

# **SCOTTISHPOWER**

## **RESPONSE TO SMART METERING COMMERCIAL INTEROPERABILITY LETTER (August 2011)**

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**SUBMISSION: 17 OCTOBER 2011**

## EXECUTIVE SUMMARY

We welcome the recognition by Ofgem of the interoperability issues posed by the increasing numbers of ADMs installed in domestic premises, and the need for industry to ensure the switching process remains as smooth and as seamless as possible for consumers, and that, as a minimum, every effort is made to ensure that the new supplier continues to obtain readings remotely for accurate billing and that, where practicable, that stranding of ADM assets as a result of switching is minimised. We do however have significant concerns over potential diversion of resources to deliver the proposed obligations, and the corresponding loss of focus on the main objective of establishing an enduring smart metering solution - in what are now already challenging timescales.

We fully support the intent behind the proposed Licence Conditions but question whether they are a proportionate response to duration and scale of the potential issues. Instead, we would suggest that the detailed operational nature of some of the new obligations could be more effectively delivered through the development of new ADM Agreed Procedures and/or Working Practices under the auspices of the MRA/SPAA. Adopting this alternative approach would not only allow the Industry to adopt a consistent approach to delivering these new obligations, it would also allow them to be documented at a level of detail which would reflect the varying capabilities of the ADM systems currently being deployed.

To date, the vast majority of ADM systems have been installed for testing and trialling purposes and, as such, are supported by technical solutions which vary widely in their maturity and scope. It is therefore important that any new Licence Conditions and associated operational procedures accurately reflect this wide spectrum of capabilities and also take into account the differing requirements for the Foundation and post-DCC phases of the SMIP.

We would welcome further discussions with Ofgem to explore the possibility of delivering the objectives of some of the proposed Licence Conditions through this alternative route.

The following is a summary of the key themes of our responses to the questions posed in Ofgem's letter dated the 18<sup>th</sup> August 2011, the full responses being found in the remainder of the document:

- **Industry Change.** Enabling suppliers to be fully compliant with the new Licence Conditions we believe will require substantial changes to market participant systems, processes and industry codes. It is vital that the introduction and activation of any new Licence Conditions fully recognise their dependence upon these changes being implemented.

- **ADM Services.** To ensure a consistent consumer experience following a change of supplier we believe that it is essential that Ofgem stipulates the minimum range of ADM services an Installing Supplier will be obliged to provide. To minimise the level of industry change and to allow the timely and effective delivery of these obligations we believe these services should be restricted to:
  - Remote retrieval of monthly register readings to support accurate billing
  - Where applicable, the provision of extended prepayment services
- **Alignment with Foundation Stage Obligations.** The proposed Licence Conditions need to be fully aligned with the latest thinking within DECC's SMIP in relation to Change of Supplier obligations for SMETS (Smart Metering Equipment Technical Specification) compliant meters during the Foundation stage. Of particular concern are the technical and logistical challenges of ensuring that the Installing Supplier continues to have access to all of the data required to meet their obligations when the new supplier chooses to communicate with the ADM using its own infrastructure.
- **Thresholds.** We support the application of thresholds in relation to the number of ADMs that need to be installed before Installing Suppliers are obliged to offer services. However we believe that installation thresholds should apply to all suppliers and not just those with a customer base of more than 250,000. We also believe that only meters which are installed after a specific "qualifying date" (determined by Ofgem) should be covered by the new obligations and only meters installed after this "qualifying date" should be included in the calculation of installation volumes and thresholds. We would propose the date of the Spring Package measures coming into effect (which focuses on customer protection) would be an appropriate point from which ADM obligations are applied. Further consideration also needs to be given to how the thresholds are calculated and the impact a number of different scenarios may have on the calculation of threshold values and their associated obligations. These include:
  - where an ADM site has been through a change of supply before the new obligations are fully defined;
  - the transfer of SMETS compliant ADMs to the DCC; and
  - gaining suppliers choosing to operate ADMs through their own infrastructure rather than using services offered by the Installing Supplier.

