



Department  
of Energy &  
Climate Change

# Consultation on the DCC's Procurement Strategy and Statement of Service Exemptions

14D/272

23 July 2014



Department of Energy and Climate Change

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The consultation can be found on DECC's website:

<https://www.gov.uk/government/consultations/dcc-procurement-strategy-and-statement-of-service-exemptions>

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# General information

## **Purpose of this consultation:**

This consultation seeks views on two documents produced by Smart DCC, in particular on whether they are suitable for approval by the Secretary of State. These documents are the DCC's Procurement Strategy for Relevant Service Capability and its Statement of Service Exemptions. The DCC's licence requires it to have these documents in place and approved by the Secretary of State within 12 months of licence award.

**Issued:** 23 July 2014

**Respond by:** Friday 29 August 2014

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Consultation reference: URN 14D/272 Consultation on the DCC's Procurement Strategy and Statement of Service Exemptions

## **Territorial extent:**

This consultation applies to the gas and electricity markets in Great Britain. Responsibility for energy markets in Northern Ireland lies with the Northern Ireland Executive's Department of Enterprise, Trade and Investment.

## **How to respond:**

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

## **Additional copies:**

You may make copies of this document without seeking permission. An electronic version can be found at <https://www.gov.uk/government/consultations/dcc-procurement-strategy-and-statement-of-service-exemptions>.

Other versions of the document in Braille, large print or audio-cassette are available on request. This includes a Welsh version. Please contact us under the above details to request alternative versions.

## **Confidentiality and data protection:**

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation

(primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. It would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

We will summarise all responses and place this summary on our website at [www.decc.gov.uk/en/content/cms/consultations/](http://www.decc.gov.uk/en/content/cms/consultations/). This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

**Quality assurance:**

This consultation has been carried out in accordance with the Government's Code of Practice on consultation, which can be found here:

<http://www.bis.gov.uk/files/file47158.pdf>

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

DECC Consultation Co-ordinator

3 Whitehall Place

London SW1A 2AW

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# Introduction and summary

## The DCC licence

- 1 Smart Meters are the next generation of gas and electricity meters. They will offer a range of intelligent functions and provide consumers with more accurate information, bringing an end to estimated billing. Consumers will have near real-time information on their energy consumption to help them control and manage their energy use, save money and reduce emissions.
- 2 On 23 September 2013, a new licensed entity, the Data and Communications Company (DCC), was established when the Secretary of State granted Smart DCC Ltd a licence<sup>1</sup> (the 'DCC Licence') to regulate the DCC's activities. The DCC has an obligation in its licence to provide a Smart Meter communications service, which will be the means by which energy suppliers, energy networks and others can communicate remotely with Smart Meters in Great Britain. The DCC will deliver this service by working with its sub-contractors, including the Data Service Provider (DSP) and Communications Service Providers (CSPs).

## Content of this consultation

- 3 Under the terms of the DCC Licence the DCC is required to produce a statement of its Procurement Strategy for Relevant Service Capability (the 'Strategy') (Condition 16 Part D) and a Statement of Service Exemptions (Condition 17.20).
- 4 The Strategy sets out the nature and extent of the DCC's procurement activity, including how it intends to determine which capabilities are needed and a forward plan for procurement. It is discussed further in Chapter 1.
- 5 The Statement of Service Exemptions sets out the characteristics of properties which, for the time being, need not be served by the DCC either because of the geographical area in which they are located or because of some physical characteristics of the property. It is discussed further in Chapter 2.
- 6 Both documents must be approved by the Secretary of State and put in place within 12 months of licence award (i.e. by 23 September 2014). Before approving these documents, the Secretary of State must consult with relevant stakeholders.
- 7 **The purpose of this consultation is to seek stakeholders' views on these documents and whether they are suitable for approval by the Secretary of State.**

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<sup>1</sup> Available at Ofgem's electronic public register <https://epr.ofgem.gov.uk>

# 1. Procurement Strategy

## Introduction

- 8 Condition 16 (Procurement of Relevant Service Capability) of the DCC Licence sets out the DCC's obligations with respect to the procurement of Relevant Service Capability ('RSC'). RSC encompasses all the resources that the DCC procures for the purposes of securing the provision of its Mandatory Business Services<sup>2</sup>.
- 9 The DCC must, in all circumstances, procure a sub-set of RSC known as Fundamental Service Capability ('FSC') on a competitive basis. FSC comprises the capability provided by the CSP and DSP contracts respectively, and any adopted contracts that provide similar capability (C16 Appendix 1).
- 10 In general the DCC must also competitively procure any other RSC, the exception being where such non-competitive procurement would be either the most economical and efficient option or would be immaterial in terms of its value or use of resources (C16.6). The Procurement Strategy must cover all capability, including any such exceptions.

