



**Association of  
Independent  
Gas Transporters**



19<sup>th</sup> May 2015

Smart Metering Implementation Programme  
Policy and Consumers Team  
Department of Energy and Climate Change  
Orchard 3, LG Floor  
1 Victoria Street  
London, SW1H 0ET

By E-mail only to: [smartmetering@decc.gsi.gov.uk](mailto:smartmetering@decc.gsi.gov.uk)

Dear Sirs,

**Response to DECC Consultation: 'Smart Metering Implementation Programme – Smart Metering Rollout Strategy'; URN 15D/137**

Please find the joint response of the AIGT<sup>1</sup> and the CNA<sup>2</sup> to DECC's consultation. The AIGT represents independent gas transporters (IGTs) and the CNA represents independent distribution network operators (IDNOs).

In summary, we do not support proposals to mandate that IDNOs become DCC Users, and in particular by DCC Live plus 12 months. We see little to no benefit to consumers from mandating that IDNOs or IGTs become DCC Users. In the early years of rollout there will be very few meters fitted. For gas, the emergency response service is provided separately by National Grid. Under current arrangements they would not have access to any alerts. Additionally such alerts would not pick instances of gas escapes. For electricity, IDNOs are developing arrangements for the emergency service to be provided by DNOs. This will provide a more coordinated service for customers, particularly since, for built out networks, the majority of loss of supply issues are caused by issues on the upstream DNO system. We also note that Ofgem has initiated work on the centralisation of registration services through the DCC. We believe that consideration should be given to integrating DCC User requirements with that work (providing there are clear benefits to consumers at that time), since such an approach may result in a more efficient, economic and effective solution.

There is still significant uncertainty over what the costs of becoming a DCC User are. However, our initial indications are that these could range from £100,000 to £200,000 for initial provision, with ongoing costs being in the range of £2.50 per MPAN per annum. Under the existing relative price control in place for IDNOs together with the current use of system

charging methodologies there is no mechanism for IDNOs to recover such costs. These costs would be in addition to operational costs that IDNO businesses would incur and in addition to the DCC costs payable by IDNOs, which have spiralled from the indicative 12p/MPAN to an indicative proposed 49p/MPAN – an increase of 400%. At present the charging methodologies do not enable us to recover these costs through our DUoS charges. If recovery of these costs cannot be accommodated through changes to use of system charging methodologies (a process which would be likely to take in excess of two years to implement) then one option that could be considered is an increase to use of system charges. This is something we would be keen to avoid as this would ultimately increase costs to consumers, but mechanisms do need to enable licensees to finance their activities.

Our detailed response to the questions of particular relevance to IGTs and IDNOs are provided in the appendix to this letter

Yours faithfully,

Secretary, Association of Independent Gas Transporters (AIGT)  
& Competitive Networks Association (CNA)

## Appendix Response to Questions

1. **Do you agree with the minded to position to set a de-minimis obligation for all large suppliers to install commission and enrol 1,500 SMETS 2 meters or 0.025% of total meter points (whichever is the lower) within six months of DCC Live? Please explain your rationale and provide evidence.**

*Nil Response.*

2. **Do you agree that given the importance of consumers continuing to receive smart metering benefits upon change of supplier, all suppliers should be Users at DCC Live plus 12 months? Please provide evidence to support your position.**

Our analysis is that there are significant fixed costs associated with establishing the relevant systems and requirements to enable a party to become a DCC User. In addition there are significant resource requirement to establish systems. This is particularly the case when market design and specifications around systems still have a level of volatility around them.

Whilst we acknowledge there may be some benefits from mandating that all suppliers should be DCC Users at DCC Live plus 12 months, such an obligation may impose significant cost and resource burdens on suppliers. Ultimately these higher costs can only be recovered from consumers. For smaller suppliers this could significantly compromise their competitive position and compromise competition in electricity supply. However, we note also that some customers may not wish to remain or move to a supplier that does not facilitate the services brought about by their supplier becoming DCC Users. Therefore there will be natural commercial pressures on smaller suppliers to become a DCC User.

We do not have detailed information on what the likely costs are for smaller suppliers and how this would translate through to supplier charges. Such analysis is absent from DECC's consultation. We believe that such information is essential to assist DECC in making an informed and balanced decision on when to mandate small suppliers becoming DCC Users.

3. **Do you agree that given the importance of consumers continuing to receive smart metering benefits upon change of supplier, all suppliers should be Users at DCC Live plus 12 months? Please provide evidence to support your position.**

*This question replicates question 2*

4. **Do you agree that electricity DNOs should be mandated to be DCC Users from DCC Live? Please provide evidence to support your position.**

No. Whilst we understand that it is the intention of DNOs to be DCC Users from DCC Live, we are not convinced of the benefits in mandating that DNOs should be DCC Users from DCC Live. At the start of DCC Live there will be a minimal number of

metering points with smart meters fitted. Therefore, the benefits from DNOs being a DCC User will be limited in the early years of the roll-out.

