operated by Xoserve since the company was created in 2005. The UK Link suite of systems that deliver these services have recently been replaced as part of Project Nexus and successfully implemented on 1 June 2017. The Ofgem-led programme governance will shortly, subject to continuing absence of delivery issues, handover to industry-led governance under the auspices of the UNC and Data Service Contract (DSC) arrangements.

3.3. A new system to deliver CSS requirements would require changes to the recently enhanced gas supplier switching services provided as part of UK Link given the continuing need to maintain the registration of the relevant gas shipper to each supply point and ensure continued delivery of the broader services provided by Xoserve as the CDSP. UK Link would also require development to support the CSS faster switching requirements; enable migration and maintenance of gas data from UK Link into a new CSS platform and the need to fully participate in connected market testing resulting in Xoserve needing to undertake complex change activity to enable the faster switching requirements in Gas and support industry testing and cutover to new arrangements.

3.4. There is therefore a potential opportunity to leverage the substantial industry investment on behalf of consumers to deliver a Central Switching Service (CSS) built on UK Link. UK Link has been built on SAP's IS-U solution with integration to market participants through AMT's Market Flow product. Both SAP IS-U and Market Flow are mature products widely used in the UK energy industry. Both products have been designed to support gas and electricity and are used by dual fuel energy retailers. The investment made in UK link therefore provides a platform that should support the updates required to deliver the harmonised end-to-end (E2E) switching arrangements for electricity and gas and could potentially support registration of electricity customers through the inbuilt capabilities of the SAP ISU and AMT Market Flow products.

3.5. The use of UK Link would also avoid costly and risky transfer of gas meter records to a new system and whilst there will be development required to deliver new flows and infrastructure to support new services (e.g. API interfaces), the re-use of UK Link should reduce the cost for the development and maintenance of an interface back into UK Link (which has been designed to act as an integrated system for gas supply point administration and billing / settlement). It might also be possible to build on the governance, partnerships and ways of working, tools and platforms developed to deliver the Nexus programme to accelerate and de-risk delivery of the CSS, although these will need to reflect dual fuel governance therefore the new E2E Switching Arrangements may actually result in significant impact and additional cost/delivery risk.

### Potential benefits of developing the CSS on the new UK Link

3.6. It would not be appropriate for Ofgem to set out here what a Xoserve provided, UK Link based, CSS would look like or how it would meet the requirements of the switching programme and we have not attempted to do so. If stakeholders want to know more about how Xoserve could go about providing a CSS, Xoserve will be hosting a series of events throughout the consultation period where stakeholders can learn about the proposition in more detail and Xoserve will be on point to answer questions. In addition to this Xoserve will also be providing a summary document on their website to provide initial insight into their role, how UK Link could be leveraged for CSS and how to register interest for the events and raise specific questions.

3.7. Assuming that such a solution would meet all the requirements of the Switching Programme, it has been suggested that delivering a CSS developed on the new UK Link could offer potential benefits in three main areas:

- a) **Solution architecture:** the use of UK Link would leverage industry investment on behalf of consumers in a new system and could simplify the market landscape such that industry participants have to interact with fewer systems. This could, in turn, mean lower costs to suppliers in relation to back office / integration costs to the extent that it reuses systems to which they are already connected;

- b) **Reducing delivery risk:** the use of an existing platform, with existing interfaces to many of the key CSS users could mean significantly lower delivery risk because it does not require the development of an entirely new system and integration of the new system with all suppliers and networks. Using UK Link would mean that only half the registration data would need to be migrated to a new system;
- c) **Investment and cost to serve:** the use of UK Link could lead to lower costs both in terms of capital investment to develop the CSS because of the reuse of existing UK Link functionality and in relation to service management where it could be possible to leverage the cost of existing UK Link service management.

3.8. Ofgem would like to understand whether, in the view of stakeholders, the potential benefits outlined above are real and substantial and, if so, how to ensure that they can be appropriately evaluated (alongside all the other criteria including delivery of the new switching arrangements and flexibility to support innovation) in the DCC procurement process. We would also like to know if there are risks or disadvantages, or any other benefits to be derived from developing a CSS on UK Link that have not been identified here.

## 4. Xoserve governance arrangements and implications

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### Question box

**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?

### Implications for participating in a CSS procurement

4.1. Xoserve operates under governance arrangements that have been set up to ensure the continued efficient provision of gas settlement services and do not envisage Xoserve engaging in developing services outside of its core remit without Ofgem consent. Under the new FGO arrangements that came into force in April this year, the Xoserve Board consists of directors nominated by GTs, Gas Shippers and independent Gas Transporters (iGTs) and Xoserve is jointly funded by these three groups as DSC Customers. Xoserve's obligations as the CDSP to these parties are set out in the DSC.

