A flexible approach to financial security is appropriate in this case due to the nature of the businesses best placed to help deliver the DCC. The DCC bidders should be assessed on a case by case basis reflecting the variety of models and variety of assurance provisions within this field.

Question 39: What are your views on whether it would be appropriate to require DCC to pay for a proportion of the costs of appointing a new DCC in the event of an early licence revocation? Do you think that this potential liability should be reflected in the level of financial security required from DCC?

This would in effect form part of the liabilities of the contract and is common within our own contracts. However we do not believe it is necessary to hold security to cover this as this would have a high cost and limited additional benefits. As with question 38 we believe bidders should provide appropriate assurance to ensure consumers are protected from the risk of the DCC failing to fulfil its requirements.

Question 40: Are there any other conditions that you consider should be imposed in DCC's licence to ensure its continued financial viability?

No

Question 41: Would it be appropriate for a special administration scheme to apply to DCC?

Yes. Provisions exist (or are proposed) for special administration schemes in relation to other 'network' businesses, for example electricity distribution and for electricity supply businesses.

Question 42: Do you agree with that DCC should be required to ensure business continuity of service providers and should monitor the provisions that they have in place to deliver business continuity?

The proposals are in keeping with those we use within the BSC and we believe are appropriate. However, recognising the importance of these contracts, the DCC must also identify alternative providers and understand how these might best be introduced to minimise disruption to the services in the event of service provider failure.

Question 43: Do you believe that DCC needs to include in its service provider contracts any further protections which help to secure against, or mitigate the consequences of, a financial failure of a major service provider? Please provide examples of any additional protections you consider suitable.

In addition to those proposed we believe that due to the strategic importance of the contracts involved there should also be:

- Step-in rights – to enable an alternative provider to step-in and deliver all or part of the services;
- Parent Company Guarantee.

Further we believe that all protections should apply to key sub-contractors as well.

Initial DCC licence Duration and Appointment of DCC Successor

Question 44: Do you agree that it is appropriate to grant the initial DCC licence for a ten year period?

Yes. However we believe that the final contract terms agreed for the Service Provider contracts will be a crucial driver in determining the right length for the licence.

Reprocurement of the DCC licence will lead to a significant portion of the incumbent's time being dedicated to supporting the process even if it chooses not to bid (due diligence etc) thus it is critical that the licence does not fall due during the licence holders critical deliverable of service reprocurement.

Reprocurement of the licence should not cause any reduction in service for the users or incur significant additional costs for the services.

We propose that the DCC licence term should not fall for renewal 12 months before or 6 months after the reprocurement of the key contracts:

- The 18 months in the lead up to a procurement is important for market development (with these contracts reflecting some of the largest let in the UK in any one year), service review and procurement design. With the duration of these contracts being relatively lengthy, coupled with rapidly evolving business needs, it is probable that the services procured in 2012 will no longer be fit for purpose in 2024. This is particularly pertinent with the development of the smart grid environment and the crucial role that the DCC will play in this;
- The 6 months referenced above is the minimum that will allow for the new contract to bed in and ensure that the incumbent DCC is not able to procure cheaply and place a poor service on the incoming DCC.

We therefore believe that the flexibility proposed in para 3.165 is vital but that the terms of the DCC and its Service Provider contracts must be deliberately mis-aligned to allow for effective and low risk reprocurement.

Question 45: Do you agree that flexibility for the Authority to decide to extend the initial DCC's licence by up to 5 years would be desirable?

See Q44

Question 46: Do you agree with the approach described for the treatment of DCC internal costs for any extension period?

Yes this is a similar model to the standard price control process and. We agree with DECC's observation that internal costs provided for any extension period, made as part of the initial bid, should be reviewed over time, as the assumptions upon which they are based are likely to change.

Question 47: Do you agree that DCC should be required to ensure that any critical services can be transferred to a successor?

Yes. This is an essential requirement.

Question 48: What scope of matters governing the handover to a successor do you think need to be included in DCC's licence?

The matters covered in paragraph 3.167 are adequate. However we note that the incumbent DCC should either be able to charge for supporting any transfer in the event the licence was granted to someone else following procurement or that this should be an explicit cost item in the initial procurement of the licence.

Question 49: Do you agree that DCC's licence should be capable of being revoked in the event of a repeated or material failure to meet service levels?

