



Smart Metering Implementation Programme  
DCC Licensing Team  
3 Whitehall Place  
London  
SW1A 2AW

SSE



24 November 2011



***A consultation on the detailed policy design of the regulatory and commercial framework for DCC (September 2011)***

Thank you for providing SSE and SGN with the opportunity to comment on the proposals set out in the above consultation. We welcome the continuing engagement with the Smart Metering Implementation Programme. I have set out our response to each of the questions in the attached appendix.

SSE are concerned that there is still no firm commitment by DECC that the planned GB smart metering system will include any network operator requirements aimed at supporting the future operation of smart grids. Over the past two years we have worked with all UK network operators and the Energy Networks Association (ENA) to develop an understanding of the smart metering system technical and WAN requirements that are needed to support the development of smart grids. Representatives from the ENA and individual network operators have fully engaged with the programme in order to ensure that smart grid requirements have not been overlooked, it is important that network requirements detailed in the IDTS progress into the SMETS and that appropriate WAN connectivity is specified in order to ensure that the smart metering system becomes a foundation for the creation of smart grids in the UK.

Further information regarding the work that has been concluded can be found on the ENA website<sup>1</sup>. Significant documents include smart metering system use cases, benefits of advanced smart metering for demand response based control of distribution networks and high level cost benefit analysis.

<sup>1</sup> <http://2010.energynetworks.org/smart-meters/>



Please call me if you have any questions

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## Appendix A

### **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.**

SSE is in agreement with the approach being proposed by DECC in attempting to base the prohibition upon contracting with all licensed suppliers in respect of all domestic smart meters. It would appear sensible to ensure the prohibition order is consistent with those currently within the Electricity and Gas Acts.

However, the prohibition should take account of the fact that not all smart metering systems will be connected to the DCC due to coverage restrictions.

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

No, by ensuring the DCC can contract with *all* licensed gas and electricity suppliers to communicate with *every* smart meter, this should preclude any other body from being captured by this definition. Subject to our concerns raised within our response to question one.

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

As the prohibition order is only proposing to cover activity between licensed suppliers and the smart metering equipment, DECC need to consider how this will affect upon Registration when the DCC undertakes this function in the future. As it's currently Shippers who are signatories to the UNC to cover each suppliers Registration activity the prohibition order should take account of this.

**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.**

DECC should also consider modifying the Electricity and Gas Act in order to allow the Authority to determine 'overall standards of performance' reporting for the DCC.

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

Yes, SSE agrees with the proposal to introduce a single document with a single set of licence condition.

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

Yes, as DECC has stated, the difference between standard and 'special' conditions in this scenario would be immaterial. We would, however request that Government consults with key stakeholders during the drafting of these special conditions.

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

SSE does not agree with the proposed amendments in relation to consumer protection. SSE considers that conditions currently in place are sufficient to ensure that customers are notified of any interruption to their supply. The ability of DCC to access the customer's meter should not prove detrimental to this.

The consultation also notes that 'the DCC licensee may in some way be able to interrupt supply'. However, SSE considers that the DCC should only disconnect a customer upon specific instructions from their supplier. Also, if the communications hub was subject to a failure the customer's supply would not be interrupted and should continue despite the loss of 'smart' functionality.

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

SSE believes that DECC should consider the implication of the obligations on network providers to provide data transfer services and how these might be affected as a result of the DCC potentially providing these services.

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

SSE agrees with the proposed approach.

**Chapter 3: DCC licence conditions**

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

SSE agrees with the proposed general objectives of the DCC.

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

SSE is of the opinion that these statutory duties should be included within the Gas and Electricity Acts. This would set the framework upon which DCC should be established and is consistent with similar licensee activities such as transmission and distribution.

**12. 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?**

SSE is unable to foresee the benefit of including an obligation to facilitate competition in the area of distribution particularly related to the implementation of smart grids. Until industry gains a better understanding of how smart metering will assist in facilitating future smart grids DCC shouldn't be obliged to facilitate competition.

Whilst there is a conceptual view on how distribution networks will be operated in the future there is little experience of such operation at a significant scale.

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

Yes, as DCC has no direct relationship with consumers it should not be an explicit objective of the DCC. However, DCC should give due consideration to the impact of consumers when fulfilling its licensed role.

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

SSE does not believe it appropriate for there to be an objective for the DCC to promote (or facilitate) energy efficiency. As the DCC has no customer facing element to its business, nor does it carry out any activity other than delivering services to industry parties, it is difficult to envisage how the DCC could deliver against such an objective.

