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DP218

'Review of the SEC Charging Methodology'

Modification Report

Version 0.2

15 December 2022

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About this document

This document is a draft Modification Report. It currently sets out the background, issue, and progression timetable for this modification, along with any relevant discussions, views and conclusions. This document will be updated as this modification progresses.

Contents

This document also has one annex:

- **Annex A** contains the Assessment of modifications impacting or raised by Other SEC Parties.

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1. Summary

This proposal has been raised by Tom Rothery from the Data Communications Company (DCC).

Smart Energy Code (SEC) Section K 'Charging Methodology' sets out how the DCC charges SEC Parties, including how the types of Fixed Charges are apportioned between DCC Users and how communications services (the sending of Service Requests (SRs)) are charged. The Smart Energy Code Company (SECCo) Board has been investigating how much work is generated by Other Users and agreed that further investigation into the current charging arrangements would be beneficial. To support this investigation, the DCC has raised this modification at the request of the SECCo Board and SECAS, to holistically review the DCC Charging methodology and determine whether any change should be taken forward.

This Draft Proposal has been raised to consider the questions around how SEC charges should be apportioned. Two distinct issues have been identified and are set out separately below. SECAS is seeking views on both issues under a request for information (RFI) for efficiency but expects that each will be progressed under separate workstreams following this.

The two separate issues considered in this Modification Report are:

- Who uses the DCC Systems and how they are charged (DCC User Charges); and
- How the DCC Fixed Charges, which includes SEC administration costs (SECAS and Sub-Committees) are apportioned between different Party types.

2. Issue

What are the current arrangements?

SEC Section K sets out the provisions by which the DCC charges SEC Parties, which the DCC is required to have in place through the DCC Licence. It sets out the different types of charges and how these are calculated and subsequently apportioned to SEC Parties. The different types of charges include:

- Fixed Charges
- Fixed Communication Hub Charges
- Fixed Alternative Home Area Network (Alt HAN) Charges
- Explicit Charges
- Elective Charges

This modification does not propose to review the charging arrangements for Fixed Communications Hub Charges or Fixed Alt HAN Charges.

Fixed Charges

Fixed Charges are determined by the DCC for each Regulatory Year in accordance with SEC Section K4.

The three types of Fixed Charges are apportioned between five DCC User roles, in accordance with SEC Section K3.10:

- Import Suppliers
- Export Suppliers
- Gas Suppliers
- Electricity Distributors
- Gas Transporters

These Fixed Charges are calculated based on three factors:

- the Estimated Fixed Revenue for that Regulatory Year;
- an estimate of the number of Mandated Smart Metering Systems for Domestic Premises that will exist as at the beginning of that Regulatory Year; and
- the Charging Group Weighting Factors described in SEC Section K3.

Registered Supplier Agents (RSAs) and Other Users are not liable for any Fixed Charges, though may incur any Explicit or Elective Charges that are applicable to the individual Party.

Other Users are defined in SEC Section A, as a DCC User that isn't acting in the role of any of the following:

- Import Supplier
- Export Supplier
- Gas Supplier
- Electricity Distributor
- Gas Transporter
- Registered Supplier Agent
- Meter Data Retriever (this User Role will be introduced following the implementation of MP162 'SEC changes required to deliver MHHS' in June 2024)

The charges set out in SEC Section K are based on the DCC User Role(s) that any SEC Party has registered to, and not the Party Category under which the Party has acceded to the SEC. For the avoidance of doubt, 'Other SEC Party' is the SEC Party Category a Party would accede to the SEC under, if they are not a Supplier or a Network Party. While 'Other User' is the DCC User Role a Party wishing to access the DCC Systems would register under if they are not eligible for one of the other User Roles. It is worth noting that a company can also register in the 'Other User' User Role even if they are a Supplier or a Network Party registered in one of the corresponding DCC User Roles. A participant must be a SEC Party to become a DCC User, but a SEC Party does not have to subsequently register in any DCC User Roles.

Explicit Charges

Explicit Charges are charges which are specific for a service offered by the DCC, which is not included within the Fixed Charges. They are incurred only by the Users that take up each service.

These can be developed and set up costs paid for by the DCC, or if a number of Parties require a service this can be developed via a modification if the business case can be made.