Yes. This extreme right should be included.

Foundation and Subsequent Roll Out Obligations

Question 50: Do you agree that the DCC licence should contain a condition which gives it a high-level obligation in relation to foundation and subsequent rollout, activities and that the detailed obligations can be dealt with as part of the development of the SEC?

Yes this approach seems sensible. It is going to be important for the Programme to define who has responsibility for managing the roll out – not simply as part of the proposed annual reporting to Ofgem but at the weekly granularity to assure costs are apportioned appropriately and charges balanced – it will also form a crucial 'feedback mechanism' for the Users.

Here we see the role of the Authority in policing the annual plans but it will be for the DCC to monitor the day-to-day roll out and ensure the charges are set appropriately.

It is critical that the roles of DECC, Ofgem, the SEC and DCC are clearly defined in all areas of the Delivery. It is of particular importance with regards to roll out with the potential financial implications of failure to roll out in accordance with an agreed plan and thus dispute.

Requirement to provide additional services in the future

Question 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?

Yes. The inclusion of a high level obligation relating to meter point / supplier registration services provides certainty to the market and DCC bidders about future delivery of these services. Combining the obligation with a timescale and matching obligations on existing market participants to facilitate the change would add further certainty and momentum.

Adding such obligations does not of themselves allow for such an activity to be planned or accurate costs developed, it merely confirms a future task to be undertaken. Nevertheless assessing the ability of potential DCCs to work with the industry to deliver this change and the attendant benefits should form part of the DCC Award process.

Question 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?

Yes, establishing matching conditions will increase the likelihood of this change being delivered.

Question 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?

Yes. We see this as providing a clear message to the market and confidence to potential DCCs.

Determination of Disputes

Question 54: What dispute mechanism would be appropriate to apply to disputes involving DCC and who should be enabled to determine such disputes?

If the context for the issue is set out in the SEC it should be adjudicated by the SEC Panel however where the issue is set out in the licence it should be adjudicated by the Authority as the arbiter of the licence.

However where there are commercial terms with an exchange of goods or services under a legal contract, UK Law would have ultimate jurisdiction. We would propose however that exercising some dispute resolution mechanism is incumbent on the parties before legal proceedings were initiated (similar to the Xoserve model). We would suggest that:

- Core services pricing will sit within the SEC and should be managed there.
- Where there is a question as to the elective and value added services charging principles set out within the SEC the dispute could be adjudicated by the SEC panel. The SEC would also allow for changes to be proposed to any charging principles contained in the SEC via the SEC change process.
- Where the issue in question is not defined by the SEC such as a dispute between the incumbent DCC and its successor it would have to be adjudicated by the Authority as they are responsible for the DCC licence.

Establishing criteria against which a dispute could be raised would help to reduce the number of 'opportune' dispute claims. It may also be necessary to guard against vexatious and frivolous disputes being raised by parties simply trying to use this mechanism as an extension of a negotiation process.

Other licence Conditions

Question 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?

Yes, although we perceive that this should have been covered in the applicable objectives and would suggest avoiding any unnecessary duplication.

Question 56: Do you have views on the additional conditions discussed above?

No

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

No

Modification of DCC licence Conditions

Question 58: Is it appropriate to consider extending the Secretary of State's powers to provide equivalent powers to modify DCC's licence conditions as it does for other energy licences for the purposes of implementing smart metering?

Yes the proposed approach is appropriate. However such changes may have commercial consequences which will need to be addressed.

Chapter 4: Revenue requirements

Adjustments to DCC's revenue stream for its internal costs

Question 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?

DCC licence applicants could provide rough estimates of their internal costs given some background data and clarifications. These include:

- Current contract value (indicative size);
- Whether it is to be a procured as new outsourced service or delivered by the DCC's Data Service Provider;
- How the service costs are to be delivered e.g. passed through or whether it will form part of the DCCs revenue;
- Whether there is scope to suggest alternatives to the model either to generate savings in the near term or to drive greater efficiency in the longer term.

However these variables are significant and given the caveats that are likely to accompany any estimate, a reopener is almost inevitable. It is our view therefore that the licence application process should take into account proposals for assimilating registration but that costs should be excluded.

Question 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?

