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# MP224

# 'SEC Performance Assurance Framework'

## Modification Report

**Version 1.0**

**22 May 2024**

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Committed to clearer communication
592

## About this document

This document is a Modification Report. It sets out the background, issue, and progression timetable for this modification, along with any relevant discussions, views and conclusions.

## Contents


1. Summary ..... 3
2. Issue ..... 3
3. Solution ..... 6
4. Impacts ..... 7
5. Costs ..... 8
6. Implementation approach ..... 9
7. Assessment of the proposal ..... 9
8. Case for change ..... 20

Appendix 1: Progression timetable ..... 22

Appendix 2: Glossary ..... 23


This document also has five annexes:

- **Annex A** contains the full responses received to the request for information (RFI).
- **Annex B** contains the redlined changes to the Smart Energy Code (SEC) required to deliver the Proposed Solution, as well as the proposed Terms of Reference for a Performance Assurance Board.
- **Annex C** contains the full responses received to the Refinement Consultation.
- **Annex D** contains the draft Risk Evaluation Methodology.
- **Annex E** contains the Security Sub-Committee (SSC) statement on scope. (GREEN)

## Contact

If you have any questions on this modification, please contact:


**Kev Duddy**

020 3574 8863

kev.duddy@gemserv.com

# 1. Summary

This proposal has been raised by Emslie Law from OVO Energy.

The SEC does not explicitly define a Performance Assurance Framework (PAF), which is in contrast with some other Energy Codes. Instead, the SEC Panel, as the key decision-making authority under the SEC, is expected to deal with any performance-related matters as they arise. However, managing performance-related matters on a case-by-case basis is challenging and the scope of the Panel is broad.

A project undertaken on the Panel's behalf has concluded that the implementation of a risk-based PAF under the SEC would give confidence to Parties that: the obligations set out in the SEC are being fulfilled; that Parties are not being disadvantaged by the failure of any one Party to meet its obligations; and that performance risks and issues are dealt with in a standardised manner. The project detailed a proposed approach to the delivery of a PAF and concluded that this should be progressed further via the SEC modification framework. Respondents to the RFI (which can be found in Annex A) unanimously agreed that a PAF should be introduced.

The Proposed Solution will deliver a PAF, as well as requiring a Performance Assurance Board (PAB) be set up to develop the appropriate risk-based methodology. The scope of the PAF excludes obligations on Section Z 'Alt HAN Arrangements' and Section G 'Security'. The costs for delivering the modification are limited to the Smart Energy Code Administrator and Secretariat (SECAS) implementation costs. Ongoing operating costs for management of the PAF and PAB have been included within the SEC budget, which Parties have already been consulted on. The budgeted costs for the set up and first year of operation are estimated to be £185,000. SEC Parties have noted minimal costs on themselves to engage with and provide resource for a PAF.

This modification will impact all SEC Parties and is targeted for implementation as an Ad hoc SEC Release one working day after decision.

This will be progressed as an Authority-Determined modification.

# 2. Issue

## What are the current arrangements?

The SEC does not explicitly define a PAF, instead, the SEC Panel, as the key decision-making authority under the SEC, is expected to deal with any performance-related matters as they arise. This is in contrast to other Energy Codes such as the Balancing and Settlement Code (BSC), the Retail Energy Code (REC) and the Uniform Network Code (UNC), where a dedicated, risk-based Performance Assurance Framework is used to identify and mitigate key risks to the respective code objectives.

### Existing assurance mechanisms under the SEC

In general, the SEC does not explicitly mandate the end-to-end, coherent view of assurance. As it stands, the SEC Panel is seen as the decision-making body, and would therefore be expected to deal with assurance matters individually as they arise. Compliance with the SEC is also a Licence Condition for SEC Parties, and therefore ultimately subject to Ofgem authority.

Some examples of assurance mechanisms which are already intrinsic parts of the SEC and its associated processes include:

- Provisions providing for Parties to raise Disputes (SEC Section M7) and those allowing for the Panel to declare a material breach by a Party.
- The capability brought under the SEC through the Smart Meter Device Assurance (SMDA) scheme (SEC Section F12), providing a preventive technique.
- The Operations Group (OPSG), working with the Data Communications Company (DCC), has pursued several topics with the aim of improving compliance. In general, the OPSG has adopted a style of 'inform, encourage, persuade', as with Radio Frequency Noise compliance. In effect, this style incorporates some aspects of preventative, detective and corrective techniques. Experience to date indicates general willingness by SEC Parties to address compliance matters once they are provided with specific information regarding shortcomings.
- The SEC includes strong provisions for assuring security (SEC Section G).

## What is the issue?

Managing performance-related matters on a case-by-case basis is challenging and the scope of the Panel is broad.

The Panel therefore considered whether a PAF and a PAB should be established under the SEC. It subsequently approved SECAS undertaking a project to investigate this further. The aim of this project was to facilitate the development of a proposal to implement a PAF[1].

The project concluded that the implementation of a risk-based PAF under the SEC would give confidence to Parties that:

- The obligations set out in the SEC are being fulfilled, and that any failure to meet obligations will not detract from the achievement of the SEC Objectives;
- They are not being disadvantaged, either individually and collectively, by the failure of any one Party to meet its obligations; and
- Performance risks and issues are dealt with in a standardised manner.

The project's findings, approved by the Panel, detailed a proposed approach to the delivery of a PAF, based on the premise that:

- Changes to the SEC will be required to fully enable the introduction of a PAF – a PAB could be established under the existing SEC provisions, but would lack the 'weight' to apply any PAF without corresponding obligations being placed on Parties;
- The PAF will require a delivery/responsible body, a PAB, to develop and manage the framework;
- The changes will be further developed and implemented via the SEC modification process, after which an 'annual' budget will be established to facilitate the PAF, to be managed by a PAB; and

[1] Please see SEC Panel paper SECP_95_1308_04 (White) for further details

- All Parties who will be included in the PAF will have the opportunity to shape it into a working model that best supports the SEC Objectives.