Explicit Charges are calculated in accordance with SEC Section K7, and payable in respect of the Explicit Charging Metrics. Part of the rationale for Explicit Charging Metrics is to allow the DCC to closely reflect the charges it pays to:

- the DCC Service Providers in respect of certain services;
- to SECCo in respect of certain Recoverable Costs; and
- to the Alt HAN Company (AltHANCo) in respect of the Alt HAN Costs.

Also, part of the rationale for Explicit Charging Metrics is to minimise the risks for the DCC associated with the uncertain frequency with which the above services are provided or such Alt HAN Costs are incurred.

The Explicit Charging Metrics can comprise any or all the Core Communication Services, Enabling Services and Alt HAN Costs. They are charged for separately from the Fixed Charges, Fixed CH Charges and Fixed Alt HAN Charges.

The DCC is able to recover the costs of communications services (the sending of Service Requests) via an Explicit Charge. In the latest Charging Statement for Service Charges for the Regulatory Year ending 31 March 2023[1] it states the DCC has opted to set the charge to zero for communications services and is instead recovering this cost via Fixed Charges.

There has only been one instance[2] where the cost of a SEC Modification was recovered under Explicit Charges, however if no Parties opt to use this service denoted in the modification within the specified time by the DCC, the set-up costs will be recouped via Fixed Charges. SECAS time and effort is still recoupled under Fixed Charges and not included within the Explicit Charge.

Elective Services

Elective Services are available to any party. This is where a party approaches DCC directly about a service they require, and it is developed bilaterally with no SEC changes/modification required. The requesting party pays costs and there are currently no plans to change the way these are charged.

Elective Charges are charges for an added service which DCC Users opt to receive. They are incurred only by the Users that choose to receive these added services.

Elective Charges are determined for each Regulatory Year and are payable in accordance with the relevant Bilateral Agreement. The terms and conditions of each Bilateral Agreement are to be agreed or determined in accordance with SEC Section H7 (Elective Communication Services) and the DCC Licence.

When determining the Elective Charges, the DCC makes any offer to enter into a Bilateral Agreement in respect of an Elective Communication Service. The DCC shall offer Elective Charges in respect of each such Elective Communication Service determined by the DCC:

- in a manner consistent with the Charging Objectives;
- in a non-discriminatory and cost-reflective manner, so as to recover the total costs to the DCC associated with that Bilateral Agreement (including so as to recover a reasonable proportion

[1] https://www.smartdcc.co.uk/media/7033/cs23-v10.pdf
[2] MP181 'Meter Asset Provider access to asset related data held by the DCC' refer to Annex A for more details.

of any standing costs that would be incurred whether or not that Elective Communication Service was provided); and

- so that such proportion of such standing costs is recovered by way of a standing charge that is payable whether or not the service is requested or provided.

What is the issue?

This Draft Proposal has been raised to holistically consider the questions around how SEC charges should be apportioned. Two distinct issues have been identified and are set out separately below. SECAS is seeking views on both issues under an RFI for efficiency but expects that each will be split off and progressed in separate workstreams following this. The timeline for each will be informed by the responses received to the RFI.

The Panel Finance and Contracts Sub-Group (PFCG) initially raised the question of Other User charging in December 2021, following work on the Draft 2022-2025 SEC Panel Budget. The PFCG identified that Other Users have access to DCC Services but are not charged for these, as the Other User is not recognised as a Charging Group in SEC Section K3.10. SECAS also identified that RSAs are in a similar situation as Other Users. They have access to DCC Services however not charged for them.

Other Users and RSAs are currently only incurring the following Explicit Charges for the use of SEC and DCC Services:

- Communications Hubs stock
- Security Assessments and Privacy Assessments
- Gateway connections

However, they may be using additional services whose costs are covered under the Fixed Charges such as:

- Raising modifications
- Attending Sub-Committee and other SECAS facilitated or DCC facilitated meetings and information sessions

SECAS presented a paper[3] at SECCo Board meeting 99 investigating how much work is generated by Other Users. The Board agreed that SECAS should investigate options for charging Other Users. Although the question has not been raised to SEC Parties formally outside of the SEC Panel, feedback has been received via SEC Panel members and the Modification Working Group that Suppliers are noting the increasing use of the DCC Systems and services by Other Users and RSAs, for which they are not being charged.

