

Interim Interoperability Implementation

This memo is intended to set out the practicalities of implementation of any interim interoperability arrangements, as discussed within DCG Subgroup 2.	From	DCG Subgroup 2
	To	DCG
	cc	
	Date	5 October 2010

Introduction

This paper has been drafted for discussion at DCG Subgroup 2 within Phase 1a of the Ofgem/DECC Smart Metering Implementation Programme. It is intended to inform the DCG of the subgroup's views on the implementation of interim interoperability arrangements.

There have been a number of discussions on the practicality of implementation of any interim arrangements, both in terms of statutory instruments/mandating interim arrangements and the implications of procurement and implementation.

Governance Options for Interim Arrangements

The different options for governance of any interim arrangements have been discussed and assessed against the different solution options.

1. Mandated statutory instruments for gas and electricity smart meters, domestic & non-domestic (as set out in Prospectus)
 - a. Via changes to existing codes (e.g. via a Significant Code Review)
 - b. Via a new interim/early drop Smart Energy Code
 - c. Licence conditions
2. Voluntary/Self governing arrangements
 - a. Memorandum of Understanding between Suppliers
 - b. multi-lateral contract with service provider
 - c. common set of bilateral (JPW-like)
3. A combination of both mandated instruments with underpinning self-governing arrangements

In general, the DCG Sub Group concluded that neither voluntary nor mandated arrangements would be sufficient on their own.

Voluntary arrangements would not provide any guarantees of all Suppliers signing up to interoperability arrangements, therefore would compromise the guiding principle of protecting the customer experience at Change of Supplier.

Statutory Instruments in themselves do not implement operational arrangements – we need a combination of statutory instruments to deliver the framework and self-governing arrangements to turn those statutory instruments into operational processes and systems.

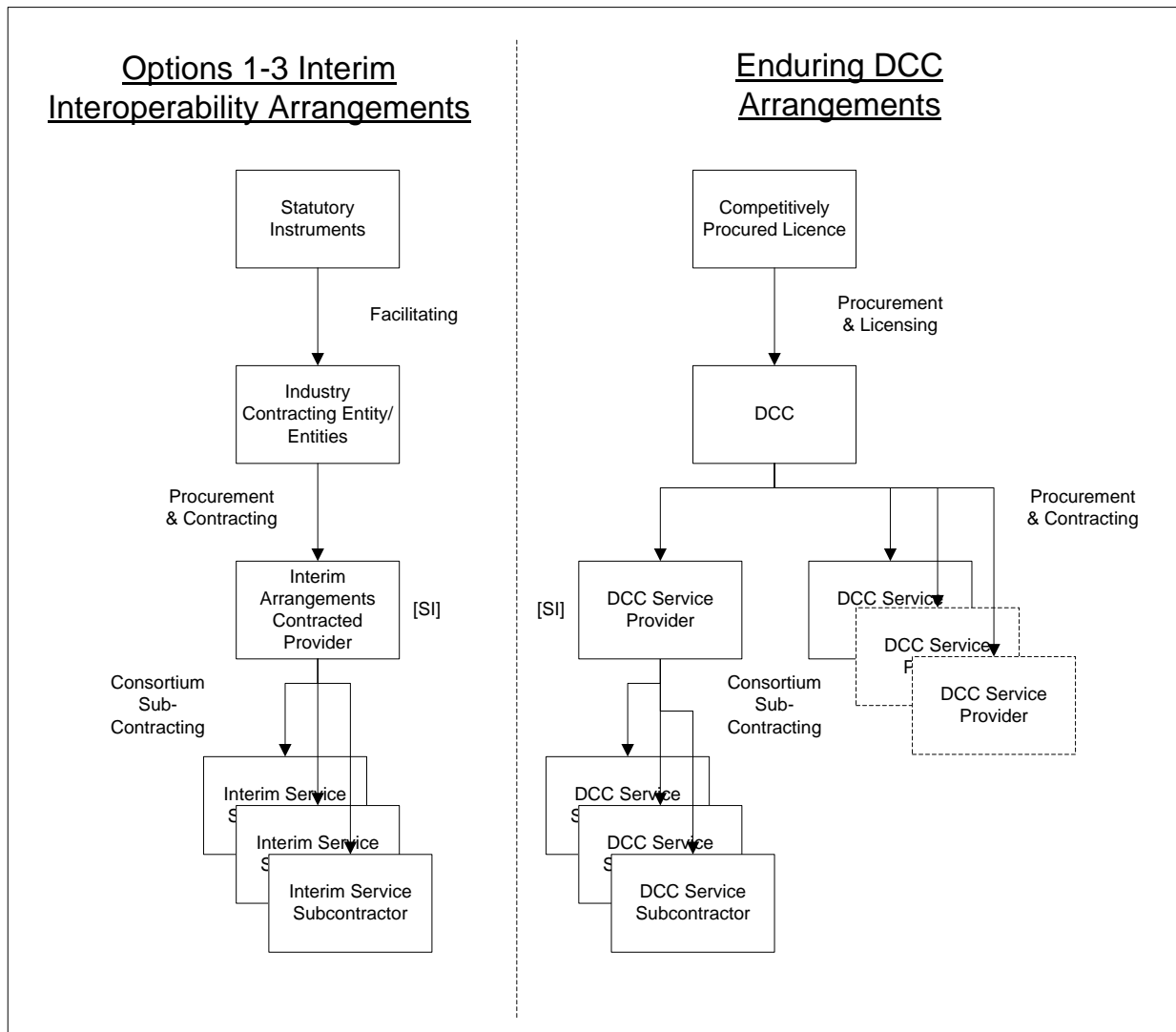
Contracting/Licensing Structure for Interim Interoperability Arrangements and Enduring DCC

