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Dear Margaret

**Response to the Energy Smart Metering Implementation Programme
Prospectus.**

Ofgem and the Department of Energy and Climate change published a Smart Metering Implementation Programme Prospectus on 27 July 2010, and sought views on the issues set out within. This response reflects a water sector perspective. It incorporates water company views, captured with help from the Water UK metering network.

The water sector in England and Wales is actively considering the potential for smart metering. Consistent with one of the recommendations from Anna Walker's independent review of charging for water and sewerage services, Ofwat has formed a multi-stakeholder group to review the case for smart water metering. Against this background, we are especially interested in the opportunity for water to share communications infrastructure with the energy sector.

Water is mentioned in the prospectus and supporting documents, although its coverage is relatively brief. We recognise that the prospectus is focused on delivering energy smart meters, but there are important implications for the water sector. The energy programme may well increase the demand for water meters. It will certainly influence the cost benefit case for rolling out water meters more rapidly, and for pursuing smart technology.

We note that the Prospectus makes little direct mention of the water industry, although it frequently covers matters of interest to the industry when it refers to third parties. Other third parties might benefit from accessing the smart meter communications infrastructure, but water is an essential utility with distinct characteristics. In particular, there are significant potential synergies from joining up

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measures to promote energy and water efficiency, meriting more explicit consideration of water sector interests. According to the Energy Saving Trust and the Environment Agency, heating water accounts for around a quarter of energy use in the home. As new homes become more efficient at using energy to power appliances and heat spaces, that proportion could increase to more like three-quarters.

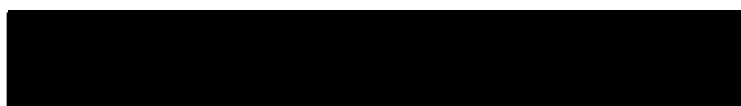
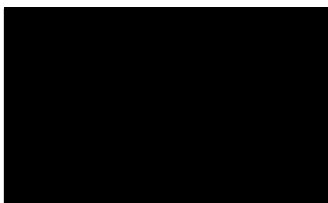
The rollout of smart energy metering will profoundly change the landscape for promoting energy efficiency, and by extension will have a significant impact on opportunities for improving water efficiency. Joining up measures to promote the two would make a valuable contribution to achieving a low carbon economy.

We have therefore prepared this response with two overarching aims in mind. These are:

- that the proposals made in the prospectus should leave the door open to the water sector to integrate with the mechanisms proposed should there be a business and regulatory case for it to do so; and
- that the proposed implementation programme should be able to maximise opportunities to reduce consumers' carbon footprint by combining with initiatives to improve consumers' awareness and understanding of energy and water efficiency, and their inter-relationship through hot water use.

We also offer comments on some of the proposals where our experience in the water sector might help to improve energy customers' experience of the implementation programme. We intend that anything that we propose should not impede the energy smart meter implementation programme. Our responses to the consultation questions with deadlines of 28 September and 28 October are attached at appendices 1 and 2 respectively.

Yours sincerely



APPENDIX 1 - responses to prospectus questions with a deadline of 28 September.

Question 3: Do you have any comments on the proposed approach to ensuring customers have a positive experience of the smart meter rollout (including the required code of practice on installation and preventing unwelcome sales activity and upfront charging)?

We agree with your focus on making the best use of trusted third parties to support the implementation programme. We also support the proposed code of practice, underpinned by a licence obligation requiring energy utilities to follow it.

We think that consumers' experience would be improved by a mechanism to ensure that they have seen the code in advance of the installation visit(s) so that they understand what to expect. The code should include what customers should expect from visits to their property, to address the risks of distraction burglary. This should be addressed in conjunction with key stakeholders, particularly the police and the Home Office.

We support the proposal that the installation should not be used as an opportunity to sell other services, but should be used to inform the customer of energy efficiency options if they are interested, and to identify customers who would benefit from being on the Priority Service Register. The visit could also be used to identify customers who would benefit from being registered on the water sector's equivalent register.