A key issue is that a 'thin' DCC and SEC Secretariat cannot just ramp up and down staff instantly to deal with a variable level of change. As with the post NETA world, we would expect a high rate of change in the early years of the new arrangements which would gradually reduce over time. NETA experience also shows that the initial tranche of changes are likely to challenge fundamental aspects of the arrangements, impact more stakeholders and generally have a wide ranging effect. In addition some may need to be progressed urgently as they are seeking to remedy the defects that inevitably arise as a complex Programme goes live. Once the arrangements start to settle down, the impact of changes will be less critical, the changes become more predictable and the profile of change can be better managed. In any of the options a small, thin DCC and separate SEC Secretariat would find it hard to predict and respond quickly to a highly variable rate of change.

It is our experience that there is likely to be significant value driven by DCC dealing effectively with service providers in relation to Modifications, it is therefore important not to give DCC an incentive that might limit its efforts in this area. This leads us to suggest that cost pass through would be appropriate with an agreed standing charge being established to ensure that a core level of resource was always available. This might be moved to a fixed cost or volume driver basis thereafter.

Question 61: Do you have a view on the appropriate materiality threshold (trigger) for the revenue reopener?

Making the DCC absorb some cost variations is appropriate and avoids frequent changes. However if the level is set too high this will translate into high margins being proposed by applicants. 10% would therefore seem a reasonable compromise.

We believe revenue reopeners could equally be triggered by an accumulation of small events as much as by any single large event. Thus records should be kept of all effort expended and each time the cumulative costs vary by more than 10% there should be a reopener.

Where there are changes to the overall scope of work that the DCC has bid against (either increasing or decreasing workload) there must be a review of charges.

Whatever threshold is adopted, it is also important that the process works swiftly to ensure the DCC's liquidity was not put at risk.

Question 62: Do you consider that any other cost areas may require mechanisms to deal with uncertainty?

Another area of expected uncertainty that will best be served with a pass through/reopener mechanism is the number of contracts due for reprocurement during the DCC licence term. As a significant source of costs it should be recovered but the activity should be rewarded only where success has been achieved (against criteria agreed in advance). Incentivising the activity itself i.e. input (through inclusion in the cost plus model) may incentivise the perverse behaviour of early and uneconomic reprocurement.

We continue to assert that the incentive regime must be focused on supporting the objectives not simply achieving inputs.

Revenue Recovery during rollout

Question 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?

Basing these charges on the numbers of meters mandated to use the service appears to be equitable prior to the inclusion of registration. Once registration is included then services will be provided to all mandated and elective MPANs and MPRNs.

In all events we believe the costs should be modelled to ensure that the costs are equitable and do not fall disproportionately on any one organisation or sector of the market.

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

See response to Q63.

Question 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.

There are two separate issues here.

1) Should DNO's be charged for internal costs pre-go-live?

   Assuming the full costs are recovered from the service users at the time the costs are incurred we do not have a view as to who should pay the costs.

2) Should the DNO's charge for services to the DCC?

   Yes where there is a cost to the DNO's for supporting the DCC this should be charged for and passed through to users ensuring maximum transparency.

Speed of Cost Recovery

Question 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.

It is consistent with normal commercial practice to only charge for the live service. Whilst charging for set up as it occurs could reduce the overall cost there is a delicate balance to be struck if funding is to be provided by the users. Adopting such a model also invariably transfers risk to the users. We therefore support the charge from go-live model.

Question 67: Do you have a view on whether the data service provider(s) should be treated differently from communication service providers and be allowed to recover its fixed costs evenly over the length of its contract from "go-live"? Please provide reasons why this is or is not appropriate.

The payment profile for the Service Providers should be designed to ensure the most economic and effective service provision across the life of the contract and this is best established during the procurement.

For the DCC Licensee it is essential that whatever profile is adopted it is matched with the charging methodology and does not leave the DCC exposed to unrecovered costs or a weak cash flow profile.

Allocation of fixed costs between users

Question 68: Is it appropriate that the allocation of costs on suppliers during rollout be based on the suppliers' rollout plan for the year plus actual smart meters installed in preceding years? If so, how can this option for allocating costs during rollout be improved? If not, what is your preferred option and why?