The group have mapped out what the licensing/contracting structure might look like for the interim interoperability arrangements and how this might compare to the enduring DCC arrangements.

Options 1-3

For Options 1-3, there is a central service for interim arrangements, therefore there must be a contracting vehicle for a central service provider. A potential contractual/licensing structure for this is set out below and it is shown next to the potential arrangements for the enduring DCC.

The structure for Options 1-3 below assumes that there are underpinning statutory instruments to support industry arrangements for contracting an interim service provider.



Options 5 & 6

For Options 5 & 6, there is no centrally procured service, therefore not the same requirements for procurement and contracting. In general, the sub-group felt that it was easier to deliver arrangements commercially under Options 5 & 6, rather than set up and procure a new service provider. This is reflected in the timescales and the different activities set out.

It is important to point out that Option 5 continues with very similar arrangements to those operating in the existing market, therefore there are very few competition risks identified as long as transparency is built in as a principle of development and operations.

Novation/Exit of Supplier Communications Contracts

It is important to consider the transfer of supplier contracts for communications either from:

- supplier driven early move contracts to interim; or
- from interim comms contract in one of the Supplier led options (1, 5 & 6).

The expectation is that suppliers will mitigate against the risk of a second visit to replace communications by contracting with appropriate novation or exit clauses in their communications contracts.

With the novation of contracts, the interim service provider or DCC must be ready and prepared to take on any legacy communications contracts.

With the exit of contracts, the interim service provider or DCC must prepare themselves by ensuring they

have appropriate contractual arrangements in place with potential communications providers to take on exiting meter points in appropriate commercial arrangements. Mitigating action is required to ensure that the interim service provider/DCC is not held to ransom for meter points that have been exited from contractual arrangements over which they have no control. We want to avoid the situation where the interim service provider/DCC is held to ransom for inflated prices because of the high cost of a visit to replace the communications modem/SIM. It seems reasonable that any potential provider will be able to put these commercial arrangements in place.

Independence of DCC

The independence of DCC in the procurement and management of service providers is seen as being a key principle for the enduring arrangements.

In the structure shown above for Options 1-3, the cleanest way of protecting the independence of DCC would be for any potential provider of DCC not to have been involved in the provision of interim arrangements.

However, you will see from the diagram above that there are equivalent layers in the interim and enduring models where an organisation operating in interim may be seen to be able to operate in enduring if the interim, enduring arrangements are procured in the right way.

Industry also wants to try to avoid ruling out potential providers of interim services that may want to operate in the enduring arrangements, either as DCC or as a service provider. We must be conscious of competition law constraints and take positive action to actively mitigate against these risks. Mitigating action is reflected in procurement principles set out for interim arrangements below.

