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Dear Colin

Commercial interoperability: proposals in respect of managing domestic customer switching where meters with advanced functionality are installed

Thank you for the opportunity to comment on the above revised proposals for consultation, dated 18 August 2011.

UK Power Networks supports the Government's commitment to delivering Britain's low carbon future. We are fully committed to supporting DECC/Ofgem in developing our networks to meet these objectives, and planning for and supporting the delivery of the GB Smart Metering Programme. It is important, therefore, that the smart metering implementation programme should reflect the lessons learned from the previous large scale new meter rollouts – particularly the expansion of competition in 1994 and 1998. Both of these implementation programmes had some negative impact on customers through disturbance to customer billing and reduced customer (meter) service.

The rollout of smart meters nationwide will require a significant investment of private capital (estimated at £11.7 billion by DECC). This capital will need to come from the retail suppliers who are obligated to deliver the rollout, from other private investors who the suppliers may subcontract to deliver their obligations, and from the loan markets and debt capital markets. In our view, it is critical to the success of attracting capital that prospective providers of capital can forecast the meter rental rates they will receive on their investments. This means that there must be clear and binding obligations on new suppliers to maintain contracted meter rental payment levels when a customer switches to a new supplier. This could be achieved via regulation, or via binding industry-wide contractual agreements. We believe that Ofgem and DECC have an important role to play in facilitating this outcome.

There is also a concern that the proposed treatment of domestic meters installed prior to the confirmation of DCC compliance requirements will not be in the interests of customers, as it could act as a barrier to changing supplier. It is therefore important that suppliers have an obligation to make customers aware, at the time of installation, of any potential technical limitations before DCC services become available. For customers, it is also important that commercial arrangements and suppliers' obligations are clearly defined in advance of any significant trialling in 2013, to ensure that the need for future switching of meters – and the resulting negative impact on customer service – is minimised.

We have provided more detailed answers to your questions in Appendix 1 to this letter. If you have any questions about our response, please do not hesitate to contact me.

Yours sincerely

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Head of Regulation, UK Power Networks

Copy:

Ben Wilson, Director of Strategy & Regulation and Chief Financial Officer, UK Power Networks
Paul Measday, Regulation Manager, UK Power Networks
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Appendix 1

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?

UK Power Networks agrees that customers should be made aware of any potential loss of service before a switch takes place. However, we believe that it is important that customers are also made aware of any potential functionality loss before they agree to the installation of a new 'smart' meter, prior to the DCC being established. We are concerned that only informing customers at the point of switching would potentially act as a barrier to changing supplier. Such an example would be that the supplier should be responsible for ensuring that the tariff information is maintained during a change of ownership. It is proposed that the obligation should only apply to ADMs installed from the commencement of the obligation, at a point in time in the future which has yet to be defined.

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

Yes, it will be important for customers and data integrity within the industry to ensure that suppliers are required to remove any misleading information before transferring responsibility to another party.

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

Yes, we believe that suppliers should have ongoing responsibility for historic data to ensure continuity of data records and maintain data quality.

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

Within the SG2 Interim Interoperability Sub Group, it has been recognised that providing prepayment ahead of DCC is very complex. It also raises many difficult issues that need resolution. UK Power Networks believes that further work is required in this area to define a solution that overcomes these issues and hence would propose that this is introduced at a later stage in the programme. Suppliers may want to trial various prepayment/PAYG options and it is important that the customer experience of prepayment/PAYG smart metering is not compromised by the new supplier having to change one smart meter for another. Suppliers should not be allowed to charge customers where a change is required. As to whether suppliers should be required to replace such smart metering equipment where it is not compliant in all respects with the final SMETS: any decision in that respect must balance the cost and consumer inconvenience of retrofitting with the practical consequences of any unavailable functionality. Only where the latter outweighs the former should retrofitting be a requirement.

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?

We agree, however the definition of how this information will be transferred needs to be resolved and should be consistent across the industry.

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

The interoperability licence condition obligation must extend to ensuring that interoperability applies to all aspects of the Smart Metering Equipment including functionality that is required by network operators to ensure they are able to continue to develop economical, efficient and coordinated systems of electricity and gas distribution. In particular, it will be important that functionality included in the SMETS to provide for the development of more efficient and 'smart' networks that will be required to support an economical transition to a low carbon economy is not compromised by any lack of interoperability in respect of those functions.

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?

UK Power Networks agrees that there should be an obligation on the supplier (or appointed agent) who originally installed the smart meter to offer terms to any supplier who subsequently supplies energy to that customer. The original supplier should be obliged to offer both smart and dumb meter rental terms to other suppliers, to reflect the fact that the incoming supplier may be unable to use the meter in smart mode. Technical specifications governing compliance of smart metering systems will be set out in the Smart Energy Code (SEC). Consequently, if the new supplier inherits a meter that is not compliant with these specifications, they would have no choice but to treat it as a dumb meter and to include it within their own mandated smart rollout plans. We believe that the incoming supplier should not bear any costs associated with early removal (e.g. termination clauses the original supplier may have had imposed on them), or any other liabilities they may be exposed to as a consequence of the original supplier's contractual arrangements with the meter asset provider (MAP). We agree with the principle that early movers who deploy smart meters do so at their own commercial risk, and therefore any stranded costs that are incurred should not be transferred to the new supplier(s), or smeared in any way across the industry.

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

Not applicable.

Question 9: What costs do you consider suppliers will need to incur to ensure compliance with the proposed licence conditions?

Not applicable.

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

As recognised by Ofgem in its consultation response, the introduction of incentives could lead to unintended consequences for customers and/or suppliers. Any incentive that is brought in should avoid introducing further market distortion. We believe that early movers who undertake installations prior to the commencement of mass rollout so do so at their own commercial risk only when customer service and/or interoperability are negatively impacted. When meters are required to be exchanged for these circumstances then the existing supplier should bear the costs. This should act as a sufficient incentive to suppliers to ensure that meter exchanges are avoided wherever possible.

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?

UK Power Networks believes that the introduction of a fixed nominal charge and an appropriate governance framework, including a disputes resolution process, would place sufficient incentives on suppliers in respect of the costs of a meter exchange.

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?

Not applicable.

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

Not applicable.

UK Power Networks
14 October 2011