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CAPGEMINI RESPONSE TO OFGEM SMART METER SPRING PACKAGE –

ADDRESSING CONSUMER PROTECTION ISSUES

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1 GENERAL REMARKS

We think introducing a definition of “Prepayment Meter” is confusing because a “Prepayment Meter” is a state that can exist for a normal smart meter which meets the proposed technical specification. It isn’t (as you note) a physically distinct device. A more helpful definition might be that of a “Smart Meter operating in Prepayment mode”.

The issue with regard to the interoperability of a Smart Meter is more complex than the document acknowledges. The solutions covering “commercial interoperability” and “technical interoperability” that you have described are not adequate in our view. Regarding commercial interoperability; we do believe that it is appropriate for suppliers to be required (through their metering agents) to offer terms to the incoming supplier. The obligation on suppliers to offer terms however is insufficient. An obligation is also required on the incoming supplier to accept them providing they are reasonable. The proposal that the installing supplier should only be able to recover the amount which would have been applicable to a dumb meter (until after the availability of meters which conform to the new Technical Specification) is a significant disincentive to the ambition of Suppliers to be early movers as they will be left with the stranded cost. This requirement should only apply where the Meter must operate in dumb mode after switching. If a reasonable technical solution exists (either provided by the Supplier or a Third Party) that allows the meter readings to be furnished electronically and facilities for managing the meter can be made available to the gaining supplier then the installing supplier should be entitled to recover the full charge. Regarding technical interoperability we think the subject is more complex. We don’t believe the offer by the installing supplier of a communications link (possibly including the head end message handling device), provides a sufficient solution. For example if the new supplier wished to apply a new tariff structure to the meter or introduce a differential tariff such as Economy 7 then the installing supplier would need to provide a service to implement this change in the meter via the head end system that it continued to operate within its estate.

Capgemini believes that there is a solution to the issue of short term technical interoperability available as a service (which could be structured as a Joint Venture with the suppliers) and we would like to propose this to the market as a commercially available solution which we have named “OpenSwitch”.

We believe that the statement “although over time clearly customers will expect to retain the full smart functionality”, is unhelpful as it indicates that a future change is required but sets no timescale for when it should be implemented. Capgemini is of the opinion that the option to revert a Smart Meter to the status of a Dumb Meter should only be possible until the end of 2011. We believe this because the ability to switch supplier is now an established feature in the minds of the UK consumer and they will naturally believe that this should extend to a “Smart” environment. While we know that this will be resolved by the introduction of the “DataCommsCo”, the combination of there being no technical basis upon which customers can switch in a Smart environment for a long period, coupled with continuing to allow the installation of new “Dumb” meters will lead to an environment within which suppliers can the achieve lock-in of valuable customers through the targeting of their smart meter offers (see our response to the Ofgem Smart Metering Prospectus Chapter 3 Question 16). This is clearly not in the best interest of the consumer and we feel strongly that as a minimum a date by which a technical switching capability should be provided by “early moving” suppliers should at least be encouraged if not mandated.

2 PREPAYMENT

Question 1: Do you agree with our proposal to issue guidance on safe and reasonably practicable and require suppliers to have regard to this guidance through a licence amendment? If not, what else is needed?

No opinion

Question 2: Do you agree with our proposal to require suppliers, where they know or have reason to believe that prepayment is no longer safe and reasonably practicable for a customer, to offer an alternative payment method or some other form of action?

No opinion

Question 3: Do you have any comments on our proposed guidance regarding taking into account whether it is safe and reasonably practicable for a customer to pay by prepayment?

No opinion

Question 4: Do you agree with our view that the current notification periods for switching to a prepayment meter are sufficient?

No opinion

Question 5: Do you agree with our proposal to require suppliers to give customers information on using a prepayment meter ahead of switching them to prepayment?

No opinion

Question 6: Do you consider it necessary to explicitly require suppliers to provide the ability to top-up by cash where payment is made through a prepayment meter?

Yes

3 DISCONNECTION

Question 7: Do you agree with our proposal to issue guidance on identifying vulnerability prior to disconnection and require suppliers to have regard to this guidance through a licence amendment? If not, what else is needed?

No opinion

Question 8: Do you have any comments on our proposed guidance regarding identifying vulnerability prior to disconnection?