The Panel agreed that further work on the delivery of a PAF should be undertaken via the modification framework, to avoid duplication of effort. It therefore agreed that a Draft Proposal should be raised to take this forward[2]. The work and materials (including the proposed SEC changes and the proposed PAB terms of reference) developed under the project will be handed over for consideration under this modification.

**What is a PAF?**

When acceding to multi-party agreements such as the SEC, Parties accept the obligations set out within the agreement. The assumption is that fulfilment of these obligations is necessary for the objectives of the relevant agreement to be achieved.

A PAF can be set up under such agreements to give confidence to all signatories that the obligations set out in the agreement are being fulfilled, and that failure to meet obligations is not detracting from the achievement of the objectives of the agreement. It can also give confidence to signatories, both individually and collectively, that they are not being disadvantaged by the failure of any one signatory to meet its obligations.

A principal benefit of having an explicit PAF is that it could require and encourage an integrated approach to assurance, which is likely to have advantages over an issue-by-issue approach. However, it is not the purpose of a PAF to determine whether obligations are 'right' or optimum, though operation of the PAF may highlight areas of risk where, for example, compliance is proving difficult to achieve.

Typically, a PAF comprises four principal parts:

- **Governance arrangements**, which will include establishing a governance body (for example, a PAB).
- A **Risk Evaluation Methodology** to be overseen by a PAB, used to identify, evaluate, and assess the materiality of risks to the fulfilment of the code objectives.
- A set of **Performance Assurance Techniques** (PATs) which can be applied to mitigate and manage the risks identified by the Risk Evaluation Methodology and cover the different aspects of assurance. These are often categorised as:
    - **Preventative**: techniques that are intended to promote assurance by acting early in the lifecycle to avoid subsequent operational non-compliances
    - **Incentivisation**: techniques which encourage operational compliance, and are often also seen as part of the 'corrective' category
    - **Detective**: techniques which discover and provide evidence of areas of risk, or non-compliances
    - **Corrective**: techniques which remediate any non-compliances. It should not be assumed that these are necessarily sanctions, or punitive; for example, agreed error correction processes (remediation plans) and a derogation process are likely to be important

[2] Please see SEC Panel paper SECP_111_1612_08 (**Green**) for further details

- A **Support Capability** to facilitate the operation of the PAF. This would include support staff, explicit and detailed business processes, and support tools.

Designing a PAF to ensure that it is appropriate and proportionate is important. One way of doing this is to adopt an adaptive, risk-based approach. As an illustration, each year the PAB might recommend a plan identifying the areas of highest risk and a proposed assurance plan. This plan might be put to signatories and any overarching governance body for endorsement before being implemented by the PAB. This approach would also allow the appropriate phasing of the introduction of assurance measures to match the maturity of arrangements area-by-area.

### What is the impact this is having?

One of the challenges the Panel has faced has been to ensure that sufficient resources with the required time and detailed technical expertise are available to deal with issues and risks as they arise, especially as the volume of Parties, data and change has increased.

Under the SEC PAF project, SECAS and the OPSG identified a range of historical issues and potential instances of non-compliance with obligations that might have fallen under the remit of a PAF and sought to quantify their impact. This analysis provided an indicative view of the type of SEC obligations that may fall within the scope of a PAF.

A workgroup was established under the project to seek input from industry members, but no wider consultation was undertaken. Consultation was therefore undertaken with Parties during the Development Stage to seek further input on the issue raised under this Draft Proposal, including further examples that may have fallen within scope of a PAF, and the impacts this is having. These examples can be found in Section 7 of this document.

#### Impact on consumers

Any Party failing to meet its obligations or required performance levels under the SEC could have an adverse impact on the service provided to consumers. The specific impact on consumers of any given failure will depend on the obligation in question, but as a minimum could lead to a negative perception among consumers regarding the smart metering arrangements.

## 3. Solution

The Proposed Solution will introduce the concept of a risk-based PAF through changes to the main body of the SEC with further detail set out in a new Appendix to the SEC. It will also mandate a new Sub-Committee be created (the PAB), to manage the framework and its associated processes. The details of the make-up, proceedings and deliverables of the PAB is set out in a new Terms of Reference for the Sub-Committee as part of this solution.

The PAF has been drafted to include within its scope, all obligations within the SEC, except for Section Z ‘Alt HAN Arrangements’ and Section G ‘Security’.

The way the solution has been developed will put the onus on the newly formed PAB to develop the methodology and processes, in consultation with industry, to deliver these outcomes. The

modification itself focuses on the delivery of the supporting governance arrangements required for the creation of the PAF and supporting PAB.

The redlined changes to deliver the Proposed Solution can be found in Annex B.

# 4. Impacts

This section summarises the impacts that would arise from the implementation of this modification.

## SEC Parties

| SEC Party Categories impacted | | | |
|---|---|---|---|
| ✓ | Large Suppliers | ✓ | Small Suppliers |
| ✓ | Electricity Network Operators | ✓ | Gas Network Operators |
| ✓ | Other SEC Parties | ✓ | DCC |

| Breakdown of Other SEC Party types impacted | | | |
|---|---|---|---|
| ✓ | Shared Resource Providers | ✓ | Meter Installers |
| ✓ | Device Manufacturers | ✓ | Flexibility Providers |

All SEC Parties will be impacted by this modification. The PAB will be made up of representatives from all Party categories and Parties will need to engage with the PAF as requested.

