SCOTTISHPOWER

Smart Metering Implementation Programme – Regulation
Department of Energy & Climate Change
Orchard 3, Lower Ground Floor
1 Victoria Street
London
SW1H 0ET

3 December 2013

Dear Sir or Madam,

SMART METERING IMPLEMENTATION PROGRAMME - A CONSULTATION ON NEW SMART ENERGY CODE CONTENT (STAGE 2)

Thank you for the opportunity to respond to the above consultation.

Our views on the specific issues raised are set out in the annex to this letter. We would particularly highlight the following points:

- we think that Profile Class is the best data set to provide to the DCC to identify domestic and non-domestic meters and their numbers. To the extent that Profile records are inaccurate, the solution is to update them rather than create a separate and possibly differing data set;

- we believe the introduction of a "float" arrangement should obviate the need for Users to establish credit cover arrangements for comms hub finance charges. However we also believe a one month float should be sufficient rather than three months as proposed.

- we consider that provisions allowing funders direct access to Users in the event of non-payment by the CSPs or DCC may be inappropriate if the cause of the non-payment is a dispute over performance. Third party financiers should not be able to recover charges from Users' floats in these circumstances.

Should you wish to discuss any aspect of this response please do not hesitate to contact me c

Yours faithfully

SMART METERING IMPLEMENTATION PROGRAMME - A CONSULTATION ON NEW
SMART ENERGY CODE CONTENT (STAGE 2)
SCOTTISHPOWER RESPONSE

Q1 Do you agree with our proposed text for the SEC with respect to Technical Governance and Change Control? Please provide a rationale for your views.

Yes, we broadly agree that the legal text will give effect to the policy intent, as outlined in this and earlier consultation documents.

We believe it is important to achieve the correct balance in the membership of the Technical Sub-Committee (TSC), between industry representation and appropriate technical expertise Therefore, we would suggest an approach, where the TSC constituted of a core of appointed members from industry, together with some independent technical experts. Some of the experts could attend the committee on a case-by-case basis so that it could draw upon advice from the best technical experts available.

We would also prefer that the TSC be invited to consider all work group assessments of change proposals, rather than leave the determination of likely technical impact to the discretion of the work groups or the SECAS. Whilst this might be implied in the text, we think it should be explicitly stated that the TSC must make its own assessment of all changes.

Q2 Do you agree with our proposed text for the SEC with respect to Registration Data? Please provide a rationale for your views.

Yes, we agree that the proposed text appears to meet with the stated policy requirements. However, we are not convinced there is a need to operate separate Incident Management and Registration Incident Management policies.

Q3 The DCC currently uses profile class data as a proxy to estimate the number of non-domestic meter points registered to users. Should this be replaced with a new data item which accurately reflects non-domestic meter registration, or should the DCC continue to use profile calls as a proxy? If you think it should be replaced, should the DCC rely on Suppliers providing this information separately, or should a change be sought to electricity registration systems to collect this data? Please provide a rationale for your views.

We think that Profile Class is the best data set to provide to the DCC to identify domestic and non-domestic meters and their numbers. To the extent that Profile records are inaccurate, the solution is to update them through the existing mechanisms used to change the Profile Class on MPAS, rather than create a separate and possibly differing data set.

Q4 The SEC will include a requirement for RDPs to provide the DCC with a 'data refresh' on request, within a set number of days. Do you agree that it is sensible to measure in calendar days? If so, what is the impact of providing data refreshes to the DCC within two calendar days? If this has too significant an impact, what should the correct value be? Alternatively, do you believe it should be a set number of working days? If so, how long should this period be?

It will be important that the timescales set are reasonable and cost effective. We suspect that a "working day" timescale is more realistic as the teams likely to deal with non-routine requests are unlikely to be available on a 24/7 shift pattern.

Q5 Do you agree with our proposed text for the SEC with respect to the DCC User Gateway? Please provide a rationale for your views.

Yes. The proposed text appears reasonable in its current drafted form. However, there is still a dependency on the DCC User Gateway Code of Connection (DUGCoCo) and DCC User Gateway Interface Specification (DUGIS) being published. These documents will need to be subject to detailed review in order to fully understand the requirements and associated obligations that a DCC User will have to meet.

Engagement within the DCC Design Forum has provided us with a more detailed understanding of the types of connections that will be available to ScottishPower and we will look to validate our understanding further when the DUGCoCo and DUGIS are published for industry review in late November / early December 2013.