**Question 1:** Do you agree that suppliers should be required to inform the customer of any potential loss of services before a switch takes place?

ScottishPower are fully supportive of the principle of ensuring that consumers with an ADM are fully informed about the potential implications that changing supplier may have on the range of ADM services they receive.

However, it is important that the way in which this obligation is introduced is proportionate to the duration and scale of the potential issue. also It should be introduced in a way that acknowledges the technical and operational challenges that will be faced by suppliers prior to the creation of the DCC and the impact this will have on suppliers' ability to comply in all cases.

The obligations detailed under Supply Licence Condition 25 already deal with the provision of information during a sale, and we believe that this already covers the spirit of this objective, if not the specific detail.

In addition to our concerns over how this obligation will be delivered, we believe that further consideration needs to be given to a number of operational challenges, including the:

- ability to identify the presence of an ADM during the sales process and before the consumer agrees a contract;
- reliance on consumer knowledge about their ADM system to establish the range of services they currently receive;
- ability to accurately assess, during a sale, the level of ADM service which the consumer can expect following the transfer of their supply; and
- feasibility of asking consumers a series of what could be considered to be fairly technical questions which may add significant complexity to the sales process and could potentially discourage those consumers from switching, regardless of the type of service any prospective new supplier may be seeking to offer.

The imposition of a minimum service standard following a change of supplier would help to simplify this process and would be in line with what we believe to be the key aims of these proposals: the continuation of remote reading to maintain accurate billing, minimising the stranding of ADM assets and providing the consumer with a consistent change of supplier experience.

**Question 2: Do you agree that the old supplier should be required to disable any misleading information prior to the switch taking place?**

For the purposes of this response ScottishPower has made the assumption that by “misleading information” Ofgem means any pricing information relating to the consumer’s account with the losing supplier. However we would welcome greater clarity of what Ofgem believes to be covered by this term.

Recognising the confusion and uncertainty that this type of issue might cause consumers, we are fully supportive of the objectives of this requirement.

We have already installed a small number of ADMs for testing and trialling purposes and where we lose such sites it is our standard procedure to remove any pricing information from the ADM, prior to the loss date. We do this to not only avoid consumer confusion but also because we believe that it helps to maintain trust in the integrity and accuracy of the data accessible to consumers via their ADM.

However, many of the ADMs deployed prior to the DCC becoming operational will be installed for testing and trialling purposes and may not be compliant with the SMETS. Therefore the technology and processes that will be used to support them will not necessarily be as robust or as standardised as those which are used for the enduring smart solution in Great Britain. Accordingly, we have concerns over our ability to guarantee that, in all cases, the technology and infrastructure of other suppliers will enable us to meet this obligation e.g. in some cases the display device currently deployed may have had pricing information programmed independently of the ADM, therefore making it difficult to ensure that all pricing details have been completely removed from the overall smart metering system).

Further consideration also needs to be given to how such an obligation will impact consumers whose ADM is operating in prepayment mode. For some ADM systems the only way in which pricing information can be hidden from view is by removing it completely from the metering system. Where an ADM is operating in prepayment mode this would effectively mean that the system would be configured with zero tariffs and, as a result, the meter balance would not decrement to reflect any energy usage. We recommend that ADMs that will continue to be operated in prepayment mode following a change of supplier should be specifically excluded from any requirements in this area.

**Question 3: Do you agree that the old supplier should be prohibited from removing historic consumption data from the meter?**

ScottishPower supports the principle that the consumption data recorded by the meter is owned by the consumer and, where practicable, retained by the metering system.

However, due to the wide variation in the technical capabilities of the ADMs currently deployed, we believe that further consideration needs to be given to situations where a change of tenancy is coincident with a change of supply and the impact the varying capabilities of the ADM systems will have on our ability to comply with the proposed new obligation without compromising our obligations under the Data Privacy Act. In some cases the only way in which we will be able to prevent a new tenant from being able to view the previous tenant's consumption information will be to remove it completely from the ADM system.

