Smart Energy Code

SEC Smart Energy Code

Stage 01: Initial Modification Report

SECMP0041:

Amending the Change Board decision making rules for Modification Proposals

What stage is this document in the process?

- 01 Initial Assessment
- 02 Refinement Process
- 03 Modification Report
- 04 Decision

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Summary

The Smart Energy Code (SEC) does not allow SEC Parties to vote on SEC Modification Proposals. Nor does it bind SEC Change Board Members to vote in line with responses received from SEC Parties to Modification Report Consultations (MRCs).

This modification seeks to change SEC Section D 'Modification Process' to ensure:

- each SEC Party is entitled to vote on SEC variations; and
- SEC Change Board Memb4ers' votes are bound by the views/votes put forward by their Party Category.

Proposed Progression

P2

6 Months

This Modification Proposal is recommended to be:

- progressed as a Path 2: Authority Determined Modification Proposal; and
- progressed through the Refinement process for six months.

Potential Impacts

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- the SEC Panel
- the SEC Change Board
- SEC Parties
- the Smart Energy Code Administrator and Secretariat (SECAS)
- There are no impacts on Data Communications Company (DCC) Central Systems and/or Party interfacing systems

Smart Energy Code

SEC Smart Energy Code

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About this Document

This is an Initial Modification Report (IMR). This document contains details of the issue, solution, potential impacts and costs as well as the proposed progression for SECMP0041.

This document has two attachments:

- Attachment A contains the SECMP0041 Modification Proposal Form; and
- Attachment B contains the Standard Working Group Terms of Reference.

The Panel considered this IMR at its meeting on 11th August 2017. The Panel agreed that this Modification should progress into Refinement for further development by a Working Group.

1. Summary

What is the issue?

The SEC does not allow SEC Parties to vote on SEC Modification Proposals. Nor does it bind SEC Change Board Members to vote in line with responses received from SEC Parties to MRCs.

What is the Proposed Solution?

The Proposer seeks to introduce a mechanism for SEC Parties to vote on the outcome of SEC Modification Proposals. The Proposer also wants to ensure that SEC Change Board Members' votes are bound by the views (and votes, should SECMP0041 be approved and implemented) put forward by their Party Category.

Potential impacts

Party

Large Supplier Parties	X	Small Supplier Parties	X
Electricity Network Parties	X	Gas Network Parties	X
Other SEC Parties	X		

System

DCC Systems		Party interfacing systems	
Smart Metering Systems		Communication Hubs	
Other systems			

Potential implementation costs

The cost to implement SECMP0041 is expected to be limited to SEC time and effort to deliver the necessary document and process changes.

Proposed progression

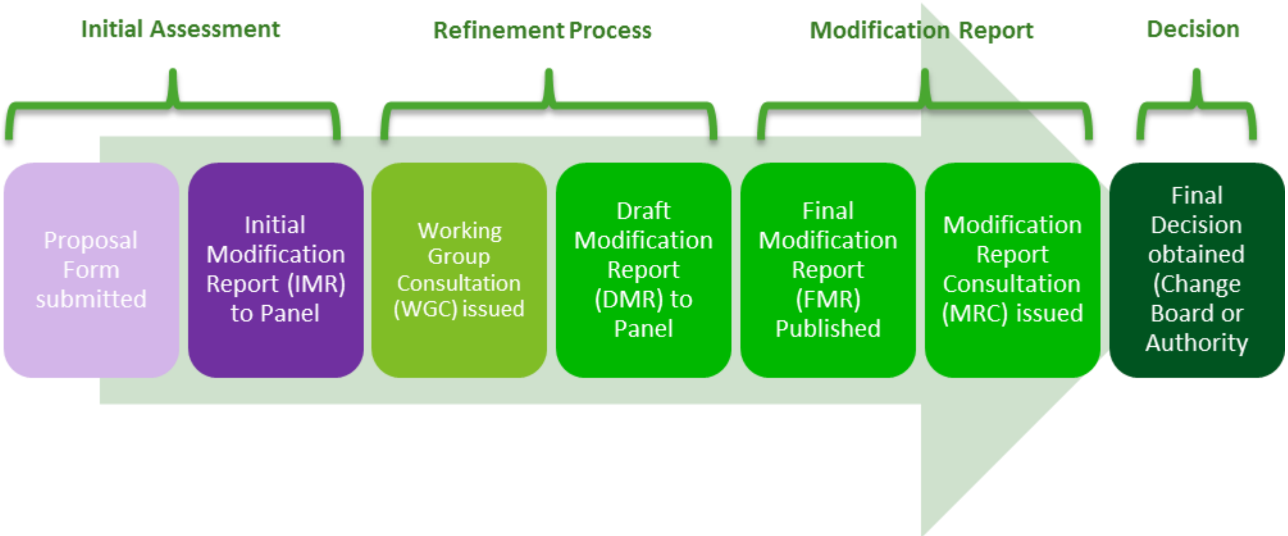
The Proposer and SECAS suggest that SECMP0041 is progressed as a Path 2: Authority Determined Modification Proposal. It is also recommended that SECMP0041 proceeds to the Refinement Process to be assessed and developed by a Working Group over six months.

