DEPARTMENT OF ENERGY & CLIMATE CHANGE

Smart Metering Implementation Programme

IBM Response to:

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

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1 Introduction

1.1 IBM Relevant Experience

IBM United Kingdom Ltd. is pleased to respond to the questions raised in the DECC consultation on the detailed policy design of the regulatory and commercial framework for DCC.

IBM has established itself as a global leader in the planning, implementation and operation of Smart Metering technology. We have successfully supported over 80 different Smart Metering programmes worldwide, resulting in the deployment of more than 80 million Smart Meters. We have played a lead role in many second generation Smart Metering and Smart Grid programmes around the world, including (amongst others) IESO Ontario, Smart Meter Texas, Southern California Edison, Oncor, CenterPoint Energy, Oxxio, EneMalta, ASM Brescia and ESB Networks. In the UK, we have been active in shaping the future of Smart Metering, participating in DECC consultations, the definition of the smart metering market model and advising, shaping and defining smart metering programmes for 3 of the "big 6" energy retailers in the UK.

We are pleased to continue with our contribution to the development of smart metering in Great Britain, bringing experience gained from our UK and global programmes and various smart metering technologies that we have deployed to the benefit of the Smart Metering Implementation Programme.

1.2 Summary of IBM Response

We broadly agree with the majority of defined objectives for the DCC licensee as set out by the DECC SMIP team in the consultation document.

In relation to the questions posed by the consultation, we respond in this document to those specific questions for which we have a relevant point of view. Our responses to the questions posed by the consultation highlight a number of key themes, a summary of which includes:

- Flexibility should be at the heart of the DCC as the role, technologies and processes are established and the licence conditions governing it are defined. This need for flexibility will drive a significant degree of change, particularly as operations bed down, and this necessary change will require flexible and sympathetic contract management and control mechanisms to ensure that all involved parties deliver a successful service, that provides acceptable returns for all stakeholders.
- Our concern that functionality is stripped from the data services provider, resulting in an overly 'thin' DCC model and as a result creating inefficient communications or duplicate requirements for data storage. In our opinion some degree of storage or at least buffering is necessary in the data services architecture.
- There is limited provision for data to be carried on behalf of DNOs. It would be advantageous ahead of future phases for the DCC to provide capability to store, process, and provide data in various forms to these users as part of the core DCC functionality. If this is not considered now, it is likely that extra cost and

complexity will be incurred in implementing smart grid capabilities within a 'DCC mark 2'.

- Our belief that the role and objectives of the BPO service desk (help desk) should be an integral element of the IT & Data Services provider's responsibilities. Control of this function is essential in ensuring that the IT & Data Services provider has full control over the delivery of SLAs, in turn ensuring effective operation and control.
- Support for the principle that the DCC should be able to innovate and offer extended and value added services that promote competition (particularly for new entrants) and enable participants to deliver genuine value to customers. We believe that allowing innovation through value added services will be extremely important as the Smart Metering market matures over time, and will be key to realising Smart Metering Implementation Programme benefits.
- As a general principle, we believe it is essential that there is transparency in the core and elective services offered by the DCC to enable fair competition, and effective use of DCC capabilities. Allowing the DCC to offer value added and elective services will drive continuous investment and innovation in the service it provides over time.
- The need for the SMIP to finalise all relevant technical, security and operational requirements and standards as a matter of urgency to allow potential participants to prepare more effectively for the forthcoming procurement process, for example in finalising partnerships or consortia.
- Our preference for symmetric incentives aimed at rewarding success and innovation in addition to penalising failure.
- The importance of spreading fixed and variable costs fairly across the entire DCC user community, making sure that each user pays only for those services that they use.

2 Responses to Consultation Questions

2.1 DCC Regulatory and Commercial Framework Questions

Q10: Do you agree with the proposed general objectives of DCC set out above?

IBM broadly agrees with the general objectives as set out for the DCC in the consultation document. In assessing these general objectives we note three areas that may also be considered:

- A specific objective on the maintenance of data privacy would provide clear focus in this important area, ensuring the UK does not encounter the same data privacy issues that have hampered other projects internationally;
- We suggest that the objective covering the facilitation of competition should be split into two parts - competition and innovation in energy supply, and competition and innovation in the provision of central industry services. Separate objectives will allow a dual focus on the interests of both the consumer and industry stakeholders, ensuring that maximum value is generated for both groups; and
- We view the DCC licensee as ultimately responsible for continuity of service, and that as such an objective should be included to highlight this responsibility.

