

Smart Metering Implementation Programme

Haven Power Response to DECC Consultation URN 11D/868

A consultation on the detailed policy design of the regulatory and commercial framework for DCC

Chapter 2: Proposed regulatory approach to DCC

- 1. Please provide views on the approach to basing the prohibition upon contracting with all licensed suppliers in respect of all domestic smart meters, and on the way in which the specific wording of the prohibition should be developed.**

We agree that the DCC should be a licensed activity.

- 2. Do you think there will be any persons other than DCC who might inadvertently be captured by a definition structured in this way?**

This may affect those companies who currently service advanced meters – some of these are in domestic premises.

- 3. Do you have any other comments on the form of the licensable activity?**

The restriction to domestic premises for the purposes of the licence definition may result in such services not being readily available in the business market and this will not help interoperability in the business market. Whilst the definition does not stop DCC doing non domestic there is then no obligation for it to so. We are concerned that what is already a 'Hobson's Choice' situation in non-domestic meter provision would be exacerbated by the exclusion of non-domestic from the definition.

- 4. Please provide comments on the proposed changes to legislation identified in Table 2.1 and Table 2.2 and any other possible changes that you consider might be appropriate.**

It will be critical to preserve customers' right to own/provide their own meter. These rights could easily be damaged inadvertently and the drafting needs to be clear to ensure that these rights are preserved. We anticipate a much greater take up of these rights under smart metering than historically.

13. Do you agree with the approach proposed in relation to the protection of consumers interests?

The DCC should only be required to protect customers' interests to the extent of the services that it supplies under its licence. Wider ranging obligations would conflict with other parties. The DCC should not, for example, have powers to block registrations once it is responsible for meter point registration.

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

No, the DCC must focus on its primary activity. Energy efficiency is best left to those whose primary focus is energy efficiency.

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 scope of the SEC will develop over time and this should be recognised in the drafting of the appropriate licence condition.

17. Do you agree that the SEC should be designed to take into account consumers' interests by meeting its applicable objectives, rather than having an explicit objective related to the protection of the interests of consumers?

Yes, it is not necessary for the SEC to be prescriptive over customers' interests.

18. Should there be a SEC objective related to promoting (or facilitating) efficiency of energy networks?

No, the DCC will not have expertise in this area.

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

No, this is unnecessary since suppliers and specialist companies working in this area are motivated to deliver such services.

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

A key point is liability. The DCC should be financially liable to its users (suppliers etc) for failure to provide the service. Such liability should include user's brand damage arising from failure. The costs of any compensation should be from DCC profits and no allowance should be made in any DCC price controls for this.

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

Where practical the DCC should be required to provide services to all non-compliant smart meters that were installed during the foundation stage prior to the creation of the DCC. Doing so will ensure that unnecessary disruption for the customer is avoided when a supplier obtains a metering system that they themselves do not have the facilities to service. Any additional costs incurred by the DCC to service such meters should be charged to the supplier who first installed the metering system.

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?

The detailed terms and conditions should be a matter between the DCC and the organisation that requires the services.

26. Do you agree that DCC should be required to externally procure specific services and have principles that determine what other services it should externally procure?

We believe the proposals are over-prescriptive. The DCC should have an overarching requirement to demonstrate services are being provided in a cost efficient manner and this would naturally lead the DCC to buy in some services and provide others in-house. Prejudging these decisions in the licence is unnecessary and may lead to higher operating costs.

29. We seek your views as to whether the procurement and contract management approach document should be required to be submitted for approval by the Authority and/or the Secretary of State.

No, the DCC should be free to procure in line with the licence. Ofgem should police the licence and take action if the DCC departs from it.

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

There should be a specific requirement to demonstrate (such as by an annual statement) how it has operated in a non-discriminatory way.

32. Do you agree that DCC should be independent of service providers? Do you agree that a de minimis level of affiliation between DCC and service providers should be permissible?

The DCC must be entirely independent of service providers. There should be no de minimus links allowed as this would lead to larger issues in the longer term.

33. What level of affiliation do you consider should be set for the maximum level of shareholding or control of any individual service provider may have in DCC?

Nil.

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?

No. DCC users should not be allowed any shareholding at all. Allowing shareholdings may give DCC users an unfair advantage or influence within the DCC.

36. Should DCC be prohibited from using confidential information for any purpose other than the licensed DCC activity? Should DCC be obliged to impose this restriction on service providers contractually?

Yes. The DCC should only be allowed to use information for licensed DCC activity. There should be a specific statement preventing the DCC from selling confidential information even with the customer's or user's consent.

37. To what extent do you believe that the existing financial ring fencing provisions (and those proposed by Ofgem in its recent consultation on this issue) should be included in DCC's licence?

It is critical that the DCC can finance its activities and the ring fencing provisions needed to support this.

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?

The DCC will be central to whole of the gas and electricity supply chain in GB and it needs financial strength commensurate with this position. The level of financial security needs to be sufficient to ensure that the DCC can meet its obligations under all foreseeable circumstances including large scale service failure.

Suppliers and other DCC users must have freedom to withhold payments from the DCC if it is deficient in its role. They must not be obliged to continue to pay for poor service and the DCC needs to have sufficient financial strength to operate in these circumstances.

