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DP218 'Review of the SEC Charging Methodology'

March ad-hoc 2023 Working Group – Meeting Summary

Attendees

Attendee	Organisation
Ali Beard (AB)	SECAS
Rachel Black (RBl)	SECAS
Liz Woods (EW)	SECAS
David Kemp (DK)	SECAS
Emma Johnson (EJ)	British Gas
Alex Travell (AT)	BUUK
Beth Davey (BDa)	Calvin Capital
Rochelle Harrison (RH)	Centrica
Mike Pyke (MP)	Chameleon Technology
Tom Rothery (TR)	DCC
Janine Hughes (JHu)	DCC
Kevin Gale (KG)	DCC
Brad Myers (BM)	DCC
Jonathon Helyer (JHe)	DCC
David Walsh (DW)	DCC
Danny Holt (DH)	DESNZ
Alex Hurcombe (AH)	EDF
Amy Cox (ACox)	EDF
Nick Coombs (NC)	EDF
Sam Draper (SD)	EDF
Daniel Davies (DD)	ESG Global
Martin Bell (MB)	EUA
Carmen Strickland (CS)	Horizon
Ben Dhesi (BDh)	Hugo Energy
James Abraham (JA)	IMServ
Adam Cooke (ACoo)	Macquarie Energy
Tereza Borges (TB)	N3rgy
Matt Roderick (MR)	N3rgy
Kelly Kinsman (KK)	National Grid
Ralph Baxter (RB)	Octopus
Joey Manners (JMa)	Octopus
Jamie Flaherty (JF)	Ofgem

Attendee	Organisation
Emslie Law (EL)	Ovo Energy
Audrey Smith-Keary (ASK)	Ovo Energy
Jeff Studholme (JS)	Smart Meter Assets
Shuba Khatun (SK)	SSE Networks
Kerry Maisey (KM)	SSE Networks
Nik Wills (NW)	Stark
Steve Buckley (SB)	Trust Power

Overview

SECAS (EW) provided an overview of the background and current charges situation and key points from the request for information (RFI) responses.

Part A – Messaging costs

A Working Group member (RB) proposed that there should be a generic DCC Charging Statement going forward, as there had been confusion around the different charging categories and their naming terminology. The member (RB) advised that it was suggested at a SEC Panel meeting that this would give better context, as there were concerns around people not having the correct materials. SECAS (AB) advised that this would be discussed as the meeting progressed.

What is included in 'transactional charging'?

While discussing the Fixed Charges 2022/2023 breakdown shown on the slide, a Working Group member (JS) advised that the members need to consider what constituted 'transactional charges' going forward, and expressed concern around the costs being underrepresented as infrastructure investments were not included currently. SECAS (EW) noted this and advised that the 0.2% transaction charges mentioned on the slide referred only to the costs the DCC is charged for by Service Providers for messages sent across the system, and does not cover any additional overheads related to this. The Working Group member (JS) proposed that a clearer picture of the costs including the infrastructure be given before the group can move forward with this modification. SECAS (AB) agreed that a clearer idea of the costs would be needed. They advised that in the past the current approach to allocating these costs has been acceptable but going forward with increased message volumes from initiatives such as Market Wide Half Hourly Settlement (MHHS) this will change.

A Working Group member (BDh) asked if forecasting is needed for a more accurate assessment. SECAS (AB) agreed that this would be useful, but it is challenging to predict how message volumes will change in the future. However, SECAS (AB) highlighted that the information presented is the only information currently available, and this is what the group will need to work with for this discussion. SECAS (AB) advised that they can ask the DCC to provide forecasting estimates, and use this to discuss how costs can be allocated in future. A Working Group member (RB) agreed but highlighted that the discussion will be challenging as the context could change further in the future.

A Working Group member (EL) advised that they did not have an issue with the current transactional charges, but with the repercussions of increasing use of the DCC service. The Working Group member (EL) observed that transactional costs in isolation were very minor, but infrastructure costs of the overall system was the main issue. The Working Group member (EL) noted that the charging methodology was designed for Suppliers and Network Parties to pay for all of it and it was never envisioned that others would use it. The Working Group member (EL) noted that it is a very complicated system to change and believed that the DCC would need a team of people to work on it. The Working Group member (EL) suggested it was not a useful overhead, and that the Working Group need to understand DCC costs. SECAS (AB) agreed with this.

