



Response to Smart Metering Implementation Programme detailed policy design of the regulatory and commercial framework for DCC

Executive Summary

1. The DCC will be a critical participant in ensuring smart meters are rolled out successfully in Great Britain. Ensuring a successful regulatory and commercial framework for the DCC is important to ensure that the DCC delivers from day 1 and evolves its services in an efficient way.
2. We are supportive of the proposals put forward with regards to the regulatory requirements needed to introduce the DCC.

Adoption of Foundation Communication Contracts

3. There are significant benefits to the programme in carrying out early activity to gain learning and to prepare for mass roll out. For example learning includes development of customer journeys to improve access to properties and development of ways of working to deliver operational efficiencies. In order to encourage investment to participate in Foundation activity it is necessary to provide as much certainty as possible over avoidance of future costs and over minimisation of inconvenience to customers. It is therefore appropriate to provide certainty that there will be no cost or inconvenience of making second visits to replace communications hubs which are capable of delivering programme requirements.
4. It is also appropriate to place a limit on the number of contracts that DCC should be obliged to adopt as there may be some limitations to customer experience following change of supplier before DCC is in place. Suppliers should, however, be able to carry out extensive testing and trialling during the Foundation period and also not face restrictions once compliant smart meters are available and commercial interoperability rules have been introduced. We have assessed the appropriate level for these activities as 12.5% of our portfolio. We suggest all suppliers are limited to this level. This would provide a maximum of 6.25m meters during Foundation if all suppliers submitted a request for their full allocation but a lower figure would seem likely. If 3 regions are established it is important that adoption limits reflect the suppliers market share within each region.
5. The adoption criteria set out within the consultation are sensible. In setting an acceptable price for the contract it is important to be mindful that Foundation contracts will be for a limited duration and volume and will be subject to churn risk. It should be expected that there will be some variance from the much longer term, higher volume, guaranteed service that will be delivered to DCC. Some tolerance will therefore be necessary to deliver the objective of facilitating early roll out.

Regulatory Approach to DCC

6. The proposed regulatory approach including the prohibition order and draft licence condition for DCC seem sensible and should facilitate the delivery of the DCC within the required timescales.
7. As part of the consequential licence amendments consideration should be given to amending Licence condition 37 of the Electricity Distributors Licence regarding the provision of a Data Transfer Service. From discussion within the DECC Smart Meter Implementation Programme (SMIP) it is clear that there is an enduring need for an industry data communication service between users and the DCC as well as a need to manage existing industry data transfer arrangements. It would seem logical to transfer the obligation around these services from Electricity Distributors to the DCC and to allow the service to evolve in the most efficient way.

DCC Licence Conditions

8. The proposals for DCC licence objectives are sound and the requirements to limit ownership between the DCC, users and service providers are sensible to ensure the delivery of an impartial service.
9. The establishment of the Smart Energy Code (SEC) is a sensible way to govern and monitor service providers and we support its development.
10. We understand the logic for DCC "Value Added Services" using the smart metering infrastructure outside of the energy industry and believe that these may deliver benefits for energy customers. There seems to be less clarity on the purpose of "Elective Services" for energy users of DCC services and we would welcome further debate with DECC on this issue during the detailed development of the SEC.
11. Financial controls around the DCC are sensible and would provide reassurance to DCC users of service continuity although we would expect these not to be so onerous as to undermine a successful tender process.

Revenue Requirements

12. The suggestions for how the DCC will recover costs from users seem sensible and the industry has experience of managing similar arrangements. We suggest that DECC adopt flexibility with this issue during the procurement phase.

13. Requirements can evolve during the initial procurement exercise where dialogue with potential DCC providers may help establish requirements that they may have. If the initial revenue recovery mechanisms are found to be deficient then inclusion of the DCC charging methodology within the SEC should allow for these to be changed via an open and consultative process.

Charging Methodology

14. We support the principles for the recovery of DCC costs suggested in the consultation.

Core WAN Service Requirements

15. We are generally comfortable with the list of core services. There may need to be a series of iterations to this list as the procurement of WAN services evolves and a better understanding of technology, costs and timescale to deliver from potential service providers becomes available.

Performance Incentives

16. The development of key performance Indicators (KPI) and the monitoring of DCC performance is an important role and we agree that the SEC governance is the best place for this to be managed.

Competitive Licence Application Process

17. The level of detail required in the Invitation to Apply seems sensible and the process outlined going forward appropriate.