We note the possibility of DCC equipment being installed on individual DCC User sites. While we acknowledge this is subject to a final User Gateway Design being agreed, should this become the preferred option, the following points would need to be clarified:

- arrangements for the dispatch and implementation of equipment;
- how costs associated with the implementation and on-going monitoring/maintenance of equipment will be addressed;
- maintenance roles and responsibilities; and
- data centre accommodation and on-going access requirements.

All of which would require consultation with DCC Users prior to a final decision being made.

Q6 Do you agree with our proposed text for the SEC with respect to the DCC User Gateway Services and Service Request Processing? Please provide a rationale for your views.

In order to undertake a full assessment of the User Gateway Services and Service Request Processing it is necessary to have a complete baseline set of requirements - noting that additional PKI requirements will be set out in the subsequent SEC Stage 3 consultation.

We would also suggest further clarification of the SLAs associated with 'On Demand' and 'Future Dated' services. Our current understanding is that this measure is applicable from the point at which a Pre-Command leaves a DCC User's Gateway. Interactions between DSP and DCC User up to this point are subject to separate SLA measures/timings.

Q7 Do you agree with our proposed text for the SEC with respect to Parsing and Correlation? Please provide a rationale for your views.

Yes. The proposed text meets with our expectations of i) what the Parse and Correlate function will provide for DCC Users, and ii) the requirement placed on the DCC to procure an 'industry' solution with appropriate support arrangements. However, it is our understanding that the Parse and Correlate technical specification is still subject to review against the baseline GBCS before the DCC can initiate the procurement process.

While it is suggested that the costs of initial procurement can be absorbed, should this position change, any additional costs must be clearly articulated to DCC Users in terms of an additional DCC line item charge. This requirement should be reflected in the drafting of the text. We would also request that it is explicitly stated whether there are any licence charges at an individual DCC User level.

We would welcome further clarification regarding the level of independent assurance that the Parse and Correlate solution will be subject to prior to release to the industry. Any additional assurance that is required over and above normal third party product acceptance practices should be reflected in the text - and meet the expectation that acceptance criteria will be formally agreed with the Industry prior to the DCC commencing its procurement process.

Q8 Do you agree with our proposed text for the SEC with respect to Enrolment in the Smart Metering Inventory and other associated processes? Please provide a rationale for your views.

Yes. In principle we agree with the proposed text, however we would suggest that the stated categories may need to be expanded to reflect the potential scenario where there are some Registered Suppliers which have achieved DCC User compliance when mass rollout commences and some that have not - 'DCC User In / DCC User Out'. While this challenge is still subject to further discussion, and may be short-lived, we would highlight that further drafting may be required in this area to capture the status of smart metering systems where they are enrolled in the DCC but operated by a non-DCC User.

We would also wish to see it stated in future drafting that the CSP will notify all parties in advance of any comms hub firmware upgrade taking place, irrespective of whether the CSP believes there is no material impact to DCC Users. This requirement would ensure best practice change management is followed where all parties are able to review and if necessary respond to a published impact assessment within an agreed timeframe.

Q9 Do you agree with our proposed text for the SEC with respect to the Communications Hub: Intimate Physical Interface? Please provide a rationale for your views.

We would propose that the text includes reference to the ability to connect to an external antenna. Whilst an antenna is not specified, we have reason to believe that during rollout the reliance on external antennas will be found to be above the 1% currently forecast.

Q10 Do you agree with our proposed text for the SEC with respect to DCC Service Management? Please provide a rationale for your views.

Yes. In principle we agree the proposed text and welcome reference to the widely recognised best practice management standard ITIL.

With regard to the CSP's Schedule of Maintenance we believe that there should be allowance for stakeholder Impact Assessments irrespective of whether it has initially been deemed by the CSP that there is no material impact. The text should also accommodate unplanned firmware upgrades which should also be subject to stakeholder impact assessment. Given that unplanned firmware upgrades may be security related, any perceived issues would need to be communicated back to the DCC in a shorter timescale than responses to scheduled upgrades.

Q11 Do you agree with our proposed text for the SEC with respect to Incident Management? Please provide a rationale for your views.

While the proposed text sets out many of the key principles required in establishing a robust Incident Management regime, we would welcome further clarification in relation to the following points:

- how the DCC will determine whether a combination of individual DCC User incidents logged via the Self-Service Interface should equate to a national incident requiring an

escalated response, rather than the individual DCC Users continuing to determine their own individual resolutions; and

- how in practice Self-Service Interface access control will be managed and monitored – will the DCC take an equal level of responsibility or will this be devolved to individual DCC User access control measures?

