

Smart Meter Implementation Project

Smart Energy Code Governance



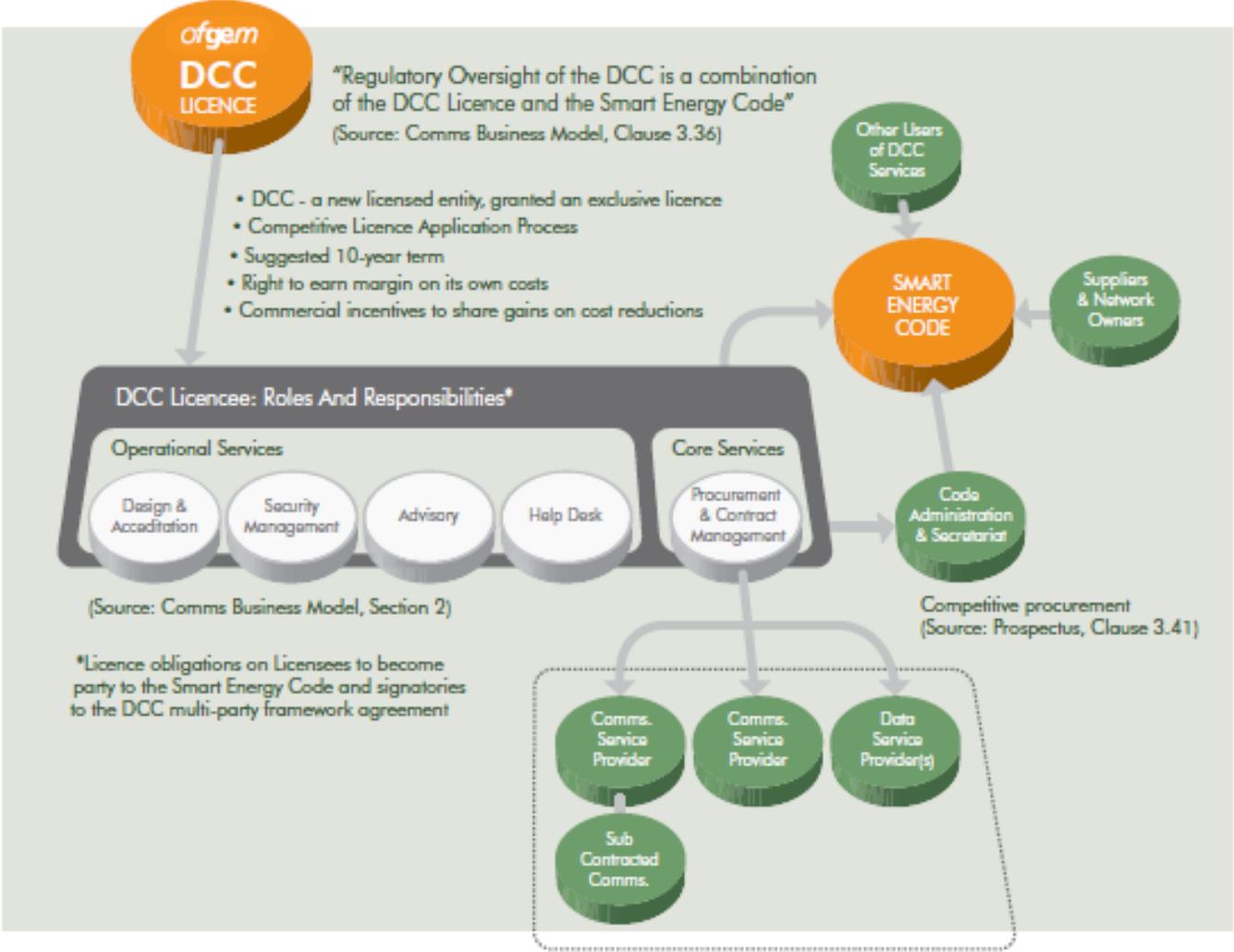
Tuesday 21 September 2010
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Introduction

- We have been invited here by OFGEM to help stimulate and inform debate with respect to the governance arrangements for the Smart Energy Code
- We have been asked to share with you some of our current thinking about the governance of the Smart Energy Code that will help to contribute to the outputs of DCG
- We are leveraging our expertise in governance from electricity, gas and water sectors

