

Evidence gathering session on DataCommsCo agenda

Agenda items circulated in advance of the Evidence gathering session on DataCommsCo

From	Ofgem
To	Stakeholders
CC	
Date	14 April 2010

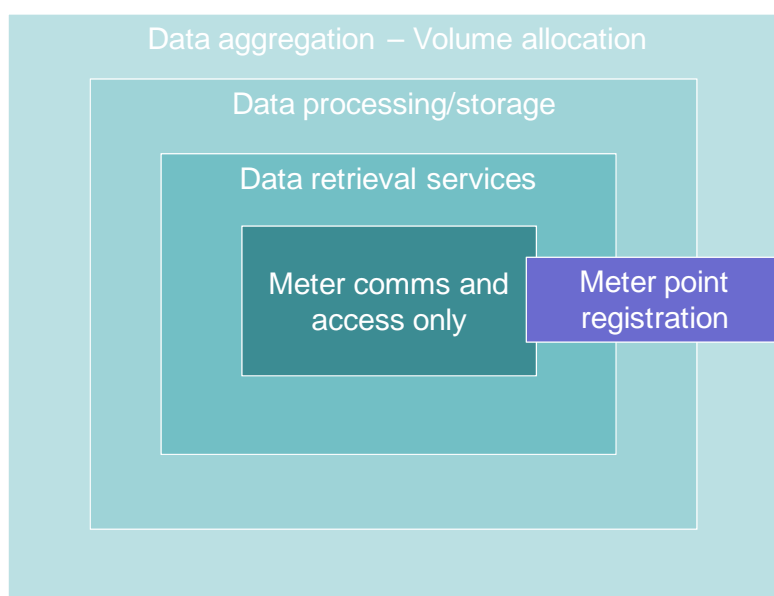
1. Evidence Gathering session on the Scope of DataCommsCo activities

Background

The stakeholder workshop held on 8 March highlighted the key questions regarding the scope of the Central Data and Communications function activities relate to:

- whether or not the Central Data and Communications function takes on the role of meter registration service provider from the network companies, either as their agent (leaving the network companies with the primary responsibility) or in its own right under a new industry code or as a licence condition; and
- the extent to which the Central Data and Communications function (referred to as DataCommsCo or DCC) has a role (beyond providing access to smart meters) in retrieving and processing the consumption and related data that is collected by smart meters.

These questions are illustrated graphically below. Note that the meter point registration activity is shown as lying across the concentric rectangles representing different scopes of activity in relation to consumption data. This is because a decision on whether to include meter registration is independent of the other choices.



In relation to any target scope, there could be a choice concerning whether the activities are undertaken from the point in time at which DCC first commences service provision (Day 1) or whether they are introduced over time. Arguments have been presented to focus the scope of DCC's activity for Day 1 on the first two inner rectangles in relation to consumption data (meter comms access and data retrieval services). If the scope of DCC's activities were to increase over time, the implications in terms of changes to existing

industry processes would grow. It will therefore be important to capture the time dimension in a roadmap of DCC and broader industry change.

Some stakeholders have argued that a “bolt on” solution for smart metering would be more expensive, and may not even be workable, without reform of existing industry processes and systems. In particular, some have proposed inclusion of meter registration within the scope of DCC and, in addition, reform of the related processes for change of supplier to establish a consolidated and harmonised approach for gas and electricity. Other stakeholders have argued that a “minimalist” approach is both workable and desirable to achieve the programme timeframe objectives. At the recent workshop it became clear that views on the scope of DCC’s activities differ across stakeholders but that no substantial quantitative evidence has yet been reconciled to clearly support / contrast these views.

Proposed Approach to Collect Evidence

We consider that the most streamlined approach to gather evidence to assist in addressing the outstanding issues around the scope of the DCC functions is to conduct an evidence gathering exercise with selected stakeholders. We propose to get together a relatively small number of parties that have previously expressed views on the relevant issues and may be able to provide us with relevant evidence to inform our analysis on the matter. The questions for this session, scheduled for the morning of 14 April 2010, are presented below.

Questions for the Evidence Gathering Meeting

Key Evidence Sought

1. Based on available evidence, what is the lowest cost, lowest risk scope of activities for the DCC consistent with delivery of the benefits set out in the DECC Impact Assessment?
2. What evidence supports any expansion beyond that scope – either on Day 1 or later?

Detailed Questions

Meter registration

3. What are the advantages and drawbacks of DCC being a user of existing meter registration databases versus DCC being responsible for a centralised master meter registration database to which suppliers, DNOs and GTs have access?
4. Is there an option to centralise meter registration without significant reform to the MRA and SPAA processes for change of supplier?
5. Apart from accurate meter reads on change of supplier, what other improvements to the change of supplier process will be delivered directly by smart metering without the need to implement other changes to systems/processes?
6. Based on precedence/experience, how long would it take to establish new centralised meter registration services and new harmonised processes for change of supplier for gas and electricity?
7. If a new centralised registration service for smart meters were to be established, what are the arguments for doing this for Day 1, with parallel running of the existing

arrangements for non-smart meters, versus doing this later when all meters could be migrated to the new system?

