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28 October 2010

Dear Margaret,

Smart Metering Implementation Programme – Response to Prospectus

Introduction

Thank you for the opportunity to respond to the Smart Metering Implementation Programme (“the SMIP”) Prospectus. We are submitting this letter and the supporting detailed response in addition to the initial response that we provided to Ofgem on 28 September 2010.

We are responding in our capacity as the Gas Transporters’ Agent with responsibility for delivering on behalf of the large Gas Transporters (“GTs”) a range of centralised gas transportation services as defined in the GTs’ Uniform Network Code (“UNC”) and licence, including maintenance of the GTs’ Supply Point Register, Supply Point transfers, gas transportation invoicing and energy balancing invoicing.

The focus of our response is on the issues raised in the Prospectus where we have specific interests and expertise. Our principal focus is on the options for the scope and role of the Central Data and Communications Provider (“the DCC”) and the potential impacts and implications of these options on prevailing industry arrangements.

xoserve is also responding to the DCC Scope Options Information Request that was issued by the SMIP on 14 October 2010. Our response to the Prospectus considers the implications of DCC scope options at a high level, whilst our assessment of the costs and benefits for xoserve of the specific options and variations is included in our response to the Information Request.

We are aware that Subgroup 2 of the Data and Communications Group is developing options for interim interoperability arrangements. Whilst these are primarily Supplier led, we are happy to contribute to an assessment of the options and to explore the ways in which the processes that we currently operate might be used to facilitate a timely and cost efficient interim arrangement.

Summary Response

We support the principle of an approach that concentrates the initial scope of the DCC on those functions that are necessary and sufficient to achieve the timely rollout of Smart Meters and to expedite the realisation of the forecast benefits that are set out in the Department of Energy and Climate Change (“DECC”) “Impact Assessment of a GB-wide Smart Meter rollout for the domestic sector” that was published alongside the Prospectus.

We consider that the concentration of DCC obligations on the communications services that are essential for the effective transfer of Smart Metering data would be sufficient to enable the timely delivery of SMIP objectives and the realisation of the large majority of benefits. To support the delivery of the communications services, the DCC’s communications agent(s) will need access to certain data to authenticate user requests. There are established processes for maintaining supply point registration data, a subset of which the DCC’s communications agent(s) would need to access to authenticate meter access and data retrieval requests. We consider that, subject to cost benefit analysis, DCC service provider authentication of meter access and meter data retrieval requests by reference to extracts of registration data already maintained by Network businesses or their agents would be less disruptive than the migration to the DCC of meter registration obligations. Where these extracts are held (by a DCC agent or by Network businesses or their Agents) is a matter of physical practicality and efficiency.

A decision to migrate to the DCC the obligation for meter registration should be based on an objective cost benefit assessment. We understand that, whilst the centralisation of gas and electricity meter registration and supplier switching processes is not a pre-requisite to facilitate rollout and to realise the large majority of forecast benefits, significant benefits for suppliers have been forecast to be realisable through such centralisation. In principle we support the approach being taken by the SMIP to assess the costs and benefits of various DCC scope options, but are concerned that the comparisons may not examine fully the costs and asserted benefits associated with the centralisation of registration functions, nor whether such benefits could be realised through further evolution of existing arrangements. It is important to consider the expected benefits of such centralisation, in particular:

- (a) The extent to which the realisation of these benefits is contingent upon centralisation and the consequent migration of obligations to the DCC;
- (b) Whether similar benefits may be realisable by optimising existing processes to leverage the improved accuracy and timeliness of metering information that can be expected as smart metering rolls out; and
- (c) Any additional process changes that would be required, in addition to centralisation, in order to realise the forecast benefits.

In considering the scope options around meter registration and supplier switching, it is also important to recognise the distinction between a switching process that enables the relationship between supplier, meter and address to be amended and the requirements for the contractual

relationship between GTs and Shippers to be maintained. Our response to the DCC Scope Options Information Request considers these points in more detail, setting out arrangements that, subject to appropriate framework changes, may facilitate the centralisation of gas and electricity supplier switching processes whilst enabling the Shipper / GT registration processes to continue to operate effectively.

In the event that SMIP concludes that the obligations to operate the Change of Supplier process should migrate to the DCC, we would encourage the careful differentiation of DCC and GT obligations so as to enable Networks to continue to run their businesses.

As with the potential migration of meter registration and Change of Supplier obligations, any decision to migrate to the DCC the obligations relating to the calculation of Annual Quantities and metered volumes should be based on an objective cost benefit analysis. We would expect that a key consideration in such analysis would be the costs and risks associated with operating an enormously complex set of interdependent processes across both DCC service providers and the GT Agent, and an assessment of the extent to which these may be offset by potential DCC centralisation benefits, particularly taking into consideration the potential for processes to be operated by different agents for different sectors of the market.

In order to maintain and ideally improve industry efficiency and to avoid the creation of complexity barriers for new market entrants, market facilitation processes and registration functions should be delivered through a single centralised service provider for the whole market. Where GT obligations migrate to the DCC, these should be discharged by DCC service providers to all sectors (including legacy meters), and 'residual' GT obligations (which would still be substantial) should likewise be discharged to all sectors by the GT Agent.

We consider that any potential changes to settlement arrangements should be considered by the industry as a separate business case and that the proposed Smart Metering Significant Code Review would provide a suitable vehicle for a robust assessment of the business case.

The rate of meter exchanges during the rollout period is expected to be much greater than during normal operating conditions, and will require the industry to handle significantly increased volumes of data. Minimising the scale of change associated with rollout can contribute to the prevention of data management errors.

Next Steps

We would very much welcome a clear statement of conclusions from the SMIP on the initial scope of DCC obligations and, to the extent that these are to change in the future, a roadmap that describes the timing of and conditions for any future change from the initial scope. This insight is essential to understand the impact on the future scope of our GT Agent services and to give context to our stakeholder engagement activities and systems investment plans, particularly as we approach RIIO-GD1 and RIIO-T1.

We are keen to continue our engagement with the SMIP to contribute our knowledge, skills and experience to determining the best way forward for the industry on the scope and role of the DCC. In the meantime, we are happy for you to publish this letter and the supporting detailed response.

If you would like to discuss further any aspect of our response, please contact [REDACTED]
[REDACTED]

Yours sincerely

[REDACTED]
[REDACTED]

xoserve