## DCC System

There are not expected to be any impacts to the DCC System from this modification. Any reporting that will be required as part of the framework will be managed by the Performance Assurance Board once it has been set up.

## SEC and subsidiary documents

The following parts of the SEC will be impacted:

- Section C 'Governance'
- New Appendix 'Performance Assurance Framework'
- New Performance Assurance Board 'Terms of Reference'

The changes to the SEC required to deliver the Proposed Solution can be found in Annex B.

## Devices

This modification will not impact Device behaviour.

### Consumers

Consumers will not be directly impacted by this modification. However, the indirect impacts of improvements that the PAF should deliver will be consumer focused. Therefore, consumers should see benefits from improvements.

### Other industry Codes

There are no impacts to other Codes from this modification.

### Greenhouse gas emissions

There are no impacts to Greenhouse gas emissions from this modification.

## 5. Costs

### DCC costs

There are no DCC costs to implement this modification.

### SECAS costs

The estimated SECAS implementation cost to implement this as a stand-alone modification is one day of effort, amounting to approximately £600. This cost will be reassessed when combining this modification in a scheduled SEC Release. The activities needed to be undertaken for this are:

- Updating the SEC and releasing the new version to the industry.

Ongoing operating costs for management of the PAF and PAB have been included within the SEC budget, which Parties have already been consulted on. The budgeted costs for the set up and first year of operation are estimated to be £185,000.

### SEC Party costs

The operating costs have been included within the SEC budget which Parties feed into already. There will also be some additional resource costs for Parties to engage with the PAF, whether that be part of information gathering or engagement with meetings. Respondents to the Refinement Consultation noted that these costs were not envisaged to be large but would not be possible to quantify until the specifics of each risk had been identified by the PAB.

# 6. Implementation approach

## Approved implementation approach

The Change Sub-Committee (CSC) has agreed an implementation date of:

- **Ad hoc SEC Release (one working day after decision)**

If approved by the Authority, there will be a period needed to initially set up and constitute the membership of the PAB, and then for the PAB to further develop the appropriate supporting PAF methodology and processes, which SEC Parties must be consulted upon. This should give an adequate amount of time for Parties to have input into and prepare for any changes required.

Most respondents to the Refinement Consultation agreed that there was no lead time required for their organisations. Those who disagreed noted that until the risks and specific PATs had been determined they could not answer with surety. However, the work to deliver the PAF methodology and supporting processes will be delivered by the PAB after setting up with a further requirement for the PAB to consult with Parties, so this process would give adequate time.

# 7. Assessment of the proposal

## Areas for assessment

### Sub-Committee input

SECAS has engaged with the Chairs from the OPSG, the Technical Architecture and Business Architecture Sub-Committee (TABASC), the SSC and the Smart Metering Key Infrastructure (SMKI) Policy Management Authority (PMA) to confirm what input is required from these forums. SECAS believes the following Sub-Committees will need to provide the following input to this modification:

| Sub-Committee input | |
|---|---|
| **Sub-Committee** | **Input sought** |
| OPSG | The OPSG has been consulted as part of the project and has continued to be updated on the solution under this modification through the process. |
| SMKI PMA | SMKI-related areas under SEC Section L 'Smart Metering Key Infrastructure and DCC Key Infrastructure' may fall within the scope of any PAF. The SMKI PMA has been updated on the modification |
| SSC | Security-related areas are expected to be out of scope of any PAF, and so the SSC will not need to be consulted |
| TABASC | There are no system or architectural impacts expected from this modification or any system changes expected to deliver any solution, and so the TABASC do not need to be consulted |

## Observations on the issue

This Draft Proposal was presented to the CSC for initial comment. Members had no comments on the issue.

The DCC has confirmed they are supportive of the purpose underpinning this exercise stating that the performance assurance landscape has become overly complex and unwieldy. They continued that any reform must be seized as an opportunity to improve and simplify the status quo rather than drive further inefficiency, complexity, and additional cost on consumers.

The way the solution has been developed will put the onus on the newly formed PAB to develop the methodology and supporting processes, in consultation with industry, to deliver these outcomes. The modification itself focuses on the governance arrangements necessary for the creation of the PAF and supporting PAB.

A Working Group member commented that the general view within industry is that other Codes benefit from having a risk based PAF and therefore the introduction of a PAF within the SEC should also deliver similar benefits.

A respondent to the RFI noted that Smart metering and the DCC's services are critical not only to the consumer experience of the energy market, but also to the success of wider transformation projects like Market-wide Half Hourly Settlement (MHHS). They believe it seems counterintuitive for there to be no formal framework for identifying risks, monitoring performance, and addressing poor performance where it occurs and where it directly impacts consumers, or smart metering more widely.

Another respondent believed that having a framework that will provide Parties with a standardised approach would help move performance improvements forwards. They highlighted that it is currently difficult to recognise or even understand where things go wrong.

Another Large Supplier commented that they believe that the Smart Metering arrangements are too immature to deliver a PAF at this time. They noted that many issues are complex and difficult for Parties to deliver on their obligations as they're impacted by factors outside of their control. SECAS acknowledges this but considers that the purpose of the PAF is to drive improvements in service for consumers. Identifying where issues arise within the process will help to address them, regardless of who is at fault for not being able to meet an obligation.

### Scale of the issues that could fall within the scope of a PAF

The project was primarily focused on the development of a potential solution, though undertook some analysis of historical issues that could have fallen within scope of a PAF to help provide context. This analysis was attached to the Panel paper setting out the PAF project's conclusions. As part of the Development Stage, an RFI was issued to allow Parties to provide further examples of the issues that could fall under a PAF and the magnitude of the impacts these are creating.

Nine Parties responded in favour of progressing a PAF and provided a list of issues that could have been managed more effectively had a PAF been in place. The full responses can be found in Annex A, with some issues that respondents highlighted being detailed below.

