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Dear Margaret,

Smart Metering Implementation Programme – Response to Prospectus Questions

Thank you for the opportunity to comment on the issues raised in your prospectus for the implementation of smart metering.

NGN's responses to the specific questions raised in your prospectus are set out in Appendix A to this document. If you require any further information or would like to discuss any of the issues raised in our response then please do not hesitate in contacting me.

Yours Sincerely,



Northern Gas Networks Limited

APPENDIX A

MAIN PROSPECTUS

CHAPTER 2

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

NGN supports the proposed minimum functional specification requirements for the gas smart meter. In addition, we support the additional functionality proposed for the IHD and the potential that this would bring for direct network communication with customers.

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

The design of the metering technology, the DCC and the governance arrangements must ensure that data privacy is maintained. The networks will require access to non-customer specific data for range of purposes, the data privacy arrangements must support the continued availability of this data.

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

NGN would strongly support a proposal that ensured that non-domestic customers should form part of the scope of the DCC particularly for registration requirements.

CHAPTER 3

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?

Gas network companies own and maintain the Emergency Control Valve (ECV) within customer properties and represents the termination point of the network. We would obviously not support the proposal covering this equipment which must remain the responsibility of the network. MAMCoP are developing procedures for roll-out inspection and defect reporting.

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?

NGN would strongly support this proposal.

The scale of the overall implementation programme would suggest that extending the scope of the DCC implementation beyond your proposal could introduce significant risk to the project.

The introduction of smart meters will almost certainly provide opportunities to improve current industry processes. However, these changes need to be considered fully and

be supported by robust business cases as you suggest. It is not clear that this can be effectively achieved within the overall implementation programme.

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?

NGN cannot identify any issues with the proposed approach.

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)?

NGN support this proposal.

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?

Optional use of the DCC service could result in information required by networks to support its planning and operational activities not being made available. This would be a significant backward step from the current arrangements that currently exist within the gas industry.

This increased disaggregation of data would require additional system and process developments to ensure necessary data can be delivered, adding to the overall cost of smart metering development.

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

NGN would contend that for the new regime to work effectively the Smart Energy Code is a fundamental requirement.

There is a risk that needs to be guarded against in implementing these arrangements around dual governance and consequently needs to be considered fully.

The process also needs to endure that SEC obligations are appropriate for both gas and electricity, and where the requirements are different that this is acknowledged and catered for

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

NGN along with other GDNs have previously raised the point that the impact of the roll-out programme on the GDNs and their activities and obligations needs to be considered fully. In particular, the impact upon the gas emergency operation and the issues raised by incorrect siting of meters and service pipes and the potential for increased workload in these areas.

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

Security of the system and data transfer arrangements will be fundamental to the success of the project. NGN will continue to support the process reviewing these requirements as the project progresses.

Statement of Design Requirements

CHAPTER 3

Question 4: Do you believe that the Catalogue is complete and at the required level of detail to develop the technical specification?

The GDNs via the ENA has submitted to Ofgem a paper detailing the minimum functional specification that they believe is require for gas network purposes. To the extent that these requirements continue to be reflected in the minimum specification then NGN has not identified any further requirements and the list is complete.

CHAPTER 5

Question 8: Do you agree it is necessary for the programme to facilitate and provide leadership through the specification development process? Is there a need for an obligation on suppliers to co-operate with this process?

Given the large range of functional requirements of the smart metering technology and IHD which originates from a variety of sources NGN believes that it is a requirement that Ofgem take the lead in setting the minimum specification required. The suppliers will need to have an obligation to both cooperate and provide the set minimum specification.

Communications Business Model

CHAPTER 2

Question 1: Do you agree that access control to secure centrally-coordinated communications, translation services and scheduled data retrieval are essential as part of the initial scope of DCC?

NGN agree that secure access and suitable controls are essential for all data transfers and are necessary to deliver the benefits of smart metering.

Question 2: Do you agree that meter registration should be included within DCC's scope and, if so, when?

