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Wales & West Utilities response to Smart Metering Prospectus – Communications Business Model

Dear Margaret,

WWU is a licensed Gas Distribution Network (GDN) providing Gas Transportation services for all major shippers in the UK. We cover $\frac{1}{6}$ th of the UK land mass and deliver to over 2.4 million supply points. WWU Limited is one of only two Licence Operators that focus solely on Gas Distribution in the UK.

In this response we have only responded to questions where we have a substantive comment.

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?

Robust and rigorous security is essential to customer acceptance. Recent security breaches, as have occurred in on-line banking and loss of data in central systems, through poor controls such as happened with the Child Benefit payments, destroy confidence in large centralised systems. If security and access controls are not a key component of the DCC and supplier services it will adversely affect smart meter rollout.

Access to historic data needs to be addressed in the context of these controls. The DCC will need to either retain records, or have access to records, that will determine access control. Likewise, a registered user may want to see historic information that pertains to a meter point in their portfolio but is for a period prior to becoming the registered Supplier. Under the Uniform Network Code (UNC) this would be permitted as a UNC Modification was recently put through to allow this (Modification Proposal 0279 <http://www.gasgovernance.co.uk/0279>). All these data provisions may need to be included in the SEC for any data items that are not currently available from existing central systems. GDNs or electricity Distribution Network Operators (DNOs) may wish to access data for a period, but find that the supplier has changed during that period. If the current Supplier can only provide data for the period from when they became the Supplier then the party requesting such data may not be able to obtain the full data set. It is

24 hour gas escape number
Rhif 24 awr os bydd nwy yn gollwng

0800 111 999*

*calls will be recorded and may be monitored
caiff galwadau eu recordio a gellir eu monitro

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unlikely that previous Suppliers will continue to hold the data on past customers, and if the data held by the meter is erased on change of supplier, or after a set period of time, then the DN will not be able to obtain the data from the meter. Unless this is addressed, it is possible that DNs will not be able to obtain the information it may reasonably require.

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

The build of the DCC should be to the initial scope in the Prospectus which is the minimum required to enable smart meters. Any extension to the initial scope should be based on robust cost benefit analysis. We do not believe that the process currently being undertaken to ascertain costs and benefits is robust enough to inform this process. The two weeks allowed for industry to respond to the information requests is too short to enable fully costed estimates to be developed particularly from organisations that may not have been fully engaged with the Smart Metering Implementation Programme (SMIP). Most procurement processes would allow four to six weeks for this process.

The specifications issued within the Information Request are not detailed and, by requiring respondents to state their assumptions, will mean that responses are not comparable as assumptions made by different respondents are likely to differ significantly. This exercise would be referred to as a Request for Information (RFI) if it were part of a procurement event; the key to a successful procurement event is that the information required is clear and well defined. Unfortunately the information requests do not satisfy this criterion. Paragraph 10 of the Information Request states that it is assumed that:

"...respondents have a good understanding of the current processes and systems underpinning the retail electricity and gas markets and can develop their own proposals for the best means of delivering each option..."

Whilst this may be true for some parties, it will inevitably restrict respondents to those currently involved in the industry and exclude those from outside the industry who may have innovative solutions for the communications processes. These issues were raised during the DCC Subgroup 1A (Scope of DCC) by the Energy Networks Association's gas representative but it was not seen to be a material issue.

Whilst it is true that registration goes hand in hand with the Change of Supply (CoS) process, they are not required to be part of the DCC in order for the benefits of smart metering to be realised. There may be benefits of having the DCC as a single point for the CoS process but this does not mean that the DCC needs to hold additional data. When a change of supply takes place there are numerous secondary processes and well over a 100 data items passed between the Shipper and the Transporter. The process is therefore not simple and the Prospectus is unclear on exactly what is meant by the terms "registration" and "Change of Supplier"

Registration / CoS is already centralised in the gas industry as it is carried out by xoserve on GDNs' behalf (and on behalf of Shippers). This is not the case in electricity as it is carried out by each individual DNO. There may be a case for the DCC, or some other central body, to take on the role of a centralised registration hub for electricity without the need for changing the existing arrangements in gas (except for iGTs). The DCC, as a contracting body, could have the obligation to allow for registration and simply use xoserve and a new centralised body for electricity to do this. The "customer experience" (in this case the Shipper /Supplier) would still

be improved under such a model as the DCC would be the conduit for submitting data that goes to both centralised bodies (that is the perceived benefits of dual fuel switching can be realised without having a single entity carrying out the activity).

If the Registration process was to be carried out within the DCC, all the processes mentioned above would still need to take place. This would mean that the Shipper would need to communicate with both the DCC and xoserve, or the DCC would need to become the “middle man” for each activity. Both of these scenarios will add complexity and unnecessary hand-offs. There are also a number of processes associated with change of supplier that provide checks, or are required to address exemptions. Should the DCC take on the CoS function all these would need to be replicated. These are summarised at the end of this question response under the heading “Other processes associated with change of supply”

Ultimately there may be benefit in looking at how dual fuel switching benefits and a quicker / slicker CoS process could be enabled once a DCC has been established. Our view is that the key requirement is to get the DCC up and running and delivering the benefits identified as coming from smart metering before adding additional services / activities to the DCC scope. The DCC, as a contracting body, should be created in such a way that adding services at later dates will be possible by establishing new contracts or amending current contracts.