A Working Group member (MB) asked if transactional charges would be for Service Requests (SRs) sent by Users to the DCC. SECAS (AB) confirmed this was correct. SECAS (EW) added that the 0.2% figure was based on information from 2022/2023, and the DCC is currently looking into how to separate the costs more accurately.

A Working Group member (JS) believed that it is important to come back to the principle of 'user pays', and it was challenging to look at this through the business perspective. A Working Group member (BDa) asked if the only option about charging is to do it transactionally or is there another option to look at the current method of using Fixed Charges and change it slightly. SECAS (AB) advised that anything is up for debate, but SECAS had believed that separating out messaging costs was the easiest way to present it. The Working Group member (BDa) suggested that a middle ground could be found.

A Working Group member (RB) observed that the costs seem to only refer to OPEX (operational expenditure) but not CAPEX (capital expenditure) to increase the size of the system. The Working Group member (RB) noted that both the cost to maintain and the cost to expand and absorb traffic needs to be considered. SECAS (AB) agreed with this and noted that the transactional charges appear small but will increase as the system grows. SECAS (AB) added that the cost of increasing the system to accommodate the volume of messages also needs to be considered.

A Working Group member (MR) believed that the original contracts with DCC Service Providers was for a static charge per message, based on the expectation that an increase in volume would increase the per message charges, but it is now believed that the DCC is paying capital costs as well as message charges. They proposed that this should be reviewed. The DCC (DW) explained that the charges from Communications Service Providers (CSPs) were based on the Invitation to Submit Final Tender (ISFT) forecasts of what the expected traffic looked like. However, the DCC (DW) noted that these are not reflective of the current situation. The DCC (DW) also advised that there are contract negotiations with the Data Service Provider (DSP) and other Service Providers occurring at the moment.

A Working Group member (RB) asked when the term 'transaction costs' is used, is this based on how they are currently defined or with the view of developing a revised definition that will include a larger share of operating activity. SECAS (AB) advised that the latter could be considered, but this is up to the Working Group participants and the Proposer. The Working Group member (RB) highlighted that the group needs to be clear on what definition is being used. SECAS (EW) acknowledged this, and advised they need to get more information from the DCC before this can be discussed in depth. The Working Group member (RB) suggested using the term 'cost of usage' instead of 'transactional charging'. SECAS (AB) advised that they will look into this.

The DCC (TR) noted that the DCC uses the definition as stated in SEC Section K7.5(j). SECAS (AB) noted that the Working Group member (RB) was pointing out that the definition does not include CAPEX costs, and this is something SECAS and the DCC needs to look into further.

What about innovation?

A Working Group member (RB) highlighted that it is important to distinguish between innovative usage and production usage. They believed that it was not in anyone's interests to prevent innovation but suggested that there is a point where innovation becomes production. Otherwise, they believed that innovative services offered would not be sustainable.

Economic versus non-economic management of the DCC System

A Working Group member (MR) raised a question around non-economic means of managing the DCC network, as they did not see this being considered here. The DCC (DW) advised that there are a few modifications that are in progress around Service Request management and forecasting, which should address this. The Working Group member (MR) highlighted that the DCC System as currently set up is a finite resource, and providing more capacity will cost more money. They questioned how the DCC could better manage that existing resource and not simply change it. The Working Group member (MR) considered that there are a few individual SRs that are not core to Smart Metering that are taking up most of the traffic in the DCC system. The DCC (DW) advised that there is work currently being done to establish current demand and the nature of demand and forecasting in the future.

Allocation of costs

A Working Group member (EL) stated that they only want to pay for the parts of the DCC System they use and not parts others are using, and that it is not equitable to get a User to pay for someone else's usage. They noted that this is not about shifting costs, but the costs that are being incurred that are then being passed on to Suppliers and Network Parties. A Working Group member (RB) stated that competition is distorted if the costs are not allocated accordingly.

A Working Group member (BDh) advised that consumers are paying costs through their Supplier bills, and that it is impossible for the consumer to get this service for free. They suggested that the consumer should be able to choose who they pay and if they wish to procure the service from a company other than their Supplier the Supplier should take it out of the bill completely, and not make it mandatory. A Working Group member (EL) suggested that Suppliers did not have the ability to withdraw or remove smart metering costs that they pass on to consumers; there is Legislation in place for Suppliers to mandate recovery of smart metering costs this way.