DCC User costs for using the DCC Systems

When the DCC was originally set up, discussions were held around communications services being charged via Explicit Charges. In the DCC Charging Statement, the DCC refers to this, but then explains it has set the costs of communications services[4] to zero for all DCC Users and recovers costs associated with providing communications services via the Fixed Charge. This approach by the

[3] Please see SECCo Board paper SECCoB_99_1712_04 (AMBER) for full details
[4] The costs of delivering messages across the DCC network.

DCC has been driven by the relatively low number of communications services used by DCC Users which do not fall within one of the five Charging Groups.

The DCC can apply charges for communications services now, by amending the charges it applies for this, without the need for any SEC changes. This would remove this portion of the costs from the Fixed Charges and apportion it to Users separately. For efficiency, the RFI seeks views from Parties to help the Proposer understand whether this avenue should be pursued further. If there is support for transactional charges to be applied, it will take the DCC time before it can begin to implement new arrangements, and it is likely that costs will be associated with this as DCC amends its billing processes. However, if no SEC changes are required, this solution could be developed and progressed outside of this modification.

Allocation of DCC Fixed Charges

In addition, Other Users and RSAs may be using and/or benefiting from other more general activities or services that are charged within the 'Fixed Charges' element of the DCC charges. This includes raising SEC modifications, for which the costs of SECAS assessing and progressing these are ultimately recouped through Fixed Charges.

SECAS has reviewed all modifications and identified 29 modifications[5] raised by or impacting Other SEC Parties (the Party Category under which Other Users and RSAs will usually be acceded to the SEC). Although some modifications were withdrawn or not charged under Fixed Charges, there is still associated SECAS costs for progressing these proposals which would have been recouped under Fixed Charges. This would support a review of SEC Section K and any changes to SEC Section K would also need a review of SEC Section J 'Charges'.

As MP162 'SEC changes required to deliver MHHS' has been approved, the new Meter Data Retriever (MDR) User Role will be introduced in June 2024. This User Role would also be in a similar situation to RSAs and Other Users.

The RFI seeks views from Parties to help the Proposer understand whether this avenue should be pursued further. Any solution is likely to require a change to SEC Section K and so would be progressed further under this modification if there is sufficient support to do so.

What is the impact this is having?

SEC Section C1.6(d) sets out that the DCC should ensure Charges "*do not unduly discriminate in their application and are reflective of the costs incurred by the DCC, as far as is reasonably practicable in all of the circumstances of the case, having regard to the costs of implementing the Charging Methodology*".

Other Users, RSAs and MDRs are or could in the future be receiving a number of SEC or DCC services, paying no costs or a minimal proportion of the costs. In particular, any DCC Users who are not included within the five DCC User roles for which Fixed Charges are apportioned are not paying to use the DCC communications services. This may be perceived as unfair for the Users that are charged more of these general costs. In addition, the costs to implement modifications are apportioned through Fixed Charges, which are incurred only by Supplier and Network Parties, regardless of who will benefit from the changes.

[5] The full list of modifications and analysis can be found in Annex A.

This approach means any DCC Users who are not included within the five DCC User roles which DCC apportions Fixed Charges are able to use communications services without incurring costs for using the DCC network. This was brough to light during discussions of MP162 'SEC changes required to deliver MHHS', where a new User Role is being created that is expected to use a high level of communication services without incurring any charges.

In addition, costs of system changes implemented by modifications are also charged though Fixed Charges.

Impact on consumers

Greater transparency of charges and fairer distribution of costs among SEC Parties should not have a direct impact on consumers, however it may improve transparency on how charges are apportioned and ultimately paid by consumers.

3. Assessment of the proposal

Areas for assessment

Fixed Charges

Fixed Charges include SECAS costs and modification implementation costs. This also currently includes communications services. There should be a quantitative assessment of how much Other Users are using these services to establish if the costs are large enough to be significant.

Communication Services

Communications services are the costs to use the DCC Systems sending Service Requests. Other Users' usage is currently a small percentage of overall traffic volume, and the DCC considers that charges for use of the system would be low at this time. However, the DCC could look to review future projected use across all DCC Users to enable wider consideration of whether it remains appropriate and fair to continue to set the costs of communication services to zero and recoup these costs via Fixed Charges.

How might this look in the future?