**Question 4: Do you agree that suppliers should not be allowed to charge customers for the replacement of a prepayment ADM in these circumstances?**

ScottishPower agrees that consumers should not be charged where an ADM operating in prepayment mode needs to be replaced with a non-smart prepayment meter to allow the consumer to continue to use this payment method.

The operation and provision of smart prepayment services during the Foundation Stage gives us significant concerns, particularly with regard to its reliability and robustness and the ability to establish a secure and dependable payment infrastructure. If all of these issues are not properly addressed then each has the potential to undermine overall consumer confidence in smart metering. We recognise that a key aim of these proposals is to ensuring that ADM assets remain installed. However, the commercial and technical challenges of providing a robust system and payment infrastructure to support a small number of smart prepayment consumers during this period will inevitably lead to a number of ADM assets being stranded.

**Question 5: Do you agree that the old supplier must make available to the new supplier all the information they would need to help maintain the provision of services based on ADM functionality?**

ScottishPower welcomes the intent behind this new obligation and fully recognises the importance of ensuring that, where practicable, consumers can continue to receive the benefits of their ADM following a change of supplier. To provide a consistent customer experience during this period and to minimise the level of industry change required we believe that it essential for Ofgem to:

- clearly define the minimum range of services Installing Suppliers will be obliged to offer to the new supplier; and
- ensure the proposed regulatory arrangements align with the proposals for interoperability during the Foundation Stage from the SMIP Business Process Design Group.

As detailed in our response to Question 7 below, we believe that the minimum range of services Installing Suppliers will need to offer should be; the remote retrieval of monthly register readings to maintain accurate billing and, where applicable, the provision of extended prepayment services. An obligation to provide services greatly in excess of this minimum level would, we believe, require industry participants to make changes to systems and processes commensurate with those that will be required to support the mandated roll-out of smart meters.

Fully aligning Ofgem's obligations with those currently being considered by DECC for the Foundation Stage should also help to avoid two separate change of supplier processes for SMETS- compliant and non-compliant ADMs. This would greatly reduce the potential for consumer confusion and uncertainty during a period of increasing industry change.

Further consideration needs to be given to the possibility that the proposed new obligations should only apply to ADMs installed after a specific "qualifying" date. We believe this "qualifying" date should be set by Ofgem and possibly linked to a key milestone (e.g. publication of Ofgem's final proposals). Making this clear link to a "qualifying" date and specifying that, once the requisite industry changes have been implemented, the new obligations apply only to ADMs installed after that date would help simplify the calculation of threshold values and assist with the identification of "qualifying" ADMs during key industry processes (e.g. Change of Supplier).

If no "qualifying" date is specified then some complex issues will need to be considered when finalising these proposals. ScottishPower has already gained and lost a number of ADM sites and the vast majority of these are currently being treated as non-smart meters. For a number of these meters communications contracts have been terminated and much of the information that would be required to enable remote communication with them does not reside in supplier systems. The process to resume remote communications with these meters could vary widely: in some cases it may be achievable by retrieving communications and/or system security details from the last appointed ADM service provider, whilst in others it will only be possible if a site visit is carried out. Given this uncertainty we feel that it would be very difficult for a gaining supplier to identify which of those meters will be covered by the new obligations and which ones it will not be possible to obtain services for without adding further complexity to the Change of Supplier process.

**Question 6: What kind of information would the new supplier need access to in order to ascertain whether they can maintain advanced services?**

To ascertain if it will be possible to maintain any ADM services suppliers will need access to a combination of technical and commercial information. Some of these details will need to be obtained prior to registering the site and, although it may be possible to glean certain elements from the consumer through carefully structured questioning during the sales process, we do not believe that this will be sufficient to allow us to fulfil the proposed obligations in every case.

