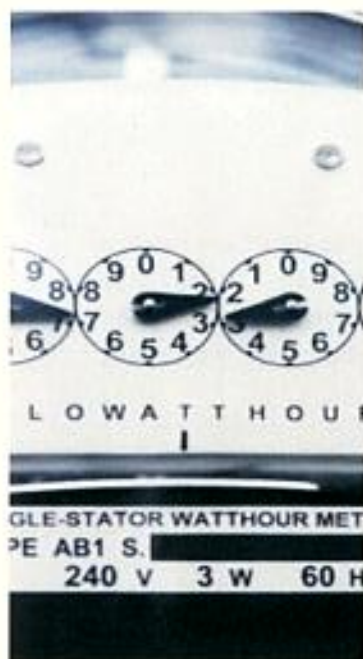


# Serco Response to

## A consultation on the detail policy design of the regulatory and commercial framework for DCC



Presented by



## Executive Summary

### Smart Metering Implementation Programme – Consultation on the detailed policy design of the regulatory and commercial framework for DCC

#### Acknowledgement

We would like to thank the Department of Energy and Climate Change (DECC) for the opportunity to provide consultative feedback regarding the Data and Communications Company (DCC), that will sit at the centre of the Smart Metering Implementation Programme (SMIP).

#### Overview

The DCC will be at the heart of the new smart energy landscape that is being realised by the UK Government; a landscape that will support the rollout and ongoing management of smart meters. The DCC will perform a pivotal role in the simplification of the electricity and gas industries and the way that they will service the citizens of Great Britain. We strongly believe that the DCC will be a vital public service that will play a critical and significant role in providing better outcomes across society, the environment and the economy.

#### Society

- Consumers will be informed and able to make the right choices about their energy usage, therefore paving the way for future generations and the realisation of a better place to live.
- Government and industry will be enabling citizens by providing them with the tools to help them make energy choices to suit their lifestyle and their pockets.

#### Environment

- Great Britain as a leading developed nation is committed to creating a sustainable environment both at home and abroad.
- Great Britain will be widely recognised as thought leaders in smart energy management, citizen enablement and making a global difference.

#### Economy

- This initiative is part of the roadmap towards the creation of an open consumer energy market and simplification of the electricity and gas industries.
- The DCC will have the ability to use the established infrastructure to support other vital public services.



Therefore, the shape and nature of the DCC has to be that of a robust service delivery vehicle, that ensures adherence with policy and is aligned to smart energy initiatives as they are established. It should also provide stewardship of the data and communication supply chain. The DCC must recognise the importance of its role within a vital public service and the key outcomes for society, the environment and the economy.

#### The DCC

We believe that the DCC should be a vertically integrated organisation; this is reflected within our considered response to the consultation paper. Key points within our response are summarised below:

- The DCC will be a constituent within the critical national infrastructure (CNI) of the UK. Delivering the DCC services will carry real and material risk. There will be significant consequences of milestone delays during establishment or failure to deliver the prescribed services. Provision requires an entity that has proven service integration and delivery expertise, underpinned by deep commercial expertise and a robust financial standing.
- Time is of the essence and the Authority is urged to finalise the proposed shape and commercial construct of the DCC and run a swift, non complex procurement process. This will allow the chosen licensee to work in true partnership with the Authority and the associated service providers in a collegiate manner. Without this, the proposed timetable will suffer in terms of slippage, and deployment of the smart energy landscape will be delayed.
- No supplier of services to the DCC licensee should be mandated by the Authority. There should be a mechanism that allows existing solutions or suppliers to be used if appropriate. Ultimately, the licensee applicants should be free to work closely with the Authority and the service providers to find the right solution against mutually agreed criteria.
- The DCC and Smart Energy Code (SEC) provide a significant opportunity and catalyst for change in society, the environment and the economy. Therefore the landscape and remit of the DCC must be flexible and allow for innovation to ensure that the DCC is enabled to deliver these opportunities.
- The DCC opportunity needs to have the right shape and commercial construct to make the applicant competition healthy and attract the right organisations. This should be an independent entity that encompasses the management of the core service provider contracts, future meter/supplier registration services and the SEC secretariat and has all the necessary enablers – such as business process management, ICT, security and customer services.

## Our Approach

The DCC will be an incremental partner that moves from compliance, through co-operation and collaboration to co-creation of services as trust builds and value is realised.

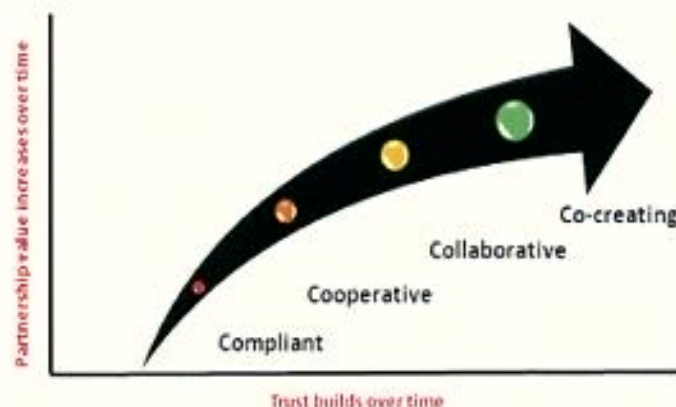
We work in harmony with other services and partners. We combine people, processes, data and technology to create vital services on behalf of governments that enable the citizens they serve. Our ethos is to advise on best practice and market trends, and design solutions that are fit for purpose, assured, scalable and

integrate with the overall delivery landscape. Most important is the delivery of assured output based services as this is the only true measure in terms of results and better outcomes for government, citizens and businesses.

We strongly believe that with this approach the original vision and sense of purpose sought by DECC, will be realised. And, that the service solution will be successfully mobilised and transitioned. It will be well maintained and will remain aligned to customer and service consumer needs, as the smart energy market dynamics unfold.

## About Serco

Serco is a British company that is a constituent of the FTSE100, and leading provider of integrated public services across the globe. Our revenues are in excess of £4.5bn; we employ more than 100,000 people in over 40 countries.



## Smart Metering Implementation Programme

### Response to

A consultation on the detailed policy design of the  
regulatory and commercial framework for DCC

## Section 2 – Proposed Regulatory Approach to DCC

## Question 1

Please provide views on the approach to basing the prohibition upon contracting with all licensed suppliers in respect of all domestic smart meters, and on the way in which the specific wording of the prohibition should be developed.

## Response to 1

We believe that basing the licensable activity definition around the services that DCC will be providing to Users rather than the procurement and contract management activity is correct as it avoids confusion around whether the SMIP itself should be part of the prohibition order.

However, we are concerned that the definition itself may not cover the full breadth of the core services to be provided by the DCC. The definition describes *"a service by virtue of which information may be communicated by and to that meter on behalf of the supplier"*. It could be argued that the service presently defined would only include the transmission of information from the DCC to the meter (and meter to DCC) and excludes any technical solution that provides the ability for Users to send and receive instructions/information from the DCC, (i.e. the data portal).

Our view is that the DCC licensable activities should include this technical solution in order that the DCC can provide assurance to the suppliers that their instructions are acted upon in a secure and efficient manner. The DCC should not be constrained from providing an end to end service.

