

Lansdowne Gate  
65 New Road  
Solihull  
West Midlands  
B91 3DL  
0121 623 2692  
[www.xserve.com](http://www.xserve.com)

Rachel Clark  
Ofgem  
9 Millbank  
LONDON  
SW1P 3GE

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Dear Rachel

## **PROPOSALS FOR NEW SWITCHING ARRANGEMENTS**

Thank you for the opportunity to contribute to the shaping of Ofgem's switching proposals. We are responding from a couple of perspectives, firstly as the gas industry Central Data Services Provider ("CDSP") to UNC parties, secondly as the custodian of systems and processes that are critical to the energy sector and that we believe we should offer for re-use for the benefit of all.

### **Impact on Central Data Services**

In our capacity as CDSP, we recognise that the proposals will require a number of functional changes to industry systems to meet our Shipper and Gas Transporter customers' requirements from the new switching arrangements. We would expect to progress and deliver these changes in accordance with normal Data Services Contract ("DSC") governance, being mindful of the need to ensure that we help our customers to successfully land the changes into their organisations as well as our own.

The changes that we deliver will be only one small part of a large and complex energy industry programme involving multiple stakeholders and requiring layers of regulatory, contractual, technological and process changes. There is a compelling need for the early appointment of a properly resourced, highly skilled and transparently funded team with responsibility for programme management and assurance activities, mitigating delivery risk and controlling costs to consumers. Project Nexus and the FGO Programme both provide valuable learning in this area. KPMG have published an insightful report on the FGO Programme, and we shared some reflections around Project Nexus (and other change work) in our response to the Code Governance Remedies consultation earlier this year.

## **Procurement of Services**

Ofgem is proposing that the DCC should procure three service packages through competitive tender: the Central Switching Service (“CSS”), the Consumer Enquiry Service (“CES”) and the communications network. These are presented as a series of largely unconnected sourcing decisions rather than being considered in the context of a coherent strategy that is demonstrably capable of delivering high quality services and real consumer benefit. Moreover, there is no step built into the decision making process to carry out an independent assessment of the potential to re-use existing industry assets before embarking on a procurement route that could encourage the introduction of duplicate systems, duplicate management structures and duplicate overheads into an already complex and congested market. It was encouraging to read that Ofgem had commissioned Mason Advisory to review options for the sourcing of the communications network, but disappointing that the review findings have not triggered a more rigorous challenge of the DCC led procurement approach.

We have already set out our case<sup>1</sup> for the re-use of UK Link as a platform for the CSS on the grounds that a solution can be delivered at a lower risk, lower cost and faster pace than a brand new third party system, and would avoid adding further complexity to the market. We presented a bold case, and we recognise the benefit to Ofgem of seeking independent assurance of UK Link capabilities and how they can contribute to a successful Switching Programme.

We highlighted in our submission the need to ensure that, in seeking to deliver benefits to consumers through competitive tender, the procurement process itself is appropriately sized to the investment, is demonstrably efficient, and does not result in an unrealistic cost and time burden on those seeking to participate. We also advocated that the evaluation criteria should recognise end to end costs and the broader market benefits of leveraging existing industry assets. We believe that the same asset re-use tests should be applied to the provision of the CES and the communications network.

We already provide a market wide gas MPRN enquiry service, and this could be extended with only minimal additional data requirements to include an enquiry service for electricity MPANs (currently distributed across the DNOs). Moreover, we envisage that the CSS platform would hold all of the data required to operate the CES, and therefore see the separate provision of the CSS and the CES as adding unnecessary cost for end consumers.

With regard to the selection of a communications network, both Xoserve and Electralink are planning the near future re-tender of their respective IX and DTN services. We are exploring the potential for a harmonised service that would meet the requirements of both markets, and could in fact come very close to meeting the requirements of the Switching Programme. We expect the re-tender work to be complete ahead of any DCC procurement activity, and this needs to be taken into account when decisions are being made about sourcing strategy..

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<sup>1</sup> See <http://xoserve.com/wp-content/uploads/Xoserve-Faster-Switching-Consultation-Response-170929.pdf>

## **Retail Energy Code**

The proposals in respect of the Retail Energy Code (“REC”) do not give consideration to the form of the service contract between the party that is appointed to provide the CSS and the parties to the REC. A key feature in the design of the CDSP model implemented earlier this year is the contractual relationship between Xoserve and its Shipper and Gas Transporter customers, which has been given effect through significant modification to the UNC and the introduction of the DSC. Development of this model took a considerable amount of industry effort during the FGO Programme and had to draw on expert legal advice. In light of this experience, we would encourage Ofgem to include design and development of the CSS service contract within the scope of future work to develop the REC.

Whilst the strength of our case to be the CSS provider is founded on the re-usability of UK Link, we think that there can be further benefits from not adding a new central body to an already congested landscape and extending the ‘at cost’ CDSP service model rather than creating a contract from the ground up.

We are happy for Ofgem to publish this letter in full. In the meantime, if you would like to discuss further any aspect of our response, please do not hesitate to contact me.

Yours sincerely

Martin Baker

External Affairs Manager

[martin.baker@xoserve.com](mailto:martin.baker@xoserve.com)