ofgem ofgem E-Serve

Minutes

DCG Subgroup 3 Meeting 2 Minutes

Minutes of the second meeting of DCG Subgroup 3.	From	Ofgem
	Date and time of Meeting	5 October 2010 10am
	Location	Ofgem

1. Present

Name	Company
Dora Guzeleva (Chair)	Ofgem
Jason Stevens	ERA
Howard Stark	ESTA
Richard Street	ICoSS
Alan Knight-Scott	EDF Energy
Rosie McGlynn	British Gas
Joanna Ferguson	ENA
Chris Hill	First Utility
Martin Hewitt	ENA
John Stewart	Npower
Paul Smith	ENA
Paul Clark	SSE
Patrick Taylor	Ofgem
Mattias Bjonfors	Ofgem

Jenny Boothe	Ofgem

2. Apologies

Eric Fowler - AMO

Alex Travell - Eon

3. Minutes and action logs

3.1. Minor amendments were made to paragraph 4.5 to include reference to MRASCo.

3.2. A member of the group believed that the Gemserv presentation suggested that the DCC would not be a licensed entity. Other members of the group held a different view. The group agreed to park this issue as it was noted that the contents and the governance of the smart energy code would be discussed at the subgroup meeting on 2nd November. *(Post meeting note – Ofgem confirmed with Gemserv that their presentation only considered the governance arrangements of the SEC and not whether the DCC should be licensed entity.)*

4. Roles and responsibilities at the consumer premises

4.1. The subgroup was provided with a presentation that set out a schematic for fault fixing. The presentation identified that parties that could identify the fault, reporting of the fault and the mechanism by which the fault is repaired.

4.2. It was noted that the consumer may call the network operator if they were off supply (gas) and may also do so if there was a fault with their metering equipment. It was noted that the networks may have to change their consumer contact regime and may have to deal with a higher volume of calls. Therefore, a process will need to be adopted where the network operators can feed information into the DCC or appropriate party.

4.3. The group reaffirmed the view that the consumer should only need to contact a supplier once to report a fault and that there need to be processes to ensure that the appropriate party fixes the problem. There was a general view that if an IHD or HAN fault was identified then the supplier should repair this and if the fault related to the WAN module this should fall to the DCC to repair if the equipment was faulty and not damanged through installation or through damage caused by the customer.

4.4. Given that the data feeds from the metering infrastructure will be used by several different parties the subgroup considered that it would be likely that faults to the shared infrastructure will be detected or reported through one of four routes:

- Consumer, or consumers agent detects fault and reports it to the supplier, or potentially the DNO,
- The supplier detects a fault through for example interruption in data feeds,
- The DCC detects a fault through interruptions to data feeds, or
- A fault is detected by another party to the Smart Energy Code (such as a DNO).

4.5. In order to ensure that fault resolution processes where not carried out simultaneously by several different parties the group discussed the idea of a central fault log. Such a log, potentially hosted by the DCC would have several roles:

- tracking the current status of errors reported to the shared infrastructure
- track who is currently responsible for a particular issue raised (the supplier identity would not be available to another supplier in a single fuel household).
- record the party who raised the query
- enable parties to query the log in real time to detect if issues reported had already been logged and or track progress of fault
- flag issues when completed
- alert unresolved faults to responsible parties
- provide audit trail and
- log work undertaken (to help cost recovery mechanism)

4.6. The group considered that under this process a number of practical challenges still needed to be addressed:

a) how is the lead supplier, responsible for the shared infrastructure, tracked?

b) if the DCC detects a fault to the shared infrastructure (e.g. due to an interruption to his data feed) which one of the suppliers does it contact to undertake the work?

c) if the consumer contacts the distribution company regarding the fault, who do they notify?

d) if a fault is discovered by another party to the SEC, who does it report the issue to?

e) how are costs shared or recovered equitably between suppliers?

f) Should there be common service level agreements or minimum standards regarding fault fixing of the common infrastructure

g) the group considered that the In Home Display presented a particular challenge and discussed the possibility that it might be treated differently from other shared infrastructure.

4.7. These issues are discussed in turn below.

a. Tracking the lead supplier

4.8. The subgroup considered that the DCC should be the body that is able to track the lead supplier. This was necessary to enable cost recovery arrangements for shared infrastructure in a premise to operate

b. Contact point for consumer if it has problem with the shared infrastructure

- The group considered that it should be the responsibility of the supplier receiving the call to arrange for the problem to be remedied. The supplier would then recover part of the cost for dealing with the fault from the other supplier. As single fuel suppliers would not be known to each other the cost recovery arrangements would need to be handled through the DCC. It was further noted that if the In Home Display is allowed to be branded, the tendency would probably be for consumers to contact the lead supplier who provided the IHD. The subgroup indicated that it would welcome clarity on the issue of branding of the IHD.

c. Contact point for the DCC if it detects a problem with the shared infrastructure

4.9. The group considered that a likely scenario would be that the DCC would be the first to detect a problem with the shared infrastructure. This could materialise through an interruption to the data received from either the electricity, gas meter or both, or

through a loss of data from both meters, but still ability to contact the WAN module[1]. This raises the question of which supplier the DCC would contact if a fault was discovered to the shared infrastructure.

