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DP111 'SMDA Budget Amendments'

Joint SEC/SMDA Consultation

Responding to this consultation

This is a joint Smart Energy Code (SEC) and Smart Meter Device Assurance (SMDA) consultation relating to the issues raised under SEC Draft Proposal [DP111 'SMDA Budget Amendments'](#).

We invite you to respond to this consultation and welcome your responses to the questions set out in this form. To help us better understand your views, please provide rationale to support your responses.

To help us process your response efficiently, please email your completed response form to either sec.change@gemserv.com or smdaso@gemserv.com with the subject line 'DP111 SEC/SMDA Consultation response'.

If you have any questions or you wish to respond verbally, please contact:

- **SEC:** Harry Jones, DP111 Lead Analyst, on 020 7081 3345 or email sec.change@gemserv.com.
- **SMDA:** Lorna Clarke, SMDA Scheme Operator, on 020 7090 1066 or email smdaso@gemserv.com.

Deadline for responses

This consultation will close at **17:00** on **Friday 1 May 2020**.

We may not be able to take late responses into account.



Background to this consultation

Introduction

The SMDA Scheme was developed and introduced by the industry to provide an assurance and confidence mechanism that smart metering Devices would continue to operate effectively following a Change of Supplier (CoS). It was established in recognition that Energy Suppliers would be unable to test a wide combination of smart Devices themselves, and that a central solution would be the most effective and efficient way of giving Suppliers confidence that all smart metering devices are indeed interoperable and interchangeable on the Home Area Network (HAN).

This consultation is designed to review the funding mechanism of the SMDA Scheme, with the aim of establishing a fair and sustainable model to enable the Scheme to continue its vital work for the smart meter industry.

What is the issue?

Following the National Audit Office's (NAO's) report 'Rolling Out Smart Meters' dated 23 November 2018, BEIS commissioned an independent review into device interoperability on change. The report, published in October 2019, recognised that the industry is reliant on the SMDA Scheme to provide assurance around interoperability on change. One of the recommendations of the report is that that *"Energy suppliers and the SMDA Board should review the SMDA funding model to ensure SMDA can provide long-term test assurance."*

As outlined in the BEIS Report, *"Based on the feedback from energy suppliers there is only a low level of test assurance for equipment they inherit on CoS where the device models may be different to those they are installing. Large energy suppliers all pointed to SMDA as providing them with necessary interoperability on change test assurance"*. Small Energy Suppliers have also confirmed reliance on the outputs from SMDA and its membership.

Funding of the Scheme is under pressure due to several issues, including delays within the overall programme, issues within the Data Communications Company (DCC) ecosystem and the low volume of Devices being submitted into the Scheme. In addition, the SMDA Scheme is a 'not for profit' scheme, currently relying on a small sub-set of the overall number of Energy Suppliers, Manufacturers and Meter Asset Providers (MAPs) contributing to its funding. Whilst its existence and objectives are recognised by all regulatory bodies as a critical component to the delivery of Smart Metering in Great Britain (GB) and included in areas such as BEIS's Joint Industry Plan (JIP), the Scheme is not a mandated requirement. While the Scheme clearly benefits the whole GB market, the current funding model does not represent the whole market, leaving current contributions significantly reduced. As such, a more viable model that is funded by all relevant beneficiaries is required to deliver fairness across the industry, and to ensure the longevity and ongoing operation of the Scheme.

This consultation is aimed at seeking confirmation from SEC Parties that the SMDA Scheme fulfils a key role in providing test assurance and explores alternative funding models aimed at securing the long-term viability of the service.

Potential funding model options

To date, the SMDA Scheme has been funded by its Energy Supplier, MAP and Manufacturer members, either through set up fees, subscription fees and/or testing fees. As a non-mandated, voluntary scheme, the number of Devices submitted into the Scheme has been lower than expected, and therefore the funding received to date have not been enough to cover the costs of running the Scheme.

Several funding options have been considered by the SMDA Board and as part of the BEIS Review. Table 1 below outlines several different options that have been considered, including the pros and cons of each option:

