



SP ENERGY NETWORKS

[by e-mail -
smartmetering@decc.gsi.gov.uk]

Smart Metering Implementation
Programme – Regulatory Design Team
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London
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Your ref:

Our Ref:

Date:

1 June 2012

Contact / Extension

Dear Sir or Madam

Smart Metering Implementation - Consultation on the Smart Energy Code

Thank you for this opportunity to respond to your consultation on proposals for a Smart Energy Code (SEC)

We are supportive of the principle of establishing such a code and find ourselves broadly in agreement with the proposals set out in the Government's consultation document. However, there are some points on which we would offer an alternative view, which have we set out in an annex to this letter.

Smart Metering Implementation will involve significant resources on the part of electricity distributors and we will fully engage with Ofgem as part of the forthcoming "RIIO ED1" price control review to ensure that we are able to recover the reasonable costs incurred.

Should you wish to discuss any aspect of our response or the matters raised, please do not hesitate to contact me

Yours sincerely

Att

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Attachment – SP Energy Networks response to Consultation on the Smart Energy Code

Question 6: Do you agree with the process proposed for accession and the accession time limit?

As a network operator, we believe we are a key party who will require accession to the SEC, however it is likely that within the first six months of DCC go-live, such a low volume of meters will be installed that DNOs will still be in the process of developing the appropriate systems to manage the data. It would be reasonable to expect network operators not to be making use of the data for a period of time as the roll out establishes itself. It would seem appropriate that a time limit is imposed but would suggest 12 or 18 months is more reasonable from DCC go-live.

Question 7: Do you agree that once acceded, any party should be able to participate in the governance of the SEC prior to undertaking any further entry process?

Yes.

Question 8: Do you have any views on the company, legal and financial information that should be provided as part of the SEC accession process?

In our view, the company and legal information to be provided need not extend beyond name and address, details of incorporation (to include company registration number and any VAT registration number) and proof that the application comes from an official signatory (a director) of the company.

With regard to the provision of financial information, we consider the principal requirement to be the demonstrable mitigation of any risk of defaulting on payments to the DCC. To satisfy this, applicants could be asked to place sums in escrow, but we believe that would this approach would in practice be too onerous. Instead, we would suggest limiting the requirement to the provision of suitable Letters of Credit.

Question 9: Do you agree that Government should not mandate a specific solution for the DCC User Gateway and that Data Service Provider (DSP) bidders should be invited to propose the solution which they consider to be the most effective (such proposals could include the option of extending an existing industry network)?

We agree that a specific DCC User Gateway solution should not be mandated by the Government. Instead, final selection should be based on the best available solution which meets the medium and long-term objectives of smart metering operation across Great Britain.

Please see our response to Question 10, outlining the selection criteria against which each solution and associated bidder should be considered.

Question 10: Do you have any other comments on the Government's proposals for the DCC User Gateway?

We would anticipate that the selection criteria against which DSP bidders and their proposed User gateway solutions will be measured will include the following

- robustness;
- stability of underpinning technologies;
- timescales for delivery;
- performance;
- cost to serve;
- scalability / flexibility; and
- experience and track record of bidder in delivering similar solutions

Question 11: Do you agree with the proposed DCC user entry processes?

We broadly support the proposed approach to the user entry processes, as outlined in the consultation document. However, we believe that considerable development work is still required to develop these basic principles into a detailed process that is fit for purpose.

Security

We recognise that robust security measures will be of paramount importance. However, further clarification is required as to whether parties will be required to be certified or demonstrate compliance to standards such as ISO 27001.

DCC Interfaces

Approval of individual user interfaces will require a rigorous testing and accreditation regime which is yet to be formalised.

Question 12: Do you agree with the proposed rights and obligations relating to smart metering system enrolment set out in this chapter? Please provide your views.

As a distribution network operator, we believe that it would also be appropriate for network operators to be notified when a smart meter has been installed or has been removed as in many instances the DNO is alerted to issues within the customers premise which may relate to the network assets supplying the customer or the meter itself and visibility of where a smart meter is installed may help to address some of these issues.

Question 15: Do you agree with the three different types of eligibility to receive core communication services that have been proposed?

Yes, in particular we agree that the core communication services should be available to the relevant electricity distributor or gas transporter.