Q13: Do you agree with the approach proposed in relation to the protection of consumers interests?

We broadly agree with the proposed approach to protecting consumer interests, and highlight the areas that we believe are most important:

- A cost effective yet reliable service that continues to improve and evolve to be able to offer a superior service and richer capability over time. We feel strongly that it is important to balance different levels of value that different consumer segments will receive when weighing up the cost to the customer and ultimate design of the DCC;
- A focus on security, providing assurance that customer information is secured and only made available to those parties authorised to access it;
- A level of service provided by the DCC that enables energy suppliers and third parties to provide consumers with timely information and advice to enable them to take action;
- Delivery of an environmentally aware solution that offers core and extended services to provide information to drive essential consumer behaviour change, and ultimately enable customers to take actions to manage their energy consumption;
- Ability for the DCC to innovate and offer extended and value added services that promote competition (particularly for smaller new entrants), enabling the consumer to become more energy aware by providing secure data access to authorised parties that the customer believes can offer them value, and to offer services to market participants that deliver genuine value to customers. We believe that allowing innovation through value added services will be extremely important as the Smart Metering market matures over time; and
- Assurance that wherever possible, consumers are not discriminated against during roll-out based on their geographical location.

Q14: Do you think DCC should have a separate objective to promote (or facilitate) energy efficiency?

IBM agrees that the SEC should have an objective to promote and / or facilitate energy efficiency and that the DCC should be aligned with this objective, in keeping with the overall business case requirement for smart meter deployment. We note that careful consideration should be given to measurement and enforcement of such an objective.

Q15: 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?

Yes, we believe the SEC should be drafted to allow for future flexibility. The SEC licence conditions should be drafted in such a way that they enable the DCC to evolve in line with 'Smart Energy' policy (for example in accommodating future smart grid technologies and requirements) as both the markets, technologies and participants themselves mature to enable maximum benefit for all stakeholders.

Q16: What are your views on the SEC Applicable Objectives set out above?

We agree with the SEC Applicable Objectives as stated and have no further comment.

Q17: 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. We believe that the SEC should be designed to meet its applicable objectives as the best way to protect consumer interests.

Q18: Should there be a SEC objective related to promoting (or facilitating) efficiency of energy networks?

We agree that the SEC should include objective(s) related to promoting and facilitating efficient energy networks. We view the SEC as an enabler to ensure the successful implementation of a full 'Smart Energy' system, initially focusing on Smart Metering and the support of consumer needs, and ultimately including wider smart grid requirements and technologies. We note that careful consideration should be given to measurement and enforcement of such an objective.

Q19: Do you think the SEC should have a separate objective of promoting (or facilitating) energy efficiency?

Yes. The SEC should have a separate objective to both promote and facilitate energy efficiency in order to ensure that the benefits in the overall SMIP business case are delivered. We note that careful consideration should be given to measurement and enforcement of such an objective.

Q20: Do you agree with the definitions of the services that DCC should be required or permitted to provide?

We broadly agree with the definitions noted. However, we note that the role and objectives of the help desk (BPO Service Desk) should be an integral element of the IT & Data Services provider's responsibilities. Control of this function is essential in ensuring that the IT & Data Services provider has full control over the delivery of SLAs, in turn ensuring effective operation and control. The workflow processes around meter installation, provisioning and end-to-end problem determination are tightly entwined with the operational systems and infrastructure of the IT & Data Service Provider; ceding control to a separate organisation effectively designs an organisational and process disconnect into the system.

There is also a concern that functionality is stripped from the IT & Data Services provider, resulting in a 'thin' DCC model. Looking at this from the 'UK PLC' perspective, it would make more sense for functions that will have to be duplicated across each of the energy suppliers to be implemented once, to ensure a consistent implementation, and avoid duplication of expensive effort.

A specific example here would be some degree of storage or at least buffering in the data service provider, so that requests for recent history data from meters would not have to be retrieved from the meters (causing a high bandwidth, and cost impact on the comms network), but could be serviced by a short term cache in the DCC.

Q21: In relation to which non-compliant metering systems should DCC be required to offer services?

We believe that the DCC should only be required to offer services to non-compliant metering systems that operate within a predefined specific and minimal 'range of non-compliance'. This range must be defined by SMIP as soon as is practicable to allow interoperability measures to be developed by the industry.