2. What is the issue?

Background

Overview of the current SEC modification process

The SEC allows for SEC Parties (and certain other stakeholders) to propose changes to the SEC. These changes are raised and progressed as Modification Proposals and follow the process set out below.



Refinement Process

As part of the Refinement Process a Working Group (WG) is established. The WG is responsible for:

- considering the likely impacts of the Modification Proposal to Parties or other persons;
- developing and refining the content of the Modification Proposal;
- considering whether the DCC should, as part of the modification's implementation be required to undertake testing of the systems/services
- seeking industry views on the Modification Proposal; and
- considering whether the implementation of the modification would better facilitate the SEC Objectives.

As part of the WG's development and assessment of a Modification Proposal a **Working Group Consultation (WGC)** is issued to the industry. The purpose of this consultation is to obtain information from the industry on the likely impacts should a Modification be approved as well as views on the merits of the Modification.

At the end of the refinement processes SECAS prepares the Draft Modification Report (DMR) on behalf of the WG.

The DMR contains detailed information on the issue, solution, costs, impacts and benefits and drawbacks against the SEC Objectives. Once WG members confirm they are happy with the report it is presented to the Panel who ensures that due process has been followed and considers whether:

- the DMR should be sent back to the WG for further clarification/analysis; or
- to allow the DMR to proceed to the MRC.

Modification Report Consultation

Where the Panel determines that a DMR is to proceed to MRC, SECAS arranges a consultation seeking the views from all SEC Parties (other than the DCC) on whether the modification should be approved or rejected.

SEC Parties are able to respond to this consultation in the way of ‘no interest’, ‘abstain’, ‘approve’, or ‘reject’. Each MRC prompts the Party to provide rationale for its response with reference to the SEC Objectives. The consultation responses received from SEC Parties are reviewed, collated and published by SECAS.

These responses, as well as the Final Modification Report (FMR), are provided to the SEC Change Board to aid them in deciding (or recommending if the modification requires an Authority decision) whether a Modification Proposal should be approved or rejected.

Change Board

The Change Board comprises of members representing all Party categories as follows. The current membership comprises of the following:

- 12x Large Suppliers;
- 3x Small Supplier representatives;
- 3x Electricity and Gas Network representatives;
- 3x Other SEC Party representatives; and
- 1x Citizens Advice representative.

The function of the Change Board is to:

- consider each of the responses received to the MRC; and
- decide whether to approve or reject the Modification Proposal (if Path 3) provide a recommendation the Authority (if Path1 or Path 2).

The Change Board is guided by the responses received to the MRC. Change Board Members are not required under the SEC to vote in line with the responses received in their relevant Party Category.

Under SEC Section D18.14 - 17 each Change Board member has one vote. However, for the collective vote of the relevant Party Category to be considered in favour, the majority must vote in favour.

Path 3: Self Determined Modification Proposals approved by the Change Board are subject to a 10 Working Day (WD) referral window to allow SEC Parties to appeal the decision made by the Change Board. If no appeals are received the Change Board decision stands and the Modification Proposal is implemented on its approve implementation date.

For Path 1: Authority Led and Path 2: Authority Determined Modification Proposals, the Change Board can only provide a recommendation to the Authority as to whether a Modification Proposal should be approved or rejected. After the Change Board vote has been made, the FMR, MRC responses and the Change Board recommendation(s) are submitted to the Authority (currently the Department for Business, Energy & Industrial Strategy (BEIS)) for final determination. The decision made by the Authority is final and binding.

What is the issue?

The Proposer suggests that within the SEC governance framework, there is a disconnect between the views of SEC Parties on Modification Proposals (and the potential new obligations and costs imposed) and the votes of Change Board members. The current arrangements only allow SEC Parties to express a view on whether a Modification Proposal should be approved or rejected. Further, SEC Change Board Members are not bound by their SEC Party constituents' responses and can therefore vote in a different way to the views expressed in the MRC.

