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Consultation on UK-Link and the proposed Central Switching Service

Dear Rachel

Thank you for the opportunity to respond to Ofgem's consultation on UK-Link and the proposed Central Switching Service (CSS). This response is made on behalf of Cadent and can be published by Ofgem.

Cadent is broadly supportive of Xoserve providing a CSS based on the UK-Link system. Our opinion is that a combined gas/electricity switching service based on the newly built platform that has dual fuel capacity has the potential for significant cost economies and customer benefit. We would expect that one advantage of the recent substantial investment in UK link within Xoserve should be that the new system is capable of being adapted and extended to markets beyond that of the gas industry.

While we consider that there might be cost and efficiency benefits for energy consumers, our support would be conditional on price control, liability considerations and maintaining the integrity of current Central Data Services. The Funding, Governance and Ownership (FGO) arrangements have only just been implemented in the past 6 months and a significant aspect of the new framework would have to change if Xoserve were to bid and potentially be successful in the DCC procurement event. None of this was envisaged when Ofgem rebased the GT price controls on 1st April 2017 although the original FGO funding model was predicated on pass through of GT costs to provide sufficient flexibility to allow Xoserve to respond to the needs of its shipper customers in circumstances such as these. Ofgem reversed its original view of price control treatment because of concerns over the industry's ability to collaborate to deliver major change. The two key change programmes identified by Ofgem being Nexus and FGO which have both since been delivered successfully. If Ofgem is now considering significantly modifying the FGO model, it should also use the opportunity to incorporate its original GT price control intent of pass through of Xoserve costs as collaborative delivery has clearly been demonstrated. Moreover, arguably even more co-operation and funding flexibility would be required if Xoserve takes on a much wider role in energy market transactions.

If on the other hand, Ofgem considers that the new CSS is a supplier centric service then funding of costs and any liabilities associated with bid preparation, mobilisation, systems development, data migration and ongoing CSS services should be fully defrayed by shippers/suppliers through constituency funding. For the reasons articulated above, Cadent would have no objection to Xoserve participating in the CSS bidding process subject to clarity on the funding and liability position.



In relation to the services provided to Shippers and Transporters by Xoserve through the Data Services Contract (DSC), it is important that the integrity of this provision is unaffected. There is a risk that management focus and resources will be directed to development of the new CSS service and therefore adequate assurance around existing services would need to be addressed.

Although there are no fundamental impediments or barriers to Xoserve participating in a competitive procurement for a new CSS there are some important matters which would require consideration before proceeding. We have identified these in the enclosed response to the individual questions set out in the consultation.

Please contact me should you wish to discuss any aspect of this consultation response.

Yours sincerely

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Continuation sheet.

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?

We broadly concur with each of the potential benefits identified within a) to c). In respect of each of these the conclusions appear logical. However, recent experiences with large scale systems development programmes, including new UK-Link have shown that these are rarely simple and inevitably carry a significant, inherent risk of delivery/cost overrun. We would suggest a significant amount of effort would be required, utilising recent lessons, at the outset to ensure these risks are mitigated.

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

Employing Xoserve as the CSS could mitigate costs associated with transferring registration data and building interfaces with the CSS and avoid stranding elements of the recently implemented UK Link programme. It could also help to accelerate transition from a 'thin' to 'thick' CSS model in future.

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

We have identified a range of issues below relating to this, all of which would require careful consideration:

Systems delivery

We note that the replacement of the UK-link system under Project Nexus, which was implemented in June 2017 was not without significant challenge. In particular the overall programme met with considerable delay and cost overrun. Therefore with respect to this it would be vital to ensure that a comprehensive and fully funded project management structure be in place to expedite timely development and delivery.

Risk to present operations

Under the FGO framework implemented to the UNC in April 2017, Xoserve operates as a Central Data Services Provider (CDSP). The relevant contractual regime is contained within the UNC and CDSP DSC. It is vital that the efficiency of operation of these arrangements is not compromised by development, implementation and operation of any new CSS arrangements.

Liability

It is essential that gas transporters operating under the FGO arrangements described above do not face any additional liability or cost exposure which may be expected to arise under the proposal.

Funding

Centralised Switching would fundamentally comprise a service provided by a switching agency, in this case Xoserve to Shippers and Suppliers. The extent of Gas Distribution Network (GDN) involvement in this activity would be limited. Our principal activity in this respect is associated with Meter Point Reference Number (MPRN) creation for New Supply Points. Consequently, should the initiative proceed, we believe an option is that development and operation could be funded through Ofgem's original and more flexible FGO proposals to allow full pass through of industry costs including those of the gas transporter. In this respect we consider there to be an opportunity to enhance the collaborative nature of the recently introduced FGO arrangements,

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perhaps across the gas and electricity markets. Without this, it is unclear how Xoserve would recover its development and implementation costs other than through some form of 'ring fenced' and new bespoke separated funding arrangement for Shippers and Suppliers.

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?

It is possible that the CSS could be included within the scope of CDSP services with consequent changes to the DSC to permit Xoserve to enter into a commercial service. However, as described above we consider it is essential that any risks to Xoserve's prevailing 'core' CDSP activities in particular those underpinning the discharge by parties of Licence, UNC and other industry code obligations are sufficiently mitigated. To embark on this route, as described above we believe a simple funding route exists through the introduction of full cost pass through arrangements as originally scoped under FGO thereby avoiding the need to introduce a new and separated cost recovery framework under a new funding model. In this way the logic and intent of industry collaboration under the FGO regime is fully captured.