To accurately inform the consumer of the type of services that they will receive following a Change of Supplier (COS) some of the information we require will need to be accessible to all suppliers directly from industry systems (e.g. registrations systems). The majority of this information is not currently routinely exchanged between market participants, so a number of industry changes will need to be made to facilitate the exchange and storage of this data. Examples of the type of information that suppliers are likely to need are detailed in the following Table 1.

<b>Data Required</b>	<b>Purpose</b>
<b>Meter make and type</b>	To establish the functional capabilities of the metering system
<b>Identity of ADM service provider</b>	Helps Supplier to identify if they have a commercial agreement in place with the service provider
<b>If the Installing Supplier has exceeded Ofgem's installation thresholds</b>	To establish if Supplier is obliged to offer ADM services to incoming Supplier
<b>Commercial terms for taking ADM services</b>	To establish if commercially viable to continue to provide consumer with ADM services following COS
<b>Communications type</b>	To identify if possible to operate meter using own infrastructure
<b>Identity of Installing Supplier</b>	To understand who to contact to obtain services or other ADM details
<b>Customer's existing range of ADM services</b>	To identify if consumer likely to lose access to any ADM functionality following COS
<b>Meter/communications device access details (encryption keys, Trust Certificates etc.)</b>	If decision taken by new Supplier to operate ADM using their own infrastructure then this is essential to guarantee remote access

Table 1: Examples of data requirements and purpose

The proposed new governance arrangements, as currently specified, will allow suppliers to choose to operate gained ADMs using their own technical infrastructure and commercial arrangements. Where this occurs, the device access details will need to be provided to the new supplier. Consideration will therefore need to be given as to how this information can be securely transferred between industry parties and also any subsequent rules regarding the Installing Supplier obligations.

Where suppliers choose to operate ADMs using their own arrangements it is important that the obligations which reside with the Installing Supplier are automatically switched to the new supplier.



This would fully align Ofgem's proposed governance arrangements with the most recent SMIP proposals for the Foundation stage COS arrangements.

**Question 7: Do you agree that a large supplier should make available on request all services that a new supplier would reasonably require to maintain some or all of the services relating to ADM functionality?**

Introducing a new governance framework to ensure that suppliers offer ADM services where they exceed pre-determined thresholds would provide a degree of certainty to the industry and we fully support this proposal.

However, we believe that this new condition should apply to all suppliers and not just those classed as 'large' suppliers. To be fully effective we believe that the obligations should only linked only to the number of ADMs installed by a supplier and not their overall customer portfolio.

As explained in our response to Question 5, we also believe that it is essential that any new regulatory arrangements clearly detail the minimum range of ADM services which the Installing Supplier will be obliged to offer.

To keep the level of industry change required to a minimum and to help avoid the stranding of ADM assets we believe that Installing Suppliers who exceed the specified thresholds should, as a minimum, be required to make available to any gaining supplier:

- services to support accurate billing (e.g. the remote retrieval of register readings on a monthly basis); and
- the full range of prepayment services (including application of payments to meter, generation of UTRNs, timely provision of self-disconnect alerts and the use of payment network services).

However, even if the Installing Supplier is obliged to offer the full range of ADM prepayment services, it is inevitable that there will still be some degree of asset stranding of ADMs operating in prepayment mode. The technical and commercial challenge of supporting a relatively small number of this type of prepayment customer would make it infeasible for many suppliers to offer this type of ADM product to their customers.

**Question 8: Do you consider that the proposed volume thresholds are appropriate? If not, please suggest what would be more appropriate thresholds.**

ScottishPower are in general agreement with the installation volume and prepayment threshold values specified by Ofgem, although we would welcome further clarity regarding the rationale

behind the suggested levels. However, as stated in our answer to the previous question, we do not believe that the specification of an overall customer portfolio threshold is appropriate.