Also, SSE believes other databases are currently available to promote or facilitate energy efficiency, for example, the Home Energy Efficiency Database (HEED). In order for the DCC to promote energy efficiency it would need to capture information from the Green Deal assessment which would inevitably add to complexity and cost.

**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?**

Yes, this will allow the SEC to develop to take account of the challenges that will be faced during the mandated mass rollout of smart metering. However, by adopting this approach DECC will need to ensure a rigorous modification process is introduced to determine whether any proposals will better deliver the SEC objectives.

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

Yes, as the SEC has no direct relationship with consumers it should not be an explicit objective of the SEC. However, it should give due consideration to the impact of consumers when fulfilling its role.

**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, as the SEC has no direct relationship with consumers it should not be an explicit objective of the SEC. However, it should give due consideration to the impact of consumers when fulfilling its role.

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

Yes, SSE agrees there should be a SEC objective to promote or facilitate the efficiency of energy networks. Energy networks are currently obliged to operate in an

efficient manner but it is recognised that the operation of energy networks is likely to change as network loading increases due to customers adopting new technology such as electric vehicles, heat pumps and microgeneration. Data from smart metering systems could enable energy networks to further promote the efficiency of networks via the SEC. Although, this may be difficult to achieve until more is understood about how networks will operate in the future.

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

Yes, however SSE believes that the SEC should only have an objective to facilitating energy efficiency as the SEC can have no direct impact on the promotion of such services.

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

Yes, SSE agrees with the proposed definitions.

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

SSE considers it vital that any metering systems connected to the DCC system must be fully compliant with the detailed security arrangements as applicable to compliant smart meters. Allowing meters to interact with the DCC that are not fully compliant with the security requirements will bring a risk of breaches and endanger the entire reputation of the programme.

Only those advanced meters that fully comply with the detailed security arrangements as applicable to compliant meter should be considered for the offer of services.

Where the DCC determine and SEC panel receive confirmation that any advanced meters that fail to meet the above test would be connected in a way that effectively and demonstrably segregates their data and communications paths and has an acceptable security approach, then an offer of service could be made.

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

Please see our response to Q21.

**23. 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 DCC be**

**required to make available the detailed commercial terms and conditions of such services?**

SSE considers it to be beneficial to all users to increase the usage of DCC services to spread DCC's and its Service Provider's fixed costs over a greater number of transactions thereby reducing the cost of individual service usage.

This advantage must be balanced against the risk of stifling innovation, as DECC has alluded to in the consultation document. We consider that the party that bears the cost of developing the additional service should determine what information is made available to attract other users. Where the party does not wish to disclose any details then they would not receive any subsequent benefit in refunding part of their development costs.

In the event that another party requests a similar service, the DCC should make the original applicant aware such that they may reconsider their position not to disclose any details.

Where elective or value added services are made available to energy networks, given the regulated nature of their business, it may be appropriate for all other energy network companies to made aware of the full extent of services provided.

**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?**

SSE believes that the party bearing the majority of the cost developing the additional service should determine what information is made available to attract other users as follows:

- where that party wishes to attract other users the detailed terms and conditions should be set out in the SEC; or
- where that party does not wish to disclose any details then the detailed terms and conditions would be subject to a bilateral agreement with the DCC. However, in the event that another party requests effectively the same service, the DCC should make the original applicant aware such that they may reconsider their position.

**25. 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).**

With regard to prepayment, SSE is concerned that the Point of Sales issues linked to the DCC production of the Unique Transaction Reference Number (UTRN) has not been fully explored. In order to ensure the experience of 'topping-up' a customer's prepayment meter remains as is currently in place today this must be given top priority to ensure this is the case.

There is currently no process in place for managing errors at the point of sale. These can occur in a number of different scenarios such as terminal operator enters the

incorrect sum of money or the customer decides to change their mind after the operative has issued the payment.

Also, there are a number of different scenarios where a transaction will be rejected at the Point of Sale, for example the supplier may reject customer's transaction as it may not be registered to the correct supplier or meter. As this information will be held by the DCC in future who will pay for these rejections. This will also impact on customer service and processes need to be developed to manage this scenario to ensure the customer experience is consistent and appropriate information is provided.

**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?**

Yes, SSE agrees that the DCC should be required to externally procure a specific set of pre-specified services, specifically those services where competition will be perceived to offer better value. The principles that determine what other services the DCC should procure externally should be clear and describe the expectations on the DCC in terms of the intrinsic need to achieve best value.

