

Smart Metering Implementation Programme
DCC Licensing Team
Department of Energy and Climate Change
3 Whitehall Place
London
SW 1A 2AW

24th November 2011

Wales & West Utilities response to DECC's consultation on the detailed policy design of the regulatory and commercial framework for DCC

Dear Sir/Madam,

Wales & West Utilities Limited (WWU) is a licensed Gas Distribution Network (GDN) providing gas transportation services for all major shippers in the UK. We cover 1/6th of Great Britain and transport gas to 2.5 million supply points. WWU is the only licensed operator that focuses solely on gas distribution in Great Britain.

WWU is currently in the process of writing its business plan for submission by 30th November 2011 for the next price control period 2013-2021 (RIIO-GD1). WWU will not be including any cost implications in of the Smart Metering Implementation Programme, or the ongoing costs that WWU will incur in the RIIO-GD1 period, due to the uncertainty relating to those costs at this time.

We would like to thank you for the opportunity to respond to your consultation on the detailed policy design of the regulatory and commercial framework for the DCC. WWU have participated in the DCCG working groups, representing the Energy Networks Association (gas), and offer our continued support to the Smart Metering Implementation Programme.

We have provided below answers to the questions within the consultation that we believe are relevant to us or where we have a particular view.

Chapter 2: Proposed regulatory approach to DCC

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

As a GDN, we are satisfied that there are no consequential changes required to the gas transporter licence in order for the DCC regulatory and commercial framework to be established. We do believe that the rollout of smart metering will require other changes to our licence, such as the removal of our meter provider of last resort obligation and the associated tariff caps, but this is not relevant to this particular consultation.



Chapter 3: DCC licence conditions

10. Do you agree with the proposed general objectives of DCC set out above?

We agree with the proposed general objectives and believe they are consistent, where appropriate, with other licensed entities within the gas and electricity industry.

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

We do not believe that the DCC should have a separate objective to promote or to facilitate energy efficiency. The DCC does not have a direct relationship with the end consumer and it should therefore not be measured or be working to objectives based on consumer matters. Suppliers will be parties to the SEC and one of Ofgem's primary duties is to protect the interests of consumers; any matters of energy efficiency and consumer protection should be a matter for those parties (i.e. not the DCC).

15. Do you agree that SEC licence condition should be drafted so as to provide flexibility over the future scope of the SEC, i.e. that the scope of the SEC in the DCC licence condition should be drafted in a permissive manner?

The licence condition should not be flexible in that it can extend the role of the DCC without the necessary regulatory oversight, stakeholder involvement and consultation. If it is determined that the scope or role of the DCC should change in future, then this should be subject to a licence modification amendment and Ofgem regulatory impact assessment.

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

We are supportive of the SEC applicable objectives and believe that they are consistent with objectives in other gas and electricity industry codes.

20. Do you agree with the definitions of the services that DCC should be required or permitted to provide?

There has been much industry discussion on the definition of DCC service types and this does not seem to have been fully resolved. Our views on the definitions as set out in the consultation document are as follows:

Core services: All core services will be set out in the SEC and, on day 1, this will be the full suite of services/messages that the DCC can offer. Core services have to be provided and offered by the DCC, this does not mean that SEC parties are obligated to utilise them. The SEC modification process should be the route for amending, removing or creating new core services.

Elective Services: These services should still be managed, and charged for, in accordance with the SEC. A SEC modification would be required for a service to be created as elective, the difference from core is that the service may have usage limits (i.e. not available to all on an unlimited basis) and should be fully funded by those parties that utilise or have requested the service.



Other SEC services: We see no reason or justification for there to be „other“ services provided by the

DCC that are not classified as either core or elective.

Value-added services: We agree that any value added services should only be created with the consent of the Authority. Such services would not appear within the SEC and therefore not be available to SEC parties. The governance arrangements for value added services, and the DCC charging methodology, needs to include mechanisms to ensure that DCC Users, or value added service customers, are not cross subsidising one another.

Unrelated services: We see no reason why this category of services is required over and above core, elective and value-added.