We note that the consultation states that the licence wording will not prevent the DCC from providing other services. However we believe it is essential for some assurance in the SEC that the change mechanism for allowing the DCC to provide other services (particularly elective and value-add services) will be swift and non-contentious.

## Question 2

Do you think there will be any persons other than DCC who might inadvertently be captured by a definition structured in this way?

## Response to 2

We are concerned that the definition of the service as it is presently described does not provide sufficient clarity on whether the licensable activity would include the technical solution that enables the Users to exchange data with the DCC, (i.e. the data portal). As it stands other parties could argue that they provide this service under existing licenses and should continue to do so. This may require them to have an exemption to continue to carry out these activities and indeed may require the DCC to sign up to the existing licence with these parties.

## Question 3

Do you have any other comments on the form of the licensable activity?

## Response to 3

We believe the wording should be changed to include the technical solution that enables the ability for Users to exchange data with the DCC.

We are of the view that the DCC should have the option to use the existing systems that could provide this technical solution. We understand why the use of the existing systems at DCC start-up may look attractive but we believe the DCC, data and communications service providers should be free, notwithstanding compliance, to decide how to deliver the requirement.

Our reasoning for this is as follows:

- There may be difficulties in expanding the DCC beyond initial scope if the DCC is mandated to use the existing systems for the data portal. The systems may not be the best in class and it may be difficult (and expensive) to update and accommodate innovative services that the DCC may wish to offer Users. This may limit the potential for providing innovative services and hinder the simplification of existing codes and licences and thus the cost of operation.
- The mandatory use of existing systems may not be the most efficient or seamless mechanism for the transfer of information/instructions between the DCC and suppliers. In our opinion, the data services provider would be best placed to provide a seamless, secure and assured end-to-end solution for information transfer from the suppliers to the DCC and then to the meters. The DCC data services provider should be given the freedom to provide the solution that provides the best value for money and should not be mandated to use any existing systems for the data portal.
- Use of existing systems may be seen as reducing the risk of overall delivery because it is development of tried and tested systems; however, it is a double-edged sword – there is a risk that whilst amending the existing systems they would be compromised and cause integrity problems for existing Users. In this respect, implementing a system specifically for the DCC would be independent and therefore eliminate the risk of compromising existing systems, thereby reducing overall risk to the programme.

#### Question 4

Please provide comments on the proposed changes to legislation identified in Table 2.1 and Table 2.2 and any other possible changes that you consider might be appropriate.

#### Response to 4

In our opinion the proposed changes are sensible in their approach.

In summary:

**G5 & E4** - It is appropriate that the DCC is added to the list of licensable activities and the activities for which the Secretary of State may grant exemptions; this will ensure that the DCC remains a monopoly provider for domestic suppliers and DNOs.

**G6A & E6** - It is our understanding that the DCC licence holder should be independent from the licensed DCC Users (i.e. the suppliers and DNOs) and that the proposal to limit a person holding both a DCC licence and 'other types' of licence would ensure this independence. We would therefore support the proposal to limit the DCC licence from holding the licences associated with the DCC Users however we can not see why you would limit the DCC from holding licences that were not associated with the DCC Users, e.g. a licence authorising a person to generate electricity for the purpose of giving a supply to any premises or enabling a supply to be so given ("a generation licence"). At this present time, we do not hold a generation licence in the UK but we would not want to be prohibited from doing so in the future if we became the DCC Licence holder.

With regard to whether this limitation is addressed in the licence or legislation, our preference would be for the limitation to be addressed in the licence as any changes to the limitation is likely to be more readily addressed through this route.

We believe it should be mandatory for the DCC to be the holder of both the electricity and gas licences; it would be difficult to perceive how the DCC could operate if it was not.

**G7B & E6(A)** – We believe it would be sensible to carve DCC out of this section, as it would be more appropriately dealt with in the DCC licence application process under sections 41HC and 56FC as the consultation suggests.

**G7B & E7** – We agree with the proposal to add the DCC to the list of licences within the relevant sections as with out this flexibility it would be difficult for the DCC licence holder to deliver an effective and fair charging regime.

**G34 & E47** – We agree with this proposal it is appropriate that the functions of the Director also apply to the DCC.

**G41C & E56A** – We agree with this proposal.

**Utilities Act 2000** – We agree with this proposal.

**Enterprise Act 2002** – We agree with this proposal.

**Energy Act 2004** – We agree with this proposal.

**Consumers, Estate Agents and Redress Act 2007**

Section 13 - We have concerns with this proposal. Our understanding was that any instructions from the Users would be acted upon by the DCC and that these instructions would not be 'verified' by the DCC itself. For example, we do not believe it would be appropriate for the DCC to 'double check' whether it is right to interrupt the supply and would be concerned what happens if the DCC and the Users get it wrong, not least due to liability for penalties. However, if an incorrect instruction was sent due to a security breach in the DCC, we can understand that the DCC would share some responsibility and changes to this Act may be required to address this matter.

Section 25 – we agree with this proposal

Section 42 – we agree with proposal

**Energy Act 2008** - No changes identified at present.

**Energy Act 2010** – we have concerns with this proposal this may require the DCC to hold and use confidential information.

At the present time we have not identified any additional changes that would be required other than consequential changes relating to the key changes mentioned above.

## Question 5

Do you agree with the proposal to have a single document with a single set of licence conditions that apply to both licences?

## Response to 5

We agree with the proposal to have a single document with a single set of licence conditions that apply to both licences. Our view is that only one organisation should be responsible for the gas and electricity DCC licences and this one organisation should be responsible for abiding by the conditions set out in this single document.

Flexibility is the key to ensuring that the DCC has the ability to provide future services for both the smart grid and to other Users. We believe that to be successful an innovative approach both to current and future issues will be required. Organisations such as ours are able to deliver this innovative approach and it is important there are as few barriers to innovation as possible. We believe that more than one document may provide a significant additional barrier to change.

## Question 6

Do you agree with, and have any comments on, the proposed approach to establish all of the DCC licence conditions as "special" conditions?

## Response to 6

We agree with the proposed approach to establish all the DCC Licence conditions as 'special conditions' for the reasons presented in the consultation, i.e. flexibility and the fact that there would be only one organisation responsible for the DCC Licence at any time therefore making the process of modifying the special conditions as straight forward as possible.

## Question 7

Do you have any comments on the scope and nature of the consequential licence changes that we propose to make?

## Response to 7

Our response to the proposed changes is as follows:

Electricity Supply Licence

1 – Definitions: we agree that the definition of an Authorised Electricity Operator would need to be changed.

2 - Interpretation of Standard Conditions: we agree that for completeness it would be appropriate to include the DCC Licence to this list.

26 – Services for specific Domestic Customer groups: we are unclear whether it would be appropriate for the DCC to hold data on customer information. We are concerned about what the DCC would be required to do with this information.

Our understanding was that any instructions from the Users would be acted upon by the DCC and that these instructions would not be 'verified' by the DCC itself. For example, we do not believe it would be appropriate for the DCC to 'double check' whether it is right to interrupt supply and would be concerned what happens if the DCC and the Users get it wrong, not least due to liability for penalties. We would suggest that it would be inappropriate for this information to be held within the DCC and that it should remain the responsibility of the relevant DCC Users to ensure that instructions concerning the disruption of supply are correct. However, we would be willing to hold this customer information if the Authority required the DCC to hold and use such information.

