

Tim Guy
Smart Metering Implementation
Programme
Department of Energy and
Climate Change

Direct Dial: 020 7901 7147
Email: Laura.Nell@ofgem.gov.uk
Date: 18 May 2015

Dear Tim,

Ofgem's response to DECC's March 2015 consultation on the implementation of 868Mhz and Alternative HAN solutions

We welcome the opportunity to respond to this consultation. Ofgem regulates the gas and electricity markets in Great Britain. We have an important role in ensuring that the interests of consumers remain protected, both during the transition to smart metering and in the enduring framework. We also play a key role in monitoring and, where appropriate, enforcing compliance with any new regulatory obligations relating to smart meters.

We set out below our response to some of the key issues in DECC's publication.

The provision of a reliable and effective Home Area Network (HAN) is an essential ingredient in ensuring the success of the smart meter roll out. Consumers will demand that these systems operate efficiently and reliably to provide the services that smart metering promises. We anticipate that effective HAN technology will reduce the costs associated with installation.

We note that these solutions are needed by suppliers as soon as possible to be able to fully support the rollout.

868Mhz HAN solution

We support DECC's proposals for DCC to provide dual band comms hubs. We note that the DCC has stated work on investigating how these can be made available.

This work will continue to require coordination between DCC, suppliers and DECC; in particular for driving the work to develop the necessary standards and specifications for 868Mhz to operate successfully on the HAN. We fully support the proposal for a trial to provide more information to guide the decision on the use of 'high power' variants on the 868Mhz standard.

Arrangements to support the provision of Alternative HAN solutions

The challenge as to how to operate the HAN in tall buildings with multiple occupancy has proved to be a difficult one to solve. Our understanding is that although technical solutions to this problem are achievable, there are a limited number of commercially available solutions for suppliers to draw on to meet their obligations. We therefore agree with DECC that some form of regulatory intervention will be needed to facilitate the availability of these services to support the rollout.

DECC proposes that provision of an Alternative HAN solution should be secured through a collective solution (including regulatory requirements) to overcome commercial barriers. We agree that overcoming the commercial barriers is important to facilitate progress in this area in the short to medium term, and so welcome DECC's proposal for the provision of a collective Alternative HAN solution (and requirements) where they meet this aim. These arrangements will need an appropriate regulatory framework.

In designing the regulatory arrangements for collective purchasing of Alternative HAN installations:

- Care will need to be taken to ensure that the new regulatory framework will enable Alternative HAN solutions to be provided in the most economically efficient manner. In particular, where competitive pressure is not a feature of the arrangements, alternative incentives are needed to ensure that consumers pay no more than is necessary for these services. A specific example is the need for incentives to mitigate against over-provision (the installation of Alternative HAN solutions in premises where they may not be needed).
- DECC should bear in mind the competition risks to consumers that may arise in the longer term (for example, from insufficient competition in the provision of Alternative HAN solutions). We therefore support the guiding principles set out in 7.1 of the consultation document.

The establishment of a contracting body supported by regulation will take time. Given the need to drive this forward we agree with the assessment in 7.6 of the consultation document, that it is likely to be quicker and less costly to require either the SEC Panel or DCC to take on this role. We look forward to working with you to help further develop these proposals.

Charging options (including billing)

A key element of the regulatory framework for Alternative HAN will be the establishment of the charging arrangements.

We broadly agree with the options presented, and recognise the risks and the potential effect on incentives for market participants. It is difficult to draw any firm conclusions without understanding the nature and magnitude of the costs and the

profile of Alternative HAN consumers. As a next step, we encourage DECC to further consider the impact and likelihood of the risks associated with charging, as far as is practical, to reach an appropriate decision which is in the interests of consumers. We also encourage DECC to monitor the impact of these as the rollout progresses and more information on costs and suppliers' behaviour becomes available.

The rationale for cost reflectivity may be greater where suppliers have more control over costs, and costs are so low as to render any administrative costs (eg to reflect new billing under an existing body) comparatively greater. Alternatively, the risk to consumers identified in 7.9 of the consultation document under cost reflectivity may be greater where it disproportionately affects vulnerable consumers. Considering the nature of costs may also allow consideration of alternative approaches to those described by DECC (e.g. Shared Alt HAN costs could be split by market share, with any variable costs charged as and when a supplier connects). Equally, there may be scope for treating the set-up costs for the new arrangements differently than those related to ongoing charges.

In addition to the charging risks noted, DECC may also wish to consider how the various charging options affect the incentives on the pace of supplier rollout.

We would be happy to work with DECC on the development of these arrangements.

Yours sincerely,

Laura Nell
Head of Smart Metering