Data processing aspects of the DC/DA role

8. What are the advantages and drawbacks for the electricity sector of centralising the data processing aspects of the data collection role for smart meters (e.g. calculation of EAC/AA values) and data aggregation?
9. If data collection and aggregation were to be centralised, what are the advantages and drawbacks of the following options:
 - a. Having this function performed by Elexon so that its scope in this regard is more similar to xoserve?
 - b. Having this function performed by DCC and making no change to the scope of what xoserve currently does?
 - c. Having DCC perform the relevant functions for both electricity and gas?

Data storage

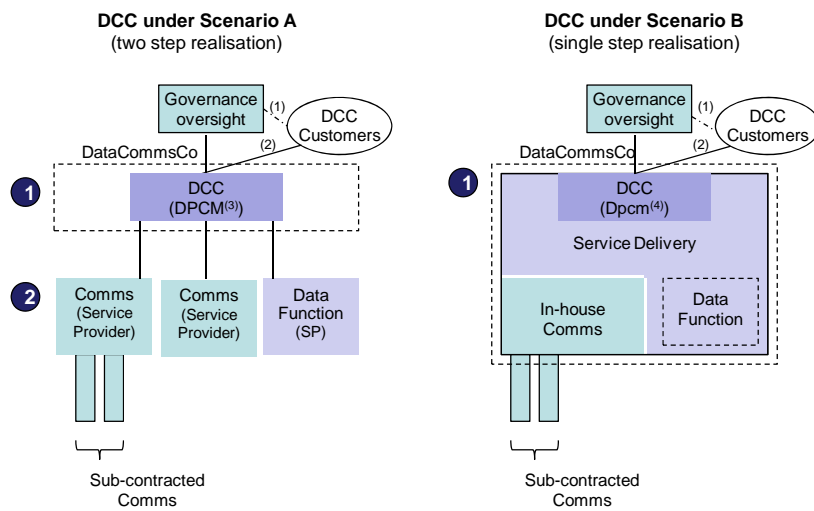
10. If the scope of DCC were to be limited to communications, access and data retrieval, how long would consumption and other non-standing meter data need to be stored centrally?
11. What are the pros and cons of keeping energy consumption data (advances or interval data) in a central location so that it can be made available to potential users (e.g. network companies or service providers such as ESCOs working for consumers)?
12. If a case were made for central data storage, what are the pros and cons of achieving this via xoserve and Elexon versus having it done by DCC?
13. Are there any other processes / roles that should also be considered as part of a roadmap?

2. Evidence Gathering session on the Realisation and Operation of DataCommsCo

At the relevant workshop on 8th March, two possible scenarios emerged concerning the way the Central Data and Communications function is set up and the characteristics of this business activity.

The figure below shows some key features that may be attributable to these two possible scenarios for the realisation and ongoing operation of the DataCommsCo (referred to as DCC) that discharge the Central Data and Communications function – these are meant to be illustrative and variants of these scenarios and other scenarios may be considered.

Figure 1: Overview of two possible scenarios for DCC



- Notes:
- (1) Code-based participation in Governance Body
 - (2) Customer-Supplier relationships – e.g. based on code and multiparty or framework contract
 - (3) DPCM: Design (inc. integration within overall SM Framework); Procurement & Contract Management (of major, discrete, Service Provider inputs)
 - (4) Dpcm: Design (inc. integration within overall SM Framework); procurement & contract management (as necessary for sub-contracted elements but within overall integrated offering)

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In the above illustration under Scenario A, DCC is realised in two discrete steps: (i) firstly, the establishment of a DCC Design, Procurement and Contract Management entity; (ii) secondly, the competitive procurement of the necessary Data and Communications services from Service Providers. Scenario B has a single step – a competitive tender process, to select an entity to establish and deliver the required services (that entity could be a consortium with a blend of in-house and sub-contracted capabilities).

A description of some key attributes of these two illustrative scenarios is set out in Table 1 below. Variations to the attributes, not shown in the table, are possible.

