Rob Turner
Smart Metering Implementation Programme
Department of Energy and Climate Change

Promoting choice and value for
all gas and electricity customers

8 October 2012

Dear Rob,

Ofgem's response to DECC's consultation on the second version of the Smart Metering Equipment Technical Specifications

We welcome the opportunity to respond to DECC's consultation on the second version of the Smart Metering Equipment Technical Specifications (SMETS2). Ofgem regulates the gas and electricity markets in Great Britain. We have an important role in ensuring that the interests of consumers remain protected, both during the transition to smart metering and in the enduring framework. We will also play a key role in monitoring and, where appropriate, enforcing compliance with any new regulatory obligations relating to smart meters.

The development of SMETS2, and proposed future iterations, are key to ensuring that consumers' interests are protected and that the benefits of smart metering are maximised. In particular, SMETS2 is a significant step towards ensuring that there is technical interoperability for smart metering systems. Technical interoperability is critically important in helping to ensure that consumers can realise the benefits of their smart meters, for example by allowing them to switch supplier without the need to replace any of their smart metering equipment. This is essential for the smooth functioning of a competitive retail market.

We have not undertaken a technical review of the consultation or associated documents but have reviewed the policy discussion in the light of our statutory duties. We set out below our main observations on the consultation proposals.

Non-domestic consumers

It is important to consider the impact of smart metering and the associated regulatory framework on types of consumers as well as consumers as a whole. We are particularly keen to ensure that smaller non-domestic consumers are appropriately protected given that research undertaken as part of our Retail Market Review indicates smaller non-domestic consumers engage with energy markets in a similar way to domestic consumers.

A number of the consultation proposals differentiate between domestic, micro-business and other small business consumers. In addition, proposals may vary depending on whether a non-domestic consumer has their meter 'opted in' to the Data and Communications Company (DCC), ie whether the supplier opts to use the DCC to provide data and communications services. For example, it is proposed that where a non-domestic customer is 'opted out' of DCC, a compliant Communications Hub does not need to be provided. It is

also proposed that the operational licence condition will only apply to 'opted in' micro-business consumers. It is important that the implications of these proposals are fully understood and that decisions in this area do not impact on the ability of these consumers to switch between suppliers who choose to opt in or out of DCC.

We support the work that DECC is taking forward with industry through its Smart Metering Regulation Group 'Working Group 3 (non-domestic)' which considers the design and delivery of non-domestic regulation for smart metering. We would encourage DECC to undertake further detailed analysis of the collective impact of their policy decisions in relation to the non-domestic sector, both in terms of impacts on micro-business and other smaller non-domestic customers, and on the market more widely.

Ownership of the Communications Hub

The discussion in the consultation regarding the ownership of the Communications Hub sets out DECC's marginal preference for the Communications Hub to be owned by the Communications Service Providers (CSPs). We are keen to ensure that the full implications of the different options are considered and appropriate safeguards are built into the supporting contractual arrangements to ensure that consumers are not exposed to undue commercial or technical risks.

We consider that several issues need to be fully understood if the ownership of the Communications Hub sits with the CSPs. In particular, if the CSPs are to procure and own the Communications Hub, we would have concerns that they could leverage other commercial opportunities through their communications infrastructure at the expense of energy consumers. Accordingly we consider that the CSP-DCC contracts must expressly prohibit any rights of physical access to the device post-installation or any data held within the smart metering system (within the premise or across the wide area network). The regulatory framework in the draft DCC licence has been developed to protect against this risk. It is vital that the contractual framework supporting roles and responsibilities in relation to the Communications Hub complements the regulatory framework for DCC.

It is our understanding that there will not be a direct contractual relationship between the CSPs and suppliers: suppliers will enter into a contract with the DCC via the Smart Energy Code (SEC), and the DCC will enter into a contract with the CSPs. This arrangement must continue to be robust in the event that the supplier is installing and maintaining assets owned by the CSP. We would encourage DECC to undertake a thorough review of possible scenarios that may be encountered once compliant Communications Hubs start being deployed. Input from interested parties should be included in this review. Agreed roles and responsibilities could then be built into the relevant contracts and regulatory arrangements as appropriate to ensure clarity for all involved. This will help to ensure that disputes which could impact on consumers or efficiency of deployments are avoided.