Prospectus Governance Model



Smart Energy Code - overview

- Extensive remit of the Smart Energy Code
- Underpins the operation of the smart arrangements
- Alignment of gas and electricity retail processes
- A commercial and technical code
- Roles and responsibilities of suppliers, network owners and the DCC
- Business processes
- Data privacy and security
- System and process assurance
- Cost recovery
- Framework Agreement required to give contractual force
- Code administration by an independent party procured by DCC

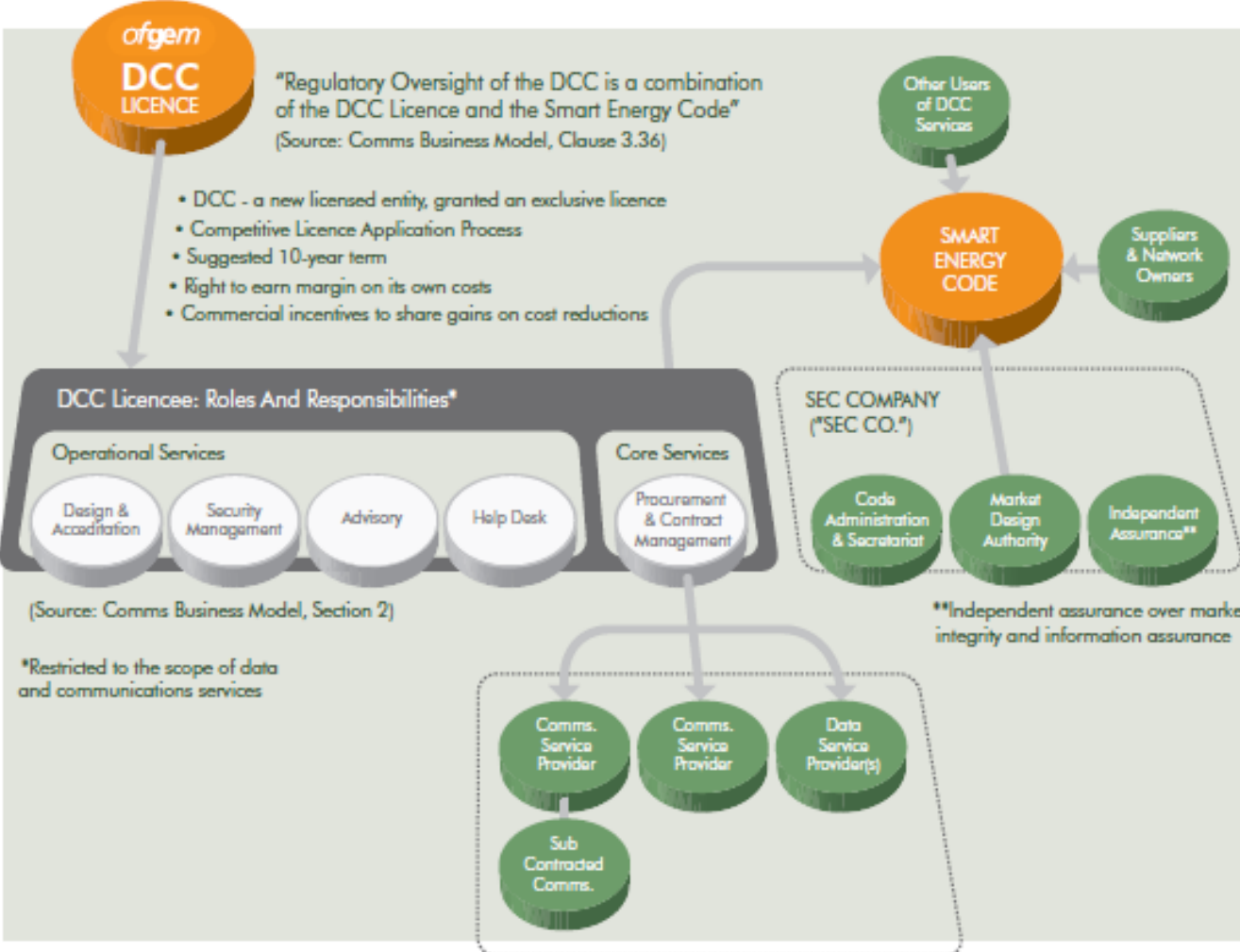
Smart Energy Code – Table of Contents

Ref	Appendix 3 - Indicative Smart Energy Code contents	DCC Specific
1	Definitions and Interpretations	
2	Parties	
3	Accession Process	
4	Smart Energy Code Panel	
5	Modification procedure	
6	Technical interoperability requirements and procedures	
7	Commercial interoperability requirements and procedures	
8	Meter Registration (to be confirmed)	
9	Meter Installation, removal and exchange obligations and procedures	
10	Meter access control and access authentication	X
11	Gateways, data exchange formats and commands	X
12	Transfer of data and commands to and from smart meterd initiated by authorised parties	
13	Data services provided by DCC	X
14	Responsibilities on Suppliers with respect to meter system operation	
15	Responsibilities on Networks with respect to meter system operation	
16	Implementation of measures concerning data privacy and consumer protection	X
17	Security and business continuity	X
18	Performance levels, performance monitoring and incentivisation	X
19	Business processes	
20	System and process assurance	
21	Billing and payment processes	X
22	Reporting	
23	Interfaces with other industry agreements	
24	Dispute resolution	
25	Limitation of liability and other provisions	

Strong argument for separation of governance from a delivery role (DCC)

- Supplier and network owner responsibilities
- Smart Energy Code is much broader than the DCC
- Combines responsibility for service delivery with responsibility for governance
- Facilitates independent challenge of DCC activities
- Strengthens governance disciplines and transparency
- Avoid real or perceived conflicts of interest
- Alignment with Code Governance Review