#### *Failure to complete post-commissioning or SMKI obligations*

This issue relates to requirements on Suppliers to update and apply the appropriate Distribution Network Operator (DNO) certificate on installation of a Smart Meter to allow the DNO's to communicate with the Device. If the correct certificate is not installed, the DNO cannot execute any of its smart metering business processes for that Device.

### *DCC Outages*

Some respondents noted DCC performance regarding outages, either through maintenance or incidents, impacts their ability to communicate effectively with Devices. Another Party noted this has a large impact on consumers and the current reporting does not measure against volume of incidents, only that they are resolved within timescales.

### *Market-wide Half Hourly Settlement (MHHS) and increased DCC traffic*

Another respondent highlighted that the performance of the DCC in delivering its services could impact settlement performance under the new MHHS settlement arrangements. The DCC's performance will have a direct impact on whether Suppliers are able to meet their settlement performance targets under MHHS. This risk will increase as MHHS will require exponentially higher volumes of consumption data to be made available to Suppliers (and other Parties) on a time critical basis.

As the DCC is not a party to the BSC, or a Supplier Agent (as defined in the BSC) it is not currently clear how the DCC's performance, and its impact on settlement, will be managed. A SEC PAF, that identifies DCC performance as a risk and creates a process for monitoring this whilst providing a PAB the tools to mitigate this risk would appear to be an appropriate solution.

The current Operational Performance Regime (OPR) that the DCC operates under is not, on its own, sufficient to do this and is more focussed on how DCC performance impacts its margin under the Price Control than on consequential impacts to things like settlement performance and consumer experience.

Another respondent noted there have been instances of increased demand on DCC services by specific Users which has resulted in performance issues that impact other DCC users.

The volume of 'Other User' traffic is likely to increase going forwards and continue to periodically cause widespread capacity issues. They suggested that there may need to be further amendments in the SEC on capacity volumes, and there also needs to be a way of assuring 'Other User' (and all Parties) compliance with any such requirements.

### *Suppliers not responding to install code emails?*

MP121 'Commissioning non-commissioned Devices after CoS' was introduced in February 2022. This placed an obligation on Suppliers to respond to requests for install codes from a gaining Supplier within 10 working days. A respondent noted that non-responses to these requests are having a big impact on their business.

### *Suppliers not keeping firmware up to date*

In this scenario, Suppliers are obligated to maintain a Device in line with the Smart Metering Equipment Technical Specification (SMETS) and by not upgrading to the latest firmware to resolve an issue identified with affected Devices, Suppliers are in breach of those obligations.

***Suppliers not updating the Smart Metering Inventory (SMI)***

The impact on these issues varies greatly. Some of the impacts include DNOs not being able to communicate with Devices, resulting in being unable to obtain data to assist in benefit realisation. Other impact results in time and resource being spent investigating and raising incidents because the SMI is not truly reflective of the situation on site, for example Devices showing as de-commissioned but still generating and sending Alerts.

## Solution development

The introduction of the proposed PAF is intended to be risk based. This ensures that the consequential impacts on Parties with regards to reporting and engagement are proportionate. The more severe risks that are identified will likely lead to more in depth reporting and analysis. This concept and further documentation will be developed further by the PAB. Each artefact will be developed by the PAB and consulted upon with industry to ensure that Parties views and feedback are included within each risk, assessment and mitigating PAT.

The intent of the PAF is to deliver performance improvements for consumers, and better facilitate the SEC Objectives. It is not envisaged that it be used to target or punish Parties that do not meet obligations. It is required to manage risk and issues. By highlighting risks and issues, techniques to drive improvements can be put in place, thus helping Parties meet obligations to benefit consumers.

A risk-based PAF would identify the areas of the greatest risk to the achievement of the SEC Objectives and then make sure that appropriate performance assurance techniques are focussed on these. In the solution proposed by the project, this prioritisation process (the 'Risk Evaluation Methodology') would be developed and then managed by a PAB. This 'Risk Evaluation Methodology' would also be subject to periodic consultation with SEC Parties and endorsement by the Panel, providing for an additional level of scrutiny to give confidence to Parties that performance assurance activities are proportionate and not unduly onerous or intrusive.

### Ensuring a risk-based approach to assurance

Respondents to the RFI were consistent that any new PAF should ensure that a risk-based approach was adopted by the PAB.

One Party noted that assessment must consider the size of the organisation, and size of their portfolio. They highlighted that not having this approach may mean they would need to engage with significant resource to trivial matters. They suggested that percentage-based performance management should be against whole industry view, as opposed to portfolio size to ensure Large and Small Suppliers were treated equally.

Another Party suggested that the PAB should focus primarily on issues that have a consumer impact. They also commented that the assurance processes should provide meaningful support to Parties in understanding the framework and proving clear guidance how non-compliances can be corrected.

To address these points, the Proposed Solution details that the PAB shall develop a Risk Evaluation Methodology and a Performance Risk Register that should be consulted upon when developed and material changes made.

***Draft Risk Evaluation Methodology***

As part of the modification's development, the first draft of a Risk Evaluation Methodology was produced and shared with the Working Group in February 2024. This can be found in Annex D.

This document details how risks would be identified, assessed, mitigated and prioritised. The prioritisation of each risk and PAB's focus for the year would be determined by them, but the approach would be proportionate.

A Working Group member noted that the definition of success could mean different things for different entities and that each issue/risk would need a defined measurement of success to help make it clear. This should also include target timescales. SECAS noted that a 'target score' for each risk would be identified within the Risk Register and this would be consulted upon so Parties can feed in views.

The Working Group noted that they were supportive of the work to date and was keen to see it progress and consider wider strategy. They highlighted that the work done during the modification should act as the starting point for developing further by the PAB to ensure that the work from this modification was not lost.