Our responses to the consultation questions:

Proposed Regulatory Approach to DCC

Q1. 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.

1. We agree with the proposed approach from DECC. It would seem pragmatic to define within the prohibition order a narrow scope of activities related to the provision of services to domestic customers. We believe that the prohibition order needs to:
 - a) Allow establishment of the DCC and its service provision companies
 - b) Not affect the Automated Meter Read (AMR) market for non-domestic customers who are not covered by the smart meter roll out mandate
 - c) Facilitate the gradual adoption of existing domestic smart meters into the DCC once it is established
2. Limiting the scope of service covered by the prohibition order to *all* suppliers in respect of *all* domestic smart meters should facilitate these objectives and ensure that services that are not intended to be covered by the legislation are not included.

Q2. Do you think there will be any persons other than DCC who might inadvertently be captured by a definition structured in this way?

3. We do not believe that there will be any persons who might be inadvertently caught by the proposed definition in the future. Clarification from DECC with regards to the prohibition may initially be needed for the assistance of existing mobile phone communication providers who deliver services for some existing domestic meters and may feel that they are included in this Prohibition Order.

Q3. Do you have any other comments on the form of the licensable activity?

4. We agree with the suggested approach and believe that creating a limited set of prohibited activities based on a defined service is a pragmatic approach to this issue. Attempting to define the DCC contracting services is an alternative approach but one we believe would neither be easy to achieve or ultimately successful.

Q4. 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.

5. We agree with the changes proposed in tables 2.1 and 2.2 in the consultation document and have no further suggestions for changes that are required to legislation to facilitate the establishment of the DCC.

Q5. Do you agree with the proposal to have a single document with a single set of licence conditions that apply to both licences?

6. Yes, we agree that having one single set of DCC licence conditions would aid transparency for stakeholders and reduce the administrative burden for Ofgem and the DCC in the future management of the licence.

Q6. Do you agree with, and have any comments on, the proposed approach to establish all of the DCC licence conditions as "special" conditions?

7. Yes we agree with the proposal. The difference between special licence conditions and standard licence conditions will be significantly reduced by the proposed Electricity and Gas (Internal Markets) Regulations 2011 and therefore it could be argued that it is not necessary to introduce them as special licence conditions. However considering the single nature of the DCC entity and the requirement for it to be introduced as quickly as possible the suggestion to establish all the DCC licence conditions as "special" is sensible.

Q7. Do you have any comments on the scope and nature of the consequential licence changes that we propose to make?

8. Our comments against some of your proposed amendments:

Electricity Supply - Condition 1 Definitions

Agree with the proposed amendments

Electricity Supply - Condition 2 Interpretation of Standard Conditions

Agree with the proposed amendments

Electricity Supply - Condition 26 Services for specific Domestic Customer groups

It isn't clear at this point what services the DCC may be involved with regarding vulnerable consumers. We would therefore suggest that the amendments proposed to this Licence condition is not taken forward and that instead obligations upon Suppliers are taken forward via the development of the SEC. This would still ensure compliance by Suppliers with any proposed



obligation but allows for a more flexible evolution as the true nature of the required services becomes clearer.

Electricity Distribution – Condition 37 Provision of the Data Transfer Service

Electralink have provided a number of discussion papers on the potential future of the existing DTN and the potential requirements of the DCC communication network. Although we do not agree with all the proposals put forward in these papers it seems clear that there is a requirement for the industry to understand what is the most pragmatic, robust and cost effective solution for communication between parties to support the competitive market.

The existing Electricity Distribution Licence Condition 37 delivers the solution to this issue for the existing electricity market. However going forward in a dual fuel smart meter world it is not clear that this obligation and service is best placed and delivered by electricity distributors.

We would like to see the existing Licence Condition 37 removed from electricity distributors and a corresponding obligation placed upon the DCC.

The DCC should be tasked with determining what the communication solution for the industry should be in the future. Inheriting the existing DTN arrangements would require DCC to assess the future of this service. By following its contracting and procurement policies stakeholders should be reassured of the process that will be followed. Governance of the service provided by DCC communication network should form part of the SEC to ensure all stakeholders are involved with and have visibility of the service levels that it is expected to perform. Existing governance for the DTN and for xoserve's IX Link network should also be migrated in due course to the service provided by the DCC.