Developing these standards at an early stage, and aligning the DCC to them will mean suppliers are aware of the standards that the DCC must support prior to installation of any metering system that they choose to install during the foundation period, ahead of the availability of meters and head ends that meet UK standards. However, we also note that until final UK standards are agreed, the infrastructure costs of the aggregate DCC will increase in order to provide and maintain services to these non-compliant metering systems as numbers grow, and ongoing operating costs will be higher as the customers supplied via these meters potentially move between suppliers.

Q23: What information should be made available to all users about elective services and 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?

As a general principle, we believe it is essential that there is transparency in the core and elective services offered by the DCC to enable fair competition, and effective use of DCC capabilities. Allowing the DCC to offer value added and elective services will drive continuous investment and innovation in the service it provides over time.

It is however essential that clear governance principles are set out and followed in the evaluation of new services, to ensure they do not impact either service levels or objectives, or restrict competition. With clear governance in place it is our view that the DCC would not be required to publish terms and conditions of value added services that are procured by independent business users.

Q25: Are there any other matters that we have not addressed related to the nature of services provided by DCC? (Note that provisions addressing independence and non-discrimination in the provision of DCC services are covered in paragraphs 3.119 to 3.120)

Further matters that we feel should be addressed include:

- There is no detailed provision in the current definition of the DCC for data to be carried on behalf of network operators and distribution companies. Given that Smart Metering is the first step towards smart grids, it would be advantageous ahead of future phases, for the DCC to provide capability to store, process, and provide data in various forms to these users as part of the core DCC functionality. If this is not considered now, it is likely that extra cost and complexity will be incurred in implementing smart grid capabilities within a 'DCC mark 2' when these additional functional requirements are required; and
- There should be provision within the regulated framework for the DCC to enable non-regulated 'value added' functionality. The DCC is in a unique position, being at the cross-roads of all the Smart Metering traffic in the country. Thus there is a substantial opportunity for data analytics to be applied to this data to derive information that will be of value to a number of energy industry players, as well as consumers.

Q26: 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?

No we do not agree that the DCC should be required to procure specific services externally. We suggest that the DCC should be able to discharge its licence obligations and operational responsibilities in a cost effective and efficient manner. Restricting the range of options available to the DCC may have the undesired effect of driving total operating costs up.

Q28: Do you agree that DCC should be required to produce a procurement and contract management approach document?

Yes. We agree that this approach document should be produced and agreed with all stakeholders involved. We believe that the production of a procurement and contract management approach document will contribute to the transparency of DCC management and operations.

Q32: 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?

We agree that the DCC licence holder should be independent of service providers because this enables:

- The DCC service as a whole to be provided in the most cost efficient manner possible; and
- Simpler transfer of component services, initiation of services, and where applicable retirement of services over time, as all of these scenarios are enabled by contractual changes between the licence and the service providers who in turn can use their expertise to deal with the practical implications, as opposed to more complex transformations within the DCC licence itself.

Q35: Do you agree that it is not necessary to explicitly require business separation between DCC users and DCC service providers?

No. IBM believes that total separation is necessary. We believe that from the perspective of security and access controls that it is important that there is demarcation between the DCC users and the DCC service providers.

Q36: 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?

We believe that the premise of the question is correct, assuming that the DCC licensed activities can still be defined with future flexibility in mind.

We note the scope of the DCC needs to be flexible and open to ongoing change, to enable all stakeholder groups to fully benefit from ideas and innovations in the future. Implementation of any innovative new proposals will require access to and use of data. On the assumption that current legislation with respect to the use of confidential information provides sufficient protection, and that all DCC parties adhere to this legislation, we see no reason as to why licence conditions cannot be both flexible, and protect consumers adequately.

Q38: Do you agree that a flexible approach to financial security should be adopted and, if a financial security is required, what level of financial security should be provided?

Yes. We believe that a flexible approach to financial security should be taken, both in terms of the level of financial security and the mechanism by which this security is assured.

These should take into account the financial scale, stability, resilience and resources of the organisations involved. Less secure organisations might be required to lodge actual instruments providing financial security, whereas contractual terms might suffice for more highly rated organisations. In general, mechanisms aimed at assuring financial security should be preferred, followed by those that limit and mitigate the risks, and then those which provide remedy for financial failure.

Q39: 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?