We believe that the installation is an opportunity to provide a co-ordinated home efficiency consumer education programme. This could cover both energy and water efficiency, recognising that hot water use strongly links the two. It could:

- Drive consumer behaviour to reduce consumption in the interests of environmental sustainability.
- Reduce water and energy bills.
- Reduce consumers' carbon footprint.

There is an opportunity not only to deliver energy and water efficiency advice more economically through joint delivery, but also to achieve more lasting behavioural change by reinforcing the home efficiency message. This should not disrupt the implementation programme. To avoid confusion, customers should receive a clear statement of position regarding water metering and smart water metering.

Question 6: Do you have any comments on the functional requirements for the smart metering system we have set out in the Functional Requirements Catalogue?

There are a number of metering scenarios, unique to the water sector, that we would like the communications infrastructure to accommodate, as follows.

- We ask that you keep open the option of accessing the communications network directly through the wide area network (WAN), as well as through the home area network (HAN). For the practical reason of facilitating leakage detection in customers' supply pipes, water companies typically prefer to install meters at the boundary of the property, which may be some distance from the home area network (HAN).
- In order to allow customers to see water consumption information, a water meter connected directly to the WAN might need to be able to display consumption data on an IHD. Please consider whether two-way communication between the WAN and the HAN will make this possible.
- In the majority of cases there will be a single metered supply but cases do exist where customers have more than one meter and as such the water sector would require the option to connect multiple meters in each property to the WAN / HAN (e.g. pressure meters, hot water meters) and we ask you to consider this facility.

Question 7: Do you see any issues with developing technical specifications for the smart metering system?

It is essential that the water industry be part of the working groups defining the specifications for the metering system and the DCC. The water industry has already submitted documentation on specifications and is ready and willing to participate fully to ensure interoperability.

Question 16: Do you have any comments on the proposals for requiring suppliers to deliver the rollout of smart meters (including the use of targets and potential future obligations on local coordination)?

If possible, it would be useful for the rollout programme to be made available to water companies to make them aware of activities in their areas. This will enable them to co-ordinate activity to minimise distraction burglary, and it will alert them to possible increases in demand for water meters.

Question 17: Do you have any comments on our implementation strategy? In particular, do you have any comments on the staged approach, with rollout starting before DCC services are available?

From experience in other programmes, we think that the rollout will not maximise benefits unless end-to-end communications are in place. In practical terms for the water sector, this would mean having the DCC in place.

It is critical to water companies that the services of the DCC are agreed in readiness for its business planning cycle. Water companies are likely to start preparing their business plans in earnest for the next price review period in 2013.

Question 18: Do you have any other suggestions on how the rollout could be brought forward? If so, do you have any evidence on how such measures would impact on the time, cost and risk associated with the programme?

No comments.

Question 19: The proposed timeline set out for agreement of the technical specifications is very dependent on industry expertise. Do you think that the technical specifications can be agreed more quickly than the plan currently assumes and, if so, how?

No comments.

Question 20: Do you have any comments on our proposed governance and management principles or on how they can best be delivered in the context of this programme?

No comments.

APPENDIX 2 – Responses to prospectus questions with a deadline of 28 October

Question 1: Do you have any comments on the proposed minimum functional requirements and arrangements for provision of the in-home display device?

- The minimum requirement proposed is that the IHD should have the capability to display information on gas and electricity consumption information. While currently there is no provision for the IHD to do so, the technology could, and we believe should, allow for water consumption information to be displayed.
- The display technology used for the IHD should not be limited to certain alphanumeric characters. A more flexible display technology would help future-proof the units, allowing third parties to display information without having to pre-programme the devices.
- The IHD needs to be sufficiently flexible to be able to notify customers of when tariffs will change. For example, for a rising block tariff, it might need to show the volume remaining in the current block. For a seasonal tariff, it might need to give advanced warning of the changeover to the peak rate.
- The minimum functional requirements do not indicate how social tariffs might be displayed to encourage the efficient use of energy / water without alarming customers into over-economising. Could the IHD show both the full energy / water costs of consumption (to give the full price signal), while showing the account balance based on the social tariff? Also, it would be useful to have a simple indicator of whether the price per unit of a social tariff included debt repayment.