Procurement Principles for IIA Options 1-3

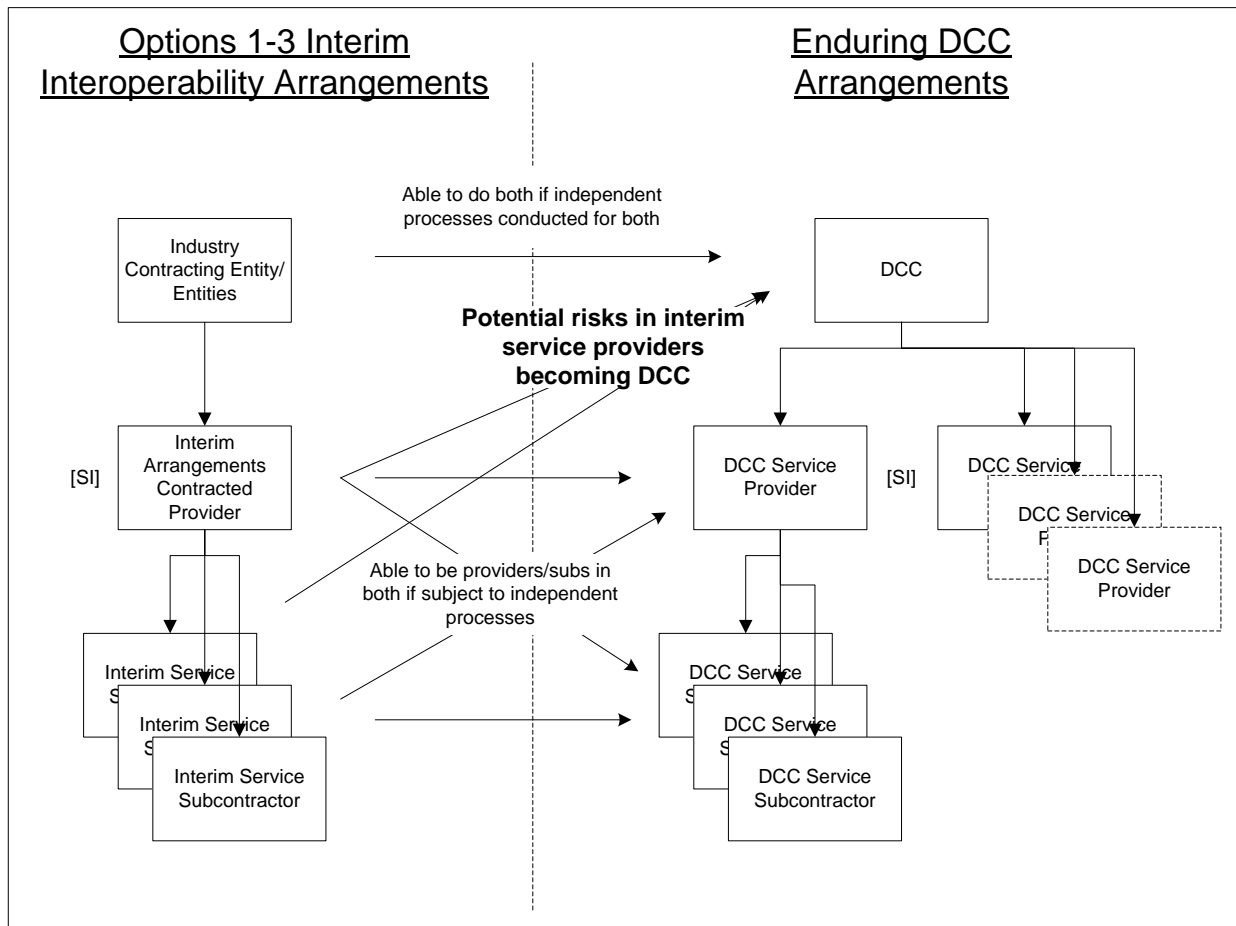
If an interim service provider is to be procured to support interoperability in advance of DCC Go Live the following mitigating action can be taken;

- If the interim service provider will be developing any IP that could be material to the subsequent contract, it would be sensible to include a requirement in the contract for the initial contract obliging the interim service provider to make that IP available for use in relation to the procurement by the DCC Licence Holder of subsequent services that are the same or similar.
- When the DCC Licence Holder commences their procurement of services the Public Procurement Rules only allow technical experience to be taken into consideration at pre-qualification stage. Then at tender stage, the decision must be based around tenderers' proposed solutions for delivering the actual contracts being procured by the DCC Licence Holder (i.e. not based upon their previous experience). This is to create a level playing field and encourage competition.

The key is to run a procurement process for interim arrangements that protects the independence and integrity of the procurement and operation of the enduring arrangements with DCC and service providers.

Potential Service Provider Scenarios for Options 1-3

We have considered what providers under interim arrangements may be free to do in the enduring DCC arrangements without compromising competition and the below diagram represents the scenarios considered with bodies and service providers undertaking roles in interim and enduring.



In general, the key risk identified was for any service provider in the supply chain acting as DCC in the future. Their experiences and previous procurement/consortium/solution choices are likely to compromise their ability to act independently as DCC in both the procurement process and in contract management/operation.

If an appropriately independent procurement process can be set up with an industry contracting entity, then it may well be that the entity can act as DCC in the enduring world, but this would have to be subject to competition law risk assessment.

Timescales for Mobilising Governance/contracting Arrangements

Need to define the timescales for mobilising the governance/contractual arrangements to ensure they are practical.

Timescales for Mobilising Governance/contracting Arrangements

Must embed appropriate security requirements/arrangements into interim arrangements.

Issues

Presented as a simple list, and accepting that clarification of one or other of these (and the principles) could change the nature of individual issues significantly:

1. What does Options 5 look like in terms of implementation/commercials? Do we need a standard multi-lateral contract (like the JPW arrangements in 1998) to provide consistency or can churn contracts be left to bilateral discussions?
2. Need to define the timescales for mobilising the governance/contractual arrangements to ensure they are practical.

3. What if interim arrangements running in parallel with enduring? How practically do we deal with migration?
4. Must embed appropriate security requirements/arrangements into interim arrangements.

Assumptions/Preconditions

1. As for previous documents.

Dependencies

1. Necessary statutory instruments (e.g. licence conditions) need to be in place in time to deliver any industry arrangements.
2. Existing industry governance bodies available and willing to mobilise fast to contract for interim arrangements.