No opinion

Question 9: Do you agree that suppliers should ensure rapid reconnection and provide compensation on a voluntary basis where any customer has been disconnected in error?

No opinion

Question 10: Do you agree with our view that the current notification periods for disconnection are sufficient?

No opinion

Question 11: Do you agree with our proposal to explicitly set out in the supply licences that load limiting and credit limiting amount to disconnection in certain circumstances?

No opinion

Question 12: Are there any protections that should be considered regarding disconnection and prepayment for non-domestic customers? If so, what are these? Please provide evidence to support your views.

No opinion

4 COMMERCIAL INTEROPERABILITY

First we would like to consider (as you have) the barriers to interoperability. We think some of the arguments put forward by suppliers are legitimate but that some are spurious.

1. Structure of charges

The contention is that Suppliers structure the charges for Smart Meter installation differently and this is a barrier to transferring the asset. We understand that Ofgem is opposed to the idea that the customer should bear the cost of the installation in an initial charge so we find it odd therefore that some suppliers believe they can recover the installation charges up-front.

The length of the amortisation period for meter assets is a variable although 5 years is common. If the charge is to be passed to a new supplier then a consideration of the appropriate amortisation period would be a part of that which would be considered "reasonable". We think Ofgem could usefully provide guidance here.

The subject of termination charges is also one that in practice should not prove to be a great problem. Suppliers that have installed early meters accept that there may be a "sunk" cost if the meters that they install should later prove to be non-compliant. A gaining supplier may be concerned that they are being asked to accept this risk without being able to make this judgement for themselves. However an installer is likely once the specification is published and meters become available to begin installing the new spec meters and leave the early meters in place until a later stage in the roll-out. We note this is acceptable according to the Ofgem Smart Meter Prospectus Response. This means that the full amortisation of the asset value can (in all likelihood) take place before the early (and non-compliant) meter has to be replaced (as the roll-out could take until 2019). A gaining supplier could take the same approach. It is the installing supplier that bore the installation cost so the gaining supplier having to replace the transferred smart meter before the end of 2019 will not have to bear any additional cost (over that which would have applied had that customer been "dumb").

2. Technical complexity (especially for small Suppliers)

As discussed in our opening remarks we agree that there is an issue. In fact we believe it to be a greater issue than just the question of access to communications and head-ends. We believe that a Supplier led, network agnostic, experienced integrator of multiple meter types is required and that such an entity could provide a service to the Suppliers on a transparent, jointly owned (similar to the current Electralink or Elexon arrangements) basis. We have designed such a service that we call "OpenSwitch" which meets these requirements.

3. Stranding Risk

Yes there is a stranding risk from implementing early but this is not related to interoperability. In fact having an interoperable solution will reduce stranding risk.

4. Prepayment

The solution to the "prepayment" challenges are similar to the solutions to the interoperability challenges. There is no currently accepted International or European standard which covers pre-payment so there will be a need for a translation "layer" if the specific supplier implementations are to work with different supplier back-ends. But the good news is the supplier back end systems (in the main) use standard and well documented interfaces for receiving inputs so solving the problem for one implementation should make it readily adaptable to the majority of suppliers.

Question 13: Do you agree that there should be an obligation on the original supplier to offer terms for use of the meter?

Yes we agree there should be such an obligation. However we believe that the Supplier should be entitled to recover the full value for the meter asset rather than just the "dumb" meter value if a suitable means of providing a reasonable service to the new Supplier exists and is available at a reasonable cost. We are convinced that the current industry flows provide a means of recognising that a MAM asset payment responsibility should be transferred to a new supplier (and this could either be directly or via the installing supplier acting in this capacity) as part of the switching process. We have confirmed this through discussions with current industry partners. The subject of transfer of the meter contracts however is more complex. An obligation on installing suppliers to agree suitable terms for the transfer (novation) of the contract to a gaining supplier is probably not sufficient as it is a matter of opinion what terms would be suitable. There are a number of subjects that need to be addressed such as Warranty obligations, availability of repair facilities, technical obsolescence and support for future communications network standards. In our view it would be helpful for DECC or Ofgem to produce a set of model terms which could be offered to MAM's. We have a lot of experience of negotiating these contracts and would be pleased to draft an initial version if you wish.

Question 14: Do you have any comments on the requirement for terms to be reasonable and non-discriminatory and factors we would propose to take into account?