We fully support the need for a Major Incident Plan to be drawn up with clearly defined roles and responsibilities and would suggest that reference is made to established standards such as ISO27035. It is imperative that a clear demarcation of responsibilities is established with agreed criteria which would invoke the Major Incident Plan rather than in the first instance logging an incident via the DCC User Portal. Likewise a mechanism by which incidents already logged by DCC Users are escalated needs to be considered.

We would also expect the text to be developed further to reflect the need for the Major Incident Plan to be exercised as part of on-going plan maintenance activities. The DCC in conjunction with DCC Users should be responsible for ensuring that the plan remains fit for purpose.

Q12 Do you agree with our proposed text for the SEC with respect to the Self-Service Interface? Please provide a rationale for your views.

Yes. In principle we agree with the proposed text, however we suggest additional clarification is required on how the Self-Service Interface will be tested and whether this is included within the DCC Interface testing phase.

We would request that the Self-Service Interface Code of Connection is issued for review as quickly as possible for technical design and planning purposes.

Q13 Do you agree with our proposed text for the SEC with respect to the DCC Service Desk? Please provide a rationale for your views.

Yes. In principle we agree with the proposed text, however we would propose that further detail is required on how the Service Desk will be monitored to ensure that individual DCC Users do not abuse its purpose by only undertaking the minimum of activities via the Self-Service Interface.

Q14 Do you agree with our proposed text for the SEC with respect to the Service Level Agreements for Testing? Please provide a rationale for your views.

Yes. In principle the text meets with our expectations.

We would propose that it is explicitly stated that any adjustment to detailed performance measures by the DCC or its Service Providers undergo appropriate review by the SEC Panel.

Q15 Does the inclusion of DCC aggregate performance measures in the SEC, and the consequential reduction in future service charges, appropriately balance the need for the DCC to manage its Service Providers flexibly with the need for DCC Service Users to have a say regarding performance targets? Please give reasons for your answer.

Acting as a contract manager, we expect the DCC to manage its service providers effectively to meet industry demand, within the bounds of the commercial contracts which are now in place. Given that DCC Users do not have a direct relationship with or influence on service providers, we expect the services and SLAs defined in the SEC to be managed appropriately by the DCC and that where service improvements can be achieved, these are directly reflected back to DCC Users.

Q16 Do you agree with our proposed text for the SEC with respect to Managing Demand? Please provide a rationale for your views

In principle we agree with the proposed text, however it should be ensured that security related firmware updates are excluded from the metrics proposed and this should be explicitly stated. This position is consistent with the view we expressed in earlier discussions with the Demand Management Work Stream. We have previously raised concerns that the number of security related firmware upgrades during initial rollout could potentially be very much higher than estimated by the Programme, and the need to apply these upgrades should be allowed for in relation to planned operational activities.

While, as stated, allocations have been made to Suppliers and Network Operators we would suggest that this should still be subject to review given that detailed design continues, which could result in additional service requests being required – especially in support of smart metering system installations and evolving security requirements.

Q17 Do you have any comments on the security obligations set out in Section G of the SEC drafting or the way they are expressed?

The text as currently drafted reflects our understanding of the security obligations as a future DCC User, while noting that there are still security requirements and associated policy which is subject to future consultation. However, when discussing the scope and definition of anomaly detection, during the Section G review held on 11 November, the clarification of DCC User obligations differed from that set out in the consultation document. We would request that DECC provides absolute clarity in this area, although we agree that the legal drafting, as it stands, meets with the requirements of the policy set out in the consultation document.

In the absence of any further assurance measures, it is our working assumption that demonstration of compliance to the final baseline security requirements will be required prior to entering the DCC Interface Testing phase. However, any additional requirements which reduce the timescales in which to design, build, test, implement and subsequently demonstrate compliance must be articulated as soon as possible.

Q18 Do you have any comments on the appropriateness and / or the proportionality of the security obligations in relation to particular types of DCC Service Users and their role?

The text as currently drafted aligns with our understanding of the ISO27001 security standard and acceptance of the level of security assurance DCC Users will be required to demonstrate.

During the SEC Section G page-turn on 11 November, DECC requested additional views on the following areas:

Definition of DCC User Systems

It is our interpretation of current DCC User requirements that the scope of DCC User Systems in the context of Section G relates to those systems which control (or have the potential to have a material effect on) the secure operation of the end to end smart metering architecture. As discussed on 11 November, we agree that the current text in Annex A could be redrafted to provide more clarity on this point, limiting the scope to 'security control systems and supporting processes which directly link to the DCC'. We believe the recent Supplier briefing setting out proposed obligations on the geographical location of DCC User systems adds further clarity.