We do not have a specific view on whether it is appropriate for all costs, or a proportion of such costs for appointing a new DCC in event of an early licence revocation, should be apportioned to the incumbent DCC. We do however think this

should be reflected in the level of financial security of the organisation awarded the DCC licence.

Q42: 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. We agree 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.

Q44: Do you agree that it is appropriate to grant the initial DCC licence for a ten year period?

Yes. We agree that this period is appropriate for an initial appointment. Within this requirement consideration should be given to balancing the duration of all contracts relevant to the DCC operation such that expiry and renewal can be handled effectively.

Q45: 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. We agree that this flexibility would be of benefit, although we note that the criteria for extension should be clearly set out in initial scope statements to ensure full transparency and objectivity in the process.

Q47: Do you agree that DCC should be required to ensure that any critical services can be transferred to a successor?

Yes. We believe the DCC should be required to ensure that any critical services it provides or procures can be transferred to a successor organisation. We note that in the case of services procured by the DCC, these requirements should form part of the contract between the DCC and the service provider.

Q51: 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. We believe that this licence condition should be included initially as part of a wider set of activities that set the aspiration for the transfer of registration services to the DCC in the future.

This will as a minimum ensure that the transfer of these services at a future date is given the required focus. It can also be used as an enabler to allow the industry to begin to look in more detail at how this incorporated registration service could work, and ensure that the benefits of rationalising associated processes and infrastructure can be realised in line with expectations.

Q52: 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. We agree that existing licensees should be subject to high level obligations to release other licensees from the requirement to provide meter point/supplier registration services at some point in the future. This will be necessary to enable transfer of responsibilities as appropriate.

Q53: 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. If registration is to be adopted within the DCC we suggest that all relevant licences will need to have linked conditions such that the necessary conditions are 'portable' and 'transferable'.

Q54: What dispute mechanism would be appropriate to apply to disputes involving DCC and who should be enabled to determine such disputes?

We agree with the requirement for a dispute mechanism, but have no firm view on how this should operate. We note that the ultimate goals of such a mechanism should be to protect the consumer, enable market competition, and protect direct DCC users.

Q55: 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, it is important that the DCC operates in a way that ensures competition is maintained in all areas wherever possible.

Q59: 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 suggest it is practical to provide estimated costs for undertaking meter point/supplier registration. In line with the premise of the consultation, these estimates will only be as accurate as the detail in the requirements allows.

We believe that business requirements covering how meter point/supplier registrations operate, initially at least, will not differ from those supported by incumbent providers of these services at present, except maybe in a handful of areas where Smart Metering functionality could immediately shorten timescales for certain processes. These requirements are mature enough to allow accurate costs to be provided based upon them.

Q60: 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?

We broadly agree with the arguments suggested for both options in terms of how the case for each is presented. Whilst neither option is a perfect fit, we advise against the 'volume driver' option as it is presented, as we believe it is not feasible to implement in its current form for the following three reasons:

- Firstly, we note that 'grading' work up front, especially where work will be undertaken on the whole by service providers within certain cost categories as described within the volume driver option, will be very complex. We suggest that if this work is carried out, potential service providers are engaged to understand the complexities involved, and more importantly what costs may be accrued by the licensee. Without this input from service providers, this process is likely to produce inaccurate results;
- Secondly, and even with the inputs from service providers to better understand these categories, this option encourages the licensee to include 'worst case' risk and contingency within these cost bands to enable them to account for the inherent uncertainties within any work they are going to complete; and
- Thirdly, this style of grading work tends to work best if all types of work within a grade are near identical. This is unlikely to be the case here without an infinite number of categories. If all work within a grade falls at the bottom end in terms of cost, then this represents a massive inefficiency in how this work is paid for if the licensee can claim the average cost each time.

Q61: Do you have a view on the appropriate materiality threshold (trigger) for the revenue reopener?

We do not agree that the re-opener should be based on any percentage value of the DCC annual revenue allowance as per the example in the consultation.

We suggest the trigger for this revenue re-opener should be the impact of the event, versus an assessment of the root cause.

For example, if the DCC internal costs rise by 10% due to recruitment of under-skilled staff, we suggest that this should not invoke the reopener as even though there is a material impact, the impact should be absorbed by the acting licensee. If however a 5% rise in internal costs is triggered as a result of increased demand on the licensee to support industry change boards, we suggest the re-opener should be initiated in order that they can recoup these extra costs.