4.2. The CSS will provide services to gas and electricity suppliers (and their agents) and gas and electricity networks. Gas shippers are currently responsible for registering customer switches but this responsibility will move to gas suppliers under the new switching arrangements so gas shippers will not be direct users of the CSS. In practice, the majority of gas suppliers are also gas shippers so many of Xoserve's current users will also be the primary users of the CSS. However, the GTs and the iGTs may have relatively little direct interest in the development of a CSS.

### Regulatory structure

4.3. As noted above, Xoserve's obligations to its DSC Customers are set out in the DSC, which imposes some constraints on how it can act. We have therefore considered the extent to which Xoserve's delivery of the CSS as part of the CDSP Services may prompt, if not necessitate, changes to its current governance structure, as follows:

- Licence modification and/or consent of the Authority provided pursuant to GT Standard Licence Condition A15A (Central Data Service Provider) to ensure Xoserve has appropriate vires to undertake the CSS activity
- UNC modification(s) to ensure that CSS is included within the scope of the CDSP Services and relevant Customers are enfranchised in Xoserve governance arrangements

- Changes to - or a waiver provided under - the DSC Third Party and Additional Services Policy<sup>10</sup> document to allow Xoserve to enter into any potential commercial contracts.

An alternative, explored in paragraphs 7.13 and 7.14 below, is that Xoserve could, with Ofgem consent, provide services outside of the scope of CDSP services.

4.4. Although it is possible that the Authority may seek to convey certain rights and responsibilities directly upon the contracted CSS provider through the licence regime, we do not currently envisage that the provision of the CSS itself would be a licensable activity. Xoserve's existing relationship with the licensing framework, albeit indirect, may provide scope for further policy development. However this would not be the case for other potential CSS tenderers, putting Xoserve at a potential advantage or, as the case may be, disadvantage. Therefore, for the purposes of this paper we have limited consideration of any modification to the GT licence to those which would be necessary to facilitate Xoserve's ability to participate in a competitive CSS procurement. For instance this would preclude modification to the GT licence to ensure that, for the avoidance of doubt, the permitted scope of the CDSP Services extended to the CSS. However, the GT licence requires the Authority's written consent before Xoserve can undertake any business other than as described under licence and UNC. This is covered below.

### **Scope of services and users**

4.5. The CDSP arrangements were established to improve the effectiveness of Xoserve governance in delivering services under the UNC, addressing a perceived bias towards the needs of GTs to the detriment of shippers. As such, those arrangements focus on the delivery of services to complement the gas transportation services set out in the UNC, on behalf of UNC parties.

4.6. Although the contract through which these services are delivered, the DSC, allows for the provision of services to non-UNC parties, this is limited to existing CDSP Services. These CDSP Services are defined under the UNC as being either 'core services' comprising functions assigned to the CDSP, or that discharge CDSP customer obligations under the UNC (or potentially other industry codes<sup>11</sup>), or any service that the CDSP could provide economically or efficiently by using resources and/or data used to provide core services which meet certain conditions.

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<sup>10</sup> <http://www.xoserve.com/wp-content/uploads/THIRD-PARTY-AND-ADDITIONAL-SERVICES-POLICY.pdf>

<sup>11</sup> The relevant industry codes would include any document which allows for a decision to be made by the Authority and for that decision to be appealable to the CMA under Section 173 of the Energy Act 2004 – we would expect this to include the Retail Energy Code in due course, as each new industry code has been designated in this way.

4.7. Therefore, to the extent that the CSS would be built wholly or predominantly on existing UK Link software and hardware that already provides switching functionality, it would be a Third Party Services for the purpose of the DSC and may fall within the definition of CDSP Services. However, even if a suitable contract for the recovery of CSS charges could be established, it would seem inappropriate for the gas and electricity suppliers who will be the primary users of the CSS to be disenfranchised from any substantive decisions that impact upon it, even if only as a consequence of CDSP changes elsewhere. The limitation of CSS being a third party service would also have some practical issues that would need to be addressed.