Fundamentally we have a problem with the idea that meter suppliers will begin to act as meter service providers to each other (implied by the phrase "use of the meter"). The potential for disputes arising because of (for example) missing reads or the incorrect application of meter tariff changes is considerable and in an environment where the service is provided by a competitor, is likely to quickly lead to a breakdown of trust and become acrimonious. It isn't just about the charges being reasonable. The industry is used to situations where an organisation operates on its behalf (possibly with some ownership structure to provide control) where this need for interoperability exists. We believe this is an appropriate structure to put in place for the process of transferring smart meters between suppliers. This would also help with the issue of volume effects. For example, the first time Supplier A is faced with providing a meter reading service to Supplier B the costs will be considerable and the first meter could be (quite reasonably) be said to have an associated charge of tens of thousands of pounds a year (as it isn't possible to estimate how often it will happen the charge cannot be spread without taking a risk). If an independent organisation provides the service a view of the likely industry switching volume as a whole can be arrived at and the costs defrayed across the total volume.

Question 15: Do you agree with the proposed obligation that terms should be transparent?

In our view transparency is vital, however for the reasons stated above being transparent about the costs does not necessarily make them palatable to the incoming supplier (the costs for transferring small numbers of meters is always going to be very high compared with a large population). The issue extends further than that which surrounds the meter asset transfer. If an incoming supplier is to "use" the meter without themselves building the facilities, including the head end environment, to allow it to be managed then the outgoing supplier or an intermediary must provide this service. We think that an intermediary is the best solution and agree that the charges that they levy should be on an "open book" auditable basis.

Question 16: Do you have any views on the appropriateness of an obligation to offer terms for use of communications services as part of the Spring Package, and the timeframe for any such obligation?

We don't think that the Suppliers themselves are best placed to offer such a service. We believe that a Third Party perhaps an existing industry intermediary or a new one established for the purpose is the right approach. It seems illogical for the same problems to be addressed and solved 30 times (for each of the major suppliers to be able to provide a service to all of the others). The idea that "making available the communications links and associated services (including if necessary the "head ends")" will enable interoperability is fundamentally flawed. The technical integration necessary to make the meter respond appropriately to the commands that a new supplier might wish to send to it needs to include the MDM and potentially other back-end environments. Put simply if Supplier A implements the a specific meter using the a commercially available MDM the commands it sends to the meter (there are more than 100 possible instructions) won't necessarily have the same effect as the commands sent from another MDM implemented by another supplier to work with another suppliers meter (because they are not subject to standards). This integration challenge is costly to overcome at present and for all suppliers to do it for all meter types is both unlikely and inefficient. The idea that a supplier might provide the specifications for the meter protocol that it uses to an incoming supplier ignores the fact that these may be considered to be the intellectual property of the meter supplier. We also find the idea of contract novation being the correct mechanism for transferring the telecommunications services associated with a small number of meters (at a cost of perhaps 50p per meter per month) to be overly administratively burdensome. We think the installing supplier would be more likely to act as agent for the gaining supplier in this circumstance.

Capgemini advocates an intermediary service that can disaggregate the functions that are needed and provide an interface using standard industry flows and networks such as the DTN to deliver the meter readings to the appropriate (and authorised) recipient. The other advantage of an intermediary acting in this role is that this organisation can encourage and oversee the evolution of the disparate protocols towards the future standard set (under consideration by the SSWG).

Question 17: Do you have any comments on our proposed approach for dealing with prepayment?

We think Smart prepayment or "Pay As You Go" is of high interest to Suppliers. In some ways this capability which could remove the reliance on technology that is susceptible to fraud and involves a complex set of business processes which are expensive to maintain is one of the key drivers for implementing Smart Meters in the near term. We agree with the proposed approach and believe that an independent service is the best way to provide the service capability that will allow prepayment meters to be switched between suppliers.

Question 18: Do you believe there should be a de minimis threshold before commercial interoperability obligations apply and if so, at what level should it be set?

A de-minimus level is probably a sensible measure. However we think that if a cost effective service able to provide switched meter reads and prepayment between suppliers for a cost not significantly higher than the cost of the Suppliers operating the Smart Meter themselves is available then the level can be low. We therefore recommend that the level should be set at 10,000 meters.