



Reference:

28 September 2010

Margaret Coaster
Smart Metering Team,
Ofgem E-Serve,
9 Millbank,
London
SW1 3PG

Dear Margaret,

Smart Metering Implementation Programme Prospectus – September Questions

I welcome the opportunity to present ELEXON's views on the Smart Metering Implementation Programme Prospectus. ELEXON is excited by the transformation opportunities that smart metering will deliver to our industry, the country and the individual consumer. I commit to using our expertise and knowledge to help identify and deliver solutions to the programme that will result in a more efficient energy market and a richer consumer experience.

We share your view that smart metering arrangements must be introduced in a manner that results in a fit for purpose, efficient and robust energy market for the future. Our highly successful record in procuring, managing the operations, delivering change, and providing assurance across the distributed electricity arrangements, means we have valuable experience and insight that can benefit the Programme. Over the last decade ELEXON has successfully managed and led market and service transitions. Our strength is our outsourced service management model that has enabled us to operate with 'world best in class' partners to deliver quality market services. We are passionate advocates of this model and believe that competitive procurement coupled with engaged contract management is the cornerstone of economic and robust service delivery.

In the accompanying document we have provided answers against the specific questions. In order to ease reading of our response, we have provided full answers to each question. Given the similarities in some of the questions this risks repetition but avoids the accessibility issues of heavily cross referenced answers.

I would like to take this opportunity to highlight key aspects of our response.

Programme Management

This is a large and complex programme and its success will be enhanced by unambiguous requirements, clear central communications and strong programme management disciplines. With so many participants often with diverse interests, absolute clarity on the roles and accountabilities is an imperative. Whilst processes form a good framework within which to operate, we would emphasise the need to ensure that the programme is resourced with people that have high calibre skills and capabilities. This will carry a cost, but the alternative is likely to carry even higher costs.

The Smart / Dumb Interaction within Settlement

We are embarking on a multi faceted transition programme that will extend over several years and impact all domestic consumers across Great Britain. During the transition both smart and dumb metered solutions will coexist. Throughout this phase there are risks that were they to materialise, would compromise the accuracy and equitability of settlement. These include:

1. data loss, or duplication as a result of the transfer from the 'dumb' to the smart arrangements;
2. the existing 'profiling' solution will come under significant pressure and the energy volume calculations that underpin settlement and use of system charging (for both distribution and transmission) could become more volatile; and
3. data quality of the 'dumb' arrangements may suffer if management focus and resources are prematurely withdrawn from supporting this sector.

As with any such risks, early and full identification and assessment will allow control strategies to be developed and where necessary processes introduced. We are already working on these challenges and will support the Programme in addressing the interaction with the meter to bank processes that support the Balancing and Settlement Code (BSC).

Code Consolidation

ELEXON believes that the current central market arrangements in energy are fragmented and inefficient. Whilst we fully agree that Smart Metering offers the prospect of process and system simplification, convergence and consolidation, we would urge extending that aspiration to the Codes and Agreements that govern our industry. The introduction of a new Smart Energy Code is an opportunity to provide a framework around which to consolidate and simplify governance arrangements over time. Whilst we concede that it may not be possible to achieve this for the planned Smart Energy Code implementation date, we should all commit to this longer term goal.

Driving the Mandated Roll-out

ELEXON recognises the desire to drive and even accelerate the smart meter roll out, thereby advancing the delivery of the benefits. Our experience suggests that targets should be agreed and monitored. Such data needs to be timely and easily accessible by all relevant Parties. Given the scale of the roll-out we believe that regular centrally generated reports should be produced and monthly market wide reporting published.

Given our unique central, independent, position we could adapt the BSC systems to provide Supplier roll out data, and potentially use energy data to give a view on how consumption patterns are responding to the uptake of smart metering – i.e., provide a view on this key benefit. We will need to undertake similar monitoring as part of managing the transition away from 'dumb metering' and so are keen discuss providing this service and avoid duplicated effort. My colleague [REDACTED] welcomes the opportunity to discuss this option [REDACTED]
[REDACTED]

A challenging timescale for the DCC Service Provider procurement

ELEXON's business model gives us unique experience in service outsourcing and procurement in the central energy arrangements. The DataCommsCo (DCC) is scheduled to be appointed in Autumn 2012 and thereafter to have appointed its Service Providers by Spring 2013. It is our view that it would not be possible to issue an invitation to tender (with the associated technical documentation) and then run a robust and credible procurement process in a six month period. Highly compressed negotiations are likely to compromise the DCC's ability to deliver best commercial value.

Recognising the imperative of getting the DCC services in place promptly, we conclude that an alternative approach will be required. This is likely to involve the programme initiating the procurement activities and could extend to the Programme making the initial appointments (as per the NETA Programme). Whilst such an approach is pragmatic, we would stress the importance of the DCC agreeing the contracted service. We therefore believe that whilst the SMIP should start the procurement, the DCC appointment should be expedited and the DCC made accountable for taking on the procurement from the SMIP and concluding the negotiations.

Taking forward Change of Supplier and Registration

Distinct gas and electricity processes that are complex in design frustrate market participants that operate across the fuels, and weaken their ability to streamline and enhance their consumer engagement. As a consumer who has recently suffered at the hands of the change of supplier process, I'm personally excited by the opportunities we now have for addressing our industry processes and improving the consumer experience.

ELEXON believes that smart metering provides the necessary catalyst to address these issues and build a more responsive set of arrangements. We have already presented a view to your colleagues on how to take forward the change of supplier process and registration. As a solutions orientated business, we are committed to seeking market transformations that will benefit both the market participants and their consumers. For further details on ELEXON's work in this area, please contact my colleague [REDACTED]
[REDACTED]

Interim Interoperability

We recognise that interoperability is essential for a fluid market and a positive consumer experience. This issue has already been addressed for Advanced Meters and the industry now needs a solution for Smart Meters; such a solution must cater to the market needs of pre and post DataCommsCo (DCC) establishment but must not compromise the enduring arrangements. I believe that ELEXON has the skills and assets to support an interim solution and that the BSC is an established vehicle for any necessary electricity governance pending the implementation of the Smart Energy Code. We have already spoken with a number of suppliers regarding the nature of an interim interoperability solution. My colleague [REDACTED]
[REDACTED] has been leading on this work [REDACTED]

Managing the framework pre the DCC

ELEXON supports the drive for quickly establishing the framework and producing the key industry documents. This phase is scheduled to complete in Winter 2011/12 and yet the DCC, who will be responsible for their enduring management, is not appointed until Autumn 2012. If a separate Code Administrator is procured, this could be as late as Spring 2013. Changes to the documents will inevitably be sought during this intervening period. This must be done in a controlled, inclusive and transparent manner. Our industry skills and capabilities are available to support the Programme in this interim period. I would ask that your team contact my colleague [REDACTED]

Half Hourly or Non Half Hourly Settlement for Smart Metering

Whilst not specifically addressed within the Prospectus consultation, the question of whether data from smart meters is settled as half hourly or non half hourly is a key question for ELEXON. Currently individual suppliers can decide which approach to follow for their individual consumers. Maintaining half hourly and non half hourly data submissions is a key architectural issue for the settlement systems and the DCC. We are progressing this issue with suppliers as part of our Profiling and Settlement Review. For further details on ELEXON's work in this area, please contact my colleague [REDACTED].

I look forward to discussing our response with you. In the meantime, if you or your colleagues need anything further from ELEXON, please contact [REDACTED].

Yours sincerely

[REDACTED]

List of Enclosures

Smart Metering Implementation Programme – September Prospectus Response