When the Rollout was first initiated the User Integration Testing (UIT) and the Mass Rollout (UITMR) Period were planned to happen within a few years. However, this has not been the case. It has been six years since UIT completed and the DCC's systems made available for meter installations. It is fair to argue that the current Charging Methodology was not designed to be in the transitional phase for this long.

Transactional Charges

Transactional Charges would be charges applied to Users on a 'per-message' basis. This would allow the DCC to recover the costs of communications services (Service Requests) via an Explicit Charge.

However, the DCC has currently decided to recover this cost via the Fixed Charge as it considers that this would be more economic and efficient at this time, based on the current volume of traffic on the network.

Some Parties have also queried why the DCC has not used the Charging Methodology as it stands, including Transactional Charges which are currently set to zero with relevant costs recouped via Fixed Charges. There are views that moving to more of a 'User pays' model would create a better ecosystem of DCC usage, especially in the light of DCC Capacity discussions. They note that usage drives capacity and there already exists a charging method within the SEC to have usage based charges which can be 'turned on' without a need for a modification.

SECAS and the DCC have been considering how to manage capacity by using transactional charging. One proposal being considered is that instead of just a single rate for usage, there could be different costs for peak and off-peak times and/or for scheduled and on-demand usage of the DCC Systems. Views on this will be gathered as part of this request for information.

Additional DCC User Charging Group

There has been discussion of adding an additional DCC User Charging Group in order to capture all DCC Users and therefore enable the DCC to distribute Fixed Costs to all Users. This could involve having a single group combining Other Users and RSAs, or making them separate groups (as per the other User Roles). There are questions over if this the right thing to do, as RSAs are working on behalf of an Import Supplier and would then be passing along any additional costs they would incur back to those Suppliers. This could defeat the purpose of having them bear this additional cost. On top of this, the approach for how the cost allocated within this new group would be apportioned would need to be determined, as the allocation within the existing groups are based on market share and number of MPxNs registered. One approach could be having it apportioned based on the size of the organisation. Views on this will be gathered as part of the request for information consultation.

Please note that MP162 'SEC changes required to deliver MHHS' has been approved, and so the new MDR User Role will be introduced in June 2024. This role would be in a similar situation to RSAs and Other Users.

Sub-Committee input

SECAS has engaged the Chairs from the Operations Group (OPSG), the Technical Architecture and Business Architecture Sub-Committee (TABASC), the Security Sub-Committee (SSC) and the Smart Metering Key Infrastructure Policy Management Authority (SMKI PMA). They have confirmed that none of the Sub-Committees would require input and they felt this would sit best with the Panel if further input was needed. SECAS believes the following Sub-Committees will need to provide the following input to this modification:

Sub-Committee input	
Sub-Committee	**Input sought**
OPSG	While there were no immediate concerns the OPSG wished to be kept up to date with the development of the solution to feed in any operational considerations.
SMKI PMA	None – no impacts.
SSC	None – no impacts on the security arrangements.

Sub-Committee input	
TABASC	The Proposer would like to confirm the initial assumption that architecture changes are not needed to DCC core systems, and consider supporting system requirements (e.g. DCC Billing, etc.). SECAS does not believe this will have any architecture impact.

Observations on the issue

Change Sub-Committee input

A CSC Member queried if MDRs would be considered under this Draft Proposal. SECAS advised that the MDR User Role has yet to be approved, but if it was then it would be sensible to include it. The timing may not align between the two proposals and would depend on how quickly DP218 progresses, but SECAS did not anticipate it progressing quickly, as it anticipated a lot of feedback. The CSC requested that DP218 provides a holistic consideration of the issue, which would include considering MDRs and RSAs.

A Member was aware of the challenges involved in the progression of this Draft Proposal but was in support of it. They advised that they had not seen a clear breakdown of how modifications are charged to SEC Parties, and requested guidance or documentation around this, so Parties can understand what it is costing their organisations. The CSC considered that this should be done even if the Draft Proposal does not proceed further. SECAS will speak with the DCC and see what can be done.

A Member highlighted that Ofgem has issued a DCC Review Phase 1 Consultation and part of that is looking at charging. SECAS agreed to review this and liaise with Ofgem as needed to prevent duplication of effort.

Feedback from Parties

Suppliers

Large and Small Suppliers welcome this review of SEC charges as they have been paying 94% of Fixed Charges throughout the Smart Metering Implementation Programme (SMIP). They would like to see if there are any alternatives or changes which can be made to apportion costs more fairly between SEC Parties.