Yes it is broadly appropriate. However we would like to make a number of additional remarks with regards this approach:

The DCC's cashflow will be dependent on the variable rates of rollout achieved by suppliers; in the proposed thin model the DCC will not be able to hold sufficient cash to protect against this. It is therefore necessary for either the Service Providers to charge in arrears for variable elements; or for service users to provide sufficient credit to cover their 'worst case' exposure to charges or pay in advance.

This system using, as it does, reflective charges will require a body that is able to enforce the payment of overruns and assess disputes should they arise. We would suggest that the SEC Panel would initially be well placed for this role but escalation to the Authority might be necessary.

This system will also require that suppliers will have seen the spread of communications coverage and understand any communications supply chain issues ahead of submission of their roll our plans. Where coverage is not as published and the metering system installation is deferred or an additional further visit is required the communications Service Provider should potentially be liable for the additional costs – it is not clear how this will be managed.

Question 69: Do you have a view on how any additional costs resulting from suppliers exceeding their rollout plans should be allocated? Should DCC be able to pass through to the relevant supplier any higher costs resulting from this (or should such costs be averaged across all users)?

Incentives must ensure that the suppliers behave in a way that does not drive excess costs while maintaining the roll out. The danger of smearing additional costs across the whole industry is to incentivise submission of low estimate roll-out plans with the industry bearing the risk of the costs incurred when these are over achieved. As the Service Provider is likely to incur greater costs themselves from unexpected additional connections this must be borne by the party that caused the increase and can manage it.

We propose that the DCC should be able to pass the costs directly to the relevant supplier.

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

Yes, with market share being calculated consistent with that determined in response to questions 63 and 64.

Chapter 5: Charging methodology

Core services structure of charges

Question 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?

Yes. The key to this proposal is establishing the coverage and level of the fixed costs. However the Programme still needs to determine how these costs are allocated across suppliers and Network Operators.

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

Yes, as this reflects the usage and from where the costs are ultimately driven.

Cost service charges per premise

Question 73: Do you agree that the proposal for postage stamp charging is consistent with the objectives of the smart metering programme?

Yes, this is suitable for the provision of core services from a mandated solution.

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

The essential principle to be applied here is that of equity for the consumers and thus we support the postage stamp charge however we believe there will be challenges with establishing the charge and varying it where necessary. This concern arises from the cost structures of the possible communications technologies and the impact of variations in the roll-out plans.

In our experience no market participant likes frequent changes to charges. Instead they value stability coupled with early notice of changes as a basis of establishing the tariffs that they offer to their customers. It is therefore important to allow for variable charges but to avoid varying them too frequently. We accordingly suggest that charges to DCC users should not vary more often than every 6 months to avoid significant additional risks and costs on suppliers.

Faced with costs that are likely to vary more frequently than 6 months it will be necessary to include an arrangement within the user charging arrangements to allow for the recovery of accrued Service Provider costs when setting subsequent user charges or transfer the risk to the Service Providers and acknowledge that they will price accordingly.

Charging objectives and principles

Question 75: Do you agree with the proposed charging principles?

Principle (E) could be viewed as superfluous, because delivering principle (A) will inevitably require that charges are predictable. We therefore suggest is that a clearer expression of (E) is that users can validate their charges and can determine how changes in use will drive their charges.

Question 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?

The DCC must have responsibility for delivering innovation within its own services and where possible *facilitating* innovation elsewhere in the industry. Where this will have a cost implication it should be possible for this to be reflected in the charging.

We would generally support the inclusion of a charging principle supporting innovation. The inclusion of incentives to deliver innovation which drives the LCNF and the introduction of the RIIO would suggest that there's merit in incentivising innovation and that the absence of that principle previously in the simple RPI-X approach needed to be remedied.

Question 77: Do stakeholders have views on whether DCC's internal costs should be allocated across the different types to users on the same basis as service provider fixed costs?

We believe they should be allocated using the same methodology.

Other service charges

Question 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?

We do believe that any substantive upfront costs incurred should be paid for by the requestor irrespective of their use of the service and that a similar approach should be adopted for other elective services especially when allied to the 'second comer principle' outlined in paragraph 5.48.

However it is important that the principles of transparency do not affect the DCC's ability to utilise its resources to the benefit of the users. As we note in questions 23 and 24 this is particularly important with regards to 'value add' services. Where the DCC delivers competitive services to other industries the publishing of the costs of delivering these services may compromise negotiations and commercial confidentiality.