Electricity Distribution Licence

1 – Definitions & 2 – Interpretation of Standard Conditions: we agree that the standard definition needs to be changed and DCC should be added to the list of categories for completeness.

10 – Special services: as for condition 26 in the Electricity Supply Licence (see above) we believe it would be inappropriate for the DCC to hold this information.

37 – Provision of the Data Transfer Service: we are concerned about the potential overlap of the DTS and duplication of purpose with the DCC. In our view this licence needs to be changed to ensure that this overlap does not occur and that the DCC is responsible for the data transfer services.

Gas Supply Licence

2 – Interpretation of standard conditions: we agree that the DCC should be added to the list of categories for completeness.

26 – Services for specific Domestic Customer groups: as for condition 26 in the Electricity Supply Licence (see above) and condition 10 in the Electricity Distribution Licence, we believe it

would be inappropriate for the DCC to hold this information.

#### Gas Shippers Licence

11 – Supply & return of and information etc. relating to gas meters: We agree that the exchange of information needs to reflect the role of the DCC (in particular paragraph 4(g)). However, we envisage the requirement for this information will be in respect of monitoring the rollout of the smart meters and possible charging of the installation of WAN modules to the Users. We do not envisage that any information would be used to verify an instruction from a User with respect to disconnecting a supply.

## Question 8

Are there any other consequential licence changes that you consider might be necessary as a result of the creation of the new licensable activity?

## Response to 8

It is not possible for us to say at this stage what other consequential licence changes may be necessary.

## Question 9

Please provide any comments on the proposed approach in relation to geographic scope of the DCC licence and provisions relating to its duration.

## Response to 9

Based on the information currently available to us we believe that the proposed approach to the geographic scope is sensible. However we have some concerns relating to the impact of any future policies of devolved Governments and the potential impact to the DCC if a devolved government was able to 'opt out' and/or put in place an alternative to the DCC for their 'area'. We would be looking for some assurance that the DCC would not be adversely affected if this was to occur albeit we understand that this is unlikely in the foreseeable future.

In respect of the duration of the licence, we believe a ten year period is appropriate for the initial licence. However we believe it important that the ability to extend a licence (e.g. for an additional 5 years for the first generation licence) must be a straight forward and non bureaucratic process, as there is a potential issue of the licence being for a lesser period than the first DCC communication contracts.

If the DCC licence is for the same or a lesser period than the Service provider communication and data contracts then the DCC would not be able to carry out at a re-procurement exercise for these contracts within its first licence period.

However, it would probably not be appropriate to reduce the length of the communication contracts to less than the DCC licence period as this would provide insufficient time for the communication service provider to be appropriately compensated for its investment in the DCC.

The length of the DCC licence and the data and communication contracts requires further joined up discussion and co-ordination.

## Section 3 – DCC Licence Conditions

## Question 10

Do you agree with the proposed general objectives of DCC set out above?

## Response to 10

In principal we can understand the reasoning for the general objectives presented in the consultation; however, we have concerns about the number of objectives that are listed. Our concern is that any change to a licence condition may need to 'stand-up' to this long list of objectives; if the change fits with most of the (perceived) less important objectives but goes against some of the (perceived) more important objectives then it is open to debate whether the change should be allowed or not.

We believe it would be more appropriate to have only the first three high-level objectives for the DCC in the licence, to ensure the mechanism for changing the licence is as efficient as possible. The objectives we would support are therefore:

- an obligation on DCC to discharge efficiently its obligations under the licence;
- a requirement for DCC to develop, maintain and operate an efficient, coordinated and economical data and communications system;
- an obligation on DCC to carry out its business in a manner that promotes or facilitates competition in the supply of gas and electricity and, if not implicitly captured within this obligation, energy efficiency services, metering services and other energy related services (for example services to encourage demand side solutions).

The DCC would need to ensure that in delivering these objectives they have due regard for the environment and ensure that the DCC Services are delivered securely, with the appropriate level of data privacy. However we do not believe it is appropriate to have specific obligations within the Licence with regard to the environment, security and data privacy.

We also do not believe it is appropriate to have 'an obligation to facilitate successful rollout of smart metering in accordance with Government policy' within the licence; in our opinion any objective relating to the rollout would be best placed in the SEC, as this will only be a temporary obligation on the DCC.

## Question 11

Do you think it is necessary to include any statutory duties on DCC in the Gas and Electricity Acts or is it appropriate address these issues in the DCC licence alone? Please provide the rationale for your views.

## Response to 11

We are in agreement that it would not be appropriate to have the general duties on DCC in legislation but instead to include these issues in the DCC licence. Our rationale for this is that the DCC duties differ from existing licensees duties covered under the gas and electricity legislation.

In addition, if in future licences are granted for other licensed services under different acts, it would be more efficient to change any new duties relating to these new services in the DCC licence rather than update DCC's duties in the Gas and Electricity Acts, particularly if these duties have no bearing on the services provided to the gas and electricity markets.

We would support the concept that only the highest level objectives and duties should be included in the licence and the details for how the DCC delivers these objectives should be in the SEC and not the licence itself.

## Question 12

Do you agree that any obligation to facilitate competition in the area of distribution should be considered as part of the implementation of any future smart grids related arrangements?

## Response to 12

At this stage work related to smart grids is in a relatively early stage and there appears to be considerable uncertainty as to possible arrangements for the future provision.

We therefore agree, that it would be more appropriate to include obligations in relation to smart grids in future changes rather than trying to anticipate what may be required at this stage.

Our rationale for this is:

- (1) There is lack of clarity on what these obligations might be, and
- (2) We believe the number of obligations/duties listed in the DCC licence should be kept to a minimum.

## Question 13

Do you agree with the approach proposed in relation to the protection of consumers' interests?

## Response to 13

We agree, as we believe it would not be appropriate for the DCC to have any direct relationship with consumers, and ultimately the protection of consumers' rights is the statutory objective of the Authority. We would however fully support any initiatives regarding the protection of consumer interests if the Authority required us to do so.

We believe it is reasonable to expect the DCC to support the DCC Users in this area through the delivery of the DCC services; however, we agree that the details regarding this 'support' are best covered in the SEC and not the DCC licence.

## Question 14

Do you think DCC should have a separate objective to promote (or facilitate) energy efficiency?

## Response to 14

We do not believe that the DCC should have a separate objective to promote energy efficiency; we believe that the *'obligation on DCC to carry out its business in a manner that promotes or facilitates competition in the supply of gas and electricity and, if not implicitly captured within this obligation, energy efficiency services, metering services and other energy related services (for example services to encourage demand side solutions)'* should be sufficient to ensure that the DCC promotes energy efficiency.

If the DCC is required to carry out specific activities relating to energy efficiency, they would be best covered in the SEC and not the licence.

## Question 15

Do you agree that SEC licence condition should be drafted so as to provide flexibility over the future scope of the SEC, i.e. that the scope of the SEC in the DCC licence condition should be drafted in a permissive manner?

## Response to 15

We hope there will be as few barriers as possible that prevent flexibility in the future scope of the SEC. We therefore agree that the scope of the SEC in the DCC Licence should be drafted in a permissive manner.