Whilst we are supportive of the installation thresholds, we do believe that further consideration needs to be given to a number of elements which may have a material impact on those threshold values through time:

- Calculation of opening installation volume - if no “qualifying date”<sup>1</sup> is specified Ofgem will need to consider if this includes ADMs installed to support the Energy Demand Reduction Programme and/or ADMs installed and lost prior to the new obligations coming into effect.
- Migration of compliant ADMs to the DCC - if this takes the Suppliers’ ADM service below the specified installation volumes will they be obliged to continue to offer services for the remaining non-compliant ADMs?
- New Supplier accepts responsibility for operating the ADM – where this happens should the ADM still be counted as part of the Installing Supplier’s overall volume of installations?

We would also welcome further clarification on our interpretation of the implications of these thresholds applying at an individual Supply Licence level and the potential anomalies this could create. It is our interpretation that, if a supplier has an electricity and gas Supply Licence and they install 30,000 electricity ADMs and 20,000 gas ADMs, the supplier would only be obliged to offer services for the electricity ADMs. It would also appear that, if where suppliers hold numerous Supply Licences, the proposed governance arrangements would leave sufficient scope to allow that supplier to circumvent the spirit of those arrangements and avoid any obligations by keeping the number of installations per Licence below the specified threshold levels.

**Question 9: What costs do you consider suppliers will need to incur to ensure compliance with the proposed Licence Conditions?**

The full scope of the costs that will be incurred will be dependent upon the minimum level of ADM services which suppliers are obliged to offer and also the degree to which they are aligned with DECC’s proposals for SMETS compliant meters during the Foundation Stage.

The Ofgem consultation letter focuses on the high level aims and objectives of the proposed new regulatory arrangements and understandably does not provide a detailed assessment of the type of changes that industry participants will need to make to comply with those new conditions. Until the

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<sup>1</sup> “Qualifying Date” - we would propose that the date of the Spring Package measures coming into effect, would be an appropriate point from which ADM obligations are applied.

full scope of the industry changes and obligations are known we will be unable to carry out a full impact assessment to obtain detailed costs. However, the table below highlights some key areas where costs are likely to be incurred.

Change Type	Change Description
<b>Industry Changes</b>	<ul style="list-style-type: none"> <li>• Design, build and testing of all changes to core industry systems.</li> <li>• Design, build and testing of new/amended data flows to support exchange and updating of ADM information</li> <li>• ADM process design and development</li> <li>• Modifications to Industry Codes (MRA, SPAA etc.) to reflect the changes to core Industry processes</li> </ul>
<b>Supplier IT &amp; Process Changes</b>	<ul style="list-style-type: none"> <li>• Internal system design, build and testing of system changes to support new COS gain, loss and Installing Supplier obligations</li> <li>• Design, build and testing of amended sales processes to obtain ADM details during quotation process</li> <li>• Develop Installing Supplier invoicing and reporting capability</li> <li>• Training and rollout of new process requirements and system changes to all impacted business areas</li> </ul>
<b>Commercial Contract Development</b>	<ul style="list-style-type: none"> <li>• Establish commercial agreements with all Installing Suppliers likely to exceed installation thresholds for the provision of ADM services on COS gain</li> <li>• As an Installing Supplier, establish contracts with other Suppliers to provide them with ADM services following a COS</li> <li>• Extension of contract with our existing ADM services provider to facilitate the provision of ADM services to other suppliers</li> </ul>

The above table provides a high level view of the system and process changes suppliers will need to make to comply with the proposed new governance arrangements. These changes are potentially quite complex and are likely to incur significant costs to implement. To minimise these costs we would recommend that Ofgem fully aligns the proposed supplier interoperability obligations for ADMs with DECC's proposals to support interoperability for SMETS compliant meters during the Foundation Stage of the smart meter roll-out.