This came into focus when MP162 was raised proposing to create a new User Role. Some Suppliers had noted they would not directly benefit from the new User Role as now MP162 is approved, as they can do everything needed using their existing User Roles. However, Suppliers would be paying the majority of the cost of setting up and implementing this.

Other SEC Parties

Other SEC Party members are of the opinion that it is against the original intent of the SEC to pass costs or further costs for the SMIP to other Parties, and this has been escalated to the SEC, the DCC and the Department for Business, Energy and Industrial Strategy (BEIS).

Other SEC Party members do not see a need for this modification, as there is an opportunity for the DCC to use existing charges, e.g. Elective or Explicit Charges, for various applications and modifications.

Parties view that modifications are raised for the greater industry benefit and believe this may stifle innovation if smaller Parties are asked to pay a portion of the Fixed Charges.

There is also a view that not all Other SEC Parties are obligated to be a SEC Party, and if charges are brought in for Other SEC Parties, there is a chance that those Parties may stop being SEC Parties to avoid these charges. This is viewed as uncollaborative as it would be ideal if more Parties are actively involved in the SEC instead of being excluded due to incurring Fixed Charges.

Parties were also concerned as to why the DCC is the Proposer for this modification. SECAS advised that this originated from a Panel[6] paper which was looking at Other Users and Other SEC Parties' usage of SEC and DCC service. As a result of that paper, it was proposed to have a modification raised to review the SEC charges. The Panel and SECAS believed that the DCC would be the most appropriate Proposer as it would be impartial to which Parties the costs are apportioned to.

Is there an issue at all?

Parties have raised that there is conflation between who raises a modification and who ultimately benefits. For example the only "Device" Manufacturers to benefit from MP140 'CH Stock Transfer' are Communications Hub manufacturers, who are the DCC's responsibility. The ultimate beneficiaries are Suppliers, who can then have Communications Hub stocks to install or transfer excess stock to avoid costs. The fact that Other SEC Parties facilitate this for Suppliers is not an indication that that Other SEC Parties are driving cost or change for their own benefit. SECAS agrees with the issue raised and has clarified this in Annex A.

[6] Please see SECCo Board paper SECCoB_99_1712_04 (AMBER) for full details

Appendix 1: Progression timetable

This Draft Proposal was presented to Change Sub-Committee (CSC) for initial comment on 18 October 2022. SECAS has issued a Request for Information (RFI) to industry to get feedback on how Parties view the current charging methodology and consider changes to the SEC, if needed, to ensure they are appropriate and fair to all Parties. the RFI responses will then be discussed with the Working Group to help the Proposer understand how best to proceed.

Timetable	
Event/Action	**Date**
Draft Proposal raised	30 Sep 2022
Presented to CSC for initial comment	18 Oct 2022
Request for information issued	15 Dec 2022 – 31 Jan 2023
Discuss Draft Proposal and RFI with Working Group	*1 Mar 2023*
Provide update to CSC	*21 Mar 2023*

Italics denote planned events that could be subject to change

Appendix 2: Glossary

This table lists all the acronyms used in this document and the full term they are an abbreviation for.

Glossary	
Acronym	**Full term**
BEIS	The Department for Business, Energy and Industrial Strategy
CH	Communication Hub
CPA	Commercial Product Assurance
CPL	Central Products List
CSC	Change Sub-Committee
DCC	Data Communications Company
DNO	Distribution Network Operator
ESME	Electricity Smart Meter Equipment
MAP	Meter Asset Provider
MDR	Meter Data Retrieval
MHHS	market-wide half-hourly settlement
MOP	Meter Operator
OPSG	Operations Group
PFCG	Panel Finance and Contracts Sub-Group
RFI	Request for information
RSA	Registered Supplier Agent
SEC	Smart Energy Code
SECCo	Smart Energy Code Company
SECAS	Smart Energy Code Administrator and Secretariat

Glossary	
Acronym	**Full term**
SMKI PMA	Smart Metering Key Infrastructure Policy Management Authority
SoLR	Supplier of Last Resort
SR	Service Request
SSC	Security Sub-Committee
TABASC	Technical Architecture and Business Architecture Sub-Committee