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29th September 2017

RE: UK Link and the proposed Central Switching Service

Dear Rachel,

The UK Link platform was a significant investment for the industry and ultimately the gas consumer. Utilising UK Link to perform the activities of the Central Switching Service (CSS) could yield an efficient outcome for the consumer. Therefore it is important to consider if this option is feasible. We therefore thank Ofgem for the opportunity to respond to this consultation.

Broadly we understand that the SAP solution procured for Nexus has many of the components that would support the CSS and therefore on both technical and efficiency grounds this appears a sensible solution.

Broadly our response balances the potential benefits with a number of risks or issues, none of which we believe could not be addressed or mitigated:

Who Pays

Any scenario where the gas customer incurs a higher bill in the future than in a scenario where Xoserve were not preparing for the role of the Central Switching Service (CSS) introduces an unwelcome cross subsidy between electricity and gas consumers. Furthermore, the switching activity is a supplier responsibility and therefore funding arrangements should reflect this (Networks received no allowance for this activity, however Licence terms MPt or PCFM reopeners may provide a sensible way to adjust both Electricity and Gas DNOs to account for the central costs of the CSS should funding become the only remaining issue).

Who bears the risk

The current Funding Governance and Ownership (FGO) arrangements were put in place for the current provision of Central Data Service Provider (CDSP) services. The ownership of Xoserve and current mutual governance model is not suited to the

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provision of the CSS, including the wider stakeholder base it brings and additional company risk (both financial and reputational).

Maintaining Service

The UK Link delivery has been a success that provides a stable platform for the effective operation of the gas industry. Any significant change to this system, or to the organisation tasked with looking after it risks Xoserve failing to meet current obligations.

The consultation posed a number of specific questions, each of which the remainder of our response considers.

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?

3.7a Solutions Architecture

1. We agree that reducing the number of systems should yield efficiency, reduced data flows and therefore improved data quality by having a single source of data. UK Link has been built specifically for the purpose of maintaining the supply point database and any consequential bolt-ons required to meet the needs of the CSS should not adversely impact the existing functionality. Our understanding from Xoserve is that the procured SAP solution could achieve this with limited additional customisation. Furthermore we concur that where the use of existing systems results in a reduced bill for the ultimate consumer, this should be seriously considered.
2. The consultation states “reuses systems to which they are already connected” – we are unclear about the extent to which the full functionality of UK link is connected to the suppliers because the majority of flows are between central systems and transporters or shippers. Not all Suppliers are also Shippers and it is important to remember this. UK Link has no links to electricity only suppliers. Notwithstanding this the recent experience of delivering the UK Link system means Xoserve is capable and able to connect additional parties efficiently and effectively.
3. The consultation discusses 'Industry investment', we would like to highlight that the complexities in delivering a system such as UK Link were underestimated. Therefore the system has been paid by the end consumer (to the extent that allowances were provided and by an approximate 60:40 split between Network Shareholders and the gas consumer for the extent it was not). These costs are to an extent sunk. Any ability to utilise this asset to a wider customer base should enable some of these additional sunk costs to be recovered and returned to the appropriate customers by the parties benefiting.

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3.7b Reducing Delivery risk

1. 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 electricity registration data would need to be migrated to a new system.
2. As stated above, it is unclear the extent to which the UK Link system is sufficiently interfaced with 'many' of the key CSS users. However again, it is envisaged that Xoserve has sufficient capability and experience in on-boarding additional parties into UK Link interfaces.
3. The consultation highlights the benefits of reduced risk to delivery by utilising an existing system; in our view does not properly address the requirement to consider the risk posed to existing systems, obligations and functionality.

3.7c Investment and Cost to Serve

1. Xoserve is currently operated through the governance intended and delivered under the FGO programme. Suppliers are not part of this governance structure and consequently the governance and the funding would again need to be reopened as suppliers bring additional requirements and needs.
2. Notwithstanding point (1) above, there should be economies of scale for Xoserve in delivering a wider scope of services to more parties. This would include sharing of central head office costs and increased procurement buying power. This may help reduce future bills for the gas consumer.

