

Smart Metering Implementation programme – DCC Licensing team,
DECC
3 Whitehall Place
London SW1A 2AW

23/11/2011
Ref: URN 11D/868

Dear Sirs,

DCC Licence and Licence Application Process

Please find attached our response to the above consultation.
We have responded only to those questions which are either relevant to our organisation and its' experience or to which we have relevant information to include.

Yours faithfully,

7. Do you have any comments on the scope and nature of the consequential licence changes that we propose to make?

A7. Regarding the Data Transfer Service, we believe that the DTS only has the potential to overlap the DCC if the DCC seeks to establish a mirror service to communicate between itself and all the users (as opposed to communication with the meters which will be via the WAN). It should be noted that the DTS also carries data flows between industry parties the nature of which would not normally flow between the DCC and its users.

14. Do you think DCC should have a separate objective to promote (or facilitate) energy efficiency?

A14. Whilst we believe that the DCC should help to encourage and facilitate a competitive market in energy efficiency, having a direct objective to promote energy efficiency could bring it into conflict with its requirement not to compete in user markets.

16. What are your views on the SEC Applicable Objectives set out above?

A16. We support these objectives, particularly 3.45(f) which is often sacrificed in order to overcome challenges elsewhere in the programme.

19. Do you think the SEC should have a separate objective of promoting (or facilitating) energy efficiency?

A19. The wording of such an objective should support and encourage an open and competitive market in energy efficiency.

21. In relation to which non-compliant metering systems should DCC be required to offer services?

22. In relation to which non-compliant metering systems associated with energy supply at consumer premises should DCC be permitted to offer services?

A21-22. The difficulty with the ability of the DCC to offer terms and hence compete in markets outside of domestic smart metering focuses around proposed charging regimes and the potential for conflict with its' stated aims to facilitate competition in energy efficiency, metering services and other energy related services. Under the proposed charging regime, a significant proportion of the DCC and service provider overall costs may be recoverable under a fixed-cost allocation across energy suppliers and network operators. Accordingly, it would be possible to compete on unfair terms in these other areas by effectively cross-subsidising its' rates via its' fixed-cost recovery mechanism. Either the element of fixed-costs recovery should be marginal (more of which later) or a very robust (external) audit system introduced to ensure that DCC quoted rates in these areas are fully cost-reflective and take into account a fair share of all DCC and service provider costs.

30. Is the scope of the proposed prohibition on discrimination, which is limited to undue discrimination between uses or classes of users, adequate?

A30. We support the proposal in 3.106 to prohibit the DCC from receiving services from itself or undertaking any of the activities of users.

34. Do you agree with the business separation between DCC and users that is proposed? More specifically, do you agree that no DCC user that operates in a competitive environment should be permitted to have more than a 20% shareholding or control in DCC, and that DCC and its subsidiaries should not be permitted to have any shareholdings in users or service providers?

A34. We believe that in addition to the 20% shareholding rule, there should be a restriction preventing any industry related group achieving undue influence over the DCC through ownership. Such a group could be a single group of user-types (e.g. suppliers, network operators) or a group of service providers individually operating under a de-minimis arrangement.

55. Do you believe that DCC should be required to operate its business in a way that ensures it does not restrict, prevent or distort competition in gas shipping, the generation of electricity and participation in the operation of an interconnector?

57. Are there any additional conditions that you would wish to see included?

A55-57. Yes. We also believe that the condition noted in Q55 should be extended to metering, metering related data (outside of the prohibition area) and the provision of energy related services.

66. Do you agree that DCC should only begin to charge users for communication service providers' costs from "go-live"? Please provide reasons as to why this is or is not appropriate.

A66. We strongly believe that the communication service provider should be remunerated through a 'rate card' approach. There is sufficient certainty regarding the take-up of core services associated with business as usual (e.g. cyclic meter reads) to allow reasonable modelling of forward income stream. Whilst we appreciate that the cost model of the comms provider could be front-end loaded (dependent upon WAN solution/s chosen), we believe that the financing of any required cash-flow over the period of the contract would be an acceptable risk to the type of companies likely to bid for this service. The more extreme elements of risk (low take-up of certain core services, delayed roll-out) could be covered by clear assumption statements by bidders and annual re-opener mechanisms should key volumes vary in excess of set trigger percentages. Risk of initially economically attractive tenders turning uneconomic should be covered off through robust 'what if' financial modelling at tender stage. We strongly disagree with the comments in 5.8 where it is proposed that WAN fixed costs would need to be recovered from users irrespective of actual use of core services – this would disincentivise a comms provider from encouraging wider use of DCC services through innovative and cost-

effective pricing mechanisms as would exist with a rate card approach. The fixed-cost guaranteed recovery model also heavily risks conflict with the objective to avoid distorting competitive markets in non-core and elective services. It is the contractual 'norm' when tendering for services of this magnitude for bidding parties to share in the risk of final outcome (indeed such risk is often passed on totally to service providers).

71. Do you agree that a standing charge should cover the service providers' fixed costs for providing core services, DCC's internal costs and the SEC management funding requirements?

A71. No. See above answer A66.

75. Do you agree with the proposed charging principles?

A75. We particularly support 5.38(a) '...the charging methodology facilitates competition; and does not restrict, distort, or prevent competition in the supply of energy, provision of energy related services or energy distribution;'

78. Do you agree with the proposals to charge users for extensive assessment and design work in relation to AMRs? Should a similar approach be adopted for other elective services offered by DCC, regardless of the user accepting the service?

A78. Agree for AMR and other elective services.