



SCOTTISHPOWER

Smart Metering Implementation Programme
DECC
55 Whitehall
London
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03 August 2012

Dear Sir/Madam,

SMART METERING – STRATEGY AND CONSULTATION ON INFORMATION REQUIREMENTS FOR MONITORING AND EVALUATION (MAY 2012)

ScottishPower is pleased to respond to DECC's consultation of May 2012 on information requirements for monitoring and evaluation of smart metering. This letter supersedes our response of 27 July (which contained our initial answer to Question 10), and complements the response submitted by SP Energy Networks on 27 July, which answered relevant questions from the perspective of a DNO.

Our responses to the consultation questions are in Annex 1 attached. We have also provided some suggested licence condition drafting changes in Annex 2. A summary of the main points raised in our response is as follows:

- **Approach to monitoring rollout:** We are concerned that DECC and Ofgem are seeking to monitor suppliers' rollout plans and progress in greater detail than is necessary for the purpose of securing compliance with the existing rollout obligation. Experience in other sectors has shown that regular regulatory reports can have a tendency to grow lengthy and detailed, and may outlive the point where they cease to be cost-effective. Instead we think DECC and Ofgem should define a smaller set of Key Performance Indicators (KPIs) against which progress would be monitored. This should achieve a similar level of assurance but with lower system and management overheads. Suppliers should also be given greater flexibility to adjust their rollout plans in response to experience gained in the course of rollout; we would suggest an initial high level forecast covering the whole programme followed up by refreshed plans submitted on an annual basis (see our response to Question 4).
- **Mandatory interim milestones:** We are concerned at the proposed introduction of mandatory interim milestones, with the possibility that Ofgem may impose financial penalties (or other sanctions) for failure to hit these milestones. This is a significant and substantive extension of the existing rollout obligation which has been designed without mandatory interim milestones and not appropriate to a consultation about reporting. Instead, we think that suppliers should be obliged to set milestones and, if their milestones are missed, to explain to Ofgem why this has happened and how they intend to recover the situation so as to meet the overall target. The threat of financial penalties for failing to achieve the overall rollout obligation should be sufficient to promote compliance.

- **Harmonisation of reporting requirements:** We would encourage DECC and Ofgem to conduct a joint review of reporting requirements to ensure that there is no unnecessary duplication of reporting, either between DECC and Ofgem, or between the Smart Meter programme and other regulatory obligations. We welcome Ofgem's commitment to work with DECC to ensure that their monitoring activities are complementary and to avoid unnecessarily burdensome reporting requirements, but believe this needs to be put on a formal footing and be completed before detailed reporting requirements for smart metering roll-out are finalised. This should also take account of costs (see below).
- **Costs:** DECC is assuming that there will be little or no cost in providing the data because it will be a subset of management information that suppliers will need for their own purposes. This is not necessarily correct, since additional costs will arise where DECC/Ofgem reporting formats differ from those used internally, where data has to be combined from multiple internal systems, or where data has to be obtained from third parties who may make a charge. Furthermore, it may be necessary to do a greater level of due diligence on regulatory information than would be deemed necessary for internal management reports. DECC and Ofgem should issue a more detailed specification of their information requirements to suppliers in draft, so that suppliers have an opportunity to highlight in advance any aspects which are likely to be disproportionately costly. One way to help reduce costs would be to specify in advance which elements of the reports will be required only for programme delivery, and which will be enduring requirements; this will help suppliers judge the appropriate level of investment in systems and processes.
- **Geographical granularity of reporting:** We believe that monitoring at DNO level will meet all the stated objectives. This would provide DECC and Ofgem with a breakdown of the geographical reach of each supplier's installation programme and give comfort that suppliers are meeting their stated targets. We recognise that DECC and Ofgem will require, on occasion, more granular detail, but we believe that such requirements should be dealt with by exception, through contact with the relevant supplier.
- **Information provision by large and small suppliers:** All suppliers should be subject to the same reporting obligations to ensure that roll-out monitoring and evaluation is consistent across the Programme.