Gas Supply Condition 2 – Interpretation of standard conditions

We Agree with the proposed amendments

Gas Supply Condition 26 – Condition 26 Services for specific Domestic Customer groups

It isn't clear at this point what services the DCC may be involved with regarding vulnerable consumers. We would therefore suggest that the amendments proposed to this Licence condition is not taken forward and that instead obligations upon Suppliers are taken forward via the development of the SEC. This would still ensure compliance by Suppliers with any proposed obligation but allows for a more flexible evolution as the true nature of the required services becomes clearer.

Gas Shipper Condition 11 – Supply and Return of, and information etc relating to gas meters

It isn't clear at this point that this condition needs to be amended or whether there is simply a requirement to include within the SEC obligations upon Suppliers and potentially DCC about the

timely update of information. It is likely that amendments may also be needed to SPAA to reference the DCC to help facilitate operational requirements for all stakeholders.

Q8. Are there any other consequential licence changes that you consider might be necessary as a result of the creation of the new licensable activity?

9. As stated above we believe that the removal of Electricity Distribution Licence Condition 37 is needed immediately to help facilitate the debate and delivery of the communication network for the DCC and to provide clarity over the future role of the existing electricity Data Transfer Network (DTN) service.
10. We are concerned that Independent Gas Transporters (IGT) appear not to be engaging actively with the DECC smart metering programme.
11. Information from their registration service systems will be crucial for the DCC to perform its Access Control functions and to ensure that smart meters can therefore be operated at customer's premises.
12. We therefore believe that DECC should consider amendments to Gas Transporter Standard Licence Condition 31, Supply Point Information Service, to ensure that the IGT provide robust information to the DCC and allow it to perform its services from the outset.

Q9. Please provide any comments on the proposed approach in relation to geographic scope of the DCC licence and provisions relating to its duration.

13. Limiting the geographic scope of the Prohibition Order to Great Britain is sensible and aligns the DCC Licence with the other relevant electricity and gas licences and the remit of Ofgem. Conceptually the potential WAN services of the DCC may stretch beyond the geographic scope of Great Britain (e.g. the Isle of Man). We do not believe that this is an issue as these may be considered to be 'value-added services' as recognised in the proposed DCC licence and would therefore be allowed to evolve over time if felt to be beneficial to customers by stakeholders and Ofgem.

DCC Licence Conditions

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

14. Broadly we support the proposed objectives for the DCC to be included within its licence as suggested by DECC.
15. We are not convinced that the DCC needs to have a specific obligation to have due regard for the environment. This obligation is more appropriate for licence network providers than to the DCC.
16. The objective of this obligation could be better facilitated via specific requirements within the SEC (e.g. data centres for the data services being provided to specific environmental standards). As proposed a broad environmental objective may lead to distracting debate and uncertainty with regards to the timing of the initial service provision and ongoing amendment of these services.
17. We believe that the proposed objectives for the DCC to discharge efficiently its obligations under the licence and for it to develop, maintain and operate an efficient, coordinated and economical data and communication system are sufficient to ensure that it meets any environmental obligations.
18. It may also be including an objective to maintain continuity of services during transfer of service providers and to its own successor and to ensure robustness of end to end service provision in light of the testing and trialling requirements.

Q11. Do you think it is necessary to include any statutory duties on DCC in the Gas and Electricity Acts or is it appropriate to address these issues in the DCC licence alone? Please provide the rational for your views.

19. We support the logic which suggests that as the DCC will have one set of Licence Conditions that it would be easy to specify objectives here rather than attempting to modify or draft a new set of statutory duties in Electricity and Gas Acts.
20. There are no practical effects on the way services are provided by the DCC of having either statutory duties upon the DCC in the Electricity and Gas Acts or having a set of obligations within the DCC Licence.

21. It would seem pragmatic to keep these obligations/objectives within the DCC licence as there is potential for the scope of services offered by the DCC to change considerably compared to other industry participants such as electricity and gas network providers or suppliers. The DCC licence would be easier to amend and change to meet any evolution of DCC services compared to the Electricity and Gas Acts.

Q12. Do you agree that any obligation to facilitate competition in the area of distribution should be considered as part of the implementation of any future smart grids related arrangements?

22. Yes, the requirements of Smart Grids are not yet fully understood and it isn't clear whether it will lead to competition in the area of electricity distribution. Therefore an obligation regarding this is inappropriate at this time.