4.10. A number of considerations were discussed:

- the DCC to contact the lead supplier (the group considered that this would be the electricity supplier by default).
- a procedure could be developed whereby the DCC would contact the supplier best placed to respond to the issue (e.g. geography)
- if the DCC detected that the fault was with the gas meter feed it may be appropriate for the DCC to contact the gas supplier who would be responsible for the gas meter.

4.11. The view was held by the group that ultimately the important factor was that the supplier who undertakes the work was able to recover costs from the other supplier. It was also observed that in some cases the WAN module may be integrated into the casing of the electricity smart meter. In light of these factors the group held the view that the electricity supplier should be contracted by the DCC if it discovers a fault to the shared infrastructure.

d. Contact point for Distribution companies if they get contacted by consumers regarding the shared infrastructure

4.12. The group considered that while it would not be the role of the distribution companies to address faults to the shared infrastructure, it was nevertheless likely that the distribution companies would remain a contract point for consumers given existing emergency numbers.

4.13. The group considered that when distribution companies are contacted by consumers there should be a process for the distribution company to pass on the query to the DCC. Following this it would be treated in the same way as if the DCC detected a fault.

e. Contact point for other SEC parties

4.14. The group also discussed the possibility that other authorised parties to the Smart Energy Code could discover a fault to the share infrastructure. The view was held that these should reportfaults directly to the DCC.

f. Cost recovery for work undertaken by one supplier on the shared infrastructure

4.15. The group considered that in order for cost recovery mechanism to work and not unduly discriminate against one supplier, it would be desirable for the supplier who undertook the work to be able to recover at least part of his costs from the other supplier. The view was held that for this type of arrangement to work it would need to be administered by the DCC.

4.16. The subgroup considered how costs could be recovered in a number of scenarios:

- *Where a consumer causes damage* to the equipment, then they should be liable for the cost of repairing/replacing it (as per the current arrangements for metering assets)
- *Where there is a manufacturing fault* then costs should be recovered from the equipment supplier via warranty arrangements for the equipment.

[1] An outline of potential higher level faults is provided in annex 2

- Where there is *no proof of cause one way or another can be established*, would be likely to be carried by the supplier.

4.17. The point was further raised that the cost recovery arrangements could become important to ensure the supplier did not have perverse incentives to claim high repair costs. Two options for cost recovery for work undertaken on common infrastructure were considered by the subgroup:

- Cost of the work undertaken is either capped or charged according to a set of approved rates. The group considered that while this approach would in principle avoid the potential incentives for parties not to undertake work efficiently or misrepresent costs, it could also potentially be considered favouring a benefits to scale business model and hence adversely impact on smaller suppliers.

- Suppliers undertake work based on published charges. This would add an element of transparency to the process, while at the same time retaining a competitive element.

4.18. Reservation was further expressed by some parties against having to cover another parties inefficient cost. Overall no single view was held on this issue.

g. if there are several suppliers active at the same consumer premises, should there be common service level agreements, or minimum standards regarding repairing of the shared infrastructure

4.19. An issue was raised by the group regarding how competition in service levels could potentially be accommodated. Two options were outlined

- common service levels across all suppliers,

- minimum agreed levels, but suppliers able to provide higher levels of service on a competitive basis.

4.20. The group considered that this may mainly be an issue applicable to SME consumers rather than domestic, but that it could potentially complicate the work allocation by the DCC to suppliers if they had differing service level agreements. Under such circumstances it may be desirable for a supplier to be able to "take over" an issue allocated to another supplier.

4.21. Overall the group considered that service levels needed further discussion, including an examination of what types of service level agreements are available under related communications markets such as telephony, broadband or wireless.

h. treating the In Home Display differently from other shared infrastructure

4.22. The group considered the IHD should be treated differently from the other shared infrastructure. A particular issue was identified when a consumer churns within the 12 month time period the supplier is proposed to be responsible for maintaining the IHD. This raises a number of issues:

- If a consumer churns away from the original provider of the IHD, which supplier should be responsible for the IHD the original or incoming supplier?

- If a consumer moves into a home without an IHD within the stipulated time period an IHD should be provided, which supplier would then be responsible for providing it?

- If a consumer originally declines an IHD, churns, and then changes his mind, which supplier would be responsible for supplying the IHD.