The revenue allowance should be locked down as far as possible, and only be 'reopened' in cases where extra costs are appropriately accrued.

Q63: 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 understand that this question aims to understand which of these categories is more suitable for recovery of fixed costs per system user. Based on this understanding we do not believe that either of these approaches represents a perfect fit.

As a general principle, we believe that users should be charged in line with the services that they utilise. The consultation notes the example of suppliers that provide non domestic consumers only, which are not mandated to receive Smart Metering systems. It is assumed that these users will utilise some services provided by the DCC (assumed to be meter point/supplier registration) however. Where these facts around who will use what are known up front, the allocation of costs for services should bear reference to this in order that parties are not charged for services they do not actually utilise.

We also note the need to allocate charges at the correct level. For example, fixed costs associated with Smart Metering are incurred at an asset level, not MPAN or MPRN. Costs at MPAN or MPRN level would however be more appropriate for registrations for example.

Q64: Do you have a view on whether suppliers of only larger non-domestic customers should be charged a proportion of DCC internal costs?

In line with our response to question 63, we believe all end users should have costs allocated to them proportionate to the services they use. Costs should be allocated based on both the services used, and the frequency with which these services are used, in order to ensure smaller suppliers for example, are not disadvantaged. This will also prevent the incidental creation of any potential barriers to entry for new participants.

Q65: 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.

We agree that relevant and appropriate costs incurred by network operators in support of the roll out should be recoverable. To assist in applying this principle we suggest that a list of probable, appropriate activities and (approximate) associated costs be generated by the programme to ensure that approximate costs can be budgeted and mechanisms for recovery agreed.

Q67: 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.

We agree that the IT & Data Service provider should be able to recover costs from day 1 go-live in line with the premise of this question. In reality, the IT & Data Service provider is being asked to provide functionality and capacity up front without absolute certainty around when both will be adopted and to what level by the industry. This is different to the communications providers, who we suggest are able to provide infrastructure 'just in time', which can be more closely aligned with roll out profiles as rollout progresses, reducing exposure, and lessening 'dead time' between the provision of infrastructure, and the utilisation of this infrastructure.

Q68: 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?

We believe that the approach described in question 68 is the most appropriate. In the simplest terms, it provides benefits to all parties involved, and importantly does not charge users for services not utilised, nor encourage unnecessary up front costs which could effect efficiency.

One suggested improvement would be the introduction of the concept of upper and lower thresholds for future installations. Each supplier would declare an expected meter installation profile alongside a minimum binding commitment, and a corresponding maximum number of installs for that period (based on potential to increase planned installation rate during the period). Service providers could then price based on operational costs they could recover based on the minimum commit figure quoted, and projected costs associated with ramping up installation volumes to both the expected and maximum limits.

A more extreme alternative may be to scrap the upper threshold, and allow suppliers to install as many smart meters as they can during a period. This would support accelerated rollout in line with government preferences. We suggest that this option may attract more costs overall than that in the previous paragraph, but that they may be offset by the benefits of having more meters installed at an earlier point than would have been the case.

Within either option, service providers can then allocate costs based on actual versus planned installs, to cover any material differences they have incurred as a result of any extra meter installations. These options present a more efficient service, which would also allow users more flexibility around installation rates where this is of benefit to them.

Q69: 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)?

Our response to this question is covered within our answer to question 68.

The introduction of the concept of upper and lower thresholds for future installations is one mechanism that could be considered in dealing with deployment uncertainty and associated cost allocation issues. Each supplier would declare an expected meter installation profile alongside a minimum binding commitment, and a corresponding maximum number of installs for that period (based on potential to increase planned installation rate during the period). Service providers could then price based on operational costs they could recover based on the minimum commit figure quoted, and projected costs associated with ramping up installation volumes to both the expected and maximum limits.

Q70: Do you agree that network operators should be charged in line with their market share?

Yes. We agree that network operators should be charged in line with their market share.

Q71: 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. We agree with the make up of the standing charge as noted.

Q72: Do you agree that a proportion of service providers' fixed operating expenditure should be converted to volumetric charges?

We agree with the concept that a proportion of service providers' fixed operating expenditure could be converted to volumetric charges, however final agreement to this principle must depend on careful review, consideration and agreement with potential service providers during the procurement process.

We also note this option is only feasible if the areas of fixed operating expenditure that are demonstrably variable (and agreed as such) are transferred.