The Proposer adds that the absence of voting rights for SEC Parties on SEC Modification Proposals is not consistent with other industry Codes such as Master Registration Agreement (MRA) and Distribution Connection Use of System Agreement (DCUSA) whereby individual parties' have voting rights on modifications to these agreements.

3. Solution

Proposed solution

SECMP0041 was raised by Electricity North West Limited on 2nd August 2017.

This Modification seeks to introduce a mechanism for SEC Parties to vote on the outcome of Modification Proposals, which will further align the SEC with other industry Codes. The mechanism for SEC Party voting, and the governance framework surrounding it, will be developed and assessed by the WG as part of the Refinement Process.

SECMP0041 also looks to obligate SEC Change Board Members to vote in line with their relevant SEC Party Category. As part of the WG's assessment and development of this modification, consideration will need to be given to the new Party voting mechanism and how it will impact the purpose (and perhaps the future) of the Change Board.

Further information on the areas for WG consideration are set out in Section 6.

Views against the General SEC Objectives

The Proposer believes that this Modification Proposal better facilitates **General SEC Objective (g)**[1] by:

- bettering the rules and processes for inclusive, accessible and effective consultation; and
- allows voting on SEC Modification Proposals to enable all SEC Parties the same rights as a selective few (albeit appointed) SEC Change Board members.

For the avoidance of doubt, the Proposer believes that this modification is neutral against Objectives (a), (b), (c), (d), (e), (f) and (h).

Please note that detailed descriptions of all the General SEC Objectives can be found in SEC Section C 1.1.

Views against CACoP

In August 2015, Office for Electricity and Gas Markets (Ofgem) published the Code Administration Code of Practice (CACoP) Version 4, which states that the Code Administrators and Code Modification processes will promote inclusive, accessible and effective consultation and contain rules and processes that are sufficiently flexible to allow for efficient Modification management.

[1] the seventh General SEC Objective is to facilitate efficient and transparent administration and implementation of this Code

The Proposer notes that this Modification Proposal is in keeping with the spirit of Ofgem's statement of intention for the Code Modification processes and rules.

4. Potential Impacts

The following section sets out the initial assessment of likely impacts should SECMP0041 be approved and implemented. Additional impacts may be identified by the WG as part of the Refinement Process.

SEC Party impacts

Large Supplier Parties	X	Small Supplier Parties	X
Electricity Network Parties	X	Gas Network Parties	X
Other SEC Parties	X		

All Parties are expected to be impacted by SECMP0041 as the introduction of SEC Party voting will allow all Parties the opportunity to formally feed into the final decisions on SEC Modification Proposals.

This modification is proposing to change the Change Board voting system, and if implemented, it is expected to have a positive impact on all future modifications.

Central System impacts

DCC Systems		Party interfacing systems	
Smart Metering Systems		Communication Hubs	
Other systems			

There are no system impacts anticipated.

Testing

There are no testing impacts anticipated.

SECAS impacts

The SECAS Modifications Team may be directly impacted by the implementation of this Modification.

If approved, SECMP0041 will make changes to how decisions are made on Modification Proposals by allowing Parties to vote on whether a change should be made and by obligating Change Board members to vote in line with their Party Category. SECAS therefore believe that changes will be needed to internal processes, SEC modification documentation and internal guidance documents.

Change Board Impacts

As SECMP0041 looks at changing how decisions are made on modifications, specifically around Party voting and how the Change Board are allowed to vote, we are expecting there to be potential significant impacts to the governance framework surrounding the Change Board and its functions.

The full impact of this modification on the Change Board will be determined by the WG as part of the Refinement Process. Further information on the areas for WG consideration can be found in Section 6.

SEC and Subsidiary Document impacts

This modification is expected to impact:

- SEC Section D;
- Guidance Notes related to the Modification Processes; and
- Change Board Terms of Reference (ToR)

Further SEC and Subsidiary Document impacts may be identified as the modification is developed and assessed by the WG.

Impacts on other industry codes

There are no other code impacts anticipated.

Greenhouse Gas Emission impacts

There are no Greenhouse Gas Emission impacts anticipated.

5. Potential Costs

Potential implementation costs

The cost to implement SECMP0041 is expected to be limited to the SEC Administration time and effort for:

- Making the necessary amendments to the SEC;
- Releasing a new version of the SEC to SEC Parties; and
- Publication of it on the SEC website.

However, further effort by SECAS is expected to implement changes to internal processes, guidance documents and modification documentation.

The full cost to implement this Modification Proposal will be determined as part of the WG's assessment and development.