CHAPTER: Three

Question 2: Are there other benefits that we have not identified? UK Link and the proposed Central Switching Service

Ultimately the GB energy industry requires an appropriate body to:

1. Maintain a supply point register
2. Maintain usage information
3. Enable efficient robust switching
4. Perform a billing role, especially for distributors
5. Energy Balancing
6. Demand forecasting / estimation

Incrementally joining CSS services to Xoserve may solve the current delivery of the CSS. However it may yield a result which is sub optimal for the consumer from the current architectural and business footprint and any further desired end state. For example a central dual fuel energy balancer, or billing agent may be seen as a desirable.

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CHAPTER: Three

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

a) Risk to current UK Link functionality from problems relating to CSS provision.

Regardless of provider, Xoserve systems will require amendment to enable the CSS. Any change to systems brings risk of availability, data quality and loss of functionality. By Xoserve also being the CSS there are additional risks. These arise from having a shared system for two separate purposes. All changes specific to the CCS would require impact assessment and testing for the existing system to ensure no adverse impacts occur. This would otherwise not be required. Resource would also be required to manage the needs and version release requirements of two separate stakeholder bodies, it is unclear how change requests between the existing users and the CCS will be prioritised and managed.

b) Charging.

It is important that costs are correctly apportioned so that Shippers and Transporters do not subsidise and are not subsidised by Suppliers, and cross subsidisation between electricity and gas consumers does not occur.

c) Resource impact on CDSP services and any change pipeline.

If Xoserve is awarded CSS work and there is not clear separation between current UK Link systems and CSS systems there is a risk that key resources will be moved from UK Link to CSS with a detrimental impact on UK Link changes and network licence obligations. As a result of Project Nexus a number of key changes have been delayed due to the Nexus code freeze and we do not want to see these delayed because key resource are working on CSS bids, design or development. We also note that Xoserve may have knowledge gaps in relation to the operation and data flows relevant for Electricity switching which would need to be addressed.

d) Transparency.

FGO has led to a greater transparency of CDSP costs and their subsequent allocation and the CDSP has further work to do to meet the needs of its stakeholders to further improve this transparency. Xoserve must meet these enhanced requirements at the same time as separating from many of the National Grid systems which it currently utilises. Adding the CSS suite of services, costs and stakeholders may result in a diversion of management attention.

WWU would support use of UK Link if these risks could be addressed.

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CHAPTER: Four

Question 4: Under the current Xoserve CDSP governance do you believe there are any substantive obstacles to Xoserve's ability

a) Licence

During the FGO programme there was much discussion over the CDSP's ability to offer services other than to DSC signatories. Condition A15A (7b) was put in place to require Authority approval for such services; however at no point was it considered that these would be substantial activities. Therefore the licence does not prohibit Xoserve providing CSS although this event was unforeseen when the licence condition was drafted.

At final proposals Xoserve presented its forecasted costs aligned to 'run the business' and 'investment. Some networks (including ourselves) included the proportion of investment cost we would pay as Capital in nature, reflecting the long term benefit the system brings. The UK Link System will be included in the RAV of those networks taking this approach. Consideration must be given to ensure that there is no Licence conflict by using an asset which may represent part of a Network Companies RAV to perform activities not relating to the supply and distribution of gas (i.e. Central Switching).

b) Governance

The consultation envisages including CSS activity within the scope of CDSP services and enfranchising relevant customers, namely Suppliers, in Data Services Contract governance arrangements. We think that this would increase the complexity of the existing arrangements and give Suppliers influence over wholesale market arrangements that should be managed by Shippers and Transporters (for Gas).