Funding Option	Pros	Cons
Increase costs for existing SMDA members	<ul style="list-style-type: none"> Could result in more income, assuming the same number of devices are submitted as would have been before the increase 	<ul style="list-style-type: none"> Likely to lead to fewer device submissions and therefore an overall drop in income Doesn't address the concern that non-SMDA members are benefitting from the outputs of the Scheme without contributing to the Scheme's upkeep SMDA membership is voluntary and increased costs could lead to a reduction in members and then a greater increase in costs for remaining members
Redesign the current funding model, for example to a price-per-meter installed model	<ul style="list-style-type: none"> Depending on the model agreed, it could result in more income and a fairer split of costs based on market share 	<ul style="list-style-type: none"> Various funding models were proposed when the current model was agreed. The current model was the only option considered viable. For example, the price-per-meter installed model was rejected as it was considered to infringe on individual competitive contracts. There is no evidence to suggest a different outcome would be reached now Doesn't address the concern that non-SMDA members are benefitting from the outputs of the Scheme without contributing to the Scheme's upkeep
The SMDA Scheme is funded through the SEC	<ul style="list-style-type: none"> Ensures a fair split of funding across all industry beneficiaries Gives the SEC the option to change scheme provider, for example if performance was an issue 	<ul style="list-style-type: none"> SEC Panel is unable to have input into the governance of the SMDA Scheme, nor have any control over the running costs. The proposed mitigation would be to appoint a Panel representative to the SMDA Board, which would also provide independent scrutiny of the SMDA Scheme.
DCC collects the charges as pass-through, similar to Alt HAN funding	<ul style="list-style-type: none"> Ensures a fair split of funding across all industry beneficiaries 	<ul style="list-style-type: none"> Would mean the governance of the SMDA Scheme would sit completely outside of the SEC Panel, but would still require approval from SEC Panel for any proposed changes

SMDA Co becomes a contracted service provider to DCC	<ul style="list-style-type: none"> Ensures a fair split of funding across all industry beneficiaries Costs could be scrutinised by DCC DCC could choose to use SMDA to test Comms Hubs 	<ul style="list-style-type: none"> May lose some level of independence, depending on contractual requirements agreed with DCC Doesn't guarantee that manufacturers would have to use the SMDA Scheme
The SMDA Scheme becomes subsumed into, and operated by, DCC	<ul style="list-style-type: none"> Costs could be shared across all industry participants, through DCC charging mechanism Could continue to use existing SMDA processes so reduced risk of increased set up costs 	<ul style="list-style-type: none"> Would lose benefit of independence from testing inputs and outputs DCC is currently not set up to undertake testing directly, rather it facilitates manufacturers to be able to undertake their own testing, therefore unclear who would be performing interchangeability testing under this option DCC is not mandated to test meters Could cause issues with cost justification model for DCC (Ofgem)
The SMDA Scheme is replaced with a new assurance mechanism provided through the DCC	<ul style="list-style-type: none"> Costs could be shared across all industry participants, through DCC charging mechanism 	<ul style="list-style-type: none"> Would lose benefit of independence from testing inputs and outputs Could result in additional costs to industry if new processes need to be established DCC is currently not set up to undertake testing directly, rather it facilitates manufacturers to be able to undertake their own testing, therefore unclear who would be performing interchangeability testing under this option SMDA issues independent assurance to manufacturers which can be used by parties in the events of disputes. Unclear whether DCC could do the same DCC not mandated to test meters Could lose SMDA Governance structure Could cause issues with cost justification model for DCC (Ofgem)
The SMDA Scheme is mandated via BEIS	<ul style="list-style-type: none"> Would require all industry participants to use the Scheme, thereby increasing device submissions and revenue Ensures a fair split of funding across all industry beneficiaries 	<ul style="list-style-type: none"> Following discussions with BEIS, they have confirmed that this option is not viable as the SMDA Scheme is an independent, industry-owned scheme

	<ul style="list-style-type: none"> • Similar model already working successfully in the form of the CPA 	
No change to current funding model		<ul style="list-style-type: none"> • Significant risk that the SMDA Scheme becomes unviable • JIP, NAO report and BEIS independent report recommendations will not be met • Key element of BEIS assurance framework would be missing

Table 1 – Funding Options

Of all the options considered, securing the funding of the SMDA Scheme via a mechanism to which all Energy Suppliers (as the key beneficiaries of SMDA) contribute appears to be the most viable and appropriate option. As the SEC is a multi-Party agreement which defines the rights and obligations of Energy Suppliers, Network Operators and other relevant parties involved in the end-to-end management of smart metering in GB, funding the costs of the SMDA Scheme through the SEC seems to be the most logical solution. The SEC includes the ability to set a fair and equitable charging methodology which is used as a vehicle to ensure that the required level of funding is provided by those who rely on the prescribed services. SEC Section K 'Charging Methodology' provides the charging methodology for similar initiatives including the Alternative Home Area Network (Alt HAN) arrangements (Section K5A), and SEC Section J 'Charges' provides for payment of charges.