6. Proposed Progression

Modification Path

The Proposer and SECAS recommend that SECMP0041 be progressed as a Path 2: Authority Determined Modification Proposal, as the associated changes are likely to have a material impact on the arrangements set out in Section D 'Modification Processes' of the SEC.

The Panel agreed that this Modification should be progressed as a Path 2: Authority Determined Modification Proposal.

Proposed progression

The Panel agreed the following progression timetable.

Activity	Date
Modification Proposal raised	30th July 2017
IMR presented to Panel	11th August 2017
Refinement	August – 2017 – February 2018
Panel reviews Modification Report	March 2018
Modification Report Consultation	April 2018
Change Board vote	May 2018
Modification Decision by the Authority	July 2018

Refinement length

SECAS recommends that this modification is submitted for a six-month Refinement for assessment and development by a WG. This six-month timeframe will allow for:

- a full WG assessment to take place (over approx. 4 – 5 WG meetings);
- one 15 WD industry consultation to be issued and reviewed;

For a more detailed progression plan please see Appendix 1.

Working Group

Membership

SECAS recommends that the SECMP0041 WG be made up of individuals with expertise in:

- Code Governance arrangements

as well as any other interested parties.

As this Modification Proposal seeks to change how the Change Board votes on Modification Proposals and introduce a SEC Party voting Mechanism, SECAS also recommends that the WG have at least one representative from all Party categories.

Terms of Reference

In order to assess the Modification Proposal fully, SECAS are recommending that the WG consider the following specific questions in addition to the standard WG Terms of Reference (ToR) questions provided in Attachment B.

Q1: What changes are required to the SEC Modification governance arrangements?

Considering the questions set out below, the WG should determine the impacts this modification will have on the governance arrangements set out in Section D.

Q2: What is the future of the Change Board?

2.1 - The WG should consider the future of the Change Board, including whether there is still a need for the Change Board or whether its purpose needs changing. This is because, if all SEC Parties are able to vote on whether a change should be made and the Change Board are obligated to vote in line with the industry, why is there a need for the Change Board.

2.2 - Should the Change Board remain but with a revised purpose the WG will need to consider what changes may be needed to the Change Board Terms of Reference (ToR).

Q3: What is the most appropriate mechanism for SEC Party voting?

The WG should consider the most appropriate mechanism for SEC Party voting. This should include but is not limited to the following:

- 3.1 - Determine what voting system should be adopted, for example:
  - should it be a class voting system where the majority view of each Party category is taken forward and the overall majority across all categories determines the industry decision; or
  - should it be a system where each vote counts individually regardless of the Party category and the overall majority determines the industry vote; or
  - should it be a weighted voting system (like that of the MRA) where by a Party's vote is weighted based on the size of their portfolio.
- 3.2 - Determine whether a minimum number of votes is needed to ensure a valid industry vote is obtained and, if so, what that minimum number should be (and whether it's the same across every category). Further, the WG should determine whether quoracy needs to be set.
- 3.3 - Determine whether there is a referral system needed (for example, if there is not a majority industry vote or we have not received the minimum number of votes required (if one is set) we may need to refer the vote to the Change Board or issue an additional request for votes.

Q4: Is a phased approach appropriate for this Modification Proposal?

The Proposer has requested that the WG consider whether a phased implementation is appropriate for this Modification Proposal. For example, initially obligating Change Board Members to vote in line with their Party category. With the SEC Party voting mechanism coming in at a later date determined by the WG as this will allow the 'behind the scenes' implementation of the mechanism to be carried out over a longer timescale.

Q4: What impact will this Modification will have on the rest of the Modification Process?

The WG will need to consider the wider impacts this Modification Proposal may have on the rest of the modification process, for example:

- 4.1 - determine whether the MRC is still needed or will the MRC stage be replaced to allow it to become the point in the process where the industry votes

Q5: Is the solution future proof?

The Proposer has requested that, in developing and assessing the solution, the WG consider the level of industry change on the horizon that could impact the SEC. For example, Ofgem's Central Registration Service (CRS).

Q6: Are there any interactions between this modification and SECMP0034?

The Proposer has requested that the WG consider potential interactions between SECMP0041 and SECMP0034.

SECMP0034 seeks to specify in the SEC the processes surrounding DCC Preliminary Assessments (PAs) and Impact Assessments (IAs). Specifically, it looks at how timescales are set for the delivery of these DCC Assessments.

Although it is unlikely that there will be an interaction between these two modifications it is important that the each takes the other into account given they both seek to make changes to SEC Section D ‘Modification Processes’.