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

SSE believes the objectives need to be clearer and more specifically describe the expectation on the DCC in this area. The fundamental objective of DCC procurement should be to, *'Deliver an effective and efficient common DCC approach to strategic sourcing, supply chain management, supplier and contract management to enable DCC to meet the expectations placed upon it through its licence'*.

In achieving this objective the DCC might be expected to (a) deliver a common, corporate approach to strategic sourcing, contract management and supplier relationship management; (b) develop strong relations with other functional groups of the DCC and the DCC user/customer base; (c) support the organisational objectives and ensure compliance with relevant policy; (d) drive value and efficiencies for the DCC stakeholders.

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

Yes, the procurement strategy of the DCC should be well documented in a transparent manner for all stakeholders to review the DCC's approach to procurement and contract management.

**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.**

SSE believes that the procurement and contract management approach document should be submitted to the Authority for approval. Given that the services the DCC procures and how it manages its contracts and service providers underpins the DCC's ability to provide services to its customers.

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

Yes, SSE agrees with the proposed scope.

**31. 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?**

Yes, it is not sufficient to rely upon an obligation on the DCC to maintain and develop an economic system, and in the procurement of DCC services, to promote competition on the provision of such services as this would appear subjective and difficult to challenge effectively.

DECC should consider provisions that would require the DCC not to discriminate either directly or indirectly in their procurement processes against services providers or potential service providers. DCC should not to act in any way which would make it more difficult for one service provider to apply or be considered over another potential service provider, whether on the grounds of their relationship with the DCC or lack thereof, their position as a 'favoured service provider, their country of origin, company size or other criteria which, by its nature would preclude a service provider from applying to be considered to provide services.

Additionally, the provisions should address (beyond discrimination) the need for, and underpin a requirement on the DCC to ensure, transparency, fairness, equal treatment and accountability.

**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?**

A de minimus affiliation will be difficult to avoid and SSE believes it would be sensible of DECC to accept a position that there is always the likelihood of an affiliation, however remote, between the DCC and the market, whether as a customer, supplier or otherwise.

However, the DCC should, if it is to be truly independent, be transparent, auditable, fair and accountable for itself. In doing so, it should be wholly independent of service providers appointed to provide services to the DCC. The need for independence of service provide should be included as a provision of the DCC's licence. An applicant to become DCC should set out, as part of its applications, how it intends to address any intercompany and affiliations considerations through business separation conditions as is currently the case between energy supply and energy networks.

This should not preclude the applicant from being appointed as DCC and should not necessarily prevent that applicant, as DCC, from appointing service providers that it has an affiliation with or even prevent the procuring or services of, as a service provider, its principle, provided in all cases, such procurement is in line with the procurement objectives of the DCC and meets with the expectations of the DCC in

terms of non-discrimination, transparency, fairness, equal treatment and accountability.

**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?**

In order for any individual service provider not to have an undue influence over the DCC it should not contain any more than a 20% shareholding in the DCC. This would help ensure that a service provider is not able to exert undue influence over the DCC. Also, this would not preclude many businesses from applying to become a DCC service provider.

Where a potential applicant does have a shareholding in the DCC, it should state within its application how it would ensure complete business separation between the company as a service provider and a shareholder in DCC.

**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?**

Yes, as we have stated in our response to Q33, no business within the competitive market should be able to exert an undue influence over DCC. Where a business within the competitive market does have a shareholding in the DCC, this company should be subject to similar business separation rules as is currently in place between network and supply companies that are owned by the same parent company.

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

No, in order to ensure the DCC users are independent from service providers, a business separation requirement must be introduced. Failure to do so, will inevitably result in a service provider (who could potentially be an affiliate of a user of DCC competing within a competitive market) having an unfair advantage over its competitors.

**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, otherwise it will not ensure a level playing field between those competing in the competitive market.

**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?**

Notwithstanding our concerns about the recent changes proposed by Ofgem, SSE agrees that the financial ring fencing provisions on the DCC should mirror the

prevailing conditions applied to network operators. We agree with the proposed scope contained within paragraph 3.149.

If DECC decide to include those proposed by Ofgem within its recent consultation stakeholders should be given appropriate opportunity upon which to comment on these proposals separately.

**38. 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, given that the DCC will be a relatively 'thin' company it should be provided with the flexibility to offer alternative approaches to financial security for the approval of the Authority. In such case, we would expect there to be a demonstration of how the alternative arrangements provide an equivalent level of security.