**Question 10: Do you consider that additional incentives are necessary for suppliers to avoid ADM meter exchanges on a change of supplier where possible?**

ScottishPower recognises that avoiding the stranding of ADM assets following a change of supplier is one of the core aims of the proposals. In addition to the costs associated with this, the removal of an ADM asset to allow the consumer to continue to use prepayment has the potential to leave

consumers with the wrong impression about the reliability and suitability of the prepayment capability of ADMs and subsequent compliant smart meters.

We believe that the Programme benefits which have been attributed to the introduction of smart prepayment are extremely challenging and likely to require a significant growth in prepayment customer numbers to be achieved. It is therefore critical that nothing is done during the early rollout of ADMs which undermines the future viability of smart prepayment. We therefore welcome any incentives that can be placed on Installing Suppliers to avoid the routine replacement of ADMs operating in prepayment mode. However we also recognise that due to the scale of the technical and commercial challenges gaining suppliers will face when it comes to operating a reliable ADM prepayment service, the stranding of some ADM systems will be unavoidable.

**Question 11: Do you consider that the measure outlined here places appropriate incentives on the installing supplier in respect of the costs of a meter exchange?**

Until further clarification is received on the full range of prepayment services Installing Suppliers will be obliged to offer we are unable to accurately assess whether or not the proposal to have the Installing Supplier compensate the registered supplier for the costs of any exchange visits to install non-smart prepayment meters is appropriate or adequate.

The technically challenging nature of a number of the critical prepayment processes means that many suppliers who do not offer prepayment as one of their core ADM product sets will have limited capability in this area. Where an Installing Supplier is mandated to offer ADM prepayment services to other suppliers we believe that, if this obligation is to have the desired effect, it is imperative that Ofgem details the full range of services they need to provide.

In addition to covering the carriage of payment instructions to the meter and the generation of UTRNs, it is our belief that, to be a viable alternative to replacing the meter, the offering of prepayment services needs to extend to the provision of payment network services, the processing of prepayment alerts and alarms, the configuration of prepayment settings and thresholds and potentially, even the supply of suitable payment devices to consumers. It is also vital that these services are cost reflective and are offered in a manner that is accessible to all suppliers. Failure to ensure that Installing Suppliers offer an adequate range of prepayment services could effectively render any obligations in this area redundant, with Installing Suppliers making minimal service offerings to ensure compliance in the full knowledge that other industry participants would be unlikely to have all of the other system components that would enable the consumer to continue with prepayment on their ADM.

However, even if the range of prepayment services above are made available by Installing Suppliers, the commercial and technical challenges that suppliers will face to support a truly robust ADM prepayment service are such that the stranding of some ADM assets operating in prepayment mode will be inevitable.

**Question 12: Do you consider that £60 represents an appropriate proxy for the cost of a meter replacement in these circumstances? If not, what would you consider to be a more appropriate amount?**

Following an examination of our current metering costs ScottishPower agrees that £60 per-meter is an appropriate reflection of the cost of a meter replacement visit.

**Question 13: How long a lead time do you consider is appropriate for enabling suppliers to be compliant with the proposed Licence Conditions?**

Until the full scale of the system and process changes that will need to be implemented are fully understood we are unable to say, at this stage, how long a lead time would be required. However we would consider it inappropriate for any new obligations to come into force until all the supporting industry system and code changes have been fully effected.

The industry and internal system changes required to support the proposed obligations will need careful design and development and will almost certainly require a significant number of changes to supplier, agent and network operator systems. We also anticipate that a number of complementary changes will need to be made to industry codes, such as the BSC, UNC, SPAA and the MRA. Each of these codes prescribes its own change management process, which will need to be successfully negotiated before the necessary changes can properly take effect. It would be counter-productive to introduce these new obligations until such times as the industry has the infrastructure in place to fully to support them.

We would also welcome any efforts that can be made to align the proposed new governance arrangements with any obligations DECC seeks to impose on suppliers to support the interoperability of SMETS compliant meters during the Foundation Stage of the smart meter rollout.