**Data provision**

The intent of the PAF is to mitigate risks and issues and not require burdensome reporting for Parties. Some Parties noted that the introduction of a PAF should see as much as possible of the administrative burden centralised to reduce Party impacts.

The DCC already reports on over 80 measures within the Performance Measurement Report (PMR) reviewed by the OPSG. Parties believe this modification should be used as an opportunity to rationalise and consolidate DCC reporting requirements and metrics to re-focus on which matter most to customers and consumers.

There was agreement that the introduction of a PAF should be an opportunity to improve and simplify the current arrangements rather than drive further inefficiency, complexity and additional cost on consumers.

The Working Group considered that lessons should be learned from MP122B 'Operational Metrics' with regards data provision. They suggested not putting in place requirements until they are known to be able to be delivered.

SECAS advised the intent is to use existing reporting wherever possible, noting that DCC centralised reporting has a holistic view and would lessen impacts on Parties, but acknowledged some level of Party reporting would be required.

The solution will leave the data provision responsibility with the PAB to decide what is the appropriate source, dependent on what issue is being addressed. The Proposed Solution includes data provision principles under clause 4.4 which advises that existing data will be used where possible, each request is reasonable, and the PAB will consult upon substantive data requests.

**Scope of the PAF**

It was agreed that the scope of the PAF should be developed and confirmed as part of this modification's development, rather than a recommendation through the Panel project.

Any scope needs to ensure that maximum benefit is achieved, whilst managing costs and ensuring that performance assurance activities are proportionate and not unduly onerous or intrusive. Given

the extensive nature of the SEC, seeking to assure that every obligation is being fulfilled is unlikely to be a productive or cost-effective exercise.

The project's recommendation was that only those obligations under SEC Section G 'Security' and SEC Section J 'Charges' be excluded from the scope of the PAF. The SEC already contains explicit provisions for dealing with compliance with security risks and credit management processes. Consequently, there would seem to be little benefit in moving oversight of these to a PAB. To deem anything else to be out of scope at this stage could potentially limit the effectiveness of a PAF before the key risks to compliance with SEC objectives have been established. Consequently, all other obligations should be deemed in scope, at least until such time as the 'Risk Evaluation Methodology' has been developed and approved.

One RFI respondent noted that the Party obligations relating to Section Z 'Alt HAN Arrangements' are governed by the Alternative Home Area Network (Alt HAN) Forum, and not the SEC Panel.

The Working Group and Refinement Consultation respondents highlighted several Sections that could or should be left out of scope. These were debated at length and there was general agreement that all obligations should remain in scope, with the exception being Section Z 'Alt HAN Arrangements' and Section G 'Security'.

Members largely agreed on Section Z 'Alt Han Arrangements' but there were opposing views about Section G 'Security'.

A Working Group member highlighted that Section G had been drafted to give the SSC complete oversight of this area and that would need changes. They continued that the work the SSC do is highly technical and confidential, which would make it impossible to share their risk register with Parties. They also noted that the SSC reports straight to the government through the National Cyber Security Centre (NCSC) and the Department for Energy, Security & Net Zero (DESNZ).

Another Working Group member considered that this could lead to a disjointed approach as opposed to a holistic one. They noted that the User audits carried out under Section G assess all risks identified on an annual basis, which is fundamentally different to this risk-based approach. They believed that a review and potential amendments should be considered within Section G as part of this modification to ensure that all risk across the SEC was being managed and addressed in the same way.

Another Working Group member also highlighted that there was a new Privacy Sub-Committee being established and questioned whether their work should also be excluded due to PAB members not likely having the technical expertise in that area. SECAS has investigated this further and believes that the risks that would be associated with Data Privacy are fundamentally different to those managed through Section G, noting that there would not be a threat to Critical National Infrastructure in the same way.

The Working Group agreed that statements should be provided by the SSC and AltHANCo to provide rationale on the exclusion (see below).

***AltHANCo statement***

*SEC obligations in scope of the Performance Assurance Framework (PAF) would come under the governance of SEC Panel. However, Party obligations relating to Section Z and the Alt HAN are governed by the Alt HAN Forum. Therefore, we would expect MP224 PAF proposals would not apply to Section Z obligations and therefore not be within scope of the PAF. The Alt HAN Forum could establish activities akin to those imagined under a PAF should there be a need to strengthen*

*compliance with Alt HAN obligations. This ensures there is no confusion over governance, duplication or unnecessary complexity to the existing Alt HAN arrangements.*

***SSC statement***

At the SSC meeting on 8 May, SECAS presented the latest position of the Working Group to understand the rationale behind the SSC's viewpoint. The SSC agreed to provide a statement, which can be found in Annex E.

At the meeting, it was reiterated that the Government had drafted the SEC to specifically give all responsibility over Security decisions to the SSC. This view was echoed by the DESNZ member who noted that the Government is responsible for the Critical National Infrastructure and the SEC was drafted to ensure that the SSC retained sole ownership of decisions that could affect this. The purpose being that members of the SSC are experts in their field and should make decisions independent of any industry bias and therefore focus on the risks to National Infrastructure, ensuring security is prioritised, rather than Party performance.

***Inclusion of DCC obligations***

At present, feedback to the DCC on the performance of operational services, impacts on Users, and the resolution of problems and defects falls under the scope of the OPSG, with performance issues being highlighted to the SEC Panel as required. Experience to date indicates that this process generally works well and there is a willingness by SEC Parties and the DCC to address compliance matters once they are provided with specific information regarding shortcomings.