Meter registration is not currently a core activity for GDNs. This is currently done on the xoserve systems, and while the GDNs require this information for operational and settlement purposes, it is not essential that they carry out this function if the data can be passed to GT central systems by the DCC.

Access to the DN generated information for MPRNs will be required. The MPRN itself is a Transporter owned piece of data as it is the identifier of an end point of the distribution network. Any change to this process is likely to have significant impact upon GDNs. Management of the transfer of this in the most appropriate manner to the DCC will need to be dependant on the final scope of the DCC

Question 3: Should data processing, aggregation and storage be included in DCC's scope and, if so, when?

Data processing, aggregation and storage in the context will be different from gas and electricity. These are already carried out by a single centralised service provider in the gas industry and this would be fragmented if the scope of the DCC were to only be mandatory for a portion of the industry.

It is essential that the Transporters Agency can continue to receive sufficient information to enable energy balancing and transportation billing.

Question 4: Do any measures need to be put in place to facilitate rollout in the period before DCC service availability and the transition to provision of services by DCC, for example requiring DCC to take on communications contracts meeting certain pre-defined criteria?

It is not clear how the DCC could be obligated to manage communications prior to its DCC being established. This would require issues of interoperability of services currently provided by existing central bodies to be finalised and agreed, and for the DCC to use this as their starting position.

It is not clear that there is a clear case for staggering the implementation of the DCC separately from the rollout of smart meters.

CHAPTER 3

Question 5: Do you agree that the licensable activity for DCC should cover procurement and management of contracts for the provision of central services for the communication and management of smart metering data?

It is appropriate for the procurement and management of contracts for the central services of the DCC to be a licensed activity.

It would be preferable to keep the licence for the DCC at a suitable level and enable the detailed business rules and obligations on all parties to be contained within the Smart Energy Code. This is consistent with the balance of current licence and code requirements to industry parties.

Question 6: Do you consider that DCC should be an independent company from energy suppliers and/or other users of its services and, if so, how should this be defined?

Where organisations bidding for the DCC can show appropriate ring-fencing then they should not necessarily be precluded from being able to become the DCC

The competitive process which Ofgem intends to use to procure/award the DCC should be subject to consultation to reassure the industry these issues have been addressed

Question 7: Do you have any comments on the steps DCC would need to take to be in a position to provide its services and the likely timescales involved?

The steps laid out for the DCC are logical although the timescales for carrying this out are challenging in particular for the full delivery of the procured services.

The detailed requirements which will be contained within the SEC need to be established to enable the DCC to effectively procure the third party services that it will be obligated to discharge through the SEC. This process will also impact on existing codes to ensure that any transfer of responsibilities is full and effective. This could be addressed through the Ofgem proposed Significant Code Review on smart metering

Question 8: Do you have any comments on the proposed approach to cost recovery and incentivisation for DCC?

Cost recovery in a transparent and cost reflective manner is consistent with other sectors of the industry. The inclusion of the charging methodology within the SEC would be consistent with the recommendations of the Code Governance Review.

Incentives for the DCC should reflect the risks which they are capable of managing. In principle, the DCC should be accountable for risks associated with performance of its obligations (and be able to mitigate these where possible through the contracts it enters into with service providers) and Users should be able to control the risks associated with the ongoing change process which will be driven by them.

Data Privacy and Security

CHAPTER 3

Question 1: Do you have any comments on our overall approach to data privacy?

The design of the metering technology, the DCC and the governance arrangements must ensure that data privacy is maintained. The networks will require access to non-customer specific data for a range of purposes, the data privacy arrangements must support the continued availability of this data.

Question 2: We seek views from stakeholders on what level of data aggregation and frequency of access to smart metering data is necessary in order for industry to fulfil regulated duties.

Data that is currently required by GDNs to fulfil any regulatory obligations will be provided for under obligations and specified clearly within the UNC. These requirements will need to be transferred or mirrored in the SEC arrangements.

Any data required outside of these arrangements will be upon request and on an ad-hoc basis.

