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Call for evidence: Review of the regulatory arrangements for the Data Communications Company – AIMDA Response

Please note that this response represents the majority view of AIMDA members and should not be considered as reflective of an individual member's point of view. As a discrete organisation, AIMDA only comments on matters that have the potential to impact the non-domestic market; as such all comments within this response should be considered as being related specifically to the non-domestic market. AIMDA is comprised of multiple organisations, some of which have interests that extend outside of AIMDA's non-domestic focus. AIMDA would like to draw attention to the fact that individual organisations will also submit responses independently, which will include their individual opinions relating to all markets in which they operate, not just the non-domestic market in which AIMDA operates.

This response is not supported by the following members of AIMDA: SMS Plc.

Introduction

The Association of Independent Meter and Data Agents (AIMDA) represents seven of the largest independent providers of metering and data services to non-domestic consumers in the UK[1]. Collectively, our members support the energy management activities of over ~1.5 million non-domestic sites across the UK and process consumption data for settlement for nearly half the UK's total electricity volume. Competition in metering and data, coupled with consumer freedom of choice, has allowed us to thrive and deliver considerable benefits to non-domestic consumers through reduced pricing, higher service levels, bespoke solutions and access to innovative technologies.

The DCC's role as a licenced monopoly at the heart of the Smart meter roll-out, impinges upon this well-established, fully functioning, competitive non-domestic market. Their expansion into the non-domestic sector, particularly Microbusinesses, has hampered effective competition in metering and data, restricted consumer choice and resulted in negative impacts to consumers. Given the role of energy metering and data in the Government's Net Zero Strategy, we hope that Ofgem recognise the benefits of preserving and fostering competition in these markets over the timeframe to 2050 and will treat this as a key outcome of the Review.

AIMDA members have strong views on the scope of DCC's role in the non-domestic market and welcome the opportunity to respond to this call for evidence. We expand on our views later in this response, however; our headline recommendations are below:

1. The DCC's Mandatory Business should remain unchanged, without further extension of scope in the non-domestic sector
2. Limit DCC-led innovation to improving the service and efficiency of their Mandatory Business
3. Implement an ex-ante cost control approach for the next licence term
4. Ensure that the DCC supports independent metering and data providers equally to Suppliers
5. Introduce SLAs and transparent performance reporting focussed on consumption data retrieval

[1] The member organisations of AIMDA are; TMA Data Management, Stark, IMServ, Energy Assets, Siemens, SMS Plc and WPD Smart Metering Ltd

The initial DCC licence term has been characterised by under-delivery and excessive costs. These recommendations aim to increase value for money, enhance performance and improve equitable access to infrastructure, so that consumers and industry can attain the full intended benefits of Smart metering.

The future role of a DCC, the scope of its objectives and its authorised business post-2025 to support smart metering across GB

The majority view of AIMDA members is that the future role of the DCC should be limited to supporting focusing on domestic Smart metering across GB. Analysis by an AIMDA member organisation suggests that at current installation rates, the roll-out will only reach 85% by mid-2027, despite external target and tolerance levels. A significant amount of roll-out activity will therefore spill over into the next licence term. Similarly, there is still a lot of work to do to utilise the full capabilities of Smart meters. Innovation will be an important aspect of achieving this, however; we view the DCC's role in this as a facilitator, rather than instigator.

The DCC's scope was already unnecessarily extended to microbusinesses in 2016. BEIS has stated this was to provide microbusinesses with consumer protections, however; it is unclear what advantages SMETS2 has over AMR in delivering such protections for microbusinesses:

- **Support for Faster Switching**: AMR supports faster switching through remote collection of Change of Supplier readings.
- **Interoperability:** Meter technical details are freely exchanged between parties and manufacturers are obliged to release protocols to enable data collectors to communicate with their meters.
- **Access to consumption data:** SMETS2 consumption data comes via the supplier via the DCC. This introduces multiple additional hand-offs that jeopardises energy management activity comparative to AMR.
- **Total Cost of Ownership:** When DCC charges to suppliers and the costs associated with becoming a DCC User, which are ultimately passed on to consumers and microbusinesses, are taken into account, the total cost of ownership for SMETS2 is greater than AMR.

We therefore believe that this previous extension of the DCC's scope is not only detrimental to effective competition but also to the very consumers the policy aims to protect. Ideally, the DCC's scope in the microbusiness sector should be narrowed for the next licence term, to make room for alternative solutions that could be of greater or equivalent benefit to microbusinesses. At the least, this precedent exemplifies why further extensions to scope in the non-domestic sector should not be considered.

Recommendation: The DCC's Mandatory Business should remain unchanged, without further extension of scope in the non-domestic sector. The scope of its objectives and priorities post-2025 must be to complete the roll-out, stabilise the core service, deliver MHHS cost effectively, improve performance, improve customer service and drive efficiency.