Finally, we consider that there is a need for the regulatory and contractual framework to cater for the risk of early termination of the CSP contracts. We understand that DCC will have a right to terminate the CSP contracts for poor performance, amongst other things. It is therefore important to consider what additional risks would arise for consumers in this situation if the CSP also owns the Communications Hub. We would encourage DECC to explore ways of mitigating these risks, for example by ensuring that the Communications Hub could be transferred to a successor CSP (subject to technology compatibility) in certain circumstances without any adverse impacts on the consumer experience or the costs of Communications Hub provision.

Enduring security arrangements

Security of the smart metering system is critical for consumer protection. We therefore support the importance that DECC has placed on ensuring that the end-to-end system is

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE www.ofgem.gov.uk

secure. We also support DECC's development of certification and technical assurance of equipment for both security and interoperability.

We are keen to ensure that any role undertaken by Ofgem in respect of security is appropriate and in accordance with our Principal Objective and general statutory duties. In our view security arrangements for meters that are not enrolled in the DCC should also be set out within the SEC as soon as practicably possible, rather than via an enduring licence condition or alternative arrangements. This is to ensure that all consumers are protected by the robust certification and technical assurance arrangements which will sit within the SEC.

Home Area Network (HAN)

We expect SMETS2 requirements to provide certainty to both the supply chain and market participants. This should in turn facilitate medium and large scale deployments of smart meters that are fully compliant at installation and in use. We also support swift development of the appropriate technological solutions to facilitate manufacture and deployment of SMETS2 meters. This includes rapid development of prototype equipment that operates at 868 MHz using the selected Home Area Network (HAN) application layer to confirm findings from DECC's HAN propagation trial and technical assumptions.

We also support detailed technical and economic analysis of potential wired HAN options for difficult installations. This analysis will help to ensure that costs of the roll-out are efficient and that all consumers can benefit from smart meters.

Operational licence condition

Ofgem supports the objectives of an operational licence condition. We consider that it is appropriate to require suppliers to use the functionality smart meters provide to help ensure that the benefits of smart meters are afforded to all consumers. It is important that such obligations are clearly drafted. In particular, there must be clarity about the supplier's responsibilities for different elements of the smart metering system, and for other devices, such as consumer access devices (CADs), that may be attached to it. This is especially the case where SMETS1 meters have been installed. We look forward to discussing this with you further.

Devices connected to smart metering systems

We welcome the discussion of the options available to consumers in relation to accessing their data. Consumers must be able to access their smart meter data, and share it with authorised parties, in a straightforward and secure way if they choose to do so. This is key to ensuring that consumers can get the value from their smart meter data. In particular, the regulatory framework for Consumer Access Devices (CADs) needs to be designed to ensure that authorised third parties have equal access, rights and responsibilities to those of suppliers.

We also support the inclusion of a specification for the Prepayment Interface Device (PPMID) in SMETS2. This should help to ensure that all customers can be offered prepayment services through smart meters, and that all consumers can thereby realise the benefits of smart meters.

Outage detection and remote disablement by Distribution Network Operators (DNOs)

Ofgem welcomes DECC's proposals for the DCC to alert the relevant Distribution Network Operator (DNO) where a power outage has occurred in a customer premise and the power has not been restored within three minutes. We consider that this will provide benefits to consumers by improving the information available to DNOs regarding outages and potentially enabling earlier restoration of supply in some situations.

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE www. ofgem. gov. uk

The consultation proposes not to require outage reporting to DNOs in respect of smart meters that are not opted in to the DCC. We recognise the reasons for this decision and the difficulties of establishing a communications link between opted out meters and the DNOs. However, we consider that it is appropriate to keep this under review during the roll-out. For example, it may be appropriate to revisit this decision if significant numbers of meters continue to be operated outside of the DCC.

We recognise that there are some situations where DNOs being able to disconnect consumers could be in the interests of consumers. However, it is very important that there are strict safeguards around such disconnections to ensure that consumers are not disconnected unnecessarily.

We appreciate the constructive engagement with your team thus far and look forward to further such engagement in the coming months. If you would like to discuss this response in the meantime, please contact

Yours sincerely

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE www. ofgem. gov. uk