It is also important to note that conversion of fixed costs into variable charges could potentially alter cost levels allocated per user, in that increased volumetric charging may disadvantage those with higher expected transaction levels.

Q73: Do you agree that the proposal for postage stamp charging is consistent with the objectives of the Smart Metering programme?

Yes. We agree that postage stamp charging supports the general objectives as laid out. In particular it promotes the objectives around full roll out and competition more fully than either of the other two options, and its simplicity will minimise complexity around the management of the pricing model.

Q74: Should postage stamp charging apply to all users including network operators?

Yes. We believe that the postage stamp charging should be applied to network operators also.

Q75: Do you agree with the proposed charging principles?

Yes. We broadly agree with the charging principles laid out in the consultation document.

Q76: 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?

Yes. We agree with the premise 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 would balance this support, however, with the view that the charging methodology should be an enabler, not a promoter of innovation.

In line with our earlier responses, the DCC needs to be set up with flexibility in mind at all levels, to enable it to dynamically flex to the future needs of the industry and the consumer. This flexibility needs to be reflected wherever possible in the charging methodology, which can act as an enabler.

Q77: 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?

Yes. We agree that internal costs should be allocated on the same basis as service provider fixed costs. We believe that all users should be charged in line with the services that they use. Our view is that this should be the case regardless of where the cost is incurred, and who incurs that cost.

Q78: 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 believe it is reasonable to charge all prospective users, and/or other prospective customers for the investigation, assessment and design work necessary to scope and provide any elective services. We note that allowance will need to be made in overall charging structures to allow for an organisation and delivery mechanisms to provide and operate such a service.

We also note that there will be a challenge around how to negate the monopolistic set up of the DCC licensee to ensure that work is done as efficiently and openly as possible within this context. Ideally, we suggest that the industry should avoid universal charging wherever possible, which will counteract this.

Q79: Do you agree that "a second comer principle" can be applied?

No. We do not agree that a second corner principle can be applied to refund a proportion of costs to the 'first comer' if similar work is requested by additional users. In our opinion this potentially disadvantages those at the forefront of service design and innovation.

From experience we would suggest that this approach does not generally work, since there is too often ambiguity surrounding what constitutes the 'same service'. There are likely to be significant issues (and extra cost incurred) over the process of agreeing whether elective services are identical, and this approach also risks stifling innovation and competition if a requesting party is forced to share it.

We recognise that this is not black and white, however, and that there are likely to be services that are entirely reusable. To this end a mechanism will be required to identify common elective services and a process adopted to offer these (at shared cost) to other users, without constraining competition or innovation.

Q82: Please provide views on whether the Service Requirements described in the above table represent the Minimum Core Service Requirements. Please also indicate whether in your view there are any additional Minimum Core Service Requirements not identified in the above table, and for any such requirement please quantify the additional benefits, if any, that could be realised?

We agree that the message flows listed in Table 6.3 are core service requirements, with the exception of 'Smart grid: Localised weather forecast reports' which we consider to be an elective or value add service.

We have not identified any other flows to be added to the core list.

Q83: Please provide comments on the incentive regime proposed for DCC?

We broadly agree with the majority of the points made. Specific comments we have on some areas are:

- We expect the DCC licensee in particular to be incentivised in line with the objectives defined for it within this consultation. Some of the points made in this section undermine some of these objectives (for example it is inferred that the DCC licensee is a procurement vehicle); and secondary to this point, suggest the licensee would not be incentivised in line with these objectives. For example, if the DCC has an objective to promote energy efficiency, it should be incentivised as regards this, not around how it procures services that enable this;
- We suggest that symmetric incentives allowing the licensee, or indeed service providers, to be both charged for failure and rewarded for success should be utilised, as opposed to asymmetric incentives where parties are solely penalised for not meeting targets. Employing asymmetric incentives encourages participants to do 'just enough' to stay within legislation and avoid fines, as opposed to innovating to gain (and subsequently share) greater efficiencies for all stakeholders. This style of contract management has been demonstrated to limit innovation, contradicting many of the DCC objectives;
- The principle of passing most of the risks around service failure at an operational level to service providers is in line with our expectations. You note that a 'thin' DCC licensee would take on minimal risk in line with this principle. We note that contracts between the licensee and their service providers will include obligations on the licensee outlining their responsibilities in certain areas that indirectly pass some risk back to the licensee. Obvious examples are around change management support, and availability of resources to support design work. The DCC licensee should not be set up to be 'too thin', in such a way that it cannot meet these obligations; and
- Even though the majority of risk around service failure can be transferred to the service providers, it would be unfair to penalise any one of these organisations if they are prevented from discharging their duties as a result of a shortcoming on the part of the DCC licensee, or for that matter any other DCC party, apart from any sub contract party the service provider themselves have used. Regardless or where risk is moved to within the spectrum of the DCC, financial penalties will in reality, and should land with the party deemed to be at the root cause of any end to end failure.