The extent to which the regulatory framework should enable DCC to offer additional services to the broader energy sector, and to non-energy sector users, and the potential nature of such services

When considering the extent to which the DCC should be allowed to offer additional services, it is important to take stock of the DCC's performance in delivering their Mandatory Business and adjust expectations in terms of timescales, output and costs accordingly. The track-record against key milestones does not inspire confidence:

Milestone	Target	Actual
DCC Go Live	March 2014	November 2016
Completion by original deadline (2021)	100%	42%[2]
SMETS1 migrated by 2021	100%	25%[3]

Significant issues also persist across the infrastructure; the success rate of pre-payment vends is low, CSP N region is continually below its minimum service level, HAN stability issues cause SMETS2 meters to go dumb and successfully enrolled SMETS1 meters continue to be operated in Traditional mode. This demonstrates that the DCC are not yet able to offer their core service satisfactorily or efficiently. There is plenty for the DCC to focus on during the remainder of the roll-out and beyond, without getting distracted by additional services.

Despite this, in August 2020 the DCC published a bold plan for expansion[4]. This envisaged the DCC leveraging its current statutory monopoly into becoming a ubiquitous infrastructure that would offer services in new sectors, such as electric vehicle (EV) metering and smart charging and Telehealth. It also proposed coupling these activities with revenue generation activities in ancillary areas.

AIMDA members are concerned by such proposals. A mandated DCC solution for EV metering and smart charging in particular is unjustified – the competitive market has already delivered a solution. Chargepoints already have intelligent metering integrated and Charge-Point Operators (CPO) can send load control signals directly to any chargepoint on their network. The Open Charge-Point Protocol (OCCP) ensures interoperability with all manufacturers. When partnered with a Virtual Lead Party (VLP), the aggregated chargepoint flexibility on a CPOs network can be offered to both National Grid ESO through the Balancing Mechanism and on a smaller scale to Distribution Network Operators through markets like Piclo Flex. Flexitricity and ev.energy were recently the first to achieve this[5].

This is a perfect demonstration of the benefits of competition relative to monopoly – the market has been able to move faster, at lower cost to consumers and with a consumer-centric proposition. We are concerned that any mandated DCC solution that incorporates the non-domestic market would be tailored to meet the needs of industry, primarily DNOs to allow them to directly control the load of EVs. The

[2] BEIS Smart meter Statistics Q4 2020
[3] 3.8m SMETS1 migrated, total SMETS1 = 16m
[4] DCC, 10 August 2020, "DCC Business and Development Plan 2020". Available at:https://www.nao.org.uk/wpcontent/uploads/2018/11/Rolling-out-smart-meters-Summary.pdf.
[5] https://www.theade.co.uk/news/market-news/ev.energy-and-flexitricity-partner-to-enter-ev-charging-into-balancing-mech

proposal consolidates too much market power with existing dominant players and would have significant impacts on two emerging competitive markets. First, the competitive CPO market for smart charging would be foreclosed entirely. Secondly, by giving DNO's or other existing dominant players, the ability to directly control EV load via the DCC a significant portion of the potential competitive market for local flexibility (that relating to EV chargepoints) would also be foreclosed.

Considering the above, any development costs sunk into the DCC providing an EV metering and smart charging solution would be an unnecessary cost to non-domestic consumers – the market has already delivered. Given that industry is currently reticent to request DCC cost estimates for even minor changes, as this itself attracts a high cost, we are concerned that costs to develop a solution would be excessive. If a DCC solution that includes the non-domestic market is developed, it should not be mandatory as market solutions should be allowed to compete. All avenues should be kept open to ensure the success of such a critical national infrastructure project is not unduly tied to one party. We expect Ofgem to take all the above into consideration in any impact assessment for the DCC providing additional services, including EV metering and smart charging.

In summary, our view is that in the non-domestic market, the DCC should focus on delivering its core tasks. It should resolve issues in its current infrastructure to ensure that it works satisfactorily and finish the job properly, instead of becoming distracted from its primary mission by exploring opportunities to expand into other areas. That said, there are many opportunities for the DCC to innovate around its Mandatory Business, for instance to encourage and enable Dynamic Time of Use, which should be where its priorities lie.

Recommendation: Limit DCC-led innovation to improving the service and efficiency of their Mandatory Business.

The effectiveness of the current regulatory framework and enduring governance structures in ensuring DCC meets its objectives and provides value for money, as well as alternative approaches which could drive performance in the future

AIMDA members regard the existing regulatory framework as ineffective. Not only have the DCC categorically failed to deliver their Mandatory Business this has also been coupled with excessive year-on-year cost increases. Ineffective cost control, unjustified extension of scope and lack of incentive to drive efficiency has meant that total DCC costs over the licence term have doubled from the original forecast in their Licence Application Business Plan (**LABP**) - ~£4bn vs ~£2bn. The original forecast assumed 50m SMETS meters would be connected to the DCC by December 2020. As of March 2021, just 10.8m are connected[6]. This equates to an annual cost per meter that is 11x greater than that put forward by Capita in their competitive bid for the DCC licence. This represents a material failing and extremely poor value for money, which consumers are funding whilst receiving reduced benefits.