In the case of 'value add' services we would propose that disclosure be limited to the costs recovered for the DCC users and then only at aggregate to protect competitive advantage.

Question 79: Do you agree that a 'second comer' principle can be applied

This approach should be applied for the first year after a new service has been implemented or be subject to a De Minimis rule.

We propose a de minimis level to cater for the circumstances where administration of the second comer principle outweighs the costs recovered, i.e. where development costs are minimal for a new service and the administration of the second comer principle outweighs the benefits of reallocation. This should be avoided if the service is to remain economic.

Chapter 6: WAN Requirements

Questions 80 to 82:

We have not provided a response to Section 6; we believe that these technical questions are better answered by providers of communication services.

Chapter 7: Performance incentives

Question 83: Please provide comments on the incentive regime proposed for DCC.

We have previously shared thinking with DECC with regards to principles of the regulatory and incentive regime. We have attached a separate set of slides on Performance Incentives, which comprises our response to this question. See attachment.

Question 84: Do you consider it appropriate and feasible for the SEC panel and DCC to negotiate KPI targets?

No. We are uncertain why the SEC Panel would be given this responsibility. The role of the SEC Panel has yet to be fully defined. However you would expect its responsibilities would include overseeing that the services and processes that have been agreed are delivered to the standards agreed. To achieve this, the Panel would rely on appropriate reporting being provided for within the DCC's obligations or the SEC.

We agree with the observation that "the scope for negotiation will be limited" as it may change costs and require a modification to the licence. Furthermore we would question whether the SEC Panel will be in any position to negotiate contractual matters with DCC or be resourced to do so. If it were to undertake this there could only be limited support from the SEC secretariat as it is funded via the DCC. We assume that such activity would require a mechanism for the licensing Authority to have some final approval or veto.

Since the licence holder is overseen by the licensing Authority, who will have the powers to revoke that licence or amend that licence as appropriate, it would make more sense for discussions (which will have a commercial impact) to be held between licensee and licence holder. Under such a mechanism we would expect the Authority to have consulted with and considered any comments from DCC users and the SEC Panel as part of its process for amending the licence or adjusting KPIs.

Question 85: Do you have views on the use of an independent audit of DCC performance? Should this be on a regular and/or ad hoc basis?

We support the use of independent audits as a means of impartially assessing performance. However there are two aspects to be addressed prior to embarking on this route:

1) What would the scope of the Audit be?

2) The burden and the cost of the audit should always be appropriate to the issue it is seeking to address.

If a robust set of KPIs (associated with contract management or procurement) are defined these can be reported upon by the DCC itself to the SEC Panel and Authority. The role of the Auditor could be to simply confirm that reporting is accurate and evidence based. If this were the case then an Ad Hoc audit would seem sufficient to verify the DCC reporting. If thereafter DCC is found to be consistently accurate in its reporting, an independent Audit may rarely need to be exercised and the 'threat' of the right to call an audit should be sufficient deterrent.

Alternatively if the KPIs or tools for measuring how DCC is meeting its obligations are not easily measurable and interpreted (e.g. are highly subjective) an audit may be a useful mechanism for providing an independent view of performance. However an audit opinion in isolation would not be a suitable tool to determine if DCC should/should not be entitled to its reward.

The audit should be clearly defined and linked, as suggested, to relevant evidence gathering related to the DCC obligations/licence conditions. Over time the costs of the audit could be reduced by varying the scope to focus on any perceived areas for improvement: this approach has been successfully applied under the BSC. This audit should be distinct from any technical audits of the performance of service provider systems which may comprise part of a wider SEC assurance regime. Alternatively if the KPIs or tools for measuring how DCC is meeting its obligations are not easily measurable and interpreted (e.g. relate to development of a procurement policy and adherence to that policy) an audit may be a useful mechanism for providing an independent view of performance.

Question 86: Do you consider that a sharing mechanism should be in place for DCC internal costs? Should a sharing mechanism be included in the contracts with the service providers?

From our experience of using gain share we believe there are some key elements to bear in mind:

Gain share is an incentive aimed at reducing costs for service users where the SP income is not directly affected by the volume of transactions. It can be assumed that over the life of a substantial contract the incumbent SP's should be able to drive down costs not least as operational synergies are realised and the uncertainties reduce.