Question 24: Do you think that the proposed approach for DCC charging is reasonable?

DCC establishment

We are concerned at the suggestion (Para. 204) that the DCC will be permitted to recharge its internal costs to participants ahead of go-live. While we would agree that costs directly associated with SEC administration should be recoverable, we do not believe that the costs of establishing the DCC itself should be borne by the market ahead of go-live as this may weaken incentives to deliver on time. We would, therefore, strongly urge the Government to reconsider its position on this. It is surely a prerequisite of the DCC Licence award that prospective applicants demonstrate their financial stability, and that the successful DCC

applicant itself enters into the contract with some element of risk and reward rather than the possibility that it is only the service providers which are subject to such requirements. As a regulated business, we do not have existing allowances to fund such costs.

Pricing

We continue to support the principle of 'postage-stamp' pricing with regard to the core service provision to domestic premises (Para 212).

Forecasting

Setting the price for a year ahead will enable the DCC to promote greater certainty in the market. However, following the completion of roll out we would propose that setting of prices is extended towards five years ahead. As a regulated business we require a longer term forecast for the purposes of justifying costs to Ofgem.

Compensation for breach of SLAs

We note that Paragraph 228 states: *'In any event, it is proposed that a user's remedy in the event of DCC service failure will be a reduction in charges, and not compensation for economic loss that a user may suffer as a result of such failure.'*

Although not strictly analogous, we also note Ofcom's review of the SLAs and SLGs imposed on 'Openreach' in 2008, which proposed the following principles for compensation:

- when agreed service levels are not met, make provision for compensation to be made based on a pre-estimate of an average CP's loss;
- ensure that CPs are entitled to make a claim for additional loss;
- pay compensation on a per event basis;
- ensure that there are no caps on compensation; and
- ensure that compensation payments are made proactively.

The principles of Liquidated Damages (LDs), which have been based on a Genuine Pre-estimate of Loss (GPoL), are a long standing feature of the energy industry. LDs would offer a direct performance incentive on the DCC that is more transparent to users and more effective than a simple reduction in charges. Of course, it may be that the magnitude of the loss is too small to justify such an approach, or that the cost of managing the compensation process would outweigh the benefits. Nevertheless, it would seem sensible to retain the option for LDs in cases where such an approach can be shown to be appropriate. We would generally prefer more commercial routes to compensation, such as reduced charges in the future – we certainly would not expect to pay for a service we did not receive in the past. However, the monopoly nature of the DCC service also demands that some backstop be provided, to ensure that it cannot be more cost effective for the DCC to simply accept lost revenues than address problems, as customers with smart meters expect the associated benefits to be consistently delivered.

Question 27: Do you agree with the proposed functions, powers and objectives of the SEC panel?

We broadly support the allocation of functions, powers and objectives to the SEC Panel.

However, while we consider it is appropriate that the SEC Panel oversees the performance of the Code Administrator, we are less persuaded that the Panel should be responsible for its appointment in the first place; rather, we think this could be a function of the DCC, perhaps

with a Panel right of veto. Nonetheless, we think it is reasonable for the SEC Panel to appoint its own Secretariat. While, in principle, we have no real objection to the same entity providing both administration and secretariat services, we also perceive advantages in their being quite separate, such as obviating conflicts of interest with regard to procurement etc.

We are not particularly persuaded as to the suitability of (Power K) placing an obligation on the SEC Panel to secure party compliance with Authority information requests. This is because we think it unlikely that the Authority will have any power to require such data from unlicensed parties that might accede to the SEC.

We are also uncertain as to the drafting of Power K, which states: "Securing the compliance of any SEC Party with any requirement to provide information about the operation of any of the arrangements set out in the SEC on the request of the Authority, and/or publishing such information". In particular, we are not convinced that this is an appropriate use of 'and/or'.

Question 29: Do you agree that the proposed SEC Panel composition is appropriate?

We broadly agree with the proposed SEC Panel composition as set out in the consultation document. We believe that the electricity distributor representative and gas transporter representative should be appointed through the Energy Network Association to ensure that they are acting on behalf of all of its members. The ENA has had a good relationship with Ofgem and DECC in providing assistance on these matters and the ENA is recognised in this capacity of providing independent representations.