4.23. Overall four options were discussed for the question of which supplier was responsible when a consumer churns.

1. The responsibility of the IHD is the enduring responsibility of the supplier of the fuel with which it was originally installed

2. The IHD would be the responsibility of the electricity supplier

3. Neither supplier would be responsible after the supplier churns

4. The original supplier retains responsibility for the IHD by providing warranty information on the device.

4.24. No firm view was held by members of the group on this subject.

5. DCC financeability and cost recovery

5.1. The subgroup was presented with a number of options with respect to the financing and cost recovery mechanism of the DCC.

5.2. A few of the members viewed the DCC as low risk, low return organisation. This view was based on the assumption that:

- there would be pass-through of service provider costs;
- DCC would have a right to recover its own costs; and
- there would be a relatively certain revenue stream which would be viewed favourably by investors.

5.3. The subgroup also noted that:

- Although it would have very few assets, its value as a business is high because it would have a exclusive service which suppliers would be mandated to use;
- DCC would bear the 'legal' risk that the procurement of its service provider contracts is economic and efficient; but
- DCC service provider costs would not be 'regulated' as the competitive procurement process provides competitive pressures, which ensure that these costs are efficient.

5.4. There was also an alternative view that at least for the first period of DCC operation, the business could be perceived as a relatively risky investment and so investors would want a degree of comfort and detail about the arrangements for:

- Financing;
- Liability for non-delivery;
- Longer term issues, such as the exit strategy if the licence were not re-awarded and how would these transfer and migration costs be managed.

5.5. The subgroup considered that the intellectual property rightsof the relevant software would be granted to the DCC. However, if this were to be the case an issue would arise

should the incumbent DCC was not re-awarded the licence. This was noted as an issue to be considered further.

5.6. The subgroup discussed the cost recovery mechanism for DCC where the group appeared to agree that some form of reopener mechanism may need to be allowed for in the licence period to review DCC's own internal costs. It was considered that 5-years was a relatively sensible point to reopen the cost recovery mechanism but there was a question whether this should be 5-years from licence award or 5-years from DCC Go-Live.

5.7. The group considered that the cost recovery model for the *service providers* would depend on the business model adopted by the DCC. However, the group noted that:

- Sufficient certainty of the principles governing these contracts needed to be provided in the Smart Energy Code.
- Service providers will need to be technologically competent.
- They will also need to have sound financial standing.

5.8. It was noted that most of these principles are captured in standard good industry practice in the procurement of IT, telecommunications etc. under OJEU principles. However, the degree to which these are to be reflected in the SEC is to be considered.

5.9. The discussion on the structure of DCC charges focused on:

- The degree to which network operators will drive the service requirements of the DCC; and
- Some of the principles around the charging methodology.

5.10. The ENA felt confident that the supplier service requirements will meet the specification of service requirements by the network operators. But there may be a few scenarios where network operators could drive fixed costs. However, given network operators will in the end pass-on these costs to suppliers, it was felt on balance that suppliers should be the only parties responsible for activation charge and standing charges.

5.11. The group proposed that whatever charging regime is applied to the DCC that it should be equitable, fair, stable and predictable.

5.12. The group noted that the DCC's structure of charges will also need to provide some mechanism for allocating costs to I&C customers who use the DCC's services as well as other third-parties who access the WAN network. The group felt that a number of considerations need to be developed further - should these users be paying the average cost of service provision or simply the marginal cost of service provision? Do we require a separate general charge to capture those cost baskets which I&C and other third-parties would contribute to?

5.13. The subgroup generally felt that a supplier funding model was inappropriate given the proposed structure of the DCC as a commercial business. Members were also of the view that the cost to industry and consumers of funding DCC start-up costs under a supplier funding model would be greater given the rate of return required by suppliers was likely to be higher than a commercial funding model. Given a 'regulated revenue' stream, they saw no reason why this funding could not be provided by a commercial arrangement at relatively low cost either as a shareholder loan or a commercial bank loan.

Issues Log

Roles and responsabilties

A dependency interaction was raised regarding whether or not the WAN module would be placed within the casing of the electricity meter, (rather than outside of the casing).

Standards of peformance for the smart metering data. This would include timescales for addressing service faults.

The group noted that a greater understanding of the nature of the HAN infrastructure was needed and noted the interaction with planned HAN workshop.

It was noted that the decision regarding whether or not the IHD would be allowed to be branded would have an impact on which supplier would be likely to be contracted in the case of a fault.

It was noted that ownership of the IHD and requirement to bear cost if damaged by the consumer could be an issue with respect to vulnerable consumers.

Financability

As the DCC licence will be for a fixed period, a potential longer term issue arises, such as the exit strategy for investors if the licence were not re-awarded to the incumbent operator and how these transfer costs and existing service provider contracts would be managed.