4.8. In particular, the DSC contains certain rules in relation to the provision of Third Party Services by Xoserve, as CDSP. To enable Xoserve to enter into a contract for the provision of CSS, certain provisions in the DSC may need to be changed or waived in accordance with the DSC. The DSC, or any of the DSC Service Documents, including the Third Party and Additional Services Policy, can be amended by way of a UNC modification, though it is expected that in relation to changes to the DSC Service Documents a DSC change would be raised in the first instance and only escalated to a UNC modification where necessary. Xoserve is not currently able to raise a UNC modification in its own right, but is able to raise a DSC change in its own right as the CDSP. Alternatively, with the agreement (by way of a majority vote) of the DSC Contract Management Committee, certain conditions in relation to the provision of Third Party Services could be waived<sup>12</sup>. The anticipated areas that would need to be changed, varied or waived, are set out below.

### **Limitation of scale of Third Party Services**

4.9. The DSC currently limits the aggregate amount of CDSP turnover attributable to all third party services to a maximum of 2.5% of CDSP's total turnover unless authorisation is obtained from the Contract Management Committee. This is similar to the de minimis provisions in network operators' licences. Whilst this may be a useful instrument to ensure that the service providers remain focused on their primary activity, this would equate to a circa £1m/year cap on revenues from third parties, effectively ruling Xoserve out of the CSS competition.

4.10. In order for Xoserve to be able to bid, this restriction would need to be removed, or waived, even if only in some way contingent upon Xoserve being selected as the CSS provider. However, without prejudging the outcome of the procurement, it would be difficult to replace this 2.5% maximum with a relevant figure. It may therefore be necessary to amend the approach to this

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<sup>12</sup> Clause 2.6 of the Third Party Additional Services document allows certain terms and conditions regarding the parameters of any third party service to be waived, subject to more substantive conditions regarding the nature of the service and the third party itself being met.

safeguard as opposed to the relevant figure, if Xoserve were to be able to bid to provide the CSS as the CDSP.

### **Limitation on liabilities**

4.11. The arrangements envisage that the CDSP may carry liabilities in relation to a third party service agreement. These are currently limited to be no more than 150% of the aggregate amount payable by the Third Party by way of charges unless authorisation is obtained from the Contract Management Committee. Combined with the ceiling above, this ensures that Xoserve shall at no time carry liabilities in relation to Third Party services greater than 3.75% of its turnover. In the event that the ceiling is raised, this limitation on liabilities may also need to be modified, or at least waived, in order to protect CDSP parties. This could be achieved by linking the maximum liabilities directly to overall turnover rather than relative to the Third Party Charges.

4.12. However, this limitation on Xoserve's ability to carry risk may also hinder its ability to enter into arrangements to provide the CSS and provide protection for CSS users or the DCC as the contract counterparty. It may be possible to both provide sufficient cover for a Third Party contract and at the same time limit CDSP parties exposure by taking out appropriate liability insurance policies, with the current cap on liabilities acting as the upper value for any insurance premium payments.

### **Limitation on term**

4.13. The DCC currently limits the term of any third party agreement that the CDSP may enter into to 24 months unless authorisation is obtained from the Contract Management Committee. Given the extent of development and associated cost in developing a CSS, it is highly likely that DCC would be looking to assign a contract for significantly longer than 24 months. Whilst DCC might consider such a short term, it is not obvious that they would as it is possible this would result in inefficient offers and/or deter some potential bidders entirely. In order to facilitate Xoserve (in its role of the CDSP) to bid competitively, whilst not unduly influencing the procurement exercise (in the absence of knowing how long the initial CSS contract may be let for), it would likely need to be extended to reflect a more competitive contract period or removed entirely. Alternatively, agreement of the Contract Management Committee could be sought to waive this provision in relation to any contract related to the CSS.

### **Can Xoserve operate outside the CDSP role?**

4.14. Xoserve and the CDSP are currently synonymous, in much the same way as Elexon is synonymous with the Balancing and Settlement Code Company (BSCCo). However, in much the same way as Elexon is able to carry out additional activities via subsidiary companies (albeit with modifications to the BSC needing to be directed) it may, with the consent of the Authority, be possible for Xoserve to establish a separate business. This could be in the form

of a wholly owned entity for the provision of CSS services that sits outside of the newly established CDSP governance. Specifically, Xoserve's recently adopted Articles of Association state that the company's business shall be:

- The provision of CDSP services
- Such other business as the Directors may agree from time to time, provided that the Authority consents in writing to such business.

4.15. These Articles are consistent with the requirement to obtain consent under Standard Condition A15A of the GT licence.