The project considered there would seem little value in moving the existing OPSG and associated DCC performance reporting arrangements fully under the scope of a PAB, at least initially. Instead, it considered a PAB should take on more of an oversight and escalation role, similar to that currently undertaken by the Panel. This approach would be consistent with a risk-based PAF process, with the application of the current OPSG processes seen as one of the 'Performance Assurance Techniques' that a PAB could bring to bear should DCC compliance with obligations be flagged via the application of the 'Performance Assurance Methodology' as one of the key risks to be mitigated. This approach would also be consistent with the proposed approach to any other risk identified by the 'Performance Assurance Methodology' and any other impacted SEC Party.

The project recommended that DCC obligations should be considered in scope until any 'Risk Evaluation Methodology' has been established and applied to identify the main risks to compliance with SEC Objectives. The Working Group agreed that DCC obligations should be in scope.

| **Conclusion** |
| --- |
| The Proposed Solution includes exclusions of scope under Section C9.8. These are:<br>• Section G 'Security'<br>• Section Z 'Alt HAN Arrangements' |

**What timeframe should be considered for introduction?**

Respondents to the RFI noted that consideration should be given to the timing of the introduction of a PAF and transition arrangements, noting the wider landscape of Code Reform should also be considered.

The Working Group agreed that ensuring Parties would have enough transition time would be appropriate. They also noted that there should be no delay due to Code Reform.

The modification will aim for implementation in an Ad hoc SEC Release, noting that following implementation there will be requirements on the PAB to develop processes and documentation that will need to be consulted on with Parties.

**Should the Performance Assurance Techniques (PATs) include financial penalties?**

The DCC raised concerns about the performance assurance techniques detailed within the draft legal text. They noted that under 'incentive' techniques there were financial sanctions which seemed at odds with the concept. They highlighted the term 'liquidated damages' had been used and queried whether it would be applicable here. They also noted that the DCC are subject to financial incentives through the Price Control process and believe this could conflict with the role Ofgem plays currently.

A Working Group member supported the removal of financial penalties, noting that financial penalties against the DCC would be duplicative and ultimately funded by Suppliers anyway.

Another Working Group member noted none of the examples of PATs were related to enforcement and instead were focused on monitoring. SECAS highlighted there will be lots of PATs and the PAB would assess which best fits and is proportionate to each Risk Driver. SECAS expanded on this that the role of the Sub-Committee could be one of the PATs that the PAB develop, and task them to undertake analysis.

SECAS noted that the legal text had not yet been reviewed by the SEC Lawyers. This review took place after all comments had been received through the Refinement Consultation.

Respondents were in general agreement that financial penalties should not be included, and this was supported by the Working Group. Therefore, the Proposed Solution has removed these from the legal text.

**PAB Composition**

The initial drafting of the Terms of Reference for the proposed PAB was largely driven to mirror other Sub-Committees already set up within the SEC.

Two Large Supplier members discussed whether Other SEC Parties should have the same representation in these discussions as Suppliers who fund the SEC and have most obligations. A Large Supplier highlighted that the Other SEC Party category has approx. 130 organisations in which is having a big effect on performance of system, and ability for Suppliers to meet certain obligations.

The final drafting was amended to reflect these conversations, increasing the Large Supplier representation to three seats. Additionally, due to the limited involvement from Gas Network Parties, the Network Party seats have been combined so that the two representatives can be nominated by either Gas or Electricity Network Parties.

The Working Group agreed with the amendments made to the composition of the PAB. The composition can be found in the redlined changes to the SEC in Annex B. However, the Terms of Reference will not form part of the SEC itself and would be reviewed annually by the Panel to ensure they remain fit for purpose. Changes to the Terms of Reference can be made without a modification.

### Change Management processes

During the Working Group where Refinement Consultation responses were discussed, members highlighted concern that the PAB's artefacts could be changed by the PAB without going through an agreed process. The legal text has now been strengthened in this area to ensure that the following documents all go through consultation with Parties, the Authority, Citizens Advice, Consumer Scotland and such other stakeholders as the PAB considers appropriate before changes can be made:

- Risk Evaluation Methodology
- Performance Risk Register
- Performance Assurance Techniques
- Performance Assurance Operating Plan

### Appeals process

Ofgem requested clarification on what their proposed role would be, noting a previous drafting of legal text identified they would be the route for all referrals. SECAS (KD) clarified that the legal text had been drafted to place Ofgem as the final arbitrator for a PAB decision, once Panel had provided their initial decision on the PAB ruling as the first referral.

Ofgem commented that whilst this approach mirrored the Self Governance process, PAFs in other Codes did not have a referral path to the Authority. These all have their respective Panels as the final appeal.

A Working Group noted the Self Governance process allows a Proposer to push a modification forward so that Ofgem must provide a view on the issue. They believed that more power should be given to Panel and ensure the PAB is able to be fully functional and empowered.

The Working Group agreed that the Panel should be the ultimate referral body.

### Potential Benefits of a SEC PAF

***Benefits of Performance Assurance in Other Codes***

The Balancing and Settlement Code (BSC), Retail Energy Code (REC), and gas Uniform Network Code (UNC), all operate similar, risk-based performance assurance frameworks to that being proposed under the SEC.

In the case of the BSC, and UNC, the main focus is the management of risks relating specifically to settlement obligations. In the case of the REC, the main focus is to ensure that consumers have a positive experience when engaging in the retail energy market, and that Parties act in a manner that is not detrimental to the effective competition between Energy Suppliers.

In all three codes, the primary focus is on identifying and evaluating the main risks to Code objectives and then to ensure that mitigating measures are in place to manage those risks. All three codes share common key features with the PAF arrangements being proposed under the SEC:

- All operate a performance assurance framework overseen by a performance assurance board or committee;

- All consider a PAF to be a critical component to the smooth operation of the code and have chosen to enshrine the concept of a performance assurance framework and the role of the performance assurance board / committee within the main body of the code with supplementary detail set out in various sub-documents;
- All operate a 'risk-based' approach to performance assurance, using a defined methodology to identify and assess the main risks to compliance with the respective codes and their objectives;
- All apply 'performance assurance techniques' to target and mitigate the main identified risks; and
- All include a 'support capability' of varying scales to facilitate the operation of the performance assurance arrangements.