## Question 16

What are your views on the SEC Applicable Objectives set out above?

## Response to 16

In our view the number of applicable objectives should be limited to increase flexibility and the ability to make any required changes to the SEC throughout the duration of the DCC licence.

We believe the following five applicable objectives are sufficient to ensure that the DCC will effectively and efficiently deliver the high-level objectives within the DCC licence:

1. efficient discharge by DCC of the obligations imposed upon it by its licence;
2. efficient, economic and co-ordinated provision of DCC services;
3. promoting effective competition in the supply of gas and electricity;
4. promoting efficiency in the implementation of the administration of the SEC;
5. maintaining data privacy and security, and security of the smart metering system.

We believe the applicable objective 'related to having due regard to the environment' should be removed as it is implicit that the DCC will take due regard for the environment by delivering the first two applicable objectives presented above (i.e. 'the efficient discharge of its duties' and 'the efficient, economic and co-ordinated provision of DCC services'). In addition "having due regard to the environment" is a very broad statement and could be widely interpreted by different stakeholders.

We also believe the applicable objective 'related to promoting or facilitating competition in energy efficiency, metering services and other energy related services' should be removed. In our opinion, this objective would be met by the DCC meeting the first four applicable objectives stated above.

## Question 17

Do you agree that the SEC should be designed to take into account consumers' interests by meeting its applicable objectives, rather than having an explicit objective related to the protection of the interests of consumers?

## Response to 17

We agree that it would NOT be appropriate to have an explicit objective within the SEC relating to the protection of the interests of consumers. This objective should be met through the DCC meeting the following five applicable objectives:

1. efficient discharge by DCC of the obligations imposed upon it by its licence;
2. efficient, economic and co-ordinated provision of DCC services;
3. promoting effective competition in the supply of gas and electricity;
4. promoting efficiency in the implementation of the administration of the SEC;
5. maintaining data privacy and security, and security of the smart metering system.

We would however fully support any initiatives regarding the protection of consumer interests if the Authority required us to do so.

## Question 18

Should there be a SEC objective related to promoting (or facilitating) efficiency of energy networks?

## Response to 18

At this stage it is difficult to answer this question accurately. We tend to believe that in the future it may be appropriate to have an explicit objective within the SEC relating to the promoting efficiency of energy networks.

In our opinion, the DCC should be proactive in supporting the industry in rationalising the energy market and this may include providing services that support a more efficient energy network. However it is too early to be certain what is required and this issue should be considered in the future with no pre-conception.

## Question 19

Do you think the SEC should have a separate objective of promoting (or facilitating) energy efficiency?

## Response to 19

In our opinion it would not be appropriate to have an explicit objective within the SEC relating to promoting (or facilitating) energy efficiency. This objective should be met through the DCC meeting the following five applicable objectives :

1. efficient discharge by DCC of the obligations imposed upon it by its licence;
2. efficient, economic and co-ordinated provision of DCC services;
3. promoting effective competition in the supply of gas and electricity;
4. promoting efficiency in the implementation of the administration of the SEC;
5. maintaining data privacy and security, and security of the smart metering system.

## Question 20

Do you agree with the definitions of the services that DCC should be required or permitted to provide?

## Response to 20

We agree with the definition of the services that DCC should be required or permitted to provide. It is our understanding that these services would be supported by the following capabilities which we believe should be provided by the DCC licensee:

Front Office functions

- Stakeholder engagement (incl. industry forums, knowledge web portal)
- Customer relationship management (incl. User helpdesk, User knowledge web portal)
- User support services (incl. end-to-end testing services, elective services consultation)
- Servicing of Licence (e.g. licence renewal process)

Middle Office functions

- Contract & procurement management
- Performance management & continual service improvement
- Enterprise systems management (incl. Finance services & HR)
- Service management (incl. incident management and management of integrated service model)
- Knowledge management (incl. content management for User web portal and industry forums)
- Assurance & Compliance (including testing, security management, audit and regulatory management & reporting)
- SEC Change management (incl. impact assessments of proposed changes to the SEC)
- Consulting (including capacity management, assessment of foundation contracts and development of elective services and value-added services)

Back Office functions

- Operations management & User administration (incl. invoicing, facilities management, UPS, payroll, and changes in ownership, logging of security protocols, etc.)
- IT Configuration & release management (incl. of updates required for changes to SEC)

We also believe it is appropriate that the provision of the data portal should be the responsibility of the DCC to ensure appropriate access control and end-to-end service provision. We are of the view that the DCC should have the option to use the existing systems that could provide the technical solution for this data portal. We understand why the use of the existing systems at DCC start-up may look attractive but we believe the DCC, data and communications service providers should be free, notwithstanding compliance, to decide how to deliver the requirement.

Our reasoning for this is as follows:

- There may be difficulties in expanding the DCC beyond initial scope if the DCC is mandated to use the existing systems for the data portal. The systems may not be the best in class and it may be difficult (and expensive) to update and accommodate

innovative services that the DCC may wish to offer Users. This may limit the potential for providing innovative services and hinder the simplification of existing codes and licences and thus the cost of operation.

- The mandatory use of existing systems may not be the most efficient or seamless mechanism for the transfer of information/instructions between the DCC and suppliers. In our opinion, the data services provider would be best placed to provide a seamless, secure and assured end-to-end solution for information transfer from the suppliers to the DCC and then to the meters. The DCC data services provider should be given the freedom to provide the solution that provides the best value for money and should not be mandated to use any existing systems for the data portal.
- Use of existing systems may be seen as reducing the risk of overall delivery because it is development of tried and tested systems; however, it is a double-edged sword – there is a risk that whilst amending the existing systems they would be compromised and cause integrity problems for existing Users. In this respect, implementing a system specifically for the DCC would be independent and therefore eliminate the risk of compromising existing systems, thereby reducing overall risk to the programme.

## Question 21

In relation to which non-compliant metering systems should DCC be required to offer services?

## Response to 21

We believe that DCC should be required to offer services to all compliant mandated metering systems – i.e. domestic meters classified as smart, including those that are installed before 'go live'.

In respect of all other types of meter – manual and those with automatic meter-reading (AMR) technology – the DCC should be permitted to offer services to these systems and indeed we believe that there will be many benefits to DCC in developing such services and promoting them to be taken up.

## Question 22

In relation to which non-compliant metering systems associated with energy supply at consumer premises should DCC be permitted to offer services?

## Response to 22

We do not think that DCC should be required to offer services to non-compliant meters; however, we do believe that the DCC should be permitted to offer services to any non-compliant meter. In our opinion, the DCC, in order to provide value for money for its Users, should be looking for ways to provide services to non-compliant meters, even without the requirement to do so.

Once a non-compliant metering system has been assessed in accordance with criteria agreed between the Authority and the DCC, the DCC could establish whether providing a service to these systems delivers value and benefits to the DCC Users and provides more efficient data collection.

## Question 23

What information should be made available to all Users about:

- elective services;
- value-added services?

Should information be restricted to that required to assess the impact on other Users of DCC services or should there be full transparency? Should DCC be required to make available the detailed commercial terms and conditions of such services?

