

Competition and Markets Authority
‘Energy market investigation:
Notice of possible remedies’
Response of Smart DCC Ltd

05 August 2015

1 Executive summary

1. Smart DCC Ltd, known as the Data and Communications Company or DCC, welcomes the opportunity to respond to the consultation 'Energy market investigation: Notice of possible remedies', released on 07 July 2015.
2. DCC holds a licence, granted by the Department of Energy and Climate Change (DECC), to establish and manage the data and communications network to connect smart meters to the business systems of energy suppliers, network operators and other authorised users of the network.
3. DCC notes the CMA report as a whole with interest, but focuses its response on the operational aspects of the CMA's possible remedies which discuss smart metering and next-day switching, rather than covering all remedies which entail other, broader policy issues which are the purview of other organisations.
4. DCC welcomes CMA's recognition that the roll-out of smart meters, combined with next-day switching, will play a central role in strengthening competition in the electricity and gas supply markets.
5. DCC is central to the roll-out of smart meters and will facilitate reliable next-day switching by providing the Centralised Registration Service which will replace the existing network-run gas and electricity switching arrangements.
6. DCC is excited about its role in enabling the benefits that smart meters and next-day switching will open up and sees them as offering solutions to effective competition and improved engagement (as set out in CMA's principles 1 and 2).
7. DCC notes that CMA's third principle talks about 'providing transitional safeguards for disengaged consumers'. DCC welcomes the use of the word 'transitional' as it shares CMA's assessment that smart metering and new switching arrangements have the potential to transform consumer engagement in the energy market in the future.
8. DCC discusses the possible remedies requiring energy suppliers to prioritise the roll-out of smart meters to prepayment customers and the acceleration of smart meter roll-out across the retail market as a whole. DCC observes that at an operational level there would be practical and technical implications of such prioritisation / acceleration.

2 Background

9. DCC shares CMA's belief in the transformational benefits of smart metering for the GB energy sector.

The benefits of smart metering

10. DCC notes DECC's latest benefits analysis report, published in December 2014, in which the benefits of the Smart Metering Implementation Programme are stated as

expected to deliver £17.1 billion of benefits at a cost of £10.9 billion, giving a net gain of over £6 billion¹. This assessment assumes a supplier-led roll-out with a completion date in December 2020 enabled by a centralised DCC.

11. The quantification of the benefits of smart metering with a centralised DCC is supported by tangible benefits to consumers and GB's transition to a low-carbon economy, including:
 - a. providing consumers with real-time information on their energy consumption to help them control and manage their energy use, saving money and reducing emissions
 - b. providing consumers with more accurate meter reading; bringing an end to estimated billing
 - c. supporting GB's transition to a low-carbon economy and helping to meet some of the long-term challenges faced in ensuring an affordable, secure and sustainable energy supply
 - d. enabling a demand-side transformation in the energy industry by giving consumers access to information to make informed purchasing decisions
 - e. reducing the barriers to switching between energy suppliers
12. These macro-economic benefits are supported by DCC taking all steps to minimise barriers to engaging with DCC and accessing its Services; with a special focus on smaller suppliers and new entrants.

New switching arrangements

13. DCC notes that Ofgem is currently consulting on whether facilitating new switching arrangements should become 'Mandatory Business' for DCC.
14. DCC's role is being considered as part of Ofgem's consultation: 'DCC's role in developing a Central Registration Service and penalty interest rate proposals' published on 28 July 2015².

SMETS1 and SMETS2 meters

15. From DCC Live, DCC will provide a common infrastructure to support smart meters based on the latest technical specification, called 'SMETS2'. Some energy suppliers are already installing earlier types of smart meter in advance of DCC Live. Many of these are based on an earlier technical specification, called 'SMETS1', which supports a smaller set of functionality than SMETS2.
16. Because energy suppliers are installing SMETS1 meters before the DCC infrastructure is available, each energy supplier has set up its own individual data communications arrangements in order to operate SMETS1 meters. This means that

¹ DECC, 'Third annual progress report on the roll-out of Smart Meters', December 2014, p.6. www.gov.uk/government/publications/third-annual-progress-report-on-the-roll-out-of-smart-meters

² www.ofgem.gov.uk/publications-and-updates/dccs-role-developing-central-registration-service-and-penalty-interest-rate-proposals

when a customer with a SMETS1 meter switches energy supplier, the meter may not continue to work as a smart meter, depending on the data communications arrangements the new energy supplier has in place. Where the new energy supplier cannot operate the meter in 'smart' mode, it will operate like a traditional meter; customers in this position will be no better off than those with traditional meters.

17. DCC is looking at options to integrate existing SMETS1 meters within the DCC solution, to allow energy suppliers and other authorised parties to communicate with both SMETS2 and SMETS1 meters via the DCC network. This should ensure that when customers with SMETS1 meters change their energy supplier, they will continue to receive a smart service. However there will not be a common infrastructure for SMETS1 meters at the time of DCC Live.
18. DCC would point CMA to the 31 July 2015 'Government response to the Smart Metering Roll-out Strategy consultation'³ which stresses that it is important to ensure that the greater benefits of SMETS2 meters can be realised as soon as possible.

3 Response

19. DCC focuses its response on the operational aspects of remedy 5, with its discussion of the prioritisation of prepayment customers and acceleration of roll-out as a whole. This is followed by a commentary on a limited set of other remedies, where comment on operational aspects relevant to smart metering or switching might be helpful.

