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### **Smart Metering Implementation Programme - Prospectus**

Thank you for the opportunity to respond to this second consultation. The following comments are offered on behalf of Shell Gas Direct (SGD) Ltd, the holder of gas shipper and (non-domestic) supplier licences.

The rollout of intelligent metering, be it Smart Metering or AMR/Business Smart, will change the energy industry in many ways. For I&C customers, a not exclusive list of the benefits of AMR/Business Smart includes:

- quicker and more accurate industry processes, including billing;
- easier energy management;
- the ability to take advantage of more innovative product offerings and to offer Demand Side Response, an important issue in the context of security of supply improvements; and
- more timely compliance with, for example, obligations under the Carbon Reduction Scheme;

It is therefore crucial that the needs of the business retail market in gas are not forgotten in devising the Smart Metering implementation strategy. In that context, for the avoidance of doubt, SGD's views are:

- I&C Suppliers should not be mandated but rather have the freedom to opt in or opt out of the use of the DCC;
- AMR/Business Smart meets the statutory definition of smart metering; and
- Interoperability remains a key overriding.

We are glad that both Ofgem and DECC have been open to dialogue with the I&C sector and willing to acknowledge its concerns. The degree of flexibility shown to date by both regulator and govt is to be welcomed. SGD looks forward to continuing this process to help ensure a timely and practical rollout strategy.

In the interim, please do not hesitate to contact me should you need clarification regarding any aspect of our response.

Yours sincerely

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## Appendix 1

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

While smart metering technology may not be readily available for U16 meters, this consideration also applies to a significant number of other meter types, capacities & manufacturing specifications that are commonly used to supply gas to sites in the sub-732MWhs category. The proposals therefore need to reflect this fact.

Moreover, an alternative and more appropriate definition of meters that need to have full smart metering functionality should be one based on meter capacity rather than the annual quantity of gas (which can change) delivered through the meter. Such an amendment could also be expected to assist non-domestic suppliers in formulating their strategy for rolling out meters to their SME portfolio and evaluating the implications of any interaction with their existing AMR offering.

With regards to the issue of data, it is vital for any approach to be based on long term requirements to integrate all smart data solutions in a way that promotes the highest levels of interoperability between various solutions. For example, the decision to exclude the requirement of “pulse port availability” from smart metering functionality will have an impact on the ability to integrate smart & advanced meters to provide consistent and uniform services to consumers. Moreover, consumers will also be disadvantaged as they will no longer be able to contract with independent Energy Management providers, as there will be no ability for them to engage with every meter in the consumer’s metering portfolio.

Another area of the current approach that could impact on smaller non-domestic customers relates to the potential costs that interim arrangements might impose on customers, such as:

- whether notification of the technical specification will allow for complete interoperability in the interim period?; and
- the ability of the I&C sector to invest simultaneously in its AMR/Business Smart product rollout and interim arrangements that may have a lifespan of only eighteen months?

Our preference would be for any interim interoperability arrangements to offer the basis of an enduring solution to non-domestic suppliers (although whether or not suppliers use the DCC will ultimately depend on service and price).

### **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?**

It is important that the proposals adequately reflect the structure of the I&C market and the importance of inter-supplier operational processes. A failure to do so could increase costs to suppliers and have a negative impact on both the effectiveness of the rollout and, more broadly, retail competition itself.

For example, the I&C sector is characterised by high frequency of change of ownership and occupancy rates. In that context, the efficiency of the inter-supplier relationship, along with the ability for I&C suppliers to interact with ‘domestic’ metering is crucial for minimising costs, the

success of & credibility of the smart metering system and for ensuring that the customer experience of the new infrastructure is not compromised.

It is essential that incoming suppliers are not left with the costs of equipment installed by the previous suppliers, which may be redundant or inoperable. Further work on inter supplier data exchange flow arrangements and interoperability is essential. This work will involve all suppliers, in all market sectors: I&C & domestic, gas and power and both single & dual fuel.

Alternatively, agreement has to be reached on coordinating the installation activities of different suppliers at the same site. For instance, if there are different gas and electricity suppliers to the same site, would installation and maintenance work need to be coordinated? Who maintains the shared equipment i.e. IHD?