[6] Stats on Smart DCC website: smartdcc.co.uk, accessed 19/03/21

The ex-post regulatory approach appears to have allowed Capita to underbid in order to win the licence in 2013 and is now allowing them to increase costs, and in turn margin, year-on-year. An ex-ante approach would address this by allowing Ofgem to exert greater control over the DCC's annual budget. With the above in place, Ofgem's position as regulator of the DCC's Licence will be strengthened and costs to industry will become more transparent. DCC costs will become more proportional to the service they provide and appropriate incentives will be in place to ensure that resource is focussed on driving efficiency. This will help ensure value for money whilst securing the long-term benefits of smart metering for industry and consumers rather than continuing to erode them.

Recommendation: Implement an ex-ante cost control approach for the next licence term.

The key aspects of DCC's business that stakeholders consider crucial to their own activities in the present and future energy market over the timeframe to 2040

As Supplier Agents, AIMDA members are reliant on the DCC infrastructure to support energy suppliers in their roll-out of SMETS2 meters. Efficiency of the Install & Commission process is therefore essential to our business operations and progress of the roll-out overall. The lack of ability for the Registered Supplier Agent (RSA) user role to perform the end-to-end Install & Commission process itself has been a source of significant inefficiency and unnecessarily slowed the rate of installation. Integration with every supplier's DCC Adapter is required, which increases cost and time. Moreover, this creates barriers to effective competition and frustrates consumer freedom of choice. If an end customer wishes to appoint an alternative Metering Agent to their supplier's default, the cost of integration with the Supplier's DCC Adapter is uneconomical for the low volume of sites. Improvements in this area are essential to ensure there is effective competition in the SMETS2 metering market. AIMDA have previously raised this issue to BEIS and other parties on many occasions but there has been no significant follow-up to address the issue within the last 3 years.

Similarly, AIMDA members are planning to qualify for the new "Smart Data Service" (SDS) role under the BSC for Market-Wide Half-Hourly Settlement (MHHS). A component of the SDS is a Meter Data Retrieval (MDR) function, which will require a new DCC User Role to facilitate this as a service independent of the Supplier. For AIMDA members to fairly compete with suppliers, who will already be able to perform this function, it is vital that there is a level playing field. We therefore expect the equitable treatment of service requests to retrieve consumption data regardless of whether it is a supplier operating in the MDR role or an independent agent. Equally we expect the DCC infrastructure to reliably provide this data when requested and without constraint.

Suppliers have been treated as the priority customer group over the initial licence term, this has restricted the DCC's view of the market to the detriment of other customer groups. The requirements of independent metering and data providers have not been well understood and to an extent de-prioritised. Given the role these organisations will play in achieving Net Zero, it is important for the DCC to support them equally to Suppliers during the next licence term.

***Recommendation*:** Ensure that the DCC supports independent metering and data providers equally to Suppliers.

Optimal arrangements for DCC's compliance, cost control, and incentive regimes, among others

There is an urgent need to reform the arrangements for the DCC's compliance, cost control and incentive regimes, particularly where it relates to the non-domestic market. The current DCC regulation, the Operational Performance Regime (OPR) and Baseline Margin Project Performance Adjustment Scheme have not been effective in ensuring adequate oversight of the DCC's activities and controlling its costs. As highlighted previously, total costs over this licence term have doubled from the original forecast, without sufficient justification. We therefore argue that Ofgem's powers under the price control process should be strengthened to manage the DCC's budget more effectively and with greater transparency and accountability. Annual figures, published by the DCC as part of the Cost Control process, on the current cost per connected meter would be beneficial. We also encourage greater scrutiny from Ofgem in the event of DCC cost increases and limits on recoverable costs where such increases cannot be justified.

Stronger SLAs and more transparent performance reporting would also be beneficial. For instance, it is difficult to judge how well the DCC is performing or the extent to which suppliers are utilising the infrastructure to retrieve more regular remote reads. Elexon data shows that electricity settlement performance in the NHH market has not increased in line with the volume of SMETS meters installed[7]. This suggests that the benefits of smart metering are not being fully realised. Without transparent reporting it is difficult to determine where the weaknesses are.

We recognise that SEC Mod 122 will go some way to improving this situation. However, as such a large proportion of the benefits of Smart metering rely on non-domestic consumers having access to consumption data, we recommend the DCC are specifically measured on the % of connected meters that successfully provide at least a monthly read. An obligation on suppliers to do so may be required. This would provide a better view of how the DCC performs in relation to data retrieval and thus better inform expectations and requirements for MHHS. Incentive regimes based on this metric would ensure that DCC are delivering the intended consumer benefits.

The full extent of public funding for the Programme should also be made more transparent to ensure that the DCC provides value for money to non-domestic consumers and so that its activities can be properly scrutinised. We consider the DCC's ineffective cost control to have caused a direct financial impact on non-domestic consumers, which may threaten the long-term viability of the Programme. This is a significant consumer protection issue that must be addressed to ensure fairness and maintain confidence in the Programme.

As highlighted previously, the approach to cost control should transition to ex-ante for the next licence term. Similarly, the incentive regimes should be built around improving operational performance and driving efficiency.

Recommendation: Introduce SLAs and transparent performance reporting focussed on consumption data retrieval.

[7] Elexon, Smart MTD Report: https://www.elexon.co.uk/data/smart-meter-technical-detail-report/, accessed: 22/03/21