## Required contents of the Procurement Strategy

- 11 Condition 16 Part D (Procurement Strategy for Relevant Service Capability) requires the DCC to produce, and have approved by the Secretary of State, a statement of its Procurement Strategy for Relevant Service Capability (the 'Strategy'). The Strategy must set out the DCC's conclusions with respect to the nature and extent of its procurement activities, with particular reference to (C16.21):
  - a) the determination of the RSC necessary to enable the DCC to exercise its functions;
  - b) the determination of which of those capabilities are to be procured from external service providers by means of a competitive process;
  - c) the determination of how and to what extent the required RSC reflects the guidance contained in any Public Interest Statement issued by the Secretary of State;
  - d) the determination of how the required RSC is to be assembled into discrete contracts; and
  - e) the determination of a forward plan of the procurement activities necessary to secure those contracts.
- 12 The Strategy provided by the DCC is attached at Annex 1. We have reviewed the document and consider that it is ready for approval, subject to comments from

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<sup>2</sup> Mandatory Business Services are those services the DCC must provide - its core and elective communications services and enabling services such as enrolment and the provision of communications hubs (Condition 6 of the DCC licence provides further detail).

stakeholders. We would therefore welcome stakeholder views on how the DCC has addressed the requirements in C16.21 (as summarised above).

- 13 Condition 16 Part G (Undertakings required in respect of confidentiality) provides for the Secretary of State (or, once oversight of the Strategy passes to it, Ofgem) to require any person taking part in the consultation process to enter into undertakings with respect to maintaining the confidentiality of the document. Such requirements are to be considered if the Secretary of State believes they are necessary to maintain the legitimate commercial interests of any person (C16.32), this could include the DCC or its service providers. At this stage we do not consider that such undertakings are necessary and the Strategy is provided in full.
- 14 It is important to note that the initial FSC was developed through, and is in place as a result of, the competitive procurement exercise undertaken by the Government in parallel with the DCC licence competition in 2013. Therefore the Strategy is forward looking and focusses on the DCC's future procurement activity.
- 15 Respondents should note that, further to C16.21(c), at the current time there is no Public Interest Statement issued by the Secretary of State.
- 16 In addition to approving the content of the first Strategy, C16.3 also requires that the form (the structure, level of detail etc.) of the Strategy be designated by the Secretary of State. Again, subject to stakeholder comments, we propose that the form of the Strategy as show in Annex 1 is appropriate for designation.

#### Future revisions of the procurement strategy

- 17 After the Secretary of State's initial approval, the DCC is obliged to review its Strategy at least once a year. The purpose of this review is to ensure that the Strategy continues to meet the requirements of Condition 16. If the DCC considers it necessary, it should submit any proposals for revisions of the Strategy to Ofgem (C16.24). In turn Ofgem may, at any time (following consultation), direct the DCC to revise the Strategy (C16.25).

#### Consultation Question

- |    |   |
|----|---|
| 1. | <p>Do you have any comments on the DCC's Procurement Strategy for Relevant Service Capability? In particular:</p> <ul style="list-style-type: none"><li>• Do you agree that the Strategy meets the requirements of the DCC licence? and</li><li>• Do you agree that the Strategy is suitable for approval by the Secretary of State?</li></ul> <p>If you do not agree, please explain your rationale.</p> |
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## 2. Statement of Service Exemptions