Q84: Do you consider it appropriate and feasible for the SEC panel and DCC to negotiate KPI targets?

Yes. IBM believes that this is a fundamental requirement in the successful establishment and operation of the DCC service. Appropriate, transparent and agreed KPIs are essential, particularly for a service that is so important to the whole industry. We would expect that, as the operation is defined and established, that the Communications and IT & Data Services providers would also be involved in defining the most appropriate performance measures, along with incentives and penalties that should be applied. In addition, we would expect SLAs and KPIs to be reviewed periodically as a matter of course.

We also suggest that this strengthens the case for asymmetric incentives in line with our points as regards this in our response to question 83.

Q85: 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 agree that an independent audit of DCC performance is appropriate. This is important as the DCC will be in many ways acting monopolistically; to this end the audit should also ensure adequate transparency around the way the DCC operates, and ensure that risks and rewards are adequately distributed.

We have no particular view over whether audits are planned, or ad hoc.

Q86: 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?

We agree that a sharing mechanism to distribute any cost efficiencies made by the DCC licensee, or the service provider with end users is required.

Within this principle, however, we note that service providers are expected to take on most of the risk within the DCC model, including a significant level of financial exposure. We would therefore expect the distribution of any shared benefit resulting from cost efficiencies to reflect the proportional risk and investment taken by the parties involved in managing and delivering the services.

Q87: Do you consider that it is appropriate to invite DCC licence applicants to propose KPIs?

Yes. We agree that it is appropriate that the DCC licence applicants propose KPIs, and also that they are able to use this as a means of providing competitive advantage within their individual bids.

We suggest this also strengthens the case made in our response to question 83 for aligning KPIs to the objectives for the DCC. Failure to align objectives in this way within the context of this question will make it difficult to compare suggested KPIs like for like when evaluating proposed incentives, as a 'successful DCC' as measured by KPIs could be interpreted differently by all parties.

Q88: 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?

Yes. We agree that the principles proposed in paragraphs 8.8 and 8.9 are broadly appropriate where compliant meters and DCC service requirements and standards are deployed.

We note that paragraphs 8.8 and 8.9 only relate to Communications provider contracts; the DCC will also have to consider how managed data services that are set up during Foundation will be transitioned, including, for example, historical and configuration data, security keys and certificates, interfaces and flows.

Q89: 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?

We agree with the approach in principle, although specific parameters listed in table 8.1 are very specific to the Communication services and we therefore provide no further comment.

We note that in terms of the cost of integrating Foundation Stage communications contracts into DCC services that the main risk is that Foundation Stage metering equipment may not at this point be tested and fully interoperable. This could lead to additional integration (and ongoing maintenance) costs for the data provider to at least support multiple Smart Metering configurations and potentially even different head end systems.

Q90: 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?

We suggest that the ability to adopt Foundation communication contracts should be available as an option, but note there is substantial risk that needs to be considered.

Our key concern would be the requirement for additional (potentially complex) system integration activity to achieve technical integration of different Smart Metering systems into the IT & Data Services provider's IT system. This may be an issue even where systems are apparently interoperable and compliant with DCC requirements and standards, and is likely to result in cost that will need to be passed on as appropriate.

Where such costs can be justified by a combination of the benefits accrued by the DCC and the supplier, the parties should not be hindered from reaching a commercial agreement to transfer foundation stage Smart Metering systems that exceed the guaranteed adoption volume to the DCC.

Q92: Do you have views as to when Foundation Stage communication contracts should be adopted?

From our point of view as a prospective IT & Data Services provider we would not expect Foundation Stage communication contracts to be adopted by the DCC until:

- Contracts to novate services are agreed amongst all parties;
- Equipment and systems technical design and interoperability standards are defined, agreed and operational;
- Security standards are defined, agreed and operational;
- Core communications and data services architectures are operational; and
- The transition process is well planned in advance and is integrated into the roll-out plan.

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