7. Implementation

Recommended implementation date

The Proposer has requested an initial implementation date of **March 2018** with a fall-back date of the next available release following approval.

SECAS notes that a lead time of up to three months may be required in order to allow the SECAS to make the necessary changes to internal processes, modification documentation and internal guidance. However, any lead time required by SECAS will be determined as part of the Refinement Processes.

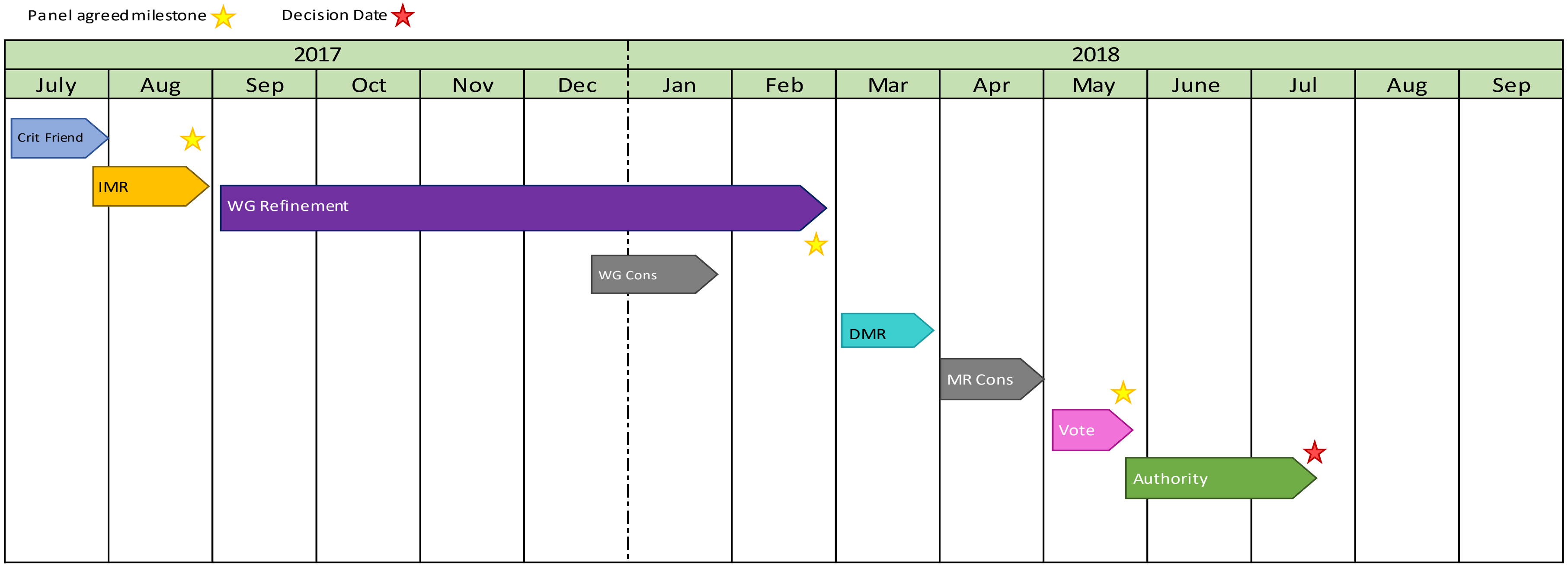
8. Recommendations

The Panel:

- **AGREED** that this modification should be submitted into the Refinement Process to be assessed by a WG;
- **NOTED** the standard WG ToR providing in Attachment B;
- **AGREED** the questions for consideration by the Working Group in Section 6, in addition to those set out in standard WG ToR;
- **AGREED** the progression timetable set out in Section 4; and
- **AGREED** that SECMP0041 should be progressed as a Path 2 Modification Proposal.

Appendix 1: Detailed Progression Plan

Please note that the progression plan shown below is subject to change.



Appendix 2: Glossary

The table below provides definitions of the terms used in this document.

Acronym	Defined Term
BEIS	Department for Business, Energy and Industrial Strategy
CACoP	Code Administration Code of Practice
DCC	Data Communications Company
DCUSA	Distribution Connection Use of System Agreement
DMR	Draft Modification Report
IA	Impact Assessment
IMR	Initial Modification Report
MRA	Master Registration Agreement
MRC	Modification Report Consultation
Ofgem	The Office of Gas and Electricity Markets
PA	Preliminary Assessment
SEC	Smart Energy Code
SECAS	Smart Energy Code Administrator and Secretariat
SECAS	Smart Energy Code Administrator and Secretariat
ToR	Terms of Reference
WG	Working Group
WGC	Working Group Consultation