CHAPTER 4

Question 5: Do you agree with our approach for ensuring the end-to-end smart metering system is appropriately secure?

Via the ENA, NGN is supporting the proposed security group and will endeavour to positively contribute to this process.

Regulatory and Commercial Framework

CHAPTER 2

Question 1: Have we identified all of the key elements that you would expect to see as part of the Smart Metering Regulatory Regime?

All major elements required identified within the prospectus, although detail requires significant work to achieve these.

NGN welcomes a Significant Code Review for Smart Metering as this impacts on multiple codes and it is essential that the programme of transfer of obligations between codes does not lead to multi-governance areas which potentially conflict. Particular care is required where any element of the regime is optional to create an efficient operating model which avoids unnecessary duplication of processes.

CHAPTER 3

Question 2: Do you agree with the proposal to establish a Smart Energy Code?

NGN would agree that for the new regime to work effectively the Smart Energy Code is fundamental. However, the risk of dual governance on moving obligations needs to be addressed fully.

The SEC needs to ensure that the obligations are appropriate for both gas and electricity, and where the requirements are different that this is acknowledged and catered for. Additionally, the shipper/supplier differentiation which exists in the gas market must be acknowledged and managed effectively.

Question 3: Do you have any comments on the indicative table of contents for the Smart Energy Code as set out in Appendix 3?

In addition to the items set out in Appendix 3, the DCC Charging Methodology would also need to be included to be consistent with other codes and the Code Governance Review.

The extent to which the technical requirements sit within the SEC itself or ancillary documents remains unclear. If these are to be separate, the governance of these needs to be consistent with the SEC.

Question 4: Do you have any comments on the most appropriate governance arrangements for the Smart Energy Code?

There are several models of governance currently within the industry, and all have some benefits and issues associated. Separation of the DCC and the code administration services would enable each function to be managed in a more focused manner by organisations using their core skills, whereas if the DCC carries out the SEC administration in addition to the procurement, the scope of its services becomes more fragmented.

CHAPTER 4

Question 5: Do you agree with the proposals concerning the roles and obligations of suppliers in relation to the WAN communications module?

It would appear appropriate and logical for one supplier to be the lead for the WAN communications module and any associated fault fixing. (NB: The DCG discussions have already concluded that this should be the responsibility of the electricity provider unless there is only a smart meter installed for gas. At the point that an electricity smart meter is installed, the electricity supplier takes over this role)

Question 6: We welcome views as to which other additional data items should be included in the mandated HAN data set beyond the list for the IHD.

Issues of including the gas consumption in monetary value still need to be addressed. The Calorific Value (CV) used to convert meter reads into consumption. Currently the CV is not closed out until Day 5, so unless an approximation or fixed CV is applied, this information may be subject to change on final billing.

Question 7: Do you agree with the proposal that the WAN and the HAN in customer premises should be shared infrastructure, with the installing supplier retaining responsibility for ongoing maintenance? If not, would you prefer to have an arrangement by which if the gas supplier is the first to install, responsibilities for the common equipment is transferred to the electricity supplier when the electricity smart meter is installed?

In order to ensure that consumers are not overloaded with “bits of kit” a shared infrastructure approach is logical and most efficient.

Use of the installing supplier carrying on the enduring maintenance needs to address who will take responsibility on a change of supplier event. If the DCC has overall responsibility for the WAN, then this can be clearly managed. The HAN communications should become the responsibility of the incumbent lead supplier. This model leads to a less intrusive and confusing model for end consumers to deal with.

CHAPTER 5

Question 11: Are there any other regulatory and commercial issues that the programme should be addressing?

The exact balance of regulated activity versus the ability of the DCC to operate as a commercial service provider remains subject to discussion at the current SMIP workgroups. Until this balance is agreed, it is difficult to establish if there is further scope for the programme.