Evolved Model



Evolved Model – SEC Co. concept

- Established by suppliers and network operators – incentives in the right place
- Owned by the industry, providing governance for the industry
- SEC Co. would be a contracting vehicle – competitively procure the services of code administration, market design/change management and assurance
- Removes need for DCC to procure the services of CA
- By law will require published & audited accounts
- Tried & tested - DCUSA, MRA & SPAA
- May support an accelerated roll-out

Proportionate and appropriate representation

- Balance between Representation, Funding and Regulatory control.
 - Running of the agreement
 - Market Developments
- Recognise the different constituencies and stakeholders
 - Suppliers (large, small)
 - Network Owners (large, small)
 - Gas and Electricity
 - DCC
 - Ofgem
 - Other Codes (e.g. BSC, UNC etc)
 - Customer groups
 - Other Participants
- Principles of Good Governance
 - Proportionate
 - Representative – ensure even the smallest voice has some input

Example (MRA)

- *Parties*
 - *Licensed Electricity Supply & Distribution*
 - *BSCCo (Elexon)*
- *Funding*
 - *2/3rds by Suppliers – based on Market Share (number of customers)*
 - *1/3rd by Distributors (split equally amongst the large 14)*
- *MRA Executive Committee (4 Members)*
 - *2 elected Supplier Representatives (consult with their constituents)*
 - *1 elected Distribution Representative*
 - *1 representative of BSCCo*
 - *Ofgem in attendance as observer*
 - *Consumer Focus can attend*

Example (MRA)

- Change Management Board (MDB)
 - 3 Constituencies (Supply , Distribution and Settlements)
 - 7 Supply (one each for the Big 6 + 1 Small Supplier)
 - 4 Distribution (3 DNO, 1IDNO)
 - 1 BSC Co rep
 - Only Parties can raise changes
 - All parties including all interested industry participants, consumer Focus and Ofgem have the opportunity to comment
 - Changes have to be agreed by all constituencies impacted (with majority within each constituency)
 - Appeal Mechanism to MRA Forum (all parties) and then to Ofgem
 - Priorities Provisions
 - Key provisions of the MRA and associated products cannot be changed without Ofgem approval
 - Changes that could impact Consumers or the BSC