ScottishPower has undertaken a detailed review of both DCC User security requirements and ISO27001 compliance measures. These activities have included engagement with independent

security specialists. We have determined a conceptual security solution architecture which we believe both aligns with the policy intent currently set out by DECC and achieves a tight ISMS scope reflecting best practice recommendations. The Smart Metering ISMS scope is limited to our security controls and supporting processes and does not extend to the 'back-office' systems and processes within our Retail operation - noting that appropriate and proportionate security measures are implemented across our retail operations.

We believe that logical separation of control systems in conjunction with robust access control measures provides proportionate risk mitigation and achieves the necessary balance between system performance and security.

Q19 Do you agree that the four additional provisions are proportionate responses to providing reliable and economic third party financing options for Communications Hubs?

While recognising that these proposals have the potential to deliver cost savings to the market, we would note that they are quite complex and present us with a variety of legal, commercial and technical challenges:

- We think the proposal to establish a float through initial overpayments should relieve the need for a 5-day turnaround for DCC invoices. The case presented by DECC to explain the need for a 5-day turnaround was based almost exclusively on ensuring that the DCC had access to the necessary funds to pay its creditors. However, if the DCC has access to an adequate float that would also meet that need. We think a float arrangement should also obviate the need for credit cover to apply to those charging elements associated with the communications hub. Having said that, we feel a three month float is excessive, and would suggest that a one month float should suffice for the purposes described. We would also expect to see appropriate treatment of any interest that might accrue from such a float in order to reduce the costs paid by suppliers.

- It appears to be a reasonable assumption that, by ring-fencing the funds and allowing Funders direct access to Users in the event of non-payment by the DCC or CSP, better financing rates might be achieved. However, it would also mean Users essentially standing surety for the CSPs and DCC, as well as themselves and we are not fully persuaded that this is desirable. For example, it is important to maintain accountability for non-performance of Comms Hubs service provision; accordingly users should not be required to pay Funders if the reason for non-payment is a dispute about service provision. Also, without sight of the financing documents between the CSP and such Funders, it would not be possible for us to check what will happen if, for example, the DCC pays the monies owed to the CSP but the CSP subsequently fails to pay those monies to the Funder. While we would assume such monies would be similarly ring-fenced in bank accounts and that the CSPs would perhaps provide suitable parent company guarantees to cover their liabilities, the Consultation does not offer this detail.

- It is striking that the proposed provisions offer two methods of recovery of the monies from Suppliers, but without explaining the order in which each measure might be implemented.

- Provision Two allows any bad debt in relation to the Hub to be socialised and recovered on a market share basis if there is a calling in of the whole debt by the Funder; however, that would not necessarily be reflective of which Suppliers were responsible for the debt. This method of recovery is therefore less attractive than the individual Suppliers at fault being pursued first (either by the DCC or the Funders).

- We are concerned at the omission from the consultation of any indication of the order of events that might show which methods of recovery would be utilised first in the event of default by the DCC/CSP under the funding documents. From a Supplier's perspective, it would be preferable that the DCC is only able to socialise the bad debt (where it has been

called in) once all other avenues of recovery against the non-paying Supplier(s) have been exhausted. Where the Authority is considering allowing a Funder to pursue recovery from all Suppliers (using what criteria?), then it is important that the Funder is prevented from also invoicing individual Suppliers for their specific debts.

- As the definition of "Communications Hub Acceleration Event" is linked to financing documents between CSP/DCC and the Funder, which we have no sight of, it is not possible for us to follow the entire contractual chain to identify the likelihood of such events occurring and, therefore, manage our risk.

- If there is double recovery because the Funder calls in an Acceleration Event to recover the whole debt from all Users AND pursues the bad debtors, how will Suppliers that have already paid be compensated?

We would also offer the following, more detailed comments and observations on the proposed legal drafting with regard to communications hub financing:

- J1.2 now lists separate Hub Charges on the invoice. We believe this should also mention potential compensation payments to Suppliers as a credit as well as liability to pay the Charges.

- J1.6 allows that the DCC may specify a different bank account for payment of the Hub charges. If a Supplier wishes to reduce the risk of the financiers pursuing them directly there should be an absolute obligation upon the DCC to have a separate bank account because it is for the Suppliers' benefit as much as the DCC's. This is also how it is represented in paragraph 302 of the Consultation (i.e. as an obligation) but the drafting does not reflect it as such.

