18 August 2017

Duncan Stone
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Smart Metering Implementation Programme
BEIS
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By email only

Dear Duncan,

Consultation on:
Proposed changes to the DCC Licence to enable BEIS to set Project Incentives for DCC; and Proposals to extend the date by which Ofgem may modify the OPR using its Power of Direction

Thank you for the opportunity to comment on the above consultations carried out by the open letter issued 21 July 2017.

Utilita recognises the potential for improvements to DCC performance in the proposals, however we do have some reservations on possible interactions. Where incentives are set on the same entity by two different parties, they must be carefully aligned and co-ordinated to avoid adverse impacts.

It is also important to ensure that DCC does not receive duplicated benefits under such incentive schemes. DCC systems are very expensive to deliver, and while we understand that incentives may be needed, these incentives must be efficient and drive appropriate delivery behaviours.

Implementation Milestones DCC needed to achieve previously with respect to the OPR may have driven DCC to meet deadlines and retain allocated margin as the primary driver, but with consequential impacts. DCC should not be incentivised to deliver against Implementation Milestones at the expense of the quality of the resulting service or by compression of testing.

1) **Do you agree that BEIS, rather than Ofgem, should set the incentive regime that places DCC's Baseline Margin associated with Release 2.0 and SMETS1 Enrolment and Adoption projects at risk (and any potential BEIS driven future projects)?**

   While we are not opposed to a project related incentive, this should be within a tightly limited framework, which incentivises all aspects of delivery, not just meeting the IMs. The most important aspect of such incentives is the quality of the monitoring and reporting that is associated with the incentive delivery. This reporting must consider any downsides associated with the delivery and apply a structure which potentially removes benefit if delivery of the IM has led to detriment elsewhere.

It is imperative that DCC's focus is on delivery of solutions which are thoroughly tested, and fit for purpose before they are deemed live and passed to industry.

Having two major programmes being worked on in parallel (E&A and R2.0) will create huge demand on resources, whether it be those of suppliers', DCC or any other parties involved. The incentives should focus on areas which are vital to delivery of these programmes not only in a timely manner to enable suppliers to hit the 2020 deadline, but to ensure that the deliveries are fully fit for purpose before being deemed live (this includes testing on real devices rather than emulators, and in volume).

This consultation does not contain any detail on what the incentives may be or who will bear the costs. We appreciate that BEIS intends to consult separately on this area of focus.

We understand the approach of BEIS setting incentives for those two projects still being undertaken under transitional governance and agree this seems sensible, subject to the comments above on required behaviours, reporting and cost.

The second element to this question is whether this approach should continue for any potential future BEIS driven projects. We do not consider at this point that a blanket decision is necessary. While the approach may be appropriate for projects under transitional governance, as the project moves on this may be less so. The approach also assumes that all projects would have Baseline Margin incentives, which may not be appropriate. We therefore suggest future projects would be better considered on a case by case basis.

2) Do you agree with our proposed framework for introducing the new incentives? Please provide details of your views.

We are generally supportive of the framework set out, but note that it is extremely high level, and before being able to offer full support, we would like to see greater detail on a number of aspects, for example:

- How the incentives would be framed
- How delivery would be monitored and reported transparently
- How the additional incentives would be funded and be properly costed to ensure that the benefit achieved justified the additional costs imposed on all parties
- How it will be ensured that achievement of the incentive milestones did not allow detriment elsewhere in the programme, without the costs imposed by such detriment on all parties being met, before DCC receives extra revenue.

As set out above, we consider it is essential that any future incentives must include protections, to ensure that achievement of the IMs does not drive disbenefit elsewhere. The solutions delivered by the programme must be robust, thoroughly tested and fit for purpose. The incentive regime must support all aspects of this equation, not only timely delivery.

In addition, we do have reservations on the risk of incentive regime interactions. This would always be important, but the risk is higher where two parties set incentives. It will be important to model the possible inputs to the incentives carefully, and the impacts of any incentives both independently and together.

Finally, the costs imposed by an incentive regime in exchange for the benefits delivered must be carefully considered. These costs should be modelled alongside the benefits, to ensure that there is no undue mismatch between parties bearing costs and those obtaining benefit.

3) Do you agree with our proposal to extend the date by which Ofgem must develop and implement the OPR using its powers of direction? Please provide details of your views.
We support the extension to the date, if it supports DCC in maintaining focus on delivering sustained and continued levels of service for smart metering in mass volume. This is crucial for prepayment customers, whose need for robust, high quality services to maintain supply is critical.

4) Do you have any comments on the legal drafting in Annex B?
We have reviewed the drafting briefly, and believe that it is consistent with the proposals as set out. However, as above, we would like to see greater protection included in the incentive regime around consequences, where IM delivery in one area may have led to detrimental impacts in another.

Once suitably formulated, we would like to see provisions in this area also reflected in the licence drafting. For example, the drafting should ensure that costs of such consequences act to reduce DCC additional revenue received.

We apologise for the slight delay in submission of this response, but trust that BEIS will still be able to consider our comments.

Yours sincerely

By email

Alison Russell
Director of Policy Regulatory Affairs