The main observation from those Working Group members that have been involved in the operation of performance assurance measures under other codes, was that performance measures under the SEC should be proportionate to the objectives and scope of the PAB's responsibilities and should not impose an undue burden on the Parties involved.

### *Potential benefits within the SEC*

As part of the development of the modification, SECAS examined an example risk to demonstrate how the Performance Assurance framework would work. This is detailed below.

| Risk 001 | Interruption to the SMETS2 Communications Hub Supply Chain prevents Parties from being able to install Smart Metering Systems | High Quality Guidance | Ongoing Risk Monitoring |
|---|---|---|---|

| Additional information | |
|---|---|
| Types of Party | Suppliers<br>DCC |
| Risk Category | Consumer<br>Regulatory<br>Financial |
| SEC Sections | Section F 'Smart Metering System Requirements'<br>Section H 'DCC Services'<br>Appendix I 'CH Installation and Maintenance Support Materials |
| Non-SEC Impacts | MHHS rollout<br>SMIP benefit realisation |

| Risk Scoring | |
|---|---|
| Likelihood Score | 3 |
| Impact Score | 4 |
| Risk Score | 12 |

| Rationale |
|---|
| External factors previously caused component shortages. Impacts likely to be experienced months after realisation. Would allow mitigations to reduce impact. |

| Risk Drivers | | Performance Assurance Technique |
|---|---|---|
| 001-1 | Inaccurate Supplier forecasting results in DCC's Providers being unable to meet demand | High Quality Guidance |
| 001-2 | Issues within DCC supply chain result in component shortages | Ongoing Risk Monitoring |
| 001-3 | Engineers failing to decommission CHs correctly when removing from site prevents their return to DCC for refurbishment | Self-Assessment |
| 001-4 | The DCC Returns process prevents Parties from returning the CHs for refurbishment | Ongoing Risk Monitoring |

Examining this risk identifies specific risk drivers that contribute to the overall risk. Each of these risk drivers could have one or more Performance Assurance Techniques applied against it on an annual basis, as determined by the PAB.

It may not be possible to assign monetary value against each risk as other Codes, such as the BSC, are able to do. However, whilst assessing this risk it was identified the impact to industry of this being realised would include:

- Reputational damage to the Smart Metering Implementation Programme (SMIP)
- Potential negative impacts on the benefits of MHHS if rollout is delayed
- Suppliers unable to achieve their rollout targets
- Negative consumer experience from failed appointments
- Increased Supplier costs due to compensation liable and engineer costs due to failed appointments

Mitigations in this area should be able to benefit all areas, but that of improving consumer inconvenience by not failing appointments in particular. Each failed appointment requires an Energy Supplier to pay £30 to the consumer for the inconvenience. Historically, Energy Suppliers have paid out millions of pounds for this. The costs of operating the PAF in year one is equal to the compensation of less than 6,500 failed appointments.

Additionally, the list of risk and issues that the PAB could consider, that have been previously detailed within this report have been assessed.

| Previously identified issues/risks for assessment | | | | |
|---|---|---|---|---|
| Noted risk by RFI respondent | Detail | Potential consumer or financial impact | Potential risk score | Potential Mitigation target |
| ***Failure to complete post-commissioning or SMKI obligations*** | Suppliers to update and apply the appropriate DNO certificate on installation of a Smart Meter. If the correct certificate is not installed, the DNO cannot execute any of its smart metering business processes for that Device. | 100-250k consumers | 3x5 = 15 | 25k-100k |
| ***DCC Outages*** | DCC performance regarding outages, either through maintenance or incidents, impacts their ability to communicate effectively with Devices. Large impact on consumers. | 100-250k consumers | 3x5 = 15 | 25k-100k |
| ***MHHS and increased DCC traffic*** | The DCC's performance will have a direct impact on whether Suppliers are able to meet their settlement performance targets under MHHS. This risk will increase as MHHS will require exponentially higher volumes of consumption data to be made available to Suppliers (and other | 100-250k consumers | 3x5 = 15 | 25k-100k |

| Previously identified issues/risks for assessment | | | | |
|---|---|---|---|---|
| | Parties) on a time critical basis. Volume of 'Other User' traffic is likely to increase going forwards and continue to periodically cause widespread capacity issues. | | | |
| ***Suppliers not responding to install code emails?*** | Suppliers obligated to respond to requests for install codes from a gaining Supplier within 10 working days.<br>Non-responses often requires a Device exchange to enable communications. | 100-250k consumers £5m pa in Device exchange, resource to investigate | 4x5=20 | 25k-100k |
| ***Suppliers not keeping firmware up to date*** | Suppliers are obligated to maintain a Device in line with the SMETS and by not upgrading to the latest firmware to resolve an issue identified with affected Devices, Suppliers are in breach of those obligations. | 500k consumers | 5x5=25 | 100k-250k |
| ***Suppliers not updating the SMI*** | DNOs not being able to communicate with Devices, resulting in being unable to obtain data to assist in benefit realisation. Other impact results in time and resource being spent investigating and raising incidents because the SMI is not truly reflective of the situation on site, for example Devices showing as de-commissioned but still generating and sending Alerts. | 100-250k consumers 500k money spent on resource to fix | 3x5 = 15 | 25k-100k |

# 8. Case for change

## Business case

A risk-based PAF would identify the areas of greatest risk to the achievement of the SEC Objectives and then make sure that appropriate performance assurance techniques were in place to manage those risks. In the solution proposed, this prioritisation process (the 'Risk Evaluation Methodology') would be developed and then managed by the PAB. This 'Risk Evaluation Methodology' would also be subject to periodic consultation with SEC Parties and endorsement by the Panel, providing for an additional level of scrutiny to give confidence to Parties that performance assurance activities are proportionate and not unduly onerous or intrusive.