Engagement between SMDA and SEC to date

In January 2020, SEC Draft Proposal DP111 was raised highlighting the problem the SMDA Scheme is facing and requesting a change to the SEC to allow the Scheme to be funded through this mechanism. In March 2020, members of the SMDA Board attended the SEC Panel meeting, outlining the rationale for the modification. The SEC Panel recognised the issue and the value that the SMDA Scheme brings to the industry. As such, it was agreed that a joint consultation should be developed to seek feedback from SMDA Members and SEC Parties on whether and how this proposed funding model could work in practice.

This consultation is therefore designed to give both SEC Parties and SMDA Members an opportunity to shape the design of the proposed funding model, to ensure that the agreed approach is sustainable and fair across all industry participants.

Proposed approach

As part of the SEC Modification Process, a problem statement has been drafted, and, once finalised, will move through to the solution design stage of the process. This consultation is designed to provide answers to several outstanding questions and help to shape the solution proposed.

This consultation is formed of two parts. The first section focuses on the broader question of whether the SMDA Scheme is valued by the industry and if so, which funding model would be most appropriate to ensure its longevity.

The second section hones in on one of the proposed options, that of the SMDA Scheme being funded through the SEC, as at this stage this is viewed as the most suitable solution. For this option, the



preferred approach is for the SMDA Scheme's fixed costs to be covered by the SEC budget, on-charged to Users by the DCC. Variable charges would continue to be funded by Manufacturers submitting Devices to the SMDA Scheme for testing. As Device Manufacturers typically are not SEC Parties, this would ensure the cost of the Scheme continues to be split across all SMDA member groups. Other areas under consideration include whether all SEC Parties should be required to pay, and the governance processes that should exist should this model be adopted.



Respondent details

Respondent details	
Name	Click and insert your name
Organisation	Click and insert the name of the organisation you are responding for
Phone number	Click and insert a phone number we can call you on with any queries

Confidential information	
Does your response contain any confidential information?	
Response	Click and select your response
<p>If 'yes', please clearly mark all confidential information (e.g. in red font).</p> <p>Any confidential responses may be shared with the SEC Panel, SEC Change Board and the Authority under a Red classification in accordance with the SEC Panel Information Policy, and with the SMDA Board.</p>	

Consultation questions – part 1

Question 1	
What type of industry participant are you?	
Response	Click and select your response

Question 2	
Are you an SMDA Member, a SEC Party, or both?	
Response	Click and select your response

Following the NAO's report into the smart meter rollout, BEIS undertook some analysis into the levels of testing being conducted by industry participants. Both the preliminary analysis and the independent review that BEIS commissioned outlined that *"energy suppliers and other relevant parts of industry support are reliant on the SMDA Scheme to provide assurance over interoperability on change."*

Based on this feedback, we are keen to confirm this position with SEC Parties and therefore confirm the importance of the SMDA Scheme to industry.

Question 3	
As an independent test assurance scheme, how important is the SMDA Scheme to you in validating interoperability and interchangeability of smart meter devices?	
<i>Please provide your rationale.</i>	
Response	Click and select your response
Rationale	Click and insert the rationale for your response

Question 4	
Are there any other methods that you currently use to validate interoperability and interchangeability of smart meter devices outside of the SMDA Scheme?	
<i>If so, please outline them here, explaining your rationale for using this approach, whether or not it complements the assurance provided by the SMDA Scheme and if not, why your chosen approach is preferred.</i>	
Response	Click and insert your response and any supporting rationale

As outlined in the background to this consultation, the current funding approach for the SMDA Scheme is not sustainable and therefore a new model is required.

Question 5	
<p>To what extent do you agree that the funding mechanism for the SMDA Scheme needs to change?</p> <p><i>Please provide your rationale.</i></p>	
Response	Click and select your response
Rationale	Click and insert the rationale for your response

Question 6		
<p>Having considered the different funding options outlined in Table 1, please rank them in accordance to your preference.</p> <p><i>Use number 1 for your most preferred option and number 9 for your least preferred option. Please provide the rationale for your rankings.</i></p>		
Response	Increase costs for existing SMDA members	Click and select your response
	Redesign the current funding model	Click and select your response
	The SMDA Scheme is funded through the SEC	Click and select your response
	DCC collects the charges as pass-through, similar to Alt HAN funding	Click and select your response
	SMDA Co becomes a contracted service provider to DCC	Click and select your response
	The SMDA Scheme becomes subsumed into, and operated by, DCC	Click and select your response
	The SMDA Scheme is replaced with a new assurance mechanism provided through the DCC	Click and select your response
	The SMDA Scheme is mandated via BEIS	Click and select your response
	No change to current funding model	Click and select your response
Rationale	Click and insert the rationale for your response	