3.1 Remedy 5: 'Requirement that energy firms prioritise the roll-out of smart meters to domestic customers who currently have a prepayment meter'

20. Remedy 5 discusses a 'Requirement that energy firms prioritise the roll-out of smart meters to domestic customers who currently have a prepayment meter' and asks at paragraph 65(d) 'what issues might arise as a result of prioritising the installation of smart meters in the homes of customers who currently have prepayment meters?'

Prioritising customers with prepayment meters

21. DCC understands CMA's concern with the prepayment meter market, which places technical constraints on customers from engaging fully with the market. The installation of smart meters, in combination with a more efficient switching process, will help to address the barriers prepayment customers face in accessing information.
22. DCC's data and communications network will support both prepayment and traditional credit-based smart meters.
23. DCC notes however that if a policy decision were to be taken to prioritise prepayment customers over those customers with traditional meters, DCC would need to revisit its delivery strategy and address any technical programme complexities which may

³www.gov.uk/government/uploads/system/uploads/attachment_data/file/450167/Smart_Meters_Rollout_Strategy_Government_response_FINAL.pdf

have implications of cost and delay to the Smart Metering Implementation Programme as a whole.

24. DCC notes that it and energy suppliers will need to go through a learning-curve post-DCC Live to protect the consumer experience, which is vital for the delivery of smart meters' benefits.
25. Whilst extensive testing pre-DCC Live is there to ensure a smooth consumer experience from the get-go, there will be lessons to learn to improve upon and ensure the resilience of the service for early adopters.
26. DCC suggests that it may be unwise for these leanings to be experienced only or largely by prepayment customers who, CMA suggests, 'undoubtedly get the worst of things at present'.
27. DCC would be pleased to engage with officials in the CMA to discuss in detail the practical issues surrounding the implementation of such a proposal.

Accelerating the roll-out of smart meters across the market

28. Under remedy 5, CMA also asks at paragraph 65(e): 'Would it be more effective and / or proportionate to require energy suppliers to accelerate the roll-out of smart meters across the retail market as a whole?'
29. DCC notes that accelerating the roll-out of smart meters would have significant practical and commercial considerations.
30. DCC is committed to a stable and resilient plan for DCC Live, agreed by the Secretary of State on 05 March 2015⁴, supported by our delivery strategy, which was subject to extensive public consultation.
31. Following DCC Live, an accelerated roll-out would require an increase in the rate of supplier installations. This may put pressure on the capacity of DCC infrastructure and systems, in particular providing appropriate network capacity and levels of performance, the availability of Communications Hubs to meet higher installation volumes, and the impact of increased demand on service management processes. DCC notes that such increase in capacity would have cost implications.
32. As with the prioritisation of prepayment customers, DCC notes for the acceleration of the Programme as a whole that it and energy suppliers will need to go through a learning-curve post-DCC Live to protect the consumer experience which is vital for the delivery of smart meters' benefits to consumers.
33. DCC suggests that the roll-out of smart meters is already aggressive, with the installation of 53 million meters in 30 million homes and small businesses by 2020.

⁴ Written Ministerial Statements, Smart Metering:
<http://www.publications.parliament.uk/pa/cm201415/cmhansrd/cm150305/wmstext/150305m0001.htm#15030533000017>

34. To break this down further, DECC presented the findings on the installation rates of smart metering during the roll-out, following a formal information request issued to Suppliers on 31 March 2015⁵. The data, received from nine large suppliers showed that approximately:
- a. 13 million meters will be installed in the peak year 2018
 - b. 7,000 installers would be required to install about 55-60,000 meters each working day in 2018
 - c. 34 million meters installed in the three year period 2018-2020

3.2 Remedy 10: ‘Measures to prompt customers on default tariffs to engage in the market’

35. DCC considers that energy suppliers are best placed to comment on measures to engage customers. DCC would highlight however that, whilst it does not communicate directly with customers, its communications infrastructure can be used by DCC users (e.g. energy suppliers) to provide different types of messaging to customers.
36. As the Programme develops and DCC’s solution evolves, DCC will work with energy suppliers to develop innovative solutions to engage customers and raise awareness of offers available to them.

3.3 Remedy 13: ‘Requirement that domestic and SME electricity suppliers and relevant network firms agree a binding plan for the introduction of a cost-effective option to use half-hourly consumption data in the settlement of domestic electricity meters’

37. The introduction of smart meters means that energy suppliers can access half-hourly consumption data in an efficient way. DCC is an intrinsic part of a strategy for half-hourly settlement and will look to tailor its services to meet supplier and network needs.
38. In order to support a move to domestic settlement based on half-hourly consumption, DCC would need to work with industry to agree the frequency, volume, and target response times for requests for consumption information required to support half-hourly settlement.
39. We would also highlight that a prerequisite for this remedy is that customers have smart meters installed. As explained in our response to remedy 5, the practicalities associated with accelerating the Programme would need to be considered.

⁵ SECAS Transition Governance update – 02 July 2015

4 Conclusions

40. DCC welcomes CMA's recognition that the roll-out of smart meters, combined with next-day switching, will play a central role in strengthening competition in the electricity and gas supply markets.
41. However DCC stresses that:
 - a. the prioritisation of prepayment meter customers would change DCC's delivery strategy and may have cost and delay implications
 - b. any accelerated roll-out must not come at the expense of service levels and customer experience – especially in early roll-out and especially for prepayment customers
 - c. use of settlement data must be planned carefully to reduce the possibility of the need for expensive additional capacity
42. DCC would be pleased to engage with officials in the CMA to discuss the practical issues surrounding the implementation of its proposals in detail as they affect the operational aspects of smart metering and next-day switching.