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

There appears to be confusing over what is classified as non-compliant and whether this includes all non-domestic (gas) meters, meter points that will be exempt under the supplier licence and meters that are on other networks such as the LPG networks owned and operated by WWU and Scotland Gas Networks. It is also unclear as to whether the DCC can only offer terms to non-compliant meters that can meet certain, possibly mandatory, aspects of SMETS such as security and messaging types/flows. We see no reason why any metering system, under the control of a supplier, should be excluded from receiving DCC services if it meets the mandatory aspects of the specification (even though overall it may be non-compliant).

23. What information should be made available to all users about:

- **elective services;**
- **value-added services?**

Should information be restricted to that required to assess the impact on other users of DCC services or should there be full transparency? Should DCC be required to make available the detailed commercial terms and conditions of such services?

Elective services should be under the governance of the SEC and therefore information should be readily available to all DCC Users / SEC parties. This does not necessarily mean that suppliers cannot offer bespoke services to customers as it is the message types and structures that need to be transparent, not the content of messages.

Value added services would not be available to DCC Users under the SEC so less detail is required. However, there needs to be sufficient mechanisms in place to ensure that any value added services that the DCC are providing are not being cross subsidised by SEC parties. The DCC may not be required to make available the full detailed commercial terms and conditions associated with value added services to DCC Users although, presumably, Ofgem would need a certain level of information to ensure the appropriate cost allocation and cost recovery is taking place.



24. Do you think the detailed terms and conditions for elective and value-added services should be set out in the SEC or included in bilateral agreements between DCC and persons to whom it is providing services?

As above, elective services should be governed under the SEC so the detailed terms and conditions will already be known. Charges for elective services will be on an individual basis as only those utilising them should fund their development and operation.

Value added services will not be able to SEC parties and therefore the terms and conditions should not be set out in the SEC.

51. Do you agree that DCC should have a high-level obligation, albeit initially “switched off”, relating to the provision of meter point/supplier registration services?

We see no reason for this to go into the DCC licence at this stage. The debate over what meter point registration actually covers is still to be had and, until this is known, it would be unnecessary and inappropriate to include this in the DCC licence.

52. Do you agree that conditions should be introduced in other licences providing the ability to release other licensees from the requirement to provide meter point/supplier registration services at some point in the future?

As and when the scope of registration and change of supply services are known, other licences that contain the obligation to provide such services will also need to be amended. There may be additional changes required in the DCC licence to mandate the availability of registration and change of supply information to the network operators (both DNOs and GDNs) as it is business critical information. As above, until the scope of these services is known it is not possible to determine what changes will be required and therefore licence changes should be required at this stage.

53. Do you agree that DCC and other relevant licensees should be subject to an obligation requiring the licensee to take steps to facilitate the transfer of meter point/supplier registration activities to DCC?

Our view on the move of the responsibility and obligation to provide such activities is that it should be carried out using the established industry governance framework. For example, within the gas industry, the registration and change of supply activities are contained within the Uniform Network Code. As long as the appropriate arrangements are made for the SEC modification process then services should be easily moved from one code to the other. Obligations on relevant licence holders should not be necessary in these circumstances.

Chapter 4: Revenue requirements

59. Do you consider that it is practicable for DCC licence applicants to provide costs for undertaking meter point/supplier registration? Or is it more appropriate to include a specific reopener for DCC’s costs of undertaking meter point/supplier registration?

We do not believe it is practicable for licence applicants to provide costs for undertaking registration and change of supply activities as the definition and scope of such services is unknown. We do not believe



applicants providing costs for this unknown activity would help the tender process in anyway and conversely it may indeed frustrate the process (as costs may not be comparable and may lead to an appointment based on incorrect assumptions made by the service provider).

60. Do you have views on the relative benefits of the two options (cost pass through and volume drivers) for recovery of DCC internal costs associated with SEC modifications?