There are a number of solutions which may alleviate this risk, all of which may potentially reduce some of the economies of scale which may be achieved. These include:

1. Setting up a separate entity ("Xoserve CSS") with wider shareholding than the current Xoserve company. This could include setting up a co-operative model owned directly by customers for example (thus avoiding the need to manage the diverse regulated stakeholders that would otherwise need consideration). However, such an arrangement may result in the need of separate instances of the SAP solution and consequently more industry work in re mapping server destinations and file flows.
2. Setting up a separate division within Xoserve. This makes the ability to share overheads easier, including the core SAP instance installed. There is increased risk that the current core business may receive reduced focus from the Xoserve executive. The ownership and governance would also

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require revision to allow appropriate direction from both Electricity and Supplier stakeholders.

We think that keeping CSS activity separate from CDSP services reduces system risk and also reduces the risk and complexity of the required governance arrangements.

c) Funding for bid preparation

As a DSC party WWU does not believe that bid preparation work for a CSS contract is a CDSP activity. It is a matter for the Xoserve board and shareholders. Ultimately the activity of Faster and more reliable switching is a service for the Suppliers and therefore the costs associated with this activity most logically aligns with suppliers.

d) Requirements for Xoserve under the CDSP Service Document ‘Third Party Additional Services Policy’

The CDSP arrangements are controlled through a suite of Terms and Conditions. The provision of the CSS service potentially conflicts with elements of the ‘Third Party Additional Services Policy’. At a minimum, each of the following would need consideration/resolution:

Para	Third Party and additional services policy	Consideration for the provision of the CSS
2.2.1	The CDSP may only provide Services to Third Party Service Customers which are CDSP Services	The CSS would be required to become a CDSP service which would require approval by Ofgem in line with licence condition A15A (7b)
2.3.1(c) (i)	Have any non trivial adverse effect on the provision of any Services to Customers under the DSC, including in respect of the use of any part of UK Link, the use of data, or the resource committed to the provision of the Third Party Service;	Xoserve resource would otherwise be directed in supporting any CSS appointed which would require management attention regardless. It is unclear the extent to which being the CSS would be either an advantage or not in incremental impact. It is difficult to imagine that the CSS would not result in a non-trivial adverse impact on resources currently committed to CDSP activities. However, a larger service offering should bring with it economies of scale therefore potential to bring a positive impact on current services.
2.3.1(d)	The aggregate amount of the CDSP’s turnover attributable to Third Party Services (excluding Charges payable under UK Link User Agreements) does not, and	The provision of the CSS would breach this limit. Therefore the Service Agreement would require amendment or waiving in line with para 2.6.1.

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Para	Third Party and additional services policy	Consideration for the provision of the CSS
	will not as a result of entering into the TPS Agreement, exceed 2.5% of the CDSP's overall turnover;	
2.4.1(b)	Other than in respect of a UK link User Agreement with a Trader User, the term of the TPS Agreement does not exceed 24 months', or the CDSP may terminate the TPS Agreement without liability on not more than 24 months notice	The provision of the CSS would breach this limit. Therefore the Service Agreement would require amendment or waiving in line with para 2.6.1.
2.5.1	Subject to paragraph 2.5.2, the Charges for a Third Party Service are to be set: (A) So as to recover the Costs of Developing (where applicable) and providing the Third Party Service (ascertained in Accordance with the Cost Allocation Methodology as providing in the Budget and Charging Methodology;	It is important that costs are correctly apportioned so that Shippers and Transporters do not subsidise and are not subsidised by Suppliers, and cross subsidisation between electricity and gas consumers does not occur. This extends to bid preparation costs, deemed part of development costs.
2.6.1	Subject to paragraph 2.6.2, if the requirements of paragraphs 2.3, 2.4 and 2.5 are not met, the Committee may authorise the CDSP to agree to provide Third Party Services if the Committee considers that the provision of such Third Party Services will have benefits for Customers collectively (as Customers and not as TPS Customers) which outweigh the risk resulting from such requirements not being met.	No formal request has been made however there is a risk that the "Contract Committee" does not authorise the CDSP to undertake the activity of the CSS.

Any questions or queries please do not hesitate to contact me.

Yours sincerely,

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