## Response to 23

We would advocate a transparent approach where the DCC makes available the detailed terms and conditions to all Users. We strongly believe that for the DCC to be successful and provide value for money to its Users, a true partnership approach between the DCC and its Users is required.

We believe full transparency will improve the service offering, allowing the DCC and its Users to move towards a cooperative, collaborative and co-creating way of working.

## Question 24

Do you think the detailed terms and conditions for elective and value-added services should be set out in the SEC or included in bilateral agreements between DCC and persons to whom it is providing services?

## Response to 24

Our preference is for the detailed terms and conditions for value-added and elective services not to be included in the SEC; to do so would mean that each time a new service was proposed or amended, agreements would need to be sought from all interested parties (i.e. all parties signed up to the SEC).

Where we have worked in this type of environment before we have seen that innovations are delayed and not pursued because of the inconvenience and drawn-out nature of getting new services approved. This would be a real loss to the market if it were to occur here.

We believe that bilateral agreements will work best - they will ensure a more efficient introduction of services to Users.

However, we believe the SEC would need to explicitly allow the setting up of these bilateral agreements for 'approved' elective and value-added services and provide guiding protocols and mechanisms for the swift and efficient approval and introduction of these services. This includes the identification of the body that approves the introduction of such services, and the mechanism by which any objections can be overseen by the Authority.

## Question 25

Are there any other matters that we have not addressed related to the nature of services provided by DCC? (Note that provisions addressing independence and non-discrimination in the provision of DCC services are covered in paragraphs 3.119 to 3.120).

## Response to 25

Yes. The consultation document correctly identifies independence as an issue and we believe it is a very important principle to guide the running of the DCC. However we would also add matters of pricing and revenue (whether this will be fixed or volume related), risk and future freedom to run other, innovative and elective services as other matters that need consideration and commitment.

It is our understanding that the DCC services would be supported by the following capabilities which we believe should be provided by the DCC licensee:

Front Office functions

- Stakeholder engagement (incl. industry forums, knowledge web portal)
- Customer relationship management (incl. User helpdesk, User knowledge web portal)
- User support services (incl. end-to-end testing services, elective services consultation)
- Servicing of Licence (e.g. licence renewal process)

Middle Office functions

- Contract & procurement management
- Performance management & continual service improvement
- Enterprise systems management (incl. Finance services & HR)
- Service management (incl. incident management and management of integrated service model)
- Knowledge management (incl. content management for User web portal and industry forums)
- Assurance & Compliance (including testing, security management, audit and regulatory management & reporting)
- SEC Change management (incl. impact assessments of proposed changes to the SEC)
- Consulting (including capacity management, assessment of foundation contracts and development of elective services and value-added services)

Back Office functions

- Operations management & User administration (incl. invoicing, facilities management, UPS, payroll, and changes in ownership, logging of security protocols, etc.)
- IT Configuration & release management (incl. of updates required for changes to SEC)

## Question 26

Do you agree that DCC should be required to externally procure specific services and have principles that determine what other services it should externally procure?

## Response to 26

We agree that there should be certain specific services that the DCC should externally procure. These can be summarised as the services required by the on going procurements relating to data services and communications services.

However, it is unlikely that best value for money will be achieved by placing other specific procurement obligations on the DCC. The DCC ideally should be vertically integrated and self delivered if possible. The DCC should be unrestricted in the way that it delivers its outcomes other than the data and communications services referred to above. An output based requirement placed upon the DCC will ensure excellent value for money and encourage innovation and simplification.

## Question 27

Do you agree with the procurement objectives for DCC identified above?

## Response to 27

We do not believe that the DCC should be obligated to externally procure any services other than the core data and communications services. The more restrictions that are placed on the way that the DCC provides the necessary outcomes, the less likely that it will be free to innovate and provide continuous improvement.

We agree with the following objectives for the DCC:

- Procurement best practice should be followed where the DCC elects to buy goods or services
- Value for money will be delivered by competition for certain goods and services but this should not restrict the DCC in "make or buy" options
- The DCC should be required to build a co-ordinated output based solution with an ability to flex to meet requirement changes.
- Establishing appropriate business continuity arrangements
- Ensuring that its solutions do not discriminate any Users
- Introduction of performance incentives and liabilities for failure to perform in accordance with the agreed performance mechanism
- Provision of a coherent, functional end to end service
- Any services procured by the DCC should make appropriate provision for continuity of service

We would suggest the following in relation to the other stated objectives:

- The DCC should not be obligated to develop a procurement and contract management approach manual. Such a requirement would be inflexible, inefficient and restrict the DCC's freedom to deliver the best overall value for money solution. Considerable time, effort and money could be expended upon initial consultation and writing of such a manual. The requirement for annual and/or ad hoc reviews of this document will add additional (and probably nugatory) cost and effort to the DCC.
- It would not be appropriate to enshrine procurement and contract management requirements into the licence conditions. This model would not fit comfortably with the principle of a payment and performance mechanism. If a company is accountable for its performance with potential for financial penalties then it requires freedom to act and deliver output based solutions.
- If the Authority mandates a procurement and contract management manual it will restrict the way in which the DCC operates and will stifle innovation and change and continuous improvement. We do not believe it is necessary for the DCC to submit such a manual for approval by the Authority or Secretary of State. Our considerable experience of delivery into the public and private sector has shown us that wider public policy objectives and initiatives will be best served by a collaborative iterative approach at the time that they are deemed necessary and appropriate.

## Question 28

Do you agree that DCC should be required to produce a procurement and contract management approach document?

## Response to 28

We do not agree that the DCC should be required to produce a procurement and contract management manual for the following reasons:

- Such a requirement would be inflexible, inefficient and restrict the DCC's freedom to deliver the best overall value for money solution. Considerable time, effort and money could be expended upon initial consultation and writing of such a manual. The requirement for annual and/or ad hoc reviews of this document will add additional (and probably nugatory) cost and effort to the DCC.
- It would not be appropriate to enshrine procurement and contract management requirements into the licence conditions. This model would not fit comfortably with the principle of a payment and performance mechanism. If a company is accountable for its performance with potential for financial penalties then it requires freedom to act and deliver output based solutions.
- If the Authority mandates a procurement and contract management manual it will restrict the way in which the DCC operates and will stifle innovation, change and continuous improvement.
- Our considerable experience of delivery into the public and private sector has shown us that wider public policy objectives and initiatives will be best served by a collaborative iterative approach at the time that they are deemed necessary and appropriate.

For clarity, best value for money will be achieved by ensuring that the DCC is unfettered in the way in which it delivers output based solutions, change and continuous improvement.

## Question 29

We seek your views as to whether the procurement and contract management approach document should be required to be submitted for approval by the Authority and/or the Secretary of State.

## Response to 29

Our considerable experience in delivery of programmes within the public and private sector leads us to conclude that a procurement and contract management manual is not necessary and indeed it will add nothing to the process nor will it deliver benefit to DCC Users or the public at large. Therefore we do not think it is necessary to go to the additional time and expense of obtaining the approval of the Secretary of State.

Further time and cost will be expended in constant review, updating and approval of such a document throughout the licence term.

We believe a high level policy statement, outlining the planned procurement and contract management activities would be more appropriate.

## Question 30

Is the scope of the proposed prohibition on discrimination, which is limited to undue discrimination between Users or classes of Users, adequate?