4.16. This could allow Xoserve, via its subsidiary, to enter into commercial arrangements either to construct a bid or to act as subcontractor to another bidder. It would also allow them to enter into a substantial medium or long term contract to provide the CSS should it be successful in competition without the need for any of the changes to the CDSP arrangements outlined above. In order to obtain our consent, we would expect Xoserve to satisfy us that certain pre-requisite conditions could be met. We would expect these to be equivalent to those we have previously insisted that Elexon meet ahead of any diversification, and would be as follow:

- 1) UNC/DSC Parties should benefit from any diversification;
- 2) The arrangements should not place disproportionate risk on UNC/DSC Parties;
- 3) Standard of Service under the UNC/DSC should be maintained; and
- 4) Xoserve's CDSP role should not give it any undue competitive advantage in a contestable activity.

## **Implications of the procurement approach for a UK Link based bid**

4.17. The procurement approach to be followed by DCC in procuring the CSS and any related services is set out in section two. Section 4.1 above identifies factors that may constrain Xoserve from participating in such a procurement. This section looks at whether there are any implications of the procurement approach that might militate against a bid from Xoserve being evaluated on a level basis with other bids, or in a way which ensures that DCC takes into account all relevant factors that are considered appropriate to be included in the evaluation.

4.18. In most procurement processes, the purchasing party is looking to achieve best value for themselves from the product or service they are buying. The procurement of the CSS has the added complication that DCC is, in effect, procuring the CSS on behalf of the CSS users, rather than itself. This means that the 'best value' calculation has to take into account not only the cost of delivering and operating the central systems required for the CSS but also the cost and ease to market participants of interacting with them.

4.19. Arriving at an understanding of what the wider industry costs, that will ultimately be met by consumers, and the other implications for suppliers and networks who may be interacting with any particular version of the CSS will not be trivial. Neither Ofgem nor DCC have yet produced proposals as to how it will be achieved. This will be considered through the Switching Programme's Commercial Workstream over the coming months and stakeholders will have an opportunity to inform and influence that consideration through the Commercial Design Forum.

4.20. There is potentially an added complexity when it comes to evaluating what constitutes 'best value' if one element of value includes leveraging existing industry systems in order to get maximum value for consumers from past investments or minimise redundancy of existing systems. Additionally, identifying any synergies to market participants from being able to reuse existing interfaces with existing systems will only be possible with knowledge of existing systems and how all market participants interface with them.

4.21. We hope that the responses to this consultation will help us and DCC to understand this element of the potential value of leveraging an existing industry system, but it might be necessary to find further ways of allowing market participants to provide relevant information to be taken into account in the evaluation process. Some element of independent assessment may be required.

4.22. The potential benefits of using UK Link as the basis for the CSS include the benefit of leveraging the existing UK Link service desk. Under the arrangements currently in place, DCC is expected to identify the lots in which it considers it to be appropriate to procure elements of the CRS. In some cases where Fundamental Registration Service Capability is not involved, DCC may not compete all elements of the services required if it can demonstrate they could provide those services at best value. We do not yet know how DCC proposes to structure the procurement, but it is possible that in order to ensure that the full value of a bid from Xoserve (and other potential players) could be assessed, DCC may deem it necessary to permit bids based on the provision of a full CSS solution including service management.

4.23. Principle two of DCC's procurement licence obligations should allow for a fair evaluation of the commercial and contractual considerations for not for profit bodies and other economic operators. However, there are elements of the contractual requirements set out in paragraphs 2.7 and 2.9 above, in relation to replacing service providers and provision for operational failure / financial default, which could be challenging for existing industry bodies to be assessed

against because of the nature of their structure and governance. It may be necessary for DCC to provide further clarity on how they intend to ensure fair comparison across different economic operators to help ensure a level playing field.

4.24. We are not, at present, actively seeking views on the issues in relation to DCC's procurement approach. We will continue to work with DCC to consider how to ensure the most appropriate evaluation of potential CSS providers including taking into account the full cost or value to market participants. At this stage we do not think that there is any regulatory constraint to prevent a bid from Xoserve, or any other industry body, being fairly and appropriately evaluated through a DCC run open competition to procure the CSS or associated services.

## 5. Conclusion and next steps

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5.1. We are seeking views from all stakeholders on the questions in sections four and five. Recognising that we have issued this consultation over the summer **we are seeking responses by 29 September**. If there is a clear stakeholder view that a CSS based on UK Link could offer significant benefits to industry and consumers that may not be provided by any other approach, DCC will need to consider whether this has any implications for the procurement approach. The method that DCC would use to ensure that the evaluation of bids takes into account the full value to market participants is particularly important.