**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?**

We would advocate support for the initial ‘thin’ scope of the DCC as outlined in the prospectus, whereby the DCC purely provides data access and data retrieval activities, resulting in minimum impact on existing industry systems. Opting for a ‘thicker’ model immediately would put further strain on the industry to successfully deliver a project in a timeframe that is, even with the thinnest model, extremely ambitious.

We believe that this approach delivers maximum benefit from the speediest possible deployment by limiting the thin scope of the DCC to some core activities, namely the registration of smart / advanced meter assets & robust centralised access to smart data and secure two way communication between the WAN and HAN. Experience from existing current smart meter / grid deployments elsewhere indicate issues of data security are of paramount concern.

It may be possible to have the thin model develop into a more extensive one, with suppliers retaining the option to opt in or out, but only in time. We would put the emphasis on this last point as an untimely discussion about a thicker model would be time consuming and a very unhelpful distraction from the key objective of ensuring interoperability.

The planning and execution of the roll-out across the UK could be hampered if suppliers also have to accommodate significant changes to existing industry systems simultaneously. In that context, there needs to be confirmation of the initial scope of the DCC and the potential to expand its services is being sought by xoserve to allow the requirements gathering phase of Project Nexus to continue. The Project plan has been revised on a number of occasions to accommodate the announcements coming from the SMIP, which is a concern for I&C suppliers with AMR requirements.

**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?**

We have no substantive comments to make - it is difficult to consider plausible alternatives.

**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)?**

Given that the DCC will effectively be a monopoly service provider, the use of an open and competitive contracting process is the most appropriate way forward. Indeed, it is difficult to think of a more practical and transparent alternative to this market based mechanism.

The use of the licence route is also appropriate given the monopoly nature of the DCC as it gives Ofgem the most straightforward means of monitoring and ensuring DCC compliance with its obligations. Clearly, there is an interaction with the Smart Code – see below for further comments.

**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?**

As indicated in response to Q9, we are of the opinion that suppliers should retain the option to opt in or opt out of the use of the DCC. This optionality is important given that suppliers are currently unaware of the costs and benefits of using the DCC.

Moreover, as a non domestic supplier we do not see how use of the DCC could be made mandatory. Many customers already have some form of advanced metering and direct contracts with data providers for data collection and communication services.

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

In principle, we agree with the proposed governance structure based on a licensing approach and the development of the Smart Energy Code. In particular, in relation to the latter, we agree that there is a need to:

‘.....detail the relationship between DCC and other industry parties around the new data and communications activities.’ (see para 3.26)

Both the use of the licence and code are approaches that have proved useful in other parts of the energy industry to help ensure that monopolies treat their customers in a non-discriminatory and transparent manner (to help competition), albeit with varying degrees of success. In that context, it would be advisable for Ofgem and the industry at large to consider the way in which other codes have developed and operated, looking for best practice in the areas of voting rights, ensuring that smaller market participants/constituencies are adequately represented and flexibility (to enable change).

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

The rollout of smart metering is not happening in a vacuum in terms of either regulatory or energy policy, thus the impact of the proposed implementation strategy needs to be considered against this backdrop. For instance, and SGD will not be the first respondent to make this point, implementation strategy can't be developed in isolation from policies aimed at reducing carbon emissions, eg. CRC Efficiency Scheme or the Renewable Heat Incentive.

Additionally, Ofgem and DECC will be aware of the I&C sector's concerns regarding aspects of the smart metering implementation strategy and the interaction with I&C suppliers' AMR/Business Smart product offering. This concern has usually been played out against the backdrop of investment already undertaken in AMR/Business Smart infrastructure.

However, we wonder if sufficient consideration has been given to another aspect of this concern, namely a link with possible improvements to security of supply? Proposed changes to the current gas market arrangements being considered by govt and the regulator are predicated, in part, on greater demand-side participation. It is therefore important to understand the potential damage to the speed and scale with which the I&C customers could begin offering demand side response if the requirements of its AMR/Business Smart product offering are not adequately reflected in industry discussions.

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

Aside from the issue of protection of data, it is no immediately clear to SGD of other work that needs to be undertaken in this area.