The subject of placing regulated requirements directly on the service providers to the DCC was discussed at the recent SG3 meeting, but this was ruled out as inappropriate and beyond the scope of Ofgem current expectation. The regime should allow the DCC to have enough commercial discretion to be able to create contracts that can mitigate risk by passing through potential penalties to its service providers and at the same time meet the industry requirements on accountability and transparency.

CHAPTER 6

Question 13: Are there changes to settlement arrangements in the electricity or gas sectors that are needed to realise the benefits of smart metering?

For gas, the current settlement arrangements between shipper and transporter are managed by a single centralised service provider. We would not expect smart metering to necessarily deliver any benefits to this regime.

Question 15: Are there any other industry processes that will be affected by smart metering and which the programme needs to take into account?

If the scope of the DCC extends to full registration (domestic and I&C), consideration within the gas industry of how to de-couple network processes that are currently combined with the change of shipper process will need to be managed. The underpinning energy balancing regime for gas settlement needs to be protected.

Non-Domestic Sector

CHAPTER 3

Question 2: Do you agree with our proposed approach to exceptions in the smaller non-domestic sector?

A process of “reasonable steps to install” seems appropriate for smaller non-domestic customers where there are technical constraints to fitting – however, these technical issues could equally apply to some domestic premises

CHAPTER 4

Question 4: Do you agree with the proposed approach that use of DCC should be optional for non-domestic participants in the sector?

Provision of optionality of DCC services leads to fragmentation within the gas industry, where a single central provider operating as the Gas Transporters Agent already exists (iGTs are excluded). In gas in particular, this could lead to a requirement for duplication of processes depending on the overall scope of the DCC.

If the scope of the DCC is limited to that of “meter reading agent”, then this could have no impact on the existing central service provider

The optionality leads to a process whereby the DCC handles domestic meters, but the 40k large I&C and an unknown number of small I&C meters are still on existing transporter processes. There is a risk that as meters could legitimately switch in and out of the DCC that current processes to investigate unregistered meters points (approx 80k unregistered at present) becomes unworkable and that more may fall into this scenario.

If full registration moves to DCC this risk will be reduced, however, the current gas processes have a significant number of transporter requirements tied in with the change of supplier process (e.g. network referral for load increases). These need to be maintained and a process what involves both the DCC and the Transporter Agency will need to be developed to manage these processes. This has not been considered in any of the Ofgem documentation

Question 5: If use of DCC is not mandated for non-domestic customers, do you agree with the proposed approach as to how it offers its services and the controls around such offers?

Where the DCC remains optional for some parties it would be appropriate to allow the DCC to offer services to non-mandatory parties. This would facilitate competition, although there is a risk to smaller parties already in the market that due to the economies of scale of the DCC they may become unable to compete effectively

Question 7: Is a specific licence condition required to ensure that metering data for non-domestic customers can be provided to network operators or DCC, and should any provision be made for charging network operators for the costs of delivering such data?

Provision of metering data by shippers is currently required under UNC. GDNs would not expect this to be diluted in any way as a result of the establishment of the DCC. The current requirements are based on network operation and settlement requirements

Question 8: How can interoperability best be secured in the smaller non-domestic sector?

Commercial interoperability needs to consider the duplication of processes between legacy and new systems. This also increases the risk that data/MPRNs can fall between the systems. In developing this process Ofgem needs to work closely with existing service providers (which will have cost implications) if switching in and out of DCC is allowed.

CHAPTER 5

Question 9: What steps are needed to ensure that customers can access their data, and should the level of data provision and the means through which it is provided to individual customers or premises be a matter for contract between the customer and the supplier or should minimum requirements be put in place?

Customer access to data needs to be relevant to the users needs and available in a flexible manner. Provided the level of data is available to the shipper and supplier the delivery of this on to the end consumer should be a matter of commercial arrangements.

Question 10: Do you agree with our approach to data privacy and security for non-domestic customers?

The principles of allowing consumers control over their own data subject to regulatory requirements is sound.

Current rules within UNC limit the parties that data can be made available to as a means of ensuring that the recipient of the data has a genuine right or need for the data. There is no reason these cannot be applied to smart metering data.