CHAPTER 8: REGULATORY PROPOSALS

Question 1: Do the licence conditions as drafted, deliver the set policy intentions set out above – for example, to create a consistent, predictable and proportionate framework for monitoring and reporting? Do any specific areas of the draft licence conditions need amendment or clarification to deliver this policy, and if so, how should they be amended?

We are concerned that DECC is seeking to monitor suppliers' rollout plans and activity in greater detail (and in a more prescriptive manner) than is necessary for the purposes either of monitoring and evaluation or securing compliance with existing rollout obligations. There is a risk that this will impose additional costs on suppliers which are disproportionate to the policy objectives.

Instead we believe DECC and Ofgem should define a smaller set of Key Performance Indicators (KPIs) against which progress would be monitored. An appropriate set of KPIs should achieve a similar level of assurance but with lower system and management overheads.

Our main comments on the draft Condition XX are as follows:

- The purposes set out in Conditions XX.1 and XX.2 appear to go beyond those permitted by s88(2) of the Energy Act 2008.¹ Reporting obligations which directly support the monitoring of the provision, installation or operation of smart meters are clearly in scope; but obligations to provide information on their use, including the tracking of energy efficiency benefits, are less obviously so.
- Appropriate reasonableness safeguards should be included on the face of the licence condition. So, for example, DECC should only be able to request such information as it reasonably requires for the purposes, and suppliers should be obliged to respond only so far as reasonably practicable.

Detailed drafting suggestions for these and other minor points are provided in Annex 2.

Question 2: Is there a need for any consequential changes to existing licence conditions or codes to ensure that the proposed requirements on suppliers or network operators work as intended?

From a supply perspective, we are not currently aware of any existing licence conditions or industry codes that would need to be changed as a result of the proposed requirements.

However, as noted in the SP Energy Networks response, we do see a need to review existing codes (and possibly licence conditions) to ensure coordination of activity between suppliers and distributors, in particular to facilitate management of resource planning and exchange of information on installation of smart metering so that any necessary remedial work on the network or connection assets can be undertaken in parallel.

¹ Section 88(2) states that "The Secretary of State may exercise the power [...] for the purpose only of — (a) requiring the holder of a licence to provide or install, or facilitate the provision, installation or operation of, meters of a particular kind, or (b) requiring the holder of a licence to make arrangements related to the matters mentioned in paragraph (a)."

We would encourage DECC and Ofgem to work together to conduct a comprehensive review of the information that is currently submitted to each party as a first step, to ensure that there is no unnecessary duplication of reporting and to minimise the reporting burden as far as possible. We welcome Ofgem's commitment² to work with DECC to ensure that their monitoring activities are complementary and to avoid unnecessarily burdensome reporting requirements, but believe this needs to be put on a formal footing and be completed before detailed reporting requirements for smart metering roll-out are finalised.

Question 3: What are your views on this proposed approach to the scope, frequency and timing of the content of Information Requests?

It is difficult to comment on the scope, frequency and timing of information requests without more detailed specification of the associated data requirements. We assume that individual report specifications detailing mandatory data items and report format will be published by DECC and Ofgem. This will enable us to determine the level of raw, derived, aggregated and third party data required for each report and the practicalities of providing the data in the specified format and timescales. Based on our initial consideration of the draft report formats issued by DECC on 22 June 2012, we feel that the proposed requirements potentially present a significant cost overhead. It cannot be assumed that individual suppliers already have (or will have) the proposed reporting capability in place as part of their normal management processes.

Some data items which are deemed mandatory by DECC may not be recorded by suppliers at present or may be held in an inaccessible state. This could pose a particular issue for reporting on activities which have already taken place in 2012, and prior to any detailed reporting requirements being specified. In some instances data will be required from multiple systems and from third parties, which may present additional practical and possibly commercial complexities. One example of this is the development of systems and processes to capture new data items required at the point of installation to meet DECC/Ofgem reporting requirements and also SMICOP compliance.

Detailed reporting specifications will need to take account of the interdependencies between, for example, MPAN/MPRN, postcode and consumption pattern and how such data is to be presented. Where the objective is to measure levels of consumer engagement and customer satisfaction (i.e. cause and effect analysis), data selection criteria will need to be clearly stipulated.