- K9.7 sets out the mechanism by which, if the third party funder calls in the whole debt, the DCC shall spread that debt across all parties in proportion to their market share: i.e. provision 2 of the proposals. At issue is the definition of 'Communications Hub Finance Acceleration Event' - the default trigger for the payment of the full amount due to the funder. This definition only has meaning in the context of the Direct Agreements entered into between the DCC and the CSP's third party funders, and which are not sufficiently transparent to Users.

- K3.13 is the drafting for the third provision which relates to establishing a three month contingency fund. There is no obligation however (as promised by the Consultation document) for the DCC to set up a separate bank account and ensure that this estimated three month fund remains as a float within it at all times. In our view, the "contingency fund" is insufficiently defined. Moreover, this gives no comfort to Suppliers (which may either be given a large bill for socialised debt under K9.7 or pursued directly for unpaid charges) that the DCC will properly ring-fence the monies and ensure the bank will never have the need to call in the debt. Suppliers should have full transparency of the content of this fund.

- M11.5 provides the funder with direct rights of action against Suppliers "where the Authority has determined that the DCC is unwilling or unable to do so". The drafting gives extremely wide powers to the funder to:

  a) calculate the amount of Hub Financing Charges owed to the DCC "arising as a result of that event" – Note that it is not clear what "that event" is and we are also concerned at the apparently arbitrary nature of the determination that the DCC is unwilling to enforce;

  b) invoice the Users for the socialised bad debt under K9.7; and/or

  c) directly invoice and pursue Users for the amount of Charges owed by them.

- It is not clear in what order the recovery measures should be implemented by the DCC, or the funder, and whether they will be implemented simultaneously (which would give rise to double recovery): note the "and/or" at the end of (b) above.

- One would expect to see a cascade of liability and measures in place before Suppliers should be forced to compensate the DCC for others' bad debts. A Supplier might find itself, having paid its own invoices, facing a large invoice for the bad debts of others – even where the Funder is also pursuing that bad debt directly – and we are surprised by the lack of any reference to repayment in such circumstances.

Q20 Views are invited on the proposals in relation to Communications Hub asset charges and maintenance charges. This includes:

- **Monthly Communications Hub Charge;**
- **HAN Variant Pricing; and**
- **Monthly Maintenance Charge.**

With regard to the **Monthly Communications Hub Charge**, we agree that a balance needs to be struck between cost reflectivity and cost-effective administration. We note the Government's preference is to smear these charges across Suppliers, based on a 'market share' of enrolled Smart Metering Systems (2nd option in paragraph 317).

Provided the Government defines 'market share' in this context as the User's share of the number of enrolled metering systems, then we would agree with the approach; otherwise we would prefer a variant of the third option in paragraph 317, whereby the costs are charged purely on the basis of the numbers of meters each supplier has enrolled.

With regard to **HAN Variant Pricing**, we would prefer the first option in paragraph 321 which we think this is the fairest approach, in that it prevents distortions where a supplier, through customer churn, gains a large portfolio of HAN variants without having funded any of the cost uplift, or *vice versa*. Also, while the second option (the installing Supplier pays a differential HAN variant cost) might incentivise the installing supplier to deploy the most cost-effective solution for them, their choice might not equate to the best solution for the customer or the implementation programme as a whole. We are also surprised that the consultation makes little distinction between the cost of these options, as we feel sure that the first option would be simpler and cheaper to administer.

As with the Monthly Communications Hub Charge, we similarly believe the **Monthly Maintenance Charge** should be based on each supplier's actual percentage share of the total number meters enrolled with the DCC.

As an aside, we are unclear as to the purpose of a Monthly Maintenance Charge in the first place. The consultation document identifies this as '*other costs associated with supporting the provision of the asset*', but the exact details of such 'other costs' are unclear.

Q21 Views are invited on the proposals in relation to charges following removal of a Communications Hub. In particular, views are invited on the proposals for no fault removals in split fuel households. Do you agree that any outstanding asset costs should be smeared across all users rather than being charged to the installing or removing Supplier when Communications Hubs that do not serve the second installer's equipment are removed from split fuel households? Please provide a rationale for your views.

We agree with the proposals with regard to no-fault removals and that any outstanding asset costs should be smeared across all users rather than charged to the installing or removing Supplier in such circumstances.

For DCC User Faults, where an asset charge remains for the Hub, we agree that the cost should be targeted at the removing Supplier, as this will incentivise safekeeping of the devices and proper installation.

In the case of a system-wide replacement of the assets (i.e. before the end of the asset lifecycle), we agree that the CSP should be obliged to pay for the site visits.

ScottishPower
3 December 2013