A Working Group member (KM) queried if there was any way to split the costs out. For example, all basic costs to pass to all consumers to 'keep the lights on' which is Supplier owned. SECAS (AB) believed that it is not possible to split costs that way and reiterated that there are Supplier License conditions requiring Suppliers to recoup costs. SECAS (AB) explained that there are no specific innovation costs. They added that the way system is working currently, any new parties that join can use the system for free, which has allowed them to innovate. SECAS (AB) noted that as demand for that grows there is more demand put on Network Parties and Suppliers. A Working Group member (KM) added that they believed that any costs incurred by innovators should only be passed on to those who use the DCC System for that reason. They raised concerns around more cost being put on consumers, and not all consumers will be using this service in the same way. They believed that it was unfair to keep putting cost on all consumers. The Working Group member (MR) noted that Suppliers have access to more data than other Users. They highlighted that if an equitable cost route is needed, an equitable service is also needed.

A Working Group member (BDh) raised concerns about the lack of accurate forecasting at present. They suggested that the Working Group needs to look at what the 0.2% figure will become if it continues to grow, and what consumers are currently charged for in their bills. SECAS (AB) acknowledged the member's concerns and advised that the DCC is working on this.

SECAS (EW) advised that they need to consider to the principles of fair charging. A Working Group member (JS) agreed with this but noted that this then becomes a discussion around the DCC's Charging Methodology. SECAS (AB) explained that the plan is to look at transactional costs to see if it can be made fairer. They advised that they are waiting on DCC forecasting and more DCC information. They added that the DCC is also considering how the System can be managed using non-economic approaches.

The DCC (TR) advised that in relation to the DCC's Charging Methodology, the DCC can make changes through consultation. These proposed changes are then reviewed by Ofgem. They stated that whilst they could make changes to the Charging Methodology this way, they would appreciate industry input through this modification process to get different views.

A Working Group member (BDh) expressed concern around continuing the discussion until they know what costs are involved, and it is unclear who is paying for it. They suggested that bill payers or people who are collecting these fees will be paying all these costs. They also noted that it should be considered if the costs can be absorbed by the bill payer. A Working Group member (JS) believed that the member (BDh) was homogenising Users. They reminded the Working Group that this is not an issue between Suppliers and Other Users, but an issue between high-usage Users and low-usage Users, and it makes sense that a high-usage User should pay more. SECAS (AB) agreed with this but ultimately the consumer is paying, so it needs to be managed carefully. The Working Group member (BDh) suggested that there should be a fair way of charging everyone across the board and considered that how the money is collected needs to be in scope of this work.

A Working Group member (MR) advised the Working Group that there is not much more they can discuss at this point on transactional charges until they have a clear definition of what they are. The DCC (DW) advised that this will be done as part of the development of the modification during the Preliminary Impact Assessment.

A Working Group member (EL) highlighted the confusion around people assuming they can easily withdraw certain elements of charges. They advised that Suppliers cannot charge for a Prepayment Meter Interface Device (PPMID) or In Home Display (IHD), they must gift that to consumers. The Working Group member (EL) added that they cannot charge for the meter, however they may recover the costs through fixed charges. However, they advised that there are some costs that they have no control over, which is why there might be some confusion. SECAS (AB) agreed, there are certain obligations for the DCC and Suppliers to abide by through their License Conditions.

Part B – Fixed Costs

SECAS (EW) noted that the SECAS costs, which include running Sub-Committees and engagement forums and all other administrative bits, are within the 'SECCo costs' which are 1.6% of the total Fixed Charges for 2022/2023.

A Working Group member (RB) asked if the DCC looking at increasing capacity costs, is that an external capital charge or is it an internal cost over a number of years. SECAS (AB) advised that they are internal costs, which is why transactional charges are 0.2% which is purely sending messages charges. The Working Group member (RB) advised that it was important going forward that they separate the different categories of internal costs, as they would not consider CAPEX to be an internal cost in most scenarios. A Working Group member (JS) advised that if they know from the previous discussion that if the transactional charges 0.2% is not correct, fixed costs will reduce by same amount that transactional costs increase.

A Working Group member (JS) believed there was context for some SEC Parties who do not pay DCC costs to participate in SEC forums for the benefit of all. They queried whether the costs for such forums are only driven by those who don't pay the DCC costs and also what are the consequences would be if these SEC Parties did not participate. SECAS (AB) explained that this cost is included within the 1.6% SECCo costs and the reason these have been flagged for discussion is because these were the costs the SEC Panel originally highlighted. They suggested that they can bring feedback back to SEC Panel that the Working Group has proposed that it is not worth separating out the small cost.