5.2. We will consider the responses to the questions in section 4 and take a view on whether there are any steps that Ofgem should take in order to address, or help to address, the governance arrangements placed on Xoserve as the CDSP such that it could participate in a competition if its Board thought it appropriate to do so.

5.3. The purpose of this consultation is to ensure that there is a clear understanding of whether a UK Link option would offer significant industry-wide benefits, and therefore benefits to consumers, and, if so, how to ensure that those benefits can be appropriately assessed alongside all other relevant criteria. For the avoidance of doubt, this consultation should in no way be taken to indicate an Ofgem preference for a CSS built on UK Link.

5.4. We do not consider that the outcome of this consultation should impact on the design of the CSS or other elements of the new switching arrangements, or the transitional or longer term governance arrangements that we will propose to put in place to support the delivery and operation of the new switching arrangements. We therefore plan to go ahead with consultation on our detailed proposals for the new switching arrangements (Design Baseline 2) in the autumn as originally planned. The outcome of this consultation on UK Link and the proposed CSS will be finalised in time to feed in as necessary to our decision on the new switching arrangements (Design Baseline 3) which we expect to publish in January 2018.

### How to respond

5.5. We welcome your views on the topics discussed in this document. Please send responses to [switchingprogramme@ofgem.gov.uk](mailto:switchingprogramme@ofgem.gov.uk) by 29 September 2017.

# Appendices

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## Appendix 1 - Consultation response and questions

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Ofgem would like to hear the views of anyone interested in the issues in this document. We would especially welcome responses to the questions at the beginning of each chapter heading and below.

Please send us your responses by 29 September 2017 and send them to:

Rachel Clark  
Switching Programme  
Ofgem  
9 Millbank  
London  
SW1P 3GE  
020 7901 3907  
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Unless you mark your response confidential, we'll publish it on our website, [www.ofgem.gov.uk](http://www.ofgem.gov.uk), and put it in our library. You can ask us to keep your response confidential, and we'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you want us to keep your response confidential, you should clearly mark your response to that effect and include reasons.

If the information you give in your response contains personal data under the Data Protection Act 1998, the Gas and Electricity Markets Authority will be the data controller. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. If you are including any confidential material in your response, please put it in the appendices.

After we have considered the responses to this consultation, we will publish our final decision and direction in February 2017.

### **CHAPTER: Three**

**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?

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

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

**CHAPTER: Four**

**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?

## Appendix 2 - Glossary

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### A

#### Authority

The Gas and Electricity Markets Authority

### B

#### BEIS

Department for Business, Energy and Industrial Strategy. UK Government department responsible for energy and climate change policy.

### C

#### Centralised registration service (CRS)

A future service to facilitate switching at gas and electricity premises.

### D

#### Data and Communications Company (DCC)

This is a company that manages the data and communications to and from domestic consumers' smart meters. Smart DCC Ltd was granted the licence by the Secretary of State with effect from 23 September 2013.

### O

#### Ofgem

Office of Gas and Electricity Markets

### S

#### Smart Energy Code (SEC)

The SEC is a new industry code which is a multiparty agreement which will define the rights and obligations between the DCC and the users of its services Suppliers, network operators and other users of the DCC's services who will all need to comply with the Code

#### SECCo Ltd

The joint venture company established under the SEC for the purpose of acting as a corporate vehicle to assist the SEC Panel in exercising its powers, duties, and functions, including by entering into contracts for that purpose, owned by SEC Parties.

#### SEC Panel

Panel established under the SEC to oversee the Smart Energy Code with powers and duties as set out in Section C of the SEC.

#### Smart Meter Communication Licence (“the licence”)

The Smart Meter Communication Licences granted pursuant to Sections 7AB (2) and (4) of the Gas Act 1986 and Sections 6(1A) and (1C) of the Electricity Act 1989.

#### Switching programme

This programme concerns the process used by industry to transfer a consumer from one supplier to another. Smart metering presents an opportunity to improve this process. Ofgem’s ambition is for a fast, reliable and cost-effective process that facilitates competition and builds consumer confidence.

#### Switching arrangements

The process by which a consumer switches from one supplier to another.

## Appendix 3 - Feedback questionnaire

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### **General feedback**

We believe that consultation is at the heart of good policy development. We are keen to hear your comments about how we've conducted this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about this document's tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send your comments to [stakeholders@ofgem.gov.uk](mailto:stakeholders@ofgem.gov.uk)