Table 1: Characteristics of Realisation Scenarios A and B (for illustrative purposes only)

Definition	Scenario A	Scenario B
DCC business model	DCC is a design, procurement and contract management entity, which awards contracts to service providers for different functional areas and integrates them to deliver the required smart meter services.	DCC is an entity that takes full responsibility for delivery of the smart meter data and communication services. It could take the form of (i) a prime with one or more sub-contractors or (ii) it could be a consortium or SPV formed by some or all of the service providers.
Set up and term	Design, procurement and contract management function established as a new body, or formed from an existing industry body, which then defines the service requirements based on prior work by Ofgem and relevant stakeholders. The entity then defines contract packages and undertakes competitive procurement in each area to identify the best value for money service providers. Each contract package could have a different term and would be retendered from time to time.	DECC / Ofgem, with stakeholder input, define Day 1 core DCC service requirements and then conducts a competitive tender to select the entity (as above) that offers the best value for money to deliver the requirements. The resulting arrangement would be in place for a number of years with DECC/Ofgem holding a new tender at the end of the term to select a new entity or to reappoint the original one. As part of the tender process, the

Definition	Scenario A	Scenario B
		bidders would have to define unit prices for standard inputs to provide a basis for delivery of change.
Incentivisation	Incentivisation at the level of the individual service providers based on firm prices with adjustments for performance against service levels. The design, procurement and contract management function could also be given incentives consistent with its ability to bear risk.	Incentivisation focussed at the entity level based on firm prices with adjustments for performance against service levels. The prime entity would decide on "flow down" arrangement to ensure incentives of specific service providers were aligned.
Cost recovery	There are two aspects to this – what costs DCC is allowed to recover and the charging model use to recover this allowed revenue from service users. DCC will operate under a cost+ model, with independent oversight to ensure costs are minimised. It will be allowed to recover the costs it incurs under contracts with service providers plus its own costs for design, procurement and contract management function, adjusted for any incentivisation arrangement applicable to DCC. The charging model could be based around a combination of funding shares (based, for example, on numbers of meter points) plus user charges linked to the main cost drivers e.g. data volumes.	The same two aspects apply as for Scenario A. DCC is permitted to recover revenues for core services on the basis of a firm price defined when it was selected, plus revenues for non-core services, both adjusted for performance against service levels. The charging model could be the same as under Scenario A.
Financing	This scenario may or may not lend itself to service providers financing development work. Otherwise financing would need to come from service users.	This scenario might lend itself to the selected entity providing some financing for development work, at a cost. Otherwise financing would need to come from service users.
Governance Framework & Regulation	Primarily based on a new industry code for smart energy under stakeholder and Ofgem governance, plus a limited number of licence provisions. The entity will operate under "an open book" regulation, it will be required to make all of its costs transparent and its development/change will involve industry governance.	Based on a combination of a licence and a new industry code under stakeholder and Ofgem governance. DCC's licence will form a de-facto contact with firm prices for the period of the licence.
New requirements from smart meter service users	Impact assessed by DCC, in consultation with users of the services, under code governance, as far as possible using pre-defined parameters. If agreed by users and by Ofgem, implemented by change request under existing contracts with service providers or as a changed requirement when relevant contract is retendered.	Change requests may need to be managed either by (i) Ofgem with expert support or (ii) by a new governance body with skilled support established through a code. Agreed changes would need to lead to adjustments to permitted revenue recovery under the licence. Some changes might be able to be accumulated and included in the requirements at the time of retendering. Under either option, the impact of a proposed change would be assessed in cost and other terms (based as far as possible on pre-defined parameters) and users would decide whether to proceed with a change request.

Proposed Approach to Obtaining Evidence

We consider that a streamlined approach to gather evidence to assist in considering the realisation and ongoing operation of the DCC is to conduct an evidence gathering exercise with selected stakeholders. We propose to get together a relatively small number of parties that have previously expressed views on the relevant issues and may be able to provide us with relevant evidence to inform our analysis on the matter. The questions for the session, scheduled for the afternoon of 14 April 2010, are presented below.

Questions for the Evidence Gathering Meeting

Drawing on past precedents/experience:

- What is the workability and practicality of the various scenarios related to the realisation and ongoing operation of the DCC? For example, what is the workability/flexibility of:
 - Appointing an independent entity, as a result of an applications process, to be responsible for the design, procurement and contract management of the DCC's services under Scenario A?
 - Selecting an entity, through a competitive tender, to undertake the DCC's data and communication functions under Scenario B?
- Which approach do you think would be quickest to implement and why? What are the likely risks and dependencies impacting on the implementation timeframes of each scenario? Is there a preference for earliest / measured approach?
- Which scenario would you expect would offer best value for money for the users of the services over a reasonable period of time? What would your assessment be of the relative levels of competition/ contestability under these scenarios, both in a first round of procurement and over time?
- Which scenario provides the best opportunity to implement effective performance incentives?
- How do you see the allocation of risks in the different scenarios and to what extent could this be improved in a cost effective manner?
- How would you assess the scenarios in terms of their ability to deal effectively with industry change leading to amended requirements in the areas of firstly, data and, secondly, communications? Could either scenario be adapted to deal better with such changes?
- How would each scenario be best introduced into the current industry landscape?
- Which scenario is most likely to harness industry expertise in the best way?
- What is the relative importance of the different objectives (for example, value for money, speed of establishment, flexibility to change, etc)