Developing and implementing the systems and processes that support DCC User services is a significant piece of work. There is still significant element of volatility and uncertainty in the specification and processes. This is illustrated by the need to put in place a six month contingency for DCC Live. We think there is a case for phasing any mandatory direction on DNOs to become DCC User until a time after DCC Live when systems and processes for suppliers are likely to be more stable. This does not prevent DNOs from being DCC Users at DCC Live and we acknowledge the constancy to some industry stakeholders that the knowledge of all DNO readiness for DCC Live may provide.

**5. Would a direction from the Secretary of State, focused on electricity DNOs only, to be ready for Interface Testing provide additional impetus to be ready for DCC Live?**

In general, a mandatory obligation is likely to provide an impetus that a voluntary obligation (couched around expectations) may not. Notwithstanding this, we think the case requiring DNOs to become DCC Users from DCC Live is still to be made (see response to Question 4). The timing of any such directions should be linked to clear needs and benefits rather than dogma.

**6. Please provide views on whether IDNOs should be mandated to become DCC Users from DCC Live plus 12 months. Please provide evidence to support your position.**

We do not support the proposal that IDNOs should be mandated to become DCC Users from DCC Live plus 12 months.

*High Costs*

There are significant high fixed costs associated with establishing the relevant systems and requirements to enable a party to become a DCC User. Our initial investigations indicate the costs of becoming a DCC User are significant costs. Initial indications are that these are circa £100,000 to £200,000, with ongoing service costs in the order of £2.50 per metering point per year. However, there is still uncertainty as to what systems and services (and the costs) are or will be available to us.

*Cost Recovery*

Under the RPC arrangements in place for IDNOs, coupled with the use of system charging methodologies used to determine IDNO tariffs, there is no provision for IDNOs to recover the ongoing 'operational' costs.

At the moment the use of system charges margins available to IDNOs are determined by the CDCM and EDCM developed by DNOs. This comprises of an approach where the DNO calculates all the way tariff to its end customers, and then separately calculates a discount factor to apply to the all the way charge to determine the IDNO tariff. The IDNO margin is the difference between the all the way tariff and

the discounted tariff. None of the methodologies makes any allowance for DCC or smart costs. Such costs are smeared. Therefore at best an IDNO will only receive a proportion of these costs. However there is a high probability that an IDNO will recover none of these costs.

Under the DCUSA governance arrangements it is likely to take well in excess of 2 years to bring about a successful change to charging methodologies to allow IDNOs to recover these legitimate additional costs – at which point, the burden of carrying costs associated with the DCC services that provide little or no benefit to IDNOs or consumers will shift to consumers.

#### *DCC User Mandate – Barrier to Entry*

Additionally IDNOs, compared to DNOs, have much smaller customer bases. So even with changes to methodologies, small IDNOs are highly unlikely to be able to recover the high fixed costs of becoming a DCC User under the RPC arrangements. The high set up costs of mandating IDNOs to become a DCC User will create a barrier to new market entrants and could make it difficult for recent new entrants to remain. One approach is for IDNOs to consider whether it would be appropriate to seek disapplication of the current RPC arrangements and to be able to recover the additional costs as a surcharge.

#### *Limited Benefits Case*

Also, we think the benefits to customers in considering whether to mandate IDNOs to become DCC Users from DCC Live plus 12 months are extremely limited. This is for a number of reasons:

- a. The number of smart meters that are likely to be connected to mature IDNO networks in early stages of the rollout is likely to be very limited, with no meters being connected to some IDNO networks until a date later in the roll out. Of the limited services available to IDNOs, it is unlikely there will be a large proportion of meters installed (on IDNO networks) capable of taking such services.
- b. **Power Loss and Supply Restoration alerts** will provide limited to no benefit to IDNO customers. IDNO networks connect to DNO networks across GB. During the construction phase there may be a higher incidence of faults on an IDNO network. This is often the consequence of third party damage and prior to consumers taking residency. In these instances, the property developer is often quick to (1) contact the IDNO responsible for the network, or (2) instruct the engineers on site to fix the fault. Once a development matures, the majority of supply issues experienced by customers are caused problems on upstream DNO distribution systems. Even where the IDNO is a DCC User, the DNO will not receive notice that there is a fault on their network when an IDNO connected customer is off supply. This will rely on IDNOs contacting the DNO.

In most cases, the DNO will receive the fault alert (currently from a customer's phone call, in future through the DCC) and notify the IDNO if the DNO believes

that downstream IDNO customers are affected. The IDNO will consequently be in a position to (1) contact its customer proactively, and/or (2) respond to customer enquires with accurate information, as provided by the upstream DNO. IDNOs receiving power loss/restoration alerts will add very little value to the above process, due to the importance of the DNO's role in becoming aware of, and fixing, faults on its networks.