**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?**

SSE agrees with the approach being proposed where early licence revocation is a direct result of the current DCC's continuing failure to meet agreed service standards. However, we strongly believe that the DCC licence should include within it strong incentives to improve performance; hence avoiding the need for revocation.

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

No, the proposed conditions proposed by DECC would seem sufficient.

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

Yes, given the serious implications for smart metering should the DCC fail SSE would agree with an appropriate special administration scheme being introduced.

**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, in order for DCC to ensure continuity of service it should monitor its service providers closely as they are key to the success of DCC. However, this is a matter for the DCC and the financial ring fence provisions as proposed, and in particular the Availability of Resources statement, are sufficient regulation in this area.

**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.**

This is a matter for the DCC, and we believe that the financial ring fence provisions as proposed will ensure the DCC puts in place the necessary protections.

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

Yes, SSE agrees it is appropriate to grant the initial DCC licence for a ten year period. However, the provision of some communications technologies may require significant capital investment which will potentially require a pay back period in excess of ten years. Limiting the duration of service provider contracts may impact upon the availability of communications solutions available. Therefore, the DCC licence should not affect the duration of service provider contracts.

**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?**

Unless it can be determined that there is better value to be achieved from extending the initial DCC licence by five years, SSE does not agree. A fixed term agreement would be preferable, in order to allow all external stakeholders to plan for a re-tender and potential change of DCC. A fixed term provides certainty to stakeholders and the DCC allowing the service provider contracts to be mindful of specific conditions related to the need to transfer and to allow the DCC to agree service provider contracts without risk that those contracts will co-terminate.

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

No, SSE is unable to foresee a situation where the DCC, which has yet to be appointed, will have the capacity to determine its costs at application with sufficient certainty to be able to rely upon in the event of any option to extend them. The reliance on such costs as part of an evaluation of each applicant's offer to become DCC has the potential to be misleading and may, in the absence of certainty, result in the appointment of an applicant who, mindful of the full term and realisation 'actual' costs, does not offer the best value. If an option to extend the DCC licence is required the extension must be on similar terms and with the same allowable revenue as the expiring term in order to allow for any demonstrable changes (whether an increase or decrease) in cost as a result of that extension.

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

SSE agrees that DCC should be required to ensure that any critical services can be transferred to a successor. It is vital to ensure that all critical services are procured with contract terms that ensure a smooth transition to a successor DCC in order to reduce any impact on stakeholders and the competitive energy market.

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

SSE is satisfied with the proposed list of matters contained within paragraph 3.167 of the consultation document however this should be continually revisited as the scope of DCC's responsibilities are more fully determined.

However, as an alternative, the determination of an exhaustive list of matters is likely to be complex, the Authority might consider specifying a general condition to transfer all of the necessary rights, obligations and liabilities sufficient to enable to the successful continuation of the DCC's responsibilities by an incoming applicant.

**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?**

SSE strongly agrees that DCC's licence should be capable of being revoked in the event of a repeated or material failure to meet service levels. However, this should only be considered as part of a wider range of remedies. The process of revocation will need to be mindful of the challenges associated with replacing the DCC with any degree of urgency.

**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?**

We agree with the pragmatic approach being proposed by DECC.

**51. Do you agree that DCC should have a high-level obligation, albeit initially "switched off", relating to the provision of meter point/supplier registration services?**

Yes, however this licence condition should not be given a target date in which to come into force. SSE would recommend that the licence condition is given a specific date in which to come into force when market participants consider the DCC is capable of undertaking this function. It is inevitable that the DCC will encounter unforeseen challenges that will require rectifying. Therefore, it would seem prudent to allow the DCC sufficient time in which to ensure the smart metering systems (prior to registration being introduced) it is required to provide initially are fully embedded prior to introducing additional requirements.

**52. Do you agree that conditions should be introduced in other licences providing the ability to release other licensees from the requirement to provide meter point/supplier registration services at some point in the future?**

Yes, as the network operators are currently obliged to provide this service, SSE would agree these obligations should be lifted as the registration service moves to DCC.

**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, SSE considers that 'transfer' is not the correct language to be used in such an obligation. Networks will need to retain their own functionality in order to maintain an accurate record of all supply points connected to its network(s). Additionally, network operators will need to maintain control over the creation and disconnection of all

supply points. Overall, such duplication between network operators and the DCC will incur additional costs to the industry.

SSE would suggest that the DCC should be required to compensate network operators for any existing systems, services and intellectual property that it is required to provide to the DCC in order to facilitate supply point registration. Such a licence condition would only be acceptable if it included provisions for network operators to recover the efficient costs associated with such activities.