Other processes associated with change of supply

The CoS process includes the Shipper Objection process whereby an incumbent Supplier has the opportunity to object to a customer switching if there are contractual ties or debt. The registration process is also, currently, the process for Shippers to register all the site and meter attributes with xoserve. This is not limited to meter information as it includes data such as emergency contact information, vulnerable customer details and other data that is not relevant to the DCC or needed to enable the benefits of smart metering.

The other activities that either coincide with, or are based around, the registration / CoS process include Supply Point Enquiry (Shipper obtaining information to enable them to quote a new customer (capacity, pricing and so forth), registration of data (as mentioned above, there is a long list of data items that are required by the transporters and held on the supply point register) and the capacity request / referral process (this is mainly for non-domestic sites and allows them to ask for greater capacity). These requests are often referred from xoserve to the transporters as they may need transporter approval. The CoS process also allows certain checks and validations to be carried out, for example if the Shipper “live” on the system, if there are any sanctions in place due to credit / debt issues (that is transporters will stop a Shipper from acquiring new customers if they have debt, insufficient credit in place etc).

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

The decision on this should wait until the initial scope service is proven and should then be subject to a rigorous cost benefit analysis. It is important to separately identify

- The benefits from smart metering in terms of customer behaviour
- The benefits from a DCC
- The benefits from changes to the Change of Supplier process
- Improvements in customer data

Significant improvements in the latter two items can be achieved without the implementation of the DCC and should not be used to justify the DCC or any increase in its scope. Should a robust analysis support future change then it should achieve industry support. Wales & West Utilities is not against change where change is justified but does not support change that is not justified by robust analysis.

If the DCC took on activities that are currently undertaken by xoserve then further interfaces are likely to be required between xoserve and the DCC, (in addition, both parties are likely to need to hold the same data). Whilst it may be tidier to have the DCC perform the same functions for gas and electricity, the different starting positions in the two industries have a material effect on the analysis, and if there is no justification for change, then it is very difficult to argue for it on the basis of consistency.

There may be a role for the DCC to provide data processing, aggregation and storage, but this should be around new value added services. One example of such services would be the submission of meter reads, on behalf of Shippers, in compliance with the UNC rules. This could significantly improve the current AQ review process and reduce the current (approximately) 4 million supply points that fail to recalculate AQs each year, largely owing to lack of valid meter reads. In the longer term, the availability of smart meter reads may lead to a change in the AQ review process with the removal of the current review and appeals process, and a redesign to take account of the new "smart world". In this case, it would be inefficient to spend money moving an existing process from xoserve to the DCC, only to see them quickly redesigned and replaced.

Ofgem is highly likely to conduct a Significant Code Review (SCR) for smart metering in 2011 and their open letter recognises that smart metering could provide for further significant benefits to, amongst other things, the settlement regime. We suggest that the issues of whether to expand the role of the DCC beyond the initial scope in the Prospectus should be addressed by the SCR.

Project Nexus is a project to replace the centralised xoserve systems. This in tandem with the proposed SCR, offers an excellent opportunity to deliver any SCR outputs. The initial scope for DCC should have little impact on the existing centralised systems, therefore the setting up of the DCC, the SCR and project Nexus, should come together to deliver the appropriate industry solutions over the next 3-8 years. It should be noted that the capital allowance in GDPCR1 for Project Nexus was based on the expected scope of Project Nexus at the time. The advent of smart metering will inevitably affect the scope and cost of project Nexus and needs to be recognised in RIIOGD1.

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?

We assume that Suppliers who enter the market early and install smart meters before the specification has been finalised are doing so because they see a market advantage. Other Suppliers should not have to bear the costs of enabling the DCC to communicate with and accept data from non-mandated systems, although if the Suppliers can make their systems compliant then they should be allowed to use them. It is also key that any smart installations made prior to DCC have a mechanism for capturing the data that will then be required by the DCC or any other centralised body. We assume that the Smart Metering Implementation Programme Sub Group 2 work will inform such arrangements.

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?

We agree that this is reasonable.

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?

As a starting point it is reasonable that the holder of the DCC licence should be subject to the same separation obligations as current holders of gas or electricity licences. For example companies that hold both transmission and distribution licences have to establish separation between the businesses as do organisations that hold both Supplier/Shipper licences and distribution licences.

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 timescales involved will also depend on other parties (xoserve, GDNs, DNO's, Shippers, Suppliers) and any changes or arrangements they need to make. The Smart Energy Code (SEC) will also need to be established and this may not be a quick process. In our view, the greatest risk to getting the DCC up and running is the design "thickness" of it. The more complex its functions, the more changes will be needed to other industry processes, and the more complex the SEC will be. We also suggest that a DCC that is just a communications hub is likely to be more attractive to non industry parties than a DCC that also undertakes industry functions. It is only parties that are well informed about the industry processes that will be in a position to bid for a DCC licence that includes industry process, such as Change of Supplier and registration.

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

We assume that the DCC will be largely funded by Suppliers as they are the parties that will be submitted data to it. The consultation lists 4 possible charges:

- Activation charge
- Standing charge
- Volume charges
- General charges

As a general principle charges should be cost reflective and not act as a barrier to entry for small users, for example by having high one off activation charges. GDNs (or xoserve) should not be charged for operating processes that are requirements of our licence, the UNC or the SEC. Where additional services are provided GDNs or xoserve these services should at most be charged for on a volume basis.

Yours sincerely