A Working Group member (MR) proposed that a conversation needs to be had on what drives costs, not where cost goes. The DCC (JH) advised that transactional messages cost of 0.2% reflects cost of Service Providers, and does not include any improvement costs or other system costs for changes in the DCC System. However, they advised that they will provide a revised schedule based on today's discussion. SECAS (AB) agreed and advised that the forecasting on how this will look in the future is also needed.

A Working Group member (RB) noted that after any modification is implemented, there will need to be ongoing maintenance of this by the DCC. They suggested there was a tendency to regard modifications as a one-off charge, and suggested they should be ongoing costs highlighted under a modification. A Working Group member (JS) referred to another modification, MP181 'Meter Asset Provider and Device Manufacturer access to asset related data held by the DCC', where the costs included the ongoing OPEX costs for the delivery of that service. They noted that it had relatively low cost attached to it but was part of DCC development. The Working Group member (JS) observed that it proves that costs are being recovered by people who use the service. The Working Group member (RB) noted this but suggested that it needs to be more explicit as to costs of modifications. A Working Group member (MB) agreed with this.

The DCC (DW) advised that ongoing costs are included in modification Impact Assessments by the Service Providers. However, they thought that these do not go into the final report for the modification. SECAS (AB) confirmed that the ongoing 'application support' costs provided by the DCC are included in the Modification Report.

A Working Group member (JS) noted that there is no process to stop a modification until it gets to the end of the process. They questioned if this was a pragmatic approach, and if it should be changed. The Working Group member (JS) expressed concern around raising expensive modifications that no one uses. SECAS (DK) advised that SECAS is guided by the Code Administration Code of Practice (CACoP), which encourages allowing all ideas to be fully processed and assessed and ultimately a complete solution presented for decision. SECAS (DK) advised that the principle of this is that anyone can raise an idea, but the industry can reject it if they are not in favour of it. SECAS (AB) advised that once a modification reaches the Change Board, that is where members will vote to accept or reject it. SECAS (AB) added that they rely on the industry who consult on the modification, and SECAS is obliged to facilitate modifications progressing through to the Change Board for vote.

A Working Group member (MB) referred to the indirect cost piece and highlighted that the amount of work they put into the industry Working Group is significant, but there is no way of recovering costs. SECAS (AB) highlighted that they are extremely grateful for the work the participants put into each Working Group. SECAS (AB) added that they rely on all Parties to get correct input from the industry and encouraged people to continue to be involved. They noted that they need to be careful when discussing charges here, as DP218 is looking more generally at how Fixed Charges are managed across the board.

A Working Group member (MB) suggested that this part of the modification should not be progressed, as the cost to implement any change would probably outweigh the benefits, and it would probably cost more than the majority of the modifications raised this year. They highlighted that there are significant costs already invested in this process that are not recoverable. SECAS (AB) advised that they do not believe the administration costs are a particularly large amount of money. They referred to modification MP162 'SEC changes required to deliver MHHS' that benefits people who do not currently pay Fixed Charges. A Working Group member (JS) noted that under Part A, those people who use MP162 would be paying for the activity they perform on the DCC System, though would not have contributed to the implementation costs to put the changes required for MP162 into place as those would fall under Part B. They queried that if the MP162 volume of activity was covered in Part A, what is left in Part B. The Working Group member (BDh) added that they need to know what is recovered and what is not recovered from consumers, and a way of amending the Charging Methodology needs to be defined. A Working Group member (EL) advised that they cannot declare how they recover funds and costs, as it is stepping into Competition Act territory.

Splitting the Modification and next steps

A Working Group member (RB) noted that if the scope of costs recovered under transactional charges is increased, it will result in a corresponding reduction in the Fixed Charges 'pot', but they cannot define what the charges will be. They advised that they do not think Part B can move forward independently of Part A. The Working Group member (RB) suggested that more work needs to be done on Fixed Charges, as they do not think it supports this conversation.

SECAS (AB) advised that the Fixed Charge costs includes the cost of progressing and implementing modifications. They added that this also refers to any technical changes that need to occur in the DCC system but is not necessarily about capacity. SECAS (AB) added that they also need to consider the costs for technical changes that need to be made to the DCC system. They advised that these will be allocated to the Fixed Charges 'pot', as well as other services the DCC provides. A Working Group member (MR) noted that the big pot is those costs external to the DCC, and the DCC can only pass through those costs based on how they are contracted rather than distribute them in a different way. The Working Group member (MR) suggested that this may be encouraging the DCC to contract in a specific way, which may add complexity to this issue.