Question 7	
<p>Are there any other funding options that you think should be considered?</p> <p><i>If so, please outline them here, explaining your rationale for proposing this option and why it is more beneficial than the other options proposed.</i></p>	
Response	Click and insert your response and any supporting rationale

Consultation questions – part 2

Reviews into different funding options undertaken to date by the SMDA Co Board has led to the conclusion that funding under the SEC is the most preferable and fair option for the Scheme and industry participants. While the results from this consultation will be used to validate this analysis, and may ultimately lead to a different conclusion, the SMDA Co Board and SEC Panel are keen to explore this option further as part of this consultation to understand how this could best be taken forward, should it emerge as the preferred option. The following questions therefore focus on gathering further feedback on how the SEC funding option could be taken forward.

SMDA costs are split into two categories: fixed and variable.

The **fixed element** covers the activities that are required to be undertaken, regardless of whether a Device is submitted into the Test Lab for testing. These include:

- the Scheme Operator's cost to engage with members, administer Management Panel and Board meetings, and maintain the SMDA website and the Device Assurance Register;
- the fixed costs of the SMDA Lab, including connections to the DCC Systems, purchasing of Communications Hubs, and rent for the lab space; and
- maintenance and updates to the SMDA testing artefacts to ensure the Scheme's testing baseline aligns with the latest technical specifications and requirements defined by the government in the timeframes set out in the Smart Metering Programme's JIP.

Variable costs cover the cost of performing tests on submitted Devices.

The current proposed approach is for fixed costs to be covered under the SEC and for variable costs to be paid for by Manufacturers submitting their Devices into the SMDA Scheme for testing. The fixed costs of the SMDA Scheme vary each year depending on the extent to which the Scheme's testing artefacts need to be updated to align with industry changes. The budget is agreed each year by the SMDA Co Board, and typically the fixed costs equate to around £500,000 - £700,000 a year.

Question 8

To what extent do you agree that SMDA *fixed* costs should be covered under the SEC?

Please provide your rationale.

Response

Click and select your response

Rationale

Click and insert the rationale for your response

Question 9

To what extent do you agree that SMDA *variable* costs should NOT be covered under the SEC?

Please provide your rationale.

Response

Click and select your response

Rationale

Click and insert the rationale for your response



SEC costs are paid for by all SEC Parties, through the DCC. It is recognised that some Parties have a more direct link with the SMDA Scheme than others. If it is agreed that SMDA costs are to be paid for by SEC Parties, it should be done in a fair and proportionate way.

Question 10		
Which SEC Parties do you think should pay for the SMDA Scheme?		
<i>Please respond yes/no for each Party Category. Please provide your rationale.</i>		
Response	Suppliers	Click and select your response
	Network Parties	Click and select your response
	Other SEC Parties	Click and select your response
Rationale	Click and insert the rationale for your response	

SMDA Co is its own limited company, with its own governance structure, including a Board and a Management Panel. The Board is responsible for the strategic and financial decisions of the Company, and comprises of representatives from Energy Suppliers, MAPs and Device Manufacturers. The Management Panel is responsible for the technical development of the Scheme and comprises representatives from Energy Suppliers, MAPs, Device Manufacturers and District Network Operators. The DCC also attends Management Panel meetings as a guest.

If the funding model were to change to sit under the SEC, with SEC Parties paying for the Scheme, it could be argued that the SEC Panel, on behalf of Parties, should have greater visibility and input into the SMDA governance process. There are several potential options, including expanding the SMDA Board members to include a SEC Representative, through to moving the SMDA Scheme to fully sit under the SEC.

The preferred approach would be to include a SEC Panel representative as an SMDA Board member, thereby giving the SEC visibility and input into the decisions being taken by SMDA Co, while retaining the current governance structure which has served the SMDA Scheme well since its inception.

Question 11	
To what extent do you agree that, if the SMDA Scheme is to be funded by SEC Parties, that the SEC Panel should be involved in the SMDA governance process?	
<i>Please provide your rationale.</i>	
Response	Click and select your response
Rationale	Click and insert the rationale for your response

Question 12	
To what extent do you agree with the with the proposed governance approach, outlined above, of having a SEC Panel representative on the SMDA Board?	
<i>Please provide your rationale.</i>	
Response	Click and select your response
Rationale	Click and insert the rationale for your response

Question 13

If you disagreed with the proposed approach in Question 11, please outline your preferred governance approach.

Response

Click and insert your response and any supporting rationale

Question 14

Please provide any further comments you may have.

Comments

Click and insert any further comments