Question 2: Do you have any comments on our overall approach to data privacy?

The overall approach to data privacy, as set out in the Prospectus and associated documents (specifically, the document entitled 'Data Privacy and Security') seems broadly sensible. In particular, the principle that the customer shall choose in which way consumption data shall be used and by whom, with the exception of data required to fulfil regulatory duties' seems to us to be the right approach.

- If data control rests with the customer, the customer must know how to exercise that control, i.e. it is essential to ensure that the customer is capable of giving informed consent.
- There must be clarity about how frequently data may be collected and for what purpose.
- The Prospectus states (at page 6, paragraph 1.4) that the data provided by smart metering may also help inform community initiatives designed to tackle climate change'. It will obviously be important to understand how this might work consistently with the principle that data control rests with the customer.

Question 4: Have we identified the full range of consumer protection issues related to remote disconnection and switching to prepayment?

Disconnection and flow restriction (the equivalent of load limiting) is not possible in the water sector under existing legislation.

Question 5: Do you have any comments on the proposed approach to smaller non-domestic consumers (in particular on exceptions and access to data)?

No comments.

Question 8: Do you have any comments on the proposals that energy suppliers should be responsible for purchasing, installing and, where appropriate, maintaining all customer premises equipment?

We note that ownership arrangements could be complex. We are concerned that water companies would have to negotiate not only with the DCC, but also with the many different energy companies that own smart metering assets. This could be so onerous as to provide an incentive for the water sector to duplicate communications infrastructure.

Question 9: Do you have any comments on the proposal that the scope of activities of the central data and communications function should be limited initially to those functions that are essential for the effective transfer of smart metering data, such as data access and scheduled data retrieval?

While we understand the need for the DCC to become established and proficient at its core duty, we would hope that the DCC's structure and regulatory arrangements will be flexible enough to support value-adding opportunities outside of the energy sector at the earliest opportunity. Water is considered by a consumer as a core utility and should be given early consideration.

Question 10: Do you have any comments on the proposal to establish DCC as a procurement and contract management entity that will procure communications and data services competitively?

It is not clear when the decision will be taken, or who will take it, to allow third party access to the DCC.

We are concerned at the potential scope for the DCC to change the technical specification of the WAN without due consideration and consultation. We would want to avoid a situation in which the water sector invests in a technical communication solution that the DCC subsequently changes.

Question 11: Do you have any comments on the proposed approach for establishing DCC (through a licence awarded through a competitive licence application process with DCC then subject also to the new Smart Energy Code)?

It is not clear who will grant a licence to the DCC or what that licence will cover. We assume that it will include controls on access prices, but we are not sure whether these will be specific to the energy sector, or whether they will apply to the water industry. Until these arrangements are clarified, at least in outline, it will not be clear what incentives the DCC will have to provide water companies with access to the communications network. There might be a case for considering an obligation on the DCC to provide access to water as an essential service.

We agree that a bespoke code to govern the regulatory and market arrangements around smart metering technology is sensible. We would, however, observe that the possibility of including water would extend the code beyond "smart energy". We suggest that the code's content and structure should anticipate such developments.

Question 12: Does the proposal that suppliers of smaller non-domestic customers should not be obliged to use DCC services but may elect to use them cause any substantive problems?

No comments.

Question 13: Do you agree with the proposal for a Smart Energy Code to govern the operation of smart metering?

In the spirit of 'keeping our options open' as set out above, it might be helpful to develop two separate elements to the Smart Energy Code – one covering energy-specific issues and one more generic. This would leave open the option to develop a cross-sectoral code (i.e. one code with different parts controlled by different regulators, e.g. Ofgem, Ofwat) in due course, if appropriate.

Question 14: Have we identified all the wider impacts of smart metering on the energy sector?

No comments.

Question 15: Is there anything further we need to be doing in terms of our ensuring the security of the smart metering system?

No comments.