- c. Further, IDNOs contract with some of the DNOs for the provision of emergency services. IDNOs are seeking that emergency service provision should be provided by all DNOs. We believe this is a more important development that would better serve the interest of customers (particularly since many supply issues are as a consequence of problems on the upstream DNO network).
- d. **Under or Over Voltage alerts** will provide limited to no benefit to IDNO customers. IDNO networks are different from those operated by the DNOs:
  - IDNO networks are newer (average age of 2-3 years);
  - IDNO networks are built specifically to serve the development being built;
  - IDNO networks have very few 'embedded' networks connecting to them.

For these reasons, customers on IDNO networks experience very few voltage issues. Where the IDNO connects to the DNO's LV network, any voltage issues are picked up and handled by the DNO. The use of voltage alerts by the DNOs will pick up where the voltage put out by its upstream transformer needs to be adjusted so that it falls within the required limits. Any adjustment by the DNO will ensure the voltage delivered to downstream IDNO customers is correct.

Where the IDNO connects to the DNO's network at HV, the IDNO will be responsible for setting its transformer to deliver the required voltage to customers. In practice, this is set up and tested at the time the network is built. To provide an example, ESP Electricity has had an average of 1 (one) voltage complaint from all customers each year, over the last four years. The cost of sending an engineer to investigate the voltage at a transformer once a year (extra to any planned substation maintenance visits) is dwarfed by the potential cost in setting up DCC User systems to enable an IDNO to receive voltage alerts – particularly where the voltage is deemed to fall outside of the 230v +/- 10%, meaning the IDNO is required to incur the cost of attending site the fix the fault anyway.

In terms of network planning and investment, as stated above, IDNOs build small 'ring fenced' networks which are designed to serve new housing developments. This makes any decisions relating to the design and required level of investment for these new networks straight forward, when considered against the complexities and scale of the networks owned and operated by the DNOs. While there is the possibility that a new 'embedded' network may be connected to an IDNO's network, the voltage information available to IDNOs through smart meters

would be of little to no use when considering the feasibility of a proposed embedded network.

- e. As part of the wider development of Smart Grids and the need to move to a low carbon economy, the concept of a Distribution System Operator needs to develop and evolve into something that covers all distribution networks within a GSP group. Additionally we note that Ofgem are initiating work to centralise registration systems within DCC. We think there may be potential synergies with integrating the rollout of DCC User obligations with this work, which could offer more efficient, economic and effective solutions.
- f. In the future there is likely to be further development of private networks, particularly to facilitate community energy schemes. Any arrangements in place for IDNOs should also be in place for such sites. We do not see any justification for different discriminatory treatment between the two types of entity.

**7. Do you agree with the position not to mandate GTs and IGTs to become Users at the present time? Please provide evidence to support your position.**

We agree. We see no benefits from mandating IGTs and GDNs. Emergency services are provided centrally by National Grid with a single national telephone number. Therefore, even where IGTs and GDNs become DCC Users, national grid wouldn't receive the alerts.

**8. Are there benefits that could be driven by imposing a DCC Mandate for GTs and IGTs before the end of rollout? Please provide evidence to support your position.**

See our response to question 7. Placing obligations on IGTs and GDNs will result in significant additional costs. We see no evidence of benefits from imposing such a benefit.

**9. Do you agree that 'Install and Leave' should be permitted where expected WAN coverage is not available; but only in cases where HAN is established? Please explain your rationale.**

Nil Response

**10. Do you think there are grounds for the Government enabling "proactive" Install and Leave and would your organisation use it as part of their rollout strategy? Please explain how you would mitigate the potential challenges to consumer experience.**

Nil Response.

**11. Do you agree that the Government's minded to position on 'Install and Leave' should apply to both SMETS1 and SMETS2 installations? Please provide views on specific issues you think the Government would need to consider in implementing this provisional policy position; and in particular whether there is a suitable period of time during which we would expect WAN coverage to become available, where this has not been available on installation.**

Nil Response.

- 12. Do you agree that the Government does not need to regulate to exclude operation of SMETS meters in PPM mode from the scope of its minded to policy position on 'Install and Leave'? Please explain your company's strategy for handling PPM where the WAN is not available at the point of installation**

Nil Response.

- 13. Do you agree with the proposal to enact the New and Replacement Obligation in mid-2018?**

Nil Response.

- 14. Do you agree with the proposal to set a SMETS1 end date of DCC Live plus 12 months? Please provide evidence for your answer.**

Nil Response.

- 15. What are the advantages and disadvantages of a SMETS1 'cap' on individual suppliers both in combination with an End Date and as the sole means that SMETS1 meter installations are regulated? How could such regulation best be designed? Please provide evidence for your answer.**

Nil Response