Having a cost pass through mechanism for SEC changes would be the most appropriate way of dealing with costs that the DCC should be allowed to recharge to Users. However, the modification process and pass through approval process need to have certain safeguards to ensure:

- 1) The costs that are passed through to Users take into account any net benefits that the DCC may gain from them. For example, if the SEC changes would cost the DCC £5m to implement and provide an annual saving to them of £10m the costs should not be passed through to Users.
- 2) The way in which SEC changes are evaluated, and the charging methodology for such changes, needs to be transparent to Users and a suitable mechanism in place to test that those changes are being made economically and efficiently.

63. Do you agree that market share should be based on MPANs and MPRNs that are mandated to receive smart metering systems, rather than all MPANs and MPRNs?

We agree that recovering costs from suppliers based on their mandated MPRN/MPAN portfolio appears to be appropriate. Suppliers that have predominately large industrial and commercial portfolios that are unlikely to utilise DCC services should not be subject to the same charges as those parties with mandated meters.

64. Do you have a view on whether suppliers of only larger non-domestic customers should be charged a proportion of DCC internal costs?

Any supplier that decides to utilise the DCC for services relating to a non-mandated MPAN/MPRN should pay any costs associated with the provision of such a service and, although ultimately dependent on the DCC charging methodology, we would assume that such charges would include a proportion of DCC internal costs. If these charges did not include such an allocation of internal costs it would appear that the charging methodology would be discriminating against a certain type of User and this would not meet the proposed relevant objectives.

65. We welcome views from stakeholders in regards to charges on network operators for DCC internal costs pre-“go-live” and whether they should charge DCC for services provided to DCC.

For gas network operators (i.e. GDNs) we do not believe it all appropriate for charges to be levied for DCC internal pre-go-live costs. GDNs do not have any individual smart metering requirements and there has been no material benefits attributed to GDNs from the rollout of smart metering. It would therefore be inappropriate to charge GDNs for these costs. As recognised in the consultation document, GDNs are subject to price control reviews and any additional charges from smart metering would not be funded. This would require either a reopener or a new uncertainty mechanism in the next price control



(commencing April 2013) to account for such charges. As mentioned earlier, we are not including such a re-opener in our RIIO_GD1 Business Plan submission to Ofgem.

Even if such a mechanism was available we believe it would be inappropriate to charge GDNs as it would artificially increase GDN network charges to shippers and mask the true costs associated with smart metering. Ultimately the cost of smart metering will be paid for by the end consumer and it is therefore appropriate for suppliers, as the contracting party, to be charged for DCC internal pre-go-live costs.

The GDNs are likely to get an obligation within the SPAA to provide data to the DCC to allow them to perform the Access Control process. As an obligation on the GDNs, and as the „service“ is to the benefit

of the shippers/suppliers that operate within our network, we believe that the costs associated with fulfilling this obligation should be funded through a suitable price control mechanism/allowance and costs recovered from shippers/suppliers through our transportation charges¹.

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.

As a GDN we would only expect to pay for DCC services as and when we utilise them and at the earliest when they become available.

70. Do you agree that network operators should be charged in line with their market share?

It is unclear what is meant by market share in this context, for example, this could be seen as the market share of MPRNs/MPANs that the network operator has connected to their network compared to other network operators. However, the network operator is not in control of smart metering rollout and therefore it would not be appropriate to charge on this basis. If network operators are to receive charges based on any MPAN/MPRN count (or „market share“) then this should be the number of meters that have been rolled out within their network compared to others.

Although GDNs will have a new licence obligation to be a signatory to the SEC there is no requirement for GDNs to utilise the services that are offered by the DCC. In this way the GDNs are more aligned to ESCOs than the other licensed parties (including DNOs) and should be charged for services based on the DCC services as and when they purchase them from the DCC (pay as you go model).

The predicted usage of services also needs to be carefully considered when assessing how DNOs and GDNs should be charged during the roll-out period. Unlike suppliers, network operators are not in control of the number of MPANs/MPRNs that will be „live“ within the DCC and available to them for DCC services.