SECAS (AB) suggested that Part B is delayed slightly until Part A has been discussed further. If it is decided that transactional charges should continue to be included in Fixed Charges, then this may have an impact on how Fixed Charges are considered. They advised that they will look at Part A first and the DCC will determine what it would like to do with the capacity element of transactional charge. They advised that they can then get a clearer definition of Part B.

The DCC (TR) agreed with this suggestion, as the DCC still has the capability to change the Charging Methodology. They advised that it is not a static thing; if these costs change once they might change again in the future.

A Working Group member (MB) queried if Part A and Part B should be separate modifications. SECAS (AB) advised not necessarily, as what happens to one depends on the other. SECAS (DK) added that these are expected to be split will have separate modification numbers (DP218A and DP218B) but will depend on each other. SECAS (AB) suggested that another Working Group meeting may be needed once the DCC has provided more details, before the modification is returned to the

Change Sub Committee (CSC) to review the problem statement. SECAS (AB) advised that Part B will be separated and delayed slightly, and that the DCC will need to consider the views from the Panel over whether it should be the Proposer for Part B. If it chose not to, then SECAS would notify the industry of the withdrawal at which point any SEC Party could adopt the modification. The DCC (TR) advised that the DCC will likely want to step back from being the Proposer of Part B and hand this over to another Party. A Working Group member (RB) expressed disappointment around this. They highlighted that the Fixed Charges 'bucket' is so large when it comes to understanding cost of change, and the DCC will need to help with this. The Working Group member (RB) suggested that it would be beneficial if one person is operating both sides of equation. SECAS (AB) proposed that they move forward with Part A and delay Part B, and the DCC will be the Proposer for both parts until they get a clearer picture of the changes. The DCC (TR) agreed with this.

A Working Group member (AH) asked for clarification on what analysis the DCC will be doing for Part A. SECAS (AB) explained that the analysis is to provide a forecast of the expected traffic volumes over coming years and how the DCC believes these will increase as a result of increased demand on the system. SECAS (AB) advised that they will also be looking at it in terms of Other Users wanting to use the DCC system more frequently. The DCC will also need to assess the total proportion of its costs that relate to managing traffic on the systems, beyond the 0.2% value charged to it by its Service Providers. The Working Group member (AH) asked if it can break down who will be using the services for that forecasted data. SECAS (AB) advised that they can ask, but they are not sure if the DCC will be able to provide that information. A Working Group member (RB) suggested that everything that increases the costs of running the DCC should be removed from Fixed Charges and into transactional charges. A Working Group member (MB) highlighted the importance of the DCC providing the forecasting information that was mentioned. SECAS (AB) agreed with this.

SECAS (AB) reassured the Working Group that they will work with the DCC to get an accurate summary of the issue, and another Working Group meeting will be held.

A Working Group member (BDa) asked if the Working Group completes this work and comes up with a proposal for the DCC, does the DCC have to accept it. SECAS (AB) advised the DCC doesn't have to accept is as it is the Proposer, with the power to own the Proposed Solution. A Working Group member (BDa) added that it is good to have transparency through this process, however the group could get to the end of the process and the DCC could then determine it wants to progress a different solution. SECAS (AB) noted that if the DCC plans to change its charging for communications services, it would have to undertake consultations with the industry. SECAS (EW) advised that any changes to the DCC Charging Statement would need Authority approval as well, and the Authority would likely want to understand why the DCC progressed a different solution to what Users proposed or recommended when making its decision.

Next Steps

The following actions were recorded from the meeting:

- SECAS and the DCC to determine a definition for the costs of communications services, including those related to increasing capacity and other added costs associated with transactions, and the Working Group will determine if this will be used to describe Part A.
- The DCC to provide information on transactional charges (how much is charged for traffic using the current definition of cost per message) and information on how much a message may cost if infrastructure costs were included.

- The DCC to provide historical and forecasted volumes of traffic and what it expects the growth to look like in the coming years.
- The DCC to provide data on what percentage of the Fixed Charges relates to the implementation of approved modifications historically and also what is forecasted for coming years.
- SECAS to arrange another Working Group meeting once the DCC has provided the information required.