## Response to 30

The DCC licence should contain provision that the DCC should not discriminate between Users or classes of Users in its provision of services under the SEC.

This simple requirement on the DCC should be sufficient to ensure that the services offered to all Users will be on an equitable, arms length, non discriminatory basis.

The DCC should be free to implement continuous improvement and deliver value added services without fear of breaching discrimination conditions.

The DCC should be prepared to agree a prohibition in relation to non discrimination of value added services, such that all value added services are offered on an arms length non discriminatory basis.

If deemed appropriate we would be willing to support a requirement to clear all DCC proposed value added services with the Authority at the time that they are proposed.

## Question 31

Are any specific provisions needed which require DCC not to discriminate between service providers? Or is it sufficient to rely on obligations on DCC to maintain and develop an economic system and, in the procurement of DCC services, to promote competition in the provision of such services?

## Response to 31

We do not believe any specific provisions are necessary requiring DCC not to discriminate between service providers. The requirement to compete and continue to provide value for money should be sufficient to ensure there is no discrimination amongst service providers. In this respect we regard service providers as those for data and communications services currently under procurement.

## Question 32

Do you agree that DCC should be independent of service providers? Do you agree that a de minimis level of affiliation between DCC and service providers should be permissible?

## Response to 32

Yes, we believe that the requirement for the DCC to be completely independent of major service providers (i.e. those for the data and communication services) is essential. The cost of the DCC is relatively low when compared to the value of the contracts being contested by major service providers. Financial fidelity and the avoidance of any possibility of cross subsidies will be paramount. We therefore believe that there should not even be a de minimis level of affiliation between the DCC and the major service providers.

## Question 33

What level of affiliation do you consider should be set for the maximum level of shareholding or control of any individual service provider may have in DCC?

## Response to 33

To ensure complete financial fidelity, major service providers that are participating in the on going procurements for data and communications services should not be permitted to have any shareholding in the DCC.

Other service providers for less material services should be allowed to have interests in the DCC (we do not believe that it is necessary to set any maximum level) if they choose to do so – this should not detract in anyway from the requirement for the DCC to treat all Users, classes of Users and service providers in a non discriminatory manner.

## Question 34

Do you agree with the business separation between DCC and Users that is proposed? More specifically, do you agree that no DCC User that operates in a competitive environment should be permitted to have more than a 20% shareholding or control in DCC, and that DCC and its subsidiaries should not be permitted to have any shareholdings in Users or service providers?

## Response to 34

We do not agree with the business separation proposed and we do not agree with the limitation on the activities of the DCC, its parents or affiliates. Therefore we do not agree with a 20% restriction on the shareholding of the DCC by Users. Such restrictions would limit the leveraging of services from parent organisations (i.e. reach back) that could deliver significant economies and efficiencies. Reach back will bring fresh thought, innovation and change to the industry at a time of great importance and reform.

The DCC and / or its parents or affiliates should be allowed to utilise the same services as any other User on the same or no worse commercial, arms length terms.

Allowing the DCC and its related companies to use the services of the DCC on the same terms as any other User will ensure that maximum benefit and value for money is delivered to the DCC and ultimately to the Users.

Our concern is that restrictions on the activities of the DCC and other affiliates will significantly discourage large, diverse and financially robust organisations from bidding and limit the opportunity to reform.

Question 35

Do you agree that it is not necessary to explicitly require business separation between DCC Users and DCC service providers?

Response to 35

Yes. The DCC itself should provide sufficient oversight and governance of such associations.

## Question 36

Should DCC be prohibited from using confidential information for any purpose other than the licensed DCC activity? Should DCC be obliged to impose this restriction on service providers contractually?

## Response to 36

The definitions of confidential information, core services, elective services and value added services are important in this respect and there is currently some ambiguity in these definitions. If we are talking about bank account details and such like, the DCC should be prohibited from using such information for any purpose other than the licensed DCC activity.

However if confidential information extends to aggregated and anonymous energy consumption information and timing of use etc then by imposing such restrictions the DCC may be restricted from providing some elective or value added services which may mean that the Authority will not achieve best overall value for money.

It goes without saying that the availability and use of any such information by the DCC for purposes other than the licensed DCC activity must be on an arms length commercial basis without any discrimination.

We agree with the need for extreme care in this area and for detailed discussion and agreement around the definitions and eventualities that will occur.

## Question 37

To what extent do you believe that the existing financial ring fencing provisions (and those proposed by Ofgem in its recent consultation on this issue) should be included in DCC's licence?

## Response to 37

The Authority appears to be seeking commercial terms for the DCC licence holder including an appropriate payment and performance mechanism, financial strength and the ability to assure the successful delivery of the DCC.

It is clear that the DCC is going to be responsible for the provision of critical national infrastructure, the failure of which could have significant impact upon all stakeholders in the energy market.

We therefore believe that the financial ring fencing provisions should ensure that the entity entrusted to provide the DCC is suitably robust and that provisions are made firstly for the correction of performance and as a last resort, for the continuity of service in the event of failure of the DCC.

The uncertainty around the DCC is increased by the desire to achieve some degree of commercial risk transfer by way of the payment and performance mechanism.

We believe that for large commercial organisations it is entirely possible to put in place a payment performance mechanism, achieve meaningful risk transfer and have sufficient security around the financial strength or backing of the DCC.

The requisite financial strength may be provided by a minimum required share capital or by some sort of parental support.

It will be important that risk sits where it is best managed – therefore flow down of commercial terms to service providers or even critical subcontractors to service providers will be essential. Risk remaining with the DCC should be commensurate with its revenue and profit levels.

## Question 38

Do you agree that a flexible approach to financial security should be adopted and, if a financial security is required, what level of financial security should be provided?

## Response to 38

The level of financial security depends upon the level of risk transfer required by the Authority. If the DCC is going to be on a 'cost pass through' basis with regulated return then financial security will be less important. If on the other hand substantial commercial risk transfer is required then substantial financial security will be necessary to provision for events such as delay or failure of services and replacement procurement.

It is unlikely that the full extent of risk transfer will be known or agreed in the short term and therefore a degree of flexibility in the level of security to be given will be necessary. Potential DCC providers will need to ensure that they have the ability to quickly flex and clear any internal governance hurdles to put in place the required financial security as and when risk positions are agreed.

## Question 39

What are your views on whether it would be appropriate to require DCC to pay for a proportion of the costs of appointing a new DCC in the event of an early licence revocation? Do you think that this potential liability should be reflected in the level of financial security required from DCC?

## Response to 39

In our substantial experience of major complex projects with significant risk (schools, prisons, education academies, rail projects and satellite communications projects), it is fairly common to expect the bidder to take some degree of commercial risk on the costs of failing to deliver the necessary outputs.

This typically includes a proportion of the costs of appointing a replacement contractor. If this risk is placed upon the DCC then it will be necessary for them to show that they have sufficient financial security to cover this.

## Question 40

Are there any other conditions that you consider should be imposed in DCC's licence to ensure its continued financial viability?

## Response to 40

The DCC will form part of the critical national infrastructure and as such the terms of the licence requires rigorous obligations. This will ensure mobilisation, transition and ongoing service delivery are delivered to time, cost and quality and are continuously improved. This level of commitment will require the confidence of an entity that has a track record of delivering critical national infrastructure projects under the envisaged commercial terms.