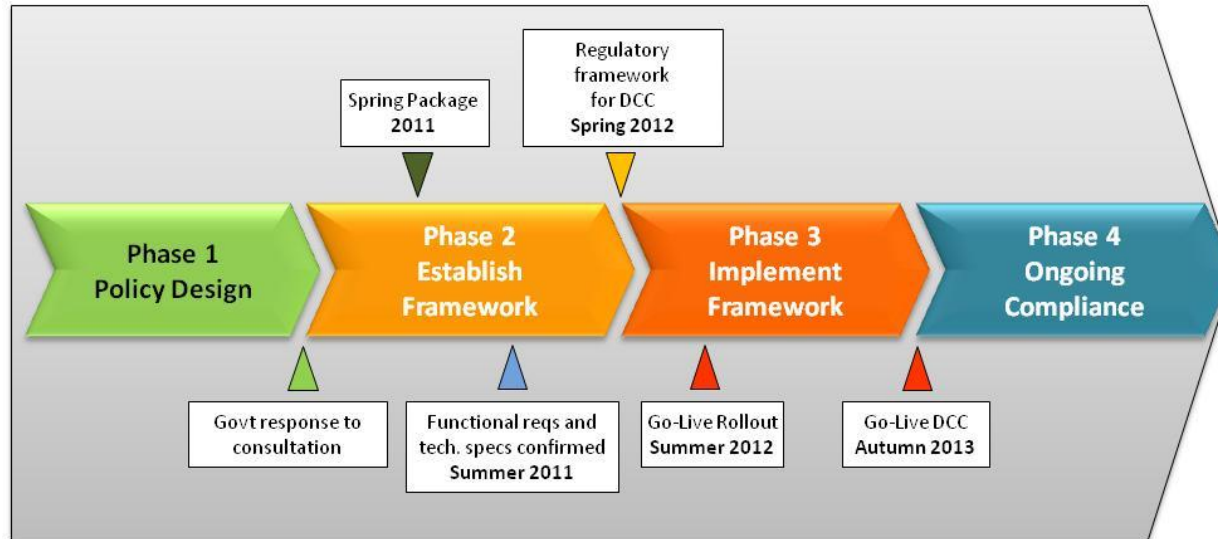
1998 Case Study

- Licence condition - PES to develop the MRA and for 2nd Tier licensees to be signatories
- MRA drafted as part of the JPW Process (began 1996)
- MOU also established between the Licensees which set out
 1. Binds parties to the test programme (CIDA)
 2. Non-binding setting out the Management Processes
 3. Defined limits of commercial liabilities
- MOU remained in place until all tranches of market fully opened to competition (June 1999)
- MEC acting in a shadow capacity from early 1998
- MRASCo incorporated in January 1998 as a Joint Venture company to fulfil the role of the MRA Secretariat (as defined within the MRA)
- MRA executed on 1st June 1998

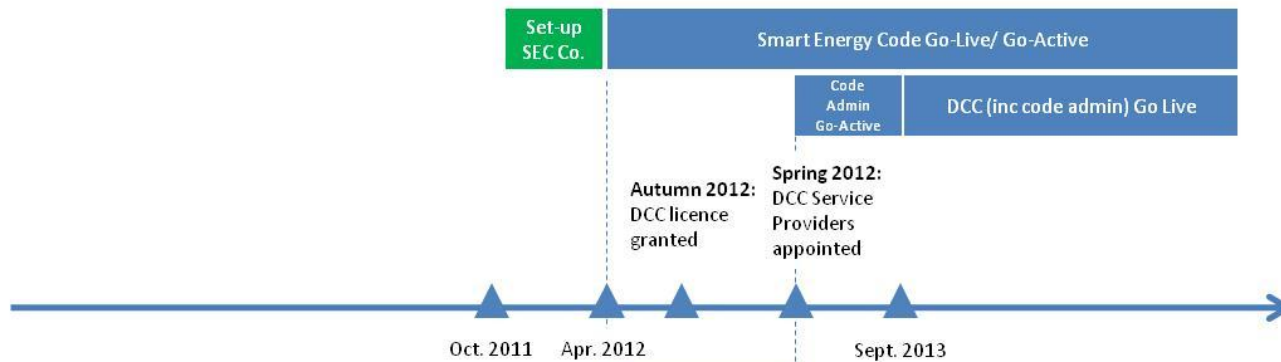
How could this apply to SEC?

- SEC Co. could be created without any enabling legislation / licence conditions
- MOU could be agreed to facilitate establishment of and confirm intention that SEC Co. would competitively procure Code Administrator for SEC
- Licence condition would require Suppliers, Network Owners and the DCC to sign and comply with the SEC - one of SEC's conditions precedent would be become a SEC Co. shareholder
- Purchase “off the shelf company” and modify the Articles of Association accordingly
- SEC Co. would require standard corporate functions (Company Secretariat, Finance, production of audited accounts etc)
- Can be achieved at minimal cost

How SEC Co. could support an accelerated roll-out



- CA could be procured by SEC Co before DCC awarded or even before licences finalised to help progress timescales.
- Timeline: if supply licence conditions for mandatory rollout are early 2012 (could include SEC provisions) and DCC regulatory framework implemented in Spring 2012, SEC Co could be created and CA procurement within a month (provided preparatory work done). If you wait until the granting of DCC licence in Autumn 2012, you will have lost at least 5 months during the important interim period when meters are being rolled out..



Who looks after the code, market design, assurance etc during this period?
 You could argue that this will be the programme, but is this appropriate for 'live' governance?

Making markets work efficiently and with integrity



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