The existing PAFs within the REC, BSC and UNC all deliver benefits to their Codes. The level of these benefits is dependent on the risks that are being mitigated. The details of these benefits is specific to each risk and therefore not a direct correlation with impact on the SEC, but a good indicator for potential improvements.

The intent of the SEC PAF is to ensure a proportionate risk-based approach. Therefore, the benefits will directly correlate with the risk that is trying to be resolved. Section 7, page 19 details a potential risk and the impacts of this. If you solely take the impact on Supplier compensation for failed installation appointments, you would only need to meet 6,500 appointments per year (that would otherwise have been missed) to generate a cost saving from the PAF.

The number of issues that Parties suggested could be covered would be hugely beneficial to have addressed on a risk basis to ensure the SEC Objectives continue to be delivered. Section 7, page 20 identifies how this might look and provides a positive business case.

The modification is limited to SECAS costs for implementation, although there will be running costs which are included within the SEC budget to cover the PAB and associated activities. The budgeted costs for the set up and first year of operation are £185,000. Parties have already been consulted on this figure.

## Views against the General SEC Objectives

### Proposer's views

The purpose of the PAF is to give confidence to all Parties that obligations are being fulfilled, and not detract from achieving the SEC Objectives. By managing the issues that arise there is potential that the modification could better facilitate many of the SEC Objectives, depending on what specific issue is being addressed.

SEC Objective (a)[3] would be better facilitated if most issues that had been identified by the RFI respondents could be addressed.

### Industry views

Respondents to the Refinement Consultation all agreed that an introduction of a PAF would better facilitate (a) and (g)[4]. One Party noted that competition between Parties would need to be managed when presenting data regarding performance to ensure that SEC Objective (d)[5] was not compromised.

## Views against the consumer areas

### Improved safety and reliability

This modification will have a positive impact on reliability by ensuring that potential issues are addressed on a risk basis. Therefore, the biggest issues to the SEC Objectives will be addressed first.

### Lower bills than would otherwise be the case

This modification will have no impact on consumer bills.

[3] Facilitate the efficient provision, installation, and operation, as well as interoperability, of Smart Metering Systems at Energy Consumers' premises within Great Britain

[4] Facilitate the efficient and transparent administration and implementation of this Code.

[5] Facilitate effective competition between persons engaged in, or in Commercial Activities connected with, the Supply of Energy;

### Reduced environmental damage

This modification will have no impact on reduced environmental damage.

### Improved quality of service

This modification will have a positive impact on quality of service as the PAF should reduce the impacts of any issues and risks to the SEC Objectives.

### Benefits for society as a whole

This modification will have no impact benefits for society as a whole.

## Final conclusions

The SSC were supportive of the concept of a PAF but do not believe that the Section G obligations or responsibilities should be within scope of the arrangements,

The Working Group support the introduction of the PAF and this view was reflected in the responses to the RFI and Refinement Consultations.

The CSC noted that this framework was needed. They noted that the function must include all SEC Parties, and not solely focus on DCC. They also stated that the SEC PAB must have enough authority to ensure behavioural change.

# Appendix 1: Progression timetable

| Timetable | |
|---|---|
| **Event/Action** | **Date** |
| Draft Proposal raised | 9 Jan 2023 |
| Presented to CSC for initial comment | 17 Jan 2023 |
| Request for information issued | 6 Mar – 6 Apr 2023 |
| RFI responses discussed with the Panel | 25 Apr 2023 |
| Working Group consulted on the issue | 3 May 2023 |
| CSC converts Draft Proposal to Modification Proposal | 16 May 2023 |
| Modification discussed with Working Group | 7 Jun 2023 |
| Refinement Consultation | 5 – 26 Jul 2023 |
| Modification discussed with Working Group | 4 Oct 2023 |
| Solution refined following Working Group feedback | Oct 2023 – Jan 2024 |
| Modification discussed with Working Group | 7 Feb 2024 |
| Modification Report approved by CSC | 21 May 2024 |
| Modification Report Consultation | 22 May – 12 Jun 2024 |
| Change Board Vote | 26 Jun 2024 |

## 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** |
| Alt HAN | Alternative Home Area Network |
| BSC | Balancing and Settlement Code |
| CoS | Change of Supplier |
| CSC | Change Sub-Committee |
| DCC | Data Communications Company |
| DESNZ | Department for Energy Security & Net Zero |
| DNO | Distribution Network Operator |
| MHHS | Market-wide Half Hourly Settlement |
| NCSC | National Cyber Security Centre |
| OPR | Operational Performance Regime |
| OPSG | Operations Group |
| PAB | Performance Assurance Board |
| PAF | Performance Assurance Framework |
| PAT | Performance Assurance Techniques |
| PMA | Policy Management Authority |
| PMR | Performance Measurement Report |
| PSC | Privacy Sub-Committee |
| REC | Retail Energy Code |
| RFI | request for information |
| SEC | Smart Energy Code |
| SECAS | Smart Energy Code Administrator and Secretariat |
| SMDA | Smart Metering Device Assurance |
| SMETS | Smart Metering Equipment Technical Specification |
| SMI | Smart Metering Inventory |
| SMKI | Smart Metering Key Infrastructure |
| SSC | Security Sub-Committee |
| TABASC | Technical Architecture and Business Architecture Sub-Committee |
| UNC | Uniform Network Code |