### Introduction

- 18 Condition 17 of the DCC licence obliges it to provide services, or to offer terms for services, in accordance with the requirements of that condition and as further detailed in the Smart Energy Code (SEC).
- 19 However, the DCC is not obliged to enrol Smart Meters (and therefore to provide other services to them) that fall within the categories specified in its Statement of Service Exemptions (C17 Appendix 1).
- 20 As set out in the November 2012 Government Response to the consultation on the draft DCC Licence<sup>3</sup>, the purpose of the Statement of Service Exemptions is to identify those categories of property (including by reference to geographical area) at which it would be disproportionately costly or technically unfeasible for the DCC to provide services to Smart Meters and what proportionate steps the DCC proposes to eventually provide services to them.
- 21 The first Statement of Service Exemptions must be approved by the Secretary of State and in place within 12 months of licence award (i.e. by 23 September 2014). Before approving it the Secretary of State must consult with relevant stakeholders.
- 22 It is important to note that the initial overall coverage targets are derived from the Communication Service Provider ('CSP') contracts developed in a competitive procurement exercise undertaken by the Government. As a consequence, we are content that, for the time being, the coverage level to the end of 2020 is appropriate in the context of the national policy objective to secure the widespread installation and operation of smart meters in Great Britain at a reasonable overall cost to the general body of energy consumers. The DCC remains under a licence obligation to progressively seek to achieve full coverage (see paragraph 24 below).

### Required contents of the Statement of Service Exemptions

- 23 The Statement of Service Exemptions (C17 Appendix 1 Part A) must set out, in appropriate detail, two service exemption categories:
- Service Exemption Category 1: this must specify any types or configurations of premises to which a Smart Meter Communication Service need not for the time being be provided because it is either technically impracticable or could only be achieved at disproportionate cost; and
  - Service Exemption Category 2: this must specify any geographical areas in Great Britain within which a Smart Meter Communication Service need not for the time being be provided to premises, again because it is either technically impracticable or could only be achieved at disproportionate cost.

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<sup>3</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/43050/6894-gov-resp-consultation-dcc-lic.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/43050/6894-gov-resp-consultation-dcc-lic.pdf)

- 24 The Statement of Service Exemptions must also set out the steps the DCC proposes to take in order to secure the eventual provision of services to those meters that fall within either of the exemption categories (C17 Appendix 1 A6).
- 25 The DCC's first Statement of Service Exemptions is attached at Annex 2 to this consultation.
- 26 The DCC's approach to categorising the properties that fall within Category 1 has been developed through dialogue with its CSPs. It has said that the available information is limited at this stage, although it is aware of the types of property that are likely to present problems. Over time, as the DCC and the CSPs work with suppliers to extend their understanding of the technical difficulties found at installation, the DCC would expect to be able to provide more detailed information. Similarly, with regards to 'Category 2' the DCC expects to further refine its geographical coverage models in the light of experience. We consider that this is a reasonable approach but would welcome stakeholders' views.
- 27 We have reviewed the document and consider that it is ready for approval, subject to comments from stakeholders. We would therefore welcome stakeholder views on how the DCC has addressed the requirements in C17 Appendix 1.

#### Future revisions of the Statement of Service Exemptions

- 28 After the Secretary of State's initial approval, the DCC is obliged to review its Statement of Service Exemptions at least once each year. Following that review it should propose to Ofgem any modifications it thinks are necessary (C17 Appendix 1 A8). In turn Ofgem may, at any time (following consultation), direct the DCC to revise the Statement of Service Exemptions (C17 Appendix 1 A9).
- 29 As noted above, we would expect future revisions of the Statement of Service Exemptions to include more detail on the Service Exemption Categories as the DCC and its CSPs build up their knowledge base.
- 30 We think it likely that there will be an explicit link between the DCC's coverage targets as set out in the Statement of Service Exemptions and one or more of its operational performance measures. We also note that the DCC's operational performance measures (C38 Part C) are yet to be defined under the licence (they are due to apply from the regulatory year 2016/17). These will be determined by Ofgem following consultation with DCC, the SEC Panel and SEC Parties.

#### Consultation Question

2. Do you have any comments on the DCC's Statement of Service Exemptions? In particular:
- Do you agree that the Statement meets the requirements of the DCC licence?
  - Do you agree that it is reasonable that more detail is provided as the DCC and its CSPs learn from operational experience? and
  - Do you agree that the Statement is suitable for approval by the Secretary of State?
- If you do not agree, please explain your rationale.

## Annex 1: Draft DCC Procurement Strategy

- 31 The DCC's draft Procurement Strategy for Relevant Service Capability is published separately alongside this document at <https://www.gov.uk/government/consultations/dcc-procurement-strategy-and-statement-of-service-exemptions>.

## Annex 2: Draft Statement of Service Exemptions

- 32 The DCC's draft Statement of Service Exemptions is published separately alongside this document at <https://www.gov.uk/government/consultations/dcc-procurement-strategy-and-statement-of-service-exemptions>.

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