A failed DCC should pay for the appointment of its successor and the costs of resolving the issues that led to failure.

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?

Yes, service continuity is vital to the functioning of the market. The arrangements should mirror the business continuity arrangements the BSC imposes on metering agents.

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.

The DCC needs to ensure that its service provider contracts allow it to meet its obligations under all conceivable circumstances including the failure of one or more providers.

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

The competitive process for selection of the DCC is an important way of maintaining the incentive on management to supply a high quality and cost efficient service. A ten year initial period is rather long and we fear that the effect of this incentive will be diminished as a consequence. However, it is vital to avoid disrupting the roll out programme, and a change of DCC whilst this is in progress should be avoided if possible. We would suggest that the initial term is set to 7 years as balance between ensuring continuity of operations during the roll out period and incentivising the DCC to deliver.

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?

Yes, this is a sensible provision, or indeed up to a total of 15 years if an initial period of less than 10 years was chosen.

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

Yes, this is essential. Continuity of operations across licensees is a key requirement and must be included in the DCC licence.

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, it is vital to have a last resort measure of revocation in the event of the DCC failing to perform.

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 is an opportunity to rationalise the various arrangements put in place by suppliers during the foundation stage so that, where practical, subsequent communications and other operations can be taken on by the DCC. This supports the continuing function of the competitive market and, wherever possible, avoids further inconveniencing customers with a second change of metering. The obligation must be high level at this stage as the detailed requirements will not be understood until the foundation stage is well underway.

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?

No. We believe it is a serious mistake to introduce new meter point registration arrangements during the smart meter roll out;

Suppliers, agents and the DCC would need to deploy considerable resource into the design, implementation planning and execution of the new registration arrangements at precisely the time they should be engaged in progressing the roll out, safeguarding the successful operation of the DCC and ensuring the programme benefits are delivered to customers. The

industry must “keep its eye on the ball”. The last time that the industry tried to change two major things together there was a huge failure (1994 HH metering competition)
The introduction of a new registration process, applicable only to smart metering systems communicating via the DCC, to run alongside the existing arrangements will add considerable cost and complexity and lead to market confusion.

The correct time to introduce the new registration process is when the roll out is complete and the DCC based service can completely replace the SPA and MPAS arrangements.

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?

No. We believe changing the registration arrangements during the roll out phase is a serious distraction which not only disrupts customer switching and other market operations but also has the potential for derailing the smart meter implementation programme itself.

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?

No, see answers to 51 and 52.

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?

DCC should be required to actively support competition in gas and electricity markets.

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

We understand that the matter of wider code compliance will be considered in the drafting of the SEC, however, given the central importance of the DCC in the provision of metered data we believe it is crucial that it is obliged to comply with the BSC and relevant code subsidiary documents.

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, this would be a prudent measure.

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?

No, we think it is unlikely DCC applicants could provide reliable projections for registration at this stage since the detailed requirements have not been articulated. The reopener proposal could well lead to large cost increases being imposed on users, and on suppliers in particular. To protect suppliers and their customers from such unforeseen cost increases we would like to propose that a clear quantified benefit would need to be demonstrated before the Authority permits the DCC from incurring any cost in relation to meter point registration. If the DCC registration is to be implemented before the roll out is complete, the benefit case must take into account not just the cost incurred by DCC and others in developing the registration capability but also the additional costs incurred by all participants associated with managing two different registration systems simultaneously.

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?

Allowing the DCC to simply pass through costs associated with SEC changes is not viable since the DCC would have no incentive to control such costs. The volume driver approach is more sensible but we would also want this linked to a restriction in the frequency by which DCC can alter charges to participants to no more than one change per 12 months with a minimum of 6 months notice in order to allow suppliers time to factor in the costs into their contract prices. Organisations bidding for the DCC licence must be made aware of this requirement and the DCC shareholders will need to demonstrate they can provide appropriate cash reserves.

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?

Yes. Suppliers who do not use the DCC services, such as those predominantly servicing half hourly metered customers and those supplying business customers outside the DCC arrangements should not be charged for the DCC.

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

The charges should be levied on the basis on usage alone.

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.

Yes as this provides a strong incentive for the DCC to commence market operations as early as possible.

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.

Both data service and communication service providers should be treated the same. It is important that the DCC and all service providers are fully incentivised to support the roll out programme. All costs should therefore be recovered in line with the actual roll out performance.

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?

It is very important that suppliers have cost certainty. We suggest that suppliers are charged monthly on the basis of a fixed cost per smart meter active in the DCC. The DCC would be allowed to propose annual cost changes (including allowances for under or over recovery of costs in the previous year) to the Authority and would be required to demonstrate that the service remains cost efficient. The DCC would base its cost projections on suppliers' rollout plans. Suppliers would need to be given a minimum of 6 months notice of DCC cost changes.

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)?

On the basis of the suggestion we gave in question 68 a supplier exceeding plan and having therefore a greater number of active smart meters would pay more for the DCC service because of the "per active smart meter" basis of charging.

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?

No. The charging regime should be as simple as possible, please see our answer to Q68.

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

No, see above.

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

Yes, all users should be charged on the same basis.

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

Yes.

75. Do you agree with the proposed charging principles?

We agree broadly with the principles listed. The methodology should also be simple and straightforward.