Therefore we believe that it will be essential to achieve the right conditions around areas such as:

- performance measurement
- incentive to correct
- correction periods
- insurance
- financial penalties
- step-in
- termination

## Question 41

Would it be appropriate for a special administration scheme to apply to DCC?

## Response to 41

The impact of a prolonged period of failure for the DCC would have material consequences for multiple stakeholders. It is therefore essential that the Authority and industry has a means to rectify this scenario quickly and efficiently.

This could be achieved by two primary means:

- a) Step in and re compete provisions in the licence
- b) Special administration provisions

The method used will depend upon the risk transfer, likelihood of failure, impact of failure, security level achieved and the speed with which a solution could be implemented. It may be possible to have a combination of the above that would offer greater security from a two-stage process.

In summary we believe it is necessary to have some mechanism for providing special administration.

## Question 42

Do you agree with that DCC should be required to ensure business continuity of service providers and should monitor the provisions that they have in place to deliver business continuity?

## Response to 42

It is imperative that DCC takes steps to ensure the continuity of the service providers and the services. This would typically include monitoring and reporting on the service providers, flow down of conditions such that risk sits where it is best managed and most financially covered.

Equally important, the service providers and DCC should have robust mechanisms in place to ensure business continuity.

## Question 43

Do you believe that DCC needs to include in its service provider contracts any further protections which help to secure against, or mitigate the consequences of, a financial failure of a major service provider? Please provide examples of any additional protections you consider suitable.

## Response to 43

Yes, the DCC should include protection in its service provider contracts to secure or mitigate the consequences of failure of a major service provider.

Such protection might include:

- a) payment and performance mechanism
- b) step in rights
- c) on demand bond
- d) parent company guarantee
- e) appropriate and rigorous back up provisions
- f) business continuity plan

## Question 44

Do you agree that it is appropriate to grant the initial DCC licence for a ten year period?

## Response to 44

We believe a ten year period is appropriate for the initial licence period.

However we are aware of the potential issue of the licence being for a lesser period than the first DCC communication contracts. If this were the case then the DCC would not be able to carry out at a re-procurement exercise for the communication contracts within its first licence period.

However, it would probably not be appropriate to reduce the length of the communication contracts to less than the DCC licence period as this would provide insufficient time for the communications service provider to be appropriately compensated for its investment in the DCC.

The length of the DCC licence and the Data and communication contracts requires further joined up discussion and co-ordination.

Question 45

Do you agree that flexibility for the Authority to decide to extend the initial DCC's licence by up to 5 years would be desirable?

Response to 45

We agree that the flexibility for the Authority to decide to extend the initial DCC's licence by up to five years would be highly desirable; as this should allow the DCC licence holder the opportunity to carry out the re-procurement of the data and communication contracts.

## Question 46

Do you agree with the approach described for the treatment of DCC internal costs for any extension period?

## Response to 46

We support the consultation document's proposal for licensee applicants to forecast DCC internal costs for any extension period at the commencement of the contract and for them to be reviewed by revenue reopener in the event of material changes over time and for these costs to inform the allowable DCC revenues. We also support the Competition Commission to be the arbiter in any instances of disagreement between the licensee applicant and the Authority in determining the adjustments.

## Question 47

Do you agree that DCC should be required to ensure that any critical services can be transferred to a successor?

## Response to 47

We agree that the DCC should be required to ensure that any critical services can be transferred to a successor. We also agree it may not be practicable or desirable for DCC to negotiate such terms for each and every minor contract that it enters into and therefore the requirement to transfer should be limited to major critical services.

We agree that contracts of a critical nature are those that provide services which could not readily be acquired at a competitive price on the open market, or where DCC has incurred material fixed costs in the procurement of a service which have not been fully depreciated.

Clarity around what services the Authority deems critical services prior to signing up to the licence agreement would be necessary.

## Question 48

What scope of matters governing the handover to a successor do you think need to be included in DCC's licence?

## Response to 48

We agree with the matters proposed in the consultation document. Given our considerable expertise in this area, we also believe the following matters should be considered:

- TUPE issues for staff transferring to the new Licence holder
- An obligation on both parties to cooperate with the transition
- Insurance activities and associated costs during the transition process
- Clear responsibilities throughout the handover
- Ability to 'flex' timescales for the transition and appropriate payment mechanisms to cope with this 'flex'.
- Asset transfer (fixed and non-fixed assets)

## Question 49

Do you agree that DCC's licence should be capable of being revoked in the event of a repeated or material failure to meet service levels?

## Response to 49

We agree that the DCC's licence should be capable of being revoked in the event of a repeated or material failure to meet service levels with the caveat that the DCC licence holder should be given sufficient time to rectify any problems. If it fails to rectify the failure within agreed timescales then revocation should be the ultimate sanction.

The time required for rectification may vary depending on the type of failure and also when the failure occurs. We believe clarification should be provided as to who would be responsible for specifying the time required to rectify failures and how the assessment, approval and monitoring of the time required would be carried out.

## Question 50

Do you agree that the DCC licence should contain a condition which gives it a high-level obligation in relation to foundation and subsequent rollout, activities and that the detailed obligations can be dealt with as part of the development of the SEC?

## Response to 50

Our understanding of this question is that the foundation activities are those activities relating to the setting up of the DCC and not the foundation communication contracts; we have therefore answered this question with that understanding.

We do not believe it is appropriate to include any conditions within the licence with regards to the foundation and rollout activities as this will only be a temporary obligation on the first Licence holder.

We believe it would be appropriate to keep the obligations around the foundation and rollout activities within the SEC only.

## Question 51

Do you agree that DCC should have a high-level obligation, albeit initially "switched off", relating to the provision of meter point/supplier registration services?

## Response to 51

We agree that the DCC should have a high-level obligation within the DCC licence relating to the provision of meter point/supplier registration services in the future, as this will provide a swift mechanism for bringing this service into the DCC; without it, the time required to gain approval from the SEC signatories may be significant and become a major barrier to change.

## Question 52

Do you agree that conditions should be introduced in other licences providing the ability to release other licensees from the requirement to provide meter point/supplier registration services at some point in the future?

## Response to 52

We agree that conditions should be introduced in other licences to release them from the requirement to provide meter point/supplier registration services.

We are concerned about the statement made in the consultation document (section 3.183) that the SMIP team were assessing options for the continued use of existing data transfer networks (i.e. DTS and IX). We are of the view that the DCC should have the option to use the existing systems particularly for the data portal. We understand why the use of the existing systems at DCC start-up may look attractive but we believe the DCC, data and communications service providers should be free, notwithstanding compliance, to decide how to deliver the requirements.