DECC and Ofgem should therefore ensure that there is no unnecessary duplication of reporting, either between DECC and Ofgem, or between the Smart Meter programme and other regulatory obligations, and satisfy themselves that additional costs imposed by the reporting are proportionate to the policy objectives.

Please also see our response to Question 2.

2

http://www.ofgem.gov.uk/Markets/sm/metering/sm/Documents1/120727_Ofgem's%20response%20to%20DECC's%20consultation%20on%20monitoring%20and%20evaluation%20of%20the%20smart%20meter%20roll-out.PDF

CHAPTER 9: OFGEM'S REGULATORY OVERSIGHT OF SMART METER ROLL-OUT OBLIGATIONS

Question 4: Do you have any comments on the proposed framework for the provision of suppliers' plans and reporting information to Ofgem? Are there any alternative approaches that might better achieve the aims of the framework?

We understand the need for monitoring of plans and progress against roll-out and are generally supportive of the process. What does concern us, however, is that we are being asked to forecast, and be held to, long term roll out plans which could change year on year based on our learnings and also on factors outside our control. For example, a severe winter or an intensive anti-smart metering campaign may impact access rates and / or the time taken to complete installations. This could result in suppliers failing interim objectives but meeting the overall programme target because they are framed differently. We believe the rollout will be an exercise of continual learning, and that the planning and monitoring needs to reflect that.

Therefore we would propose the following approach:

- Suppliers submit an initial high level forecast of their roll out aspirations as a means of informing Ofgem of the scope of what they need to achieve.
- Suppliers submit an annual plan each year against which they will be monitored. This plan will take into account learnings from previous years and a review of what they need to achieve by the end of roll out.
- Suppliers should have the opportunity, under exceptional circumstances, to submit revisions to their annual plan within the year of operation.
- Ofgem make an assessment at the end of each year in terms of progress against a Supplier's overall target to ensure that this still appears to be achievable.

This approach would be in keeping with the process we will be undertaking for our own planning purposes, regularly reassessing our plans based on experience, logistical challenges and any technology issues existing at that point in time. Each annual plan would include a summary of the measures taken to address the previous challenges, and Ofgem could review this assessment to give them confidence that the plan is showing a realistic view going forwards.

As explained in response to Question 7, we do not believe it is appropriate for interim milestones to be binding on suppliers, and we suggest that the relevant licence condition (YY.4) should be amended. Instead, we think that suppliers should be obliged to set milestones and, if their milestones are missed, to explain to Ofgem why this has happened and how they intend to recover the situation. The threat of financial penalties for failing to achieve the overall rollout obligation should be sufficient to promote compliance.

The reporting framework should provide a level of flexibility, particularly in the early stages of mass roll-out to take account of potential and unforeseen technical, physical and consumer issues which impact forecast targets.

Question 5: Do you have any comments on the appropriate format of, and interval between, the interim milestones?

Format

The annual (interim) milestone is defined in licence condition YY.14 as 'the percentage of the Domestic or Designated Premises in respect of which the licensee is the Relevant Electricity Supplier which will have a Smart Metering System installed on or before the end of the period set by the Authority in accordance with Condition YY.9(b).' We agree that this high level approach is appropriate, with one minor change. Rather than defining annual milestones in terms of percentages, we think they should be defined in terms of the absolute number of meters installed by the supplier in a given period. Customer numbers may vary due to customer switching and it is possible that a supplier may install a high number of smart meters for domestic customers in a given period but subsequently lose a proportion of customers with smart meters to a competitor with a more developed smart meter product proposition in that same period. This would give the impression that the supplier had not performed effectively in installing meters. Conversely, a supplier who does not actively install high numbers of smart meters but actively gains a high number of customers with smart meters installed from its competitors would perform positively against the milestone targets but without necessarily completing its share of installations. Reviewing the number of meters installed, or attempted to be installed by each supplier would be a more representative way of monitoring supplier performance during the roll-out.

Should Ofgem request additional planning information in support of these milestones, we would suggest that such plans should be submitted in a common, workable format. A planning tool such as Microsoft Project is easily accessible and provides the necessary functionality as standard, to baseline, track and report on progress. Interim milestones could therefore be set and tracked within a supplier's overall roll-out plan.