It is likely that in the early stages of rollout the network operator usage of DCC services will be very low, and possibly not utilised at all, until there is a high saturation of installed smart meters in a particular area that is of interest to the network operator. As GDNs are not obliged to use DCC services and may see no benefit from doing so, some GDNs may choose not to take any DCC services during the rollout phase. It would therefore be inappropriate to be charging GDNs for functionality, bandwidth and DCC internal costs that they have not requested and are not utilising.

¹ Xoserve will carry out this function on behalf of the GDNs, Xoserve's costs associated are currently built into our general transportation charges. Ofgem are currently reviewing the funding and governance arrangements of Xoserve, if the current arrangements were to change (e.g. separate billing for Xoserve services) we would expect the additional costs incurred for providing this service to be treated consistently with other Xoserve costs.



Chapter 5: Charging methodology

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?

If standing charges are to apply for „rental“ of the WAN connection then we believe it would be appropriate for such a charge to be only applicable to the relevant supplier (as it is their obligation and decision to have the WAN connection in place).

72. Do you agree that a proportion of service providers' fixed operating expenditure should be converted to volumetric charges?

If the decision is to offer a bundled service (the mobile phone bundled package model) for suppliers (and possibly DNOs (electricity)) that includes a certain amount of bandwidth and includes fixed costs, then it would seem appropriate to also include elements of fixed costs in any volumetric charges (e.g. pay as you go model). Such volumetric charges would then apply to other DCC Users (e.g. GDNs, ESCOs) on a non discriminatory basis and therefore be consistent with the proposed charging principles.

74. Should postage stamp charging apply to all users including network operators?

This is dependent on the other aspects of the charging methodology that relate to network operator charging that are mentioned in previous questions. If GDNs are able to pass through the costs they incur from the DCC to shippers/suppliers through their transportation charges, for them not be charged on a postage stamp basis would simply mean that suppliers would not be getting charged in this way either. This would therefore be totally inconsistent with all other DCC charges.

75. Do you agree with the proposed charging principles?

We agree that the charging principles seem appropriate.

76. Do you consider that an objective for the charging methodology should be to promote innovation in the supply of energy, provision of energy related services and energy distribution?

We do not believe that there should be such an objective in the DCC's charging methodology. The DCC should be charging Users based on the costs they have incurred in providing services to them and do so in a non-discriminatory manner.

Chapter 6: Core services – WAN requirements

80. Please indicate whether the Minimum Core Service Requirements (i.e. message size, frequency, response time and coverage) for each of the message flows in the above tables can be modified to reduce the potential impact on the WAN cost without compromising the corresponding benefits. Please quantify the additional Programme benefit that could be realised by including each of this message flows in the aggregate Minimum Core Service Requirements.



The meaning of „Coverage (% meters)“ has been interpreted differently by parties when Table 6.1 has

been discussed in SMIP meetings. All core services should be available at all MPANs/MPRNs so, if the definition is in relation to geographic coverage, this value should always be 100%. This is not the case, for example, for “dynamic pricing – real time pricing”, which is 5% in the consultation document. Therefore

the assumption is that the correct interpretation must be that this is giving an indication of likely usage across the smart metering population. This needs to be clearly understood by service providers that may be entering into the tender process for provision of such services.

The majority of messaging frequency estimations have been calculated on the basis of the enduring regime (i.e. post 2019) where we have as near as possible to 100% of the rollout completed. As mentioned earlier in our response, DNOs/GDNs (and possibly other DCC Users) may not start to take services from the DCC in the early years of rollout. This may be due to requiring a sufficient saturation of smart meters to make it worthwhile utilising DCC services and/or due to not having systems and processes in place until later into the rollout period. This should be taken into account by the DCC and its service providers as there may be opportunities for cost savings to be made by not only profiling requirements based upon supplier rollout plans but also to acknowledge other DCC users’ service take-up requirements.

We think that it will be important for the DCC to have early sight of supplier’s rollout plans so they can plan the efficient rollout out system capacity including communication capacity. Network operators also need this information to enable them to plan their resources to support the rollout of smart meters.

We do hope that the comments provided are helpful to DECC and the ongoing Smart Metering Implementation Programme.