Our reasoning for this is as follows:

- There may be difficulties in expanding the DCC beyond initial scope if the DCC is mandated to use the existing systems. The systems may not be the best in class and it may be difficult (and expensive) to update and accommodate innovative services that the DCC may wish to offer Users. This may limit the potential for providing innovative services and hinder the simplification of existing codes and licences and thus the cost of operation.
- The mandatory use of existing systems may not be the most efficient or seamless mechanism for the transfer of information/instructions between the DCC and suppliers. In our opinion, the data services provider would be best placed to provide a seamless, secure and assured end-to-end solution for information transfer from the suppliers to the DCC and then to the meters. The DCC data services provider should be given the freedom to provide the solution that provides the best value for money and should not be mandated to use any existing systems for the data portal.
- Use of existing systems may be seen as reducing the risk of overall delivery because it is development of tried and tested systems; however, it is a double-edged sword – there is a risk that whilst amending the existing systems they would be compromised and cause integrity problems for existing Users. In this respect, implementing a system specifically for the DCC would be independent and therefore eliminate the risk of compromising existing systems, thereby reducing overall risk to the programme.

## Question 53

Do you agree that DCC and other relevant licensees should be subject to an obligation requiring the licensee to take steps to facilitate the transfer of meter point/supplier registration activities to DCC?

## Response to 53

We agree that the DCC and other relevant licensees should be obliged to support the transfer of meter point/supplier registration activities to DCC. We would envisage that a time limit should be forced upon the existing licensees and DCC to transfer the activities, and penalties should be levied on parties that are deemed not to be taking the appropriate steps to ensure the transfer is done in a timely manner.

We are keen to understand whether the Authority would be enabled to determine disputes between the DCC and other licensees providing existing services and industry data transfer networks particularly when some of the services (such as meter/supplier registration) are transferred to the DCC. We believe disputes around the timeliness of the transfer may need the Authority's intervention.

## Question 54

What dispute mechanism would be appropriate to apply to disputes involving DCC and who should be enabled to determine such disputes?

## Response to 54

We would envisage that the dispute mechanisms that are presently used by electricity and gas licensees would be readily transferable to the disputes involving DCC and the Users, i.e. the Authority would determine the outcome of the disputes for both core and elective services and disputes regarding the incumbent DCC and its successor.

We would not expect the Authority to intervene on disputes between the DCC and the Users of value-added services, as these would be commercial contracts which would be best served by an independent ombudsmen.

## Question 55

Do you believe that DCC should be required to operate its business in a way that ensures it does not restrict, prevent or distort competition in gas shipping, the generation of electricity and participation in the operation of an interconnector?

## Response to 55

We believe that the DCC should operate its business in a way that ensures it does not restrict, prevent or distort competition in gas shipping, the generation of electricity and participation in the operation of an interconnector. However, we do not see the need for a specific condition on the DCC to do so. We believe this would be covered under the high level *'obligation on DCC to carry out its business in a manner that promotes or facilitates competition in the supply of gas and electricity and, if not implicitly captured within this obligation, energy efficiency services, metering services and other energy related services (for example services to encourage demand side solutions)'*.

## Question 56

Do you have views on the additional conditions discussed above?

## Response to 56

Below are our views in relation the additional conditions:

Licensee's payments to the Authority – we do not envisage any problem in the DCC paying fees to Ofgem for the drafting of the energy licences.

Provision of information - we do not envisage any problem in the DCC providing information to Ofgem on the progress of the smart meter rollout programme as long as the DCC had the appropriate access to information held by other stakeholders in respect to the rollout programme, e.g. we are not held to blame for lack of or timeliness of information from the meter installers and suppliers etc.

Compliance with Core Industry Documents – this will be dependent upon whether we believe it would be appropriate for the DCC to become party to existing core industry codes. We would envisage that this condition would need to be looked at again once the SEC has been drafted. At this stage we are unable to provide a view on this condition.

Theft damage and meter interference – we agree that it is not appropriate to include conditions on the DCC in relation to theft damage and meter interference as the DCC would not be analysing the data from the meters.

Regulatory Accounts – we would be prepared to provide Regulatory Accounts although we would question whether this is necessary as we understood the licence to be a commercial arrangement between the DCC and its Users and therefore do not believe this should become a requirement.

Business Carbon Footprint Reporting – the extent or boundaries to this footprint (i.e. does it include all DCC service providers) would need to be established; however, we would not foresee any problem in providing this information.

Reporting of Revenue Restriction Information and Revenue Restriction Cost Information – in principle we would envisage no problem in providing this information.

Performance Principles/Indicators and Monitoring – we agree that it would be appropriate to include conditions in relation to KPI measures and KPI monitoring.

## Question 57

Are there any additional conditions that you would wish to see included?

## Response to 57

We have not identified any additional conditions that need to be included at this stage.

## Question 58

Is it appropriate to consider extending the Secretary of State's powers to provide equivalent powers to modify DCC's licence conditions as it does for other energy licences for the purposes of implementing smart metering?

## Response to 58

Many of the caveats noted in the consultation document in relation to the creation and usage of these powers by the Secretary of State are sensible and will allay fears of interference and disruption caused to any potential DCC licensee. We particularly support the references to limiting the purpose and duration of any power and for the DCC licensee to recover any additional material costs arising as a consequence of the exercise of these powers. Both are important safeguards.

However, at this stage we do not fully understand the requirement or necessity for such powers to exist (especially as new primary legislation would need to create them). The types of powers proposed would be 'catch-all' and are not yet justified with any suggested scenarios or details. We would like to learn more about the Authority's thinking in proposing such powers for discussion.

## Section 4 – Revenue Requirements

## Question 59

Do you consider that it is practicable for DCC licence applicants to provide costs for undertaking meter point/supplier registration? Or is it more appropriate to include a specific reopener for DCC's costs of undertaking meter point/supplier registration?

## Response to 59

Although meter point/supplier registration is a planned development for the role of DCC, we believe it will be very difficult at this stage to provide an accurate estimate of the costs. We believe it may be possible to make some provisional 'ball park' estimates for this task at this stage which we believe would be an inadequate basis to accept the licence; accurate forecasting would be impossible. We therefore consider that the uncertain date of commencement of DCC's responsibility for meter point/supplier registration and the currently unknown information about the details of meter point / supplier registration means that flexibility must be the approach taken to planning for it.

We believe that the revenue reopener approach outlined in the consultation document is the suitable option, because the revenue driver approach would not offer the same flexibility needed in the face of uncertainty, timing risk, specification of services, level of IT support and inflation. The revenue driver option could lead to the DCC becoming financially insecure which would not be an ideal situation.

The reopener option would provide a sensible adjustment mechanism and would not risk the financial viability of the DCC.

## Question 60

Do you have views on the relative benefits of the two options (cost pass through and volume drivers) for recovery of DCC internal costs associated with SEC modifications.

## Response to 60

We appreciate the difficulties DECC has had in developing a workable mechanism for the DCC to recover its internal costs associated with SEC modifications. We have some concerns with both of the approaches described.

The 'pass-through mechanism' described here is not favoured for the following reasons:

- it does not appropriately incentivise all parties to be cost efficient
- it appears highly complicated, time-consuming and burdensome on all parties
- it does not fit with the commercial risk transfer model

The 'volume driver' mechanism is also not favoured for the following reasons:

- the inability to adequately define 'minor', 'moderate' or 'significant' grades of modifications
- it will lead to under or over-charging of Users
- it will tend to lead to gold-plated solutions and prices

We believe that a collaborative negotiated cost reopener is our preferred approach. This approach will lead to:

- common stakeholder goals
- a simplified, efficient mechanism
- the DCC remaining solvent with an appropriate return
- meaningful commercial risk transfer
- an appropriate level of charging to Users