Interval

We agree that 12 months, as proposed in the draft licence condition, is an appropriate interval between milestones.

We think that formal reporting should commence from the point of mass roll-out and the installation of smart metering systems which fully comply with final SMETS.

Question 6: Do you have any comments on which elements of the above approach would be appropriate for smaller suppliers?

It is desirable that all suppliers are subject to the same reporting obligations, so that roll-out monitoring and evaluation is representative of all implementation activities being undertaken across Great Britain. Assuming that DECC and Ofgem are able to rationalise the reporting requirements so as to minimise the burden on suppliers, we see no reason why small suppliers should be materially disadvantaged relative to larger suppliers. We would therefore suggest that the same reporting obligations should apply, regardless of a supplier's size.

Reporting of customer experience and installation challenges is vital to the overall success of the Programme and DECC should encourage collective sharing of lessons learnt among all suppliers irrespective of their organisational size or smart meter base – indeed, a number of small suppliers have been particularly active in smart meter installation during the Foundation Stage so far.

Question 7: Do the licence conditions as drafted effectively implement the proposed framework described in this section?

Our main comments on the draft licence condition 'YY' are as follows (references to paragraph numbers relate to the supply licence variant):

- The purposes referred to in Condition YY.1 appear to go beyond those permitted by s88(2) of the Energy Act 2008.³ Reporting obligations which directly support the monitoring of the provision, installation or operation of smart meters are clearly in scope; but obligations to provide information on their *use* are less obviously so.
- Appropriate reasonableness safeguards should be included on the face of the licence condition. So, for example, Ofgem should only be able to request such information as it reasonably requires for the purposes, and suppliers should be obliged to respond only so far as reasonably practicable.
- Condition YY.4 goes beyond the broader roll-out conditions previously consulted on (to 'take all reasonable steps' to install smart meters) by creating an absolute obligation on each supplier to comply with the annual milestones set out in its roll-out plan. This is a significant extension of the existing roll-out obligation which has been designed without mandatory milestones and is not appropriate to a consultation about reporting. Given that suppliers already have an overarching obligation to 'take all reasonable steps' to complete the roll-out, and Ofgem is able to monitor progress against annual roll-out plans, we think Ofgem's existing enforcement powers will be sufficient to encourage timely roll-out. In particular, we do not think it is appropriate, as suggested by Ofgem, for it to be able to impose financial penalties for failure to hit interim milestones⁴, as this could create a perverse incentive on suppliers to backload their milestone plan in order to provide an additional safety margin. Instead, we think that Condition YY.4 should be amended so that suppliers are obliged to set milestones and, if their milestones are missed, to explain to Ofgem why this has happened and how they intend to recover the situation so as to meet the target date for the programme as a whole.
- Condition YY.6 obliges suppliers to publish their Roll-out Plan and Progress Reports in full, unless Ofgem directs that they should publish a subset. It is highly likely that these reports will contain commercially sensitive information, and we therefore think it would make more sense to oblige suppliers to publish *such information contained in these documents as Ofgem may direct*. That way, a failure by Ofgem to make a timely direction would not leave the supplier obliged to release confidential information.
- The definition of Annual Milestone in YY.14 is expressed in terms of percentages. As explained in response to Question 5, we believe it is more appropriate to express the milestone in terms of absolute numbers of meters installed.

Detailed drafting suggestions for these and other points are provided in Annex 2.

³ Section 88(2) states that "The Secretary of State may exercise the power [...] for the purpose only of — (a) requiring the holder of a licence to provide or install, or facilitate the provision, installation or operation of, meters of a particular kind, or (b) requiring the holder of a licence to make arrangements related to the matters mentioned in paragraph (a)."

⁴ "we are considering whether it might be appropriate to provide additional guidance on [...] imposing financial penalties for failure to comply with interim milestones" - Ofgem's open letter 'Regulating the smart meter roll-out: how DECC's proposals for the provision of information to Ofgem might work in practice', 14 June 2012, page 5 http://www.ofgem.gov.uk/Markets/sm/metering/sm/Documents1/Smart%20Meter%20Roll%20Out_Open%20letter%20June%202012.pdf