DCC Internal costs:

- Open book accounting is essential in agreeing the gain to be shared
- Gain share will require active management by the DCC if results are to be achieved. Agreeing the gains should fall under the remit of the Authority.
- Cost plus and gainshare are counterproductive incentives i.e. where the profit is tied to the size of the contract. The margin must be delivered pre gain share or protected from its effect if the DCC is not to be doubly charged for making savings for the industry.
- On a contract the size of the DCC gain share may be applied but to ensure it remains an effective incentive (driving out savings often requires expenditure) the DCC must be allowed to keep enough of the savings it realises to keep looking for opportunities.
- It is worth considering a threshold below which Gainshare would not apply.

The Service provider contracts

The opportunities for gain share are more significant within the much larger SP contracts.

- Gain share will not be achieved without proactive management of the SP. Thus the DCC should also be incentivised to achieve this either directly through a percentage of the saving or indirectly
- While we agree that savings should be shared by the DCC users this should not be to the extent that savings are not realised as the incentive has become too weak.
- One of the key benefits of gain share is that it provides an incentive on the incumbent to identify savings, these savings are valuable not only in the shared cash in the initial contract but become even more so as the contract is re-specified recognising these savings.

In summary it is a powerful tool but it has a high degree of management cost associated with it. This may be appropriate for the SP's but not for the DCC with its smaller revenue and indirect management.

Question 87: Do you consider that it is appropriate to invite DCC licence applicants to propose KPIs?

Yes. However, there is a question over how the KPI's as submitted by bidders would be compared and evaluated under the procurement process. What criteria would be applied and what weighting given? This information would need to be known by bidders in advance of the start of the award process to ensure that appropriate KPIs are bid in.

Chapter 8: Adoption of Foundation Stage communication contracts

Question 88: Are the criteria for adoption of contracts discussed in paragraphs 8.8 and 8.9 appropriate? Are there any additional criteria that should be included? Can quantitative thresholds for any or all of criterion be defined and, if so, how?

The criteria in paragraph 8.8 bullet point 3 describes that the contract should be accompanied by a positive service provider relationship. This is a highly subjective and unpredictable criterion. More applicable criterion would be that the contract must not have any outstanding legal conflicts pertaining to it.

In paragraph 8.9 it is unclear of the meaning of bullet point 4. A clarification of the wording is important to establish if the criteria refers to contracts not adopted but 'bought out' by the DCC. Therefore if a contract is not adopted, the DCC should have no concerns as to its termination or duration.

In paragraph 8.10 the discussion references the hurdle rate for adoption is the difference between the existing opex and novation costs vs the installation of a new WAN, connection charges and the opex on the DCC contract. It would seem that this hurdle rate is unlikely to be met in year one of any contract. It would seem likely that the most cost effective solution would be the adoption of the existing contract and technical integration of the solution. (From the discussions with potential data providers we believe that the solutions within the marketplace will be able to integrate all existing technologies with relative ease)

Another aspect that we believe may affect the importance of this discussion is that from conversations with potential communications providers it is likely that as part of their bids they will be able to offer to adopt the contracts themselves recognising the low numbers and their strong incentive to offer this simplification as part of their solution. Where possible we believe this should be encouraged by the Programme.

If this does prove to be the case it will be an important cost driver for the DCC bids and must therefore be made available by at least the ITA submission.

Question 89: Do you agree with our approach to identifying the guaranteed adoption volume of Foundation Stage smart metering systems? Are the factors we have identified the appropriate ones? What are your views as to the appropriate values of the various parameters identified in Table 8.1?

The minimum adoption criteria will be driven to a high degree by the commercial positions of the communications service providers. While the methodology appears correct we agree that, at best, an initial minimum adoption level should be set.

In paragraph 8.41 views are sought on how the adoption volume might be allocated. While we have no view on the policy aspect of this decision we note that complexity is unlikely to enhance the benefits realised.

Question 90: Do you agree that DCC should be able to decide to adopt communication contracts associated with Foundation Stage smart metering systems in excess of the guaranteed adoption volume providing there is a net benefit to doing so? If so, does DCC need to be provided with additional obligations and incentives to encourage DCC to actively pursue such contracts and what factors should DCC take into account in making its assessments? Should we specifically provide for suppliers to compensate directly DCC for any costs incurred by DCC or its service providers in the adoption of additional contracts?