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

SSE agrees that there will need to be an appropriate dispute mechanism for disputes involving the DCC. It is likely that the majority of any disputes will be between the DCC and DCC users, and as such, many of these should be settled under the dispute arrangements within the SEC. The Authority need only be required to intervene where no resolution can be sought.

In terms of disputes between an outgoing and incoming DCC licensee, the Authority must be the determining body. It is wholly appropriate to include this within the DCC licence.

**55. Do you believe that DCC should be required to operate its business in a way that ensures it does not restrict, prevent or distort competition in gas shipping, the generation of electricity and participation in the operation of an interconnector?**

Yes, the DCC should be prevented from having a material impact on competition within any sector of the energy market.

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

Within Ofgem's recent 'Theft of gas'<sup>2</sup> consultation it was proposed that Ofgem could introduce a central body (the National Revenue Protection Service) to provide suppliers with suspected cases of theft that they would then be required to investigate. In order to ensure the success of such an operation, it would seem sensible to allow the National Revenue Protection Service access to DCC data where it suspects theft has occurred. An obligation could be placed on the DCC to facilitate such a request in order for the National Revenue Protection Service to generate accurate leads for suppliers to investigate.

**57. Are there any additional conditions that you would wish to see included?**

SSE does not have any additional conditions that we would like to see included.

**Chapter 4: Revenue requirements**

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<sup>2</sup> <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=70&refer=Markets/RetMktis/Compl/Theft>

**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, however the licence condition should detail upon which parameters the Secretary of State would consider it necessary to amend the DCC's licence.

**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?**

We do not consider that it is practicable for an applicant to provide costs at this stage for undertaking registration services.

DCC's licence should contain a general provision that allows for an 'Income Adjusting Event' (similar to those contained with the Transmission Licence) to recover costs that were not originally accounted for during an application for DCC licence. This would apply in relation to the DCC applicant underestimating the costs of providing any services and any circumstances where they have significantly underestimated their costs in providing services. This condition should include some form of a materiality threshold in which to begin the process. Any adjustment events would also need to be approved by Ofgem. The licence condition would need to protect against scenarios whereby the increase in costs is due to poor internal process by DCC rather than external market forces.

This should also allow for the scenario whereby Ofgem can reduce DCC's allowed revenue where DCC has overestimated the cost of its activities which will lead to it over-recovering from market participants. This would make the DCC licence more attractive to potential applicants if they are able to adjust their allowed revenue stream to ensure a consistent profit.

The above condition should not apply where the DCC has decided to provide 'value added services' as this is a competitive decision rather than the core services that DCC is obliged to provide.

**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?**

The proposed approach suggested in our response to question 59 would allow the DCC to recover costs for unplanned developments. This would provide greater certainty to any potential DCC about recovering costs efficiently incurred.

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

As SSE does not currently know what the DCC's allowed revenue will be it is difficult to determine what an appropriate materiality threshold for a revenue re-opener should be. However, at this stage 10% would seem appropriate.

SSE would also recommend that DCC's licence does not treat the adjusting events in isolation. This should be a cumulative figure in order for DCC (or another party) to propose an Income Adjusting Event.

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

Our proposed method within our response to question 59 would cover any scenario in which the DCC has been exposed to extra expenditure that was not allowed for in their revenue stream.

**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, SSE agrees with this proposed approach.

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

Yes, however as these suppliers are not mandated to use the services of DCC we suggest the proportion of costs should only apply upon their accession to the SEC.

**65. We welcome views from stakeholders in regards to charges on network operators for DCC internal costs pre-“go-live” and whether they should charge DCC for services provided to DCC.**

We do not support the charging of internal DCC costs to network operators prior to DCC go-live, since it is difficult to see a burden imposed, or a benefit derived, by network operators during this period. However, we support transparency and as such any service provision by network operators to DCC should be appropriately charged to its recipient.

SSE considers that if pre-go-live costs are charged to network operators it is unlikely that these will be recovered as the go-live date for DCC will incur during the current agreed price control period. As network operators will only benefit from smart metering after a reasonable density of smart metering equipment has been installed, which may not occur until after 2017, it is inappropriate to require network operators to cover pre-go-live costs occurring in 2014 or earlier.

For similar reasons, any network operator costs above those normally incurred, including services provided to the DCC as a result of obligations should be recoverable.

**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, DCC's likely communication service providers will be substantial (asset rich) companies who are familiar with the model where upfront investment is required and subsequently recovered from its users. We would therefore not expect to see any costs until communication service providers begin to provide services.