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

23. Yes, the objectives proposed should ensure consumer interests are protected when the DCC undertakes its activities.
24. Also most changes to the services that are provided by the DCC would need the consent of the Authority (e.g. Value-Added Services, amendments to the services provided to DCC Users via the SEC etc) and therefore Ofgem via its statutory duties would consider the interests of consumers as part of its decision making process.

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

25. No, the DCC should have an objective to "promote and facilitate competition in energy efficiency services" rather than for it to "promote energy efficiency" as this implies that it directly provides services to customers. The energy efficiency service providers will deliver the services to customers whilst the DCC will help facilitate what they provide via its services to smart meters.

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?

26. Yes, experience from the existing industry Codes suggests that they evolve significantly overtime as a reaction to the evolution of the energy market. It would therefore be sensible to ensure that the SEC was able to similarly evolve and drafting the relevant DCC licence conditions in a permissive manner should ensure this.

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

27. The primary function of industry code objectives are to help with their development and evolution over time. Proposed objectives for the SEC should be measured against this requirement and those suggested in the consultation seem acceptable.
28. There would seem to be no mention of an applicable objective in relation to the functioning of network businesses. As stakeholders and signatories to the SEC this would seem to be an oversight as future developments that may be purely in their interests would potentially fail to meet any relevant objectives.

Q17. Do you agree that the SEC should be designed to take into account consumers' interests by meeting its applicable objectives, rather than having a explicit objective related to the protection of the interests of consumers?

29. Yes, this approach would be consistent with the other industry codes. Consumer interests should be delivered by the competitive supply and energy services market and not be a relevant objective of the SEC.

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

30. Yes, it would be appropriate to have a holistic objective with regard to the facilitation of the delivery of an efficient network otherwise changes proposed to SEC to deliver these types of outcome may fail to satisfy any relevant objective.

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

31. No, the suggested objective of facilitating competition in energy efficiency is sufficient. It should be for the SEC to provide the framework for the market to operate and for service providers to deliver the market to consumers.

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

- 32. Partially, we agree with the definition of Core Services. Elective Services appear in the definition to be somewhat confused and their practical application uncertain.
- 33. The DCC will by its virtue be a monopoly service provider to domestic smart meters. It will have a set of objectives within its licence and within the SEC to facilitate the energy supply and energy services markets.
- 34. It will therefore be obliged to give clarity to all users of any elective services that it offers to users in case these may impact the market or consumers. It will not be possible therefore for it to have 'secret' commercial bi-lateral arrangements with specific users.
- 35. The details of Elective Services will need to be published within the SEC, perhaps a specific schedule, together with an explanation of their costs. Following this logic the Elective Services would appear to more akin to Core Services but with the discretion of users of the DCC services as to when they use and pay for them. This may present issues and difficulties in gaining agreement between users and the DCC regarding Elective Services and will rely upon a very robust and clear charging methodology.
- 36. Value-Added Services seem logical but the definition should only relate to energy metering systems that are located at the boundary of licenced networks and that have associated MPAN and MPRN references in the appropriate industry registration systems. The provision of services to other energy supply metering systems (i.e. those on private networks) are potentially possible via the DCC and should be considered a Value-Added Service.

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

- 37. The DCC could provide services to non-technically compliant smart metering systems but only where they would comply with the security and privacy requirements defined within the SEC.
- 38. A suitable accreditation and assurance regime would need to be established by the DCC to ensure that these criteria were met and consumers and DCC users with compliant metering systems were protected.

Q22. In relation to which non-compliant metering systems associated with energy supply at consumer premises should DCC be permitted to offer services?

- 39. A Core Service for the DCC will be the provision of services to compliant smart metering systems at the boundary of licensed network services.
- 40. The provision of Value-Added services by the DCC could be afforded to non-network boundary energy supply metering. This could involve customer own sub-metering or metering on private networks.
- 41. The meters in question would have to comply with security requirements of the DCC and go through any proposed accreditation and assurance regime. By making these Value-Added services the DCC would need to apply for the approval of Ofgem before it could provide any services.

Q23. What information should be made available to all users about:

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

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

- 42. Information regarding both Elective and Value Added Services should be made available to all users of the DCC services via the SEC governance arrangements.
- 43. For Elective Services full transparency of the services will be required for all DCC users and stakeholders to understand the impact upon themselves, the market and the DCC service provision.
- 44. For Value Added Services sufficient information should be provided for DCC users to understand the impact to them and the services they receive from the DCC. Whether the DCC is obliged to make commercial terms and conditions for Value Added Services publicly available will depend upon what type of services it is offering.

45. As the DCC will have a monopoly on the provision of certain services in Great Britain it would seem likely that it may be required to make public the commercial terms of the services that it offers in some circumstances.

Q24. 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?

46. For Elective Services the terms and conditions for DCC services should be set out in the SEC.
47. The detailed terms and conditions for Value Added Services would not be set out in the SEC but would be within whatever commercial or regulatory framework was applied to the provision of these DCC services to the appropriate users.
48. It is our expectation that Ofgem would not grant the DCC request for the provision of Value Added Services unless they included reassurance that they did not undermine the core DCC service provision, security requirements and made clear what the impact to the SEC charging methodology would be.

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).

49. Elective Services are described as communication services related to smart metering systems. It is not clear as to why this definition only includes communication services and would not apply to all services that the DCC will provide (e.g. data services). We believe that it should apply to all DCC services.

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?

50. Yes, the suggested principles seem pragmatic. The purpose of the DCC is to procure and deliver services for the benefit of the industry. External procurement of services should assure stakeholders of the robust decision making process for choosing service providers.
51. There is however cost and time involved with the external procurement of service providers and therefore there is a judgement to be reached as to when it is pragmatic to insist that the

DCC externally procure its service providers and when it may be more efficient for it to provide the services itself.

52. As a principle it is therefore sensible at the outset to describe the key, core functions, of WAN and data services that the DCC should not be able to provide itself and is required to procure externally. A set of high level principles will then provide guidance to the DCC, Ofgem and DCC users with regards to how future potential activities will be delivered.
53. The attractiveness of the DCC function to potential bidders of the service should also be a consideration. Functions outside of the key communication and data services should be considered to see how logically compatible they are with the DCC contract management model and whether including them from the outset in the services that are provided directly by the DCC enhances the number and quality of potential bidders.

Q27. Do you agree with the procurement objectives for DCC identified above?

54. Yes, these objectives must however be balanced with providing efficient and economic data and communications services. It is particularly important during the early stages of DCC service provision that there should be focus on delivery and that competition could progressively be introduced as processes and activities become more established.

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

55. Yes, this would be valuable. The development and approval process could however be different for the initial award as DCC will have had less control over the procurement process than in subsequent activity it undertakes.
56. Production of the initial procurement and contract management approach should not be allowed to delay start up of the DCC. For the initial award it may be better to include the quality of a submitted approach as evaluation criteria in DCC procurement.

Q29. 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.

57. We would assume that the submission of the procurement and contract management approach will form part of the DCC award processes and therefore the initial document would be approved by the Secretary of State.
58. The DCC procurement and contract management approach documents should be included from the outset within the SEC.
59. This will allow the principles of good governance to apply to the documents. They will be easily accessible to all stakeholders and amendments can be suggested and evolve as stakeholders believe is appropriate.

Q30. Is the scope of the proposed prohibition on discrimination, which is limited to undue discrimination between uses or classes of users, adequate?

60. Yes, the unique position that the DCC will occupy could provide it with an unfair advantage should it be able to compete in certain markets (e.g. energy supply, ESCO etc) and therefore there is a need to prohibit its activity to an extent.

Q31. Are any specific provisions needed which require DCC not to discriminate between service providers? Or is it sufficient to rely on obligations on DCC to maintain and develop an economic system and, in the procurement of DCC services, to promote competition in the provision of such services?

61. The combination of the requirement for the DCC to;
- i. maintain and develop an economic system,
 - ii. to promote competition in its procurement of service providers and
 - iii. its required independence from its service providers;

removes the need for a specific requirement not to discriminate between service providers.

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?

62. Yes, DCC should act in an independent way and independence is important for services that cannot be self provided.

Q33. 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?

63. Limiting to a non-material stake (i.e. less than 20%) the amount of shareholding that a DCC Service provider should have within the DCC would seem appropriate. This is important in ensuring that stakeholders have confidence that the DCC is undertaking its functions in a robust manner. But also allows some flexibility with regards to the organisations that can bid for the DCC and ensures that as many service providers as possible bid for the activity.

Q34. 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?

64. Yes, this would ensure that no user would have an undue influence over the DCC operations and corporate strategy.

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

65. It is unlikely that any licensed supplier or network business would be both a DCC user and a DCC service provider although the case may not be true for potential ESCO users.
66. It may be considered of low risk to allow this as the DCC should be able to oversee and act to ensure issues are identified and resolved. However the accessibility of smart metering system data to some DCC service providers may lead to potential conflicts of interest with ESCO service providers.
67. It would therefore seem sensible to request similar constraints with regard to ownership between DCC service providers and DCC users.

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?

68. Use of confidential information for services outside the remit of its licence would be covered by existing legislation, such as the Competition Act and Data Protection Act. Activities that the DCC undertakes should be detailed within its licence and the SEC.
69. Value Added Services would by their nature be outside the SEC and the initial DCC licence. How and where the governance for these services will be defined is not entirely clear at this

stage and it's probably best to allow this to evolve once it becomes clearer as to what these services may be.

- 70. Including the scope of these services within the DCC licence does seem a sensible idea as it would provide clarity for all stakeholders in DCC services.
- 71. The DCC should be obliged to impose contractual restrictions on service providers' use of information. This will allay fears of users of services that the DCC service providers are potentially competing against them in the market and are potentially benefiting commercially from the information available to them.

Q37. 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?

- 72. Protection of services for DCC users is paramount to ensuring that smart metering services are maintained. Whether a requirement for financial ring fencing in the DCC licence achieves this isn't clear at this stage.
- 73. The DCC will potentially not own many assets itself and therefore this requirement would seem unnecessary. However its service providers may do, owning communication modules and potentially a new WAN infrastructure.
- 74. It would therefore seem pertinent to include such a provision at the outset and consider its removal if it presents a significant barrier to the procurement of the DCC.

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?

- 75. Yes, the DCC will be a very different organisation to utility network businesses where financial security provisions currently apply. The suggestions for financial security within the consultation seem suitable but we would suggest that DECC use the procurement process to understand from potential service providers if any of these are potentially problematic.

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?

76. Yes, the failure of the DCC rather than one of its service providers will require the industry to appoint a replacement as soon as is practicable. Therefore it would seem sensible that this requirement is reflected in the level of financial security required from the DCC.

Q40. Are there any other conditions that you consider should be imposed in DCC's licence to ensure its continued financial viability?

77. No, the suggestions for ensuring financial viability seem comprehensive.

Q41. Would it be appropriate for a special administration scheme to apply to DCC?

78. Yes, a speedy resolution to any financial failure would be critical in ensuring that services to smart meters are not interrupted and a special administration scheme should help deliver this.

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?

79. Yes, this would help ensure that services to smart meters continue following an unforeseen event.
80. DCC provides critical services so it is important that there are robust business continuity plans in place for its service providers which DCC should ensure are tested regularly as part of contract management best practice. This should form part of the procurement and contract management approach.

Q43. 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.

81. The provision of WAN services would seem to be potentially the greatest risk for the DCC and for users of its services. It would perhaps be appropriate to consider requiring stronger controls for this service provider from financial failure. This could include a requirement for financial ring fencing of WAN smart metering services if appropriate.

- 82. The DCC needs to have in place contingency arrangements for failure of a service provider. This could involve transfer of critical assets and intellectual property on failure and step in rights.
- 83. The proposals seem complicated. Perhaps experiences can be taken from similar arrangements in other industries, for example rail.
- 84. Within rail Franchise Agreements there is an opportunity for the government to "step in" in instances where, for whatever reason, a Train Operating Company defaults on the terms of its franchise.
- 85. The right of step in allows Government to take whatever action is appropriate in the particular circumstance without prescribing what and when if an urgent replacement to the current provider is required (e.g. a company goes into administration or repeatedly performs badly).
- 86. Arrangements could be applied to the DCC with the Authority having ability to "step in" and take appropriate action. Given that the services provided by DCC will form part of the critical national infrastructure for Great Britain and will be crucial to the successful functions of the retail energy markets, such arrangements may be appropriate.

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

- 87. Yes, this would seem a reasonable timescale and be consistent with the potential timescales for subsequent procurement of DCC service providers.
- 88. It would be helpful for DCC to be in place for an adequate period to provide consistency and stability at least for the initial smart metering roll out period. This should however be subject to satisfactory performance. Ten years seems a reasonable period.

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?

- 89. Yes, allowing an additional 5 year extension would allow flexibility in maintaining the initial DCC to carry out any subsequent DCC service provider contract extension or re-procurement.
- 90. This could take into account the advantages of DCC maintaining contract management responsibility for the services it has directly acquired.