



Department for
Business, Energy
& Industrial Strategy

Department for Business, Energy &
Industrial Strategy

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London SW1H 0ET
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The Authority (Ofgem), the SEC Panel, SEC Parties and
other interested parties

9 July 2020

Dear Colleague,

**SMART METERING IMPLEMENTATION PROGRAMME: CONSULTATION ON A DCC
BASELINE MARGIN PROJECT PERFORMANCE ADJUSTMENT SCHEME FOR ECoS**

Annexed to this letter is a BEIS consultation to seek stakeholders' views on a proposed
Baseline Margin Project Performance Adjustment (BMPPA) Scheme for the DCC's
programme of work to implement the Enduring Change of Supplier (ECoS) arrangements.

The ECoS arrangements are changes to the process that DCC follows when a consumer
changes energy supplier and the new energy supplier seeks to take over control of the
Smart Meter and other Devices in the consumer premises. They replace the existing
Transitional Change of Supplier processes.

I welcome views on our proposals to incentivise DCC to successfully implement the ECoS
implementation plan, and I look forward to your response to this consultation which closes
on 14 August 2020. The consultation document giving details of the proposals, and how to
respond, is at Annex 1. A draft of the proposed BMPPA Scheme itself is at Annex 2.

Yours faithfully,

Duncan Stone

Deputy Director & Head of Delivery
Smart Metering Implementation Programme

Annex1 Consultation document

Annex 2 Draft BMPPA Scheme for ECoS Activities

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Annex 1: Consultation document

1. General Information

Why we are consulting

This consultation seeks stakeholders' views on the proposed introduction of a Baseline Margin Project Performance Adjustment (BMPPA) Scheme for DCC's programme of work to introduce the Enduring Change of Supplier (ECoS) Arrangements.

Timing

Responses to this consultation should be submitted by 5pm on 14 August 2020.

Responding to the consultation

Your response will be most useful if it is framed in direct response to the questions posed, by reference to our numbering, though further comments and evidence are also welcome.

Responses should be submitted to smartmetering@beis.gov.uk

When responding, please state whether you are responding as an individual or representing the views of an organisation.

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential please tell us but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our [privacy policy](#).

We will summarise all responses and publish this summary on the SEC website. The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Territorial extent

This consultation applies to the gas and electricity markets in Great Britain. Responsibility for energy markets in Northern Ireland lies with the Northern Ireland Executive's Department for the Economy.

Quality assurance

This consultation has been carried out in accordance with the government's [consultation principles](#).

If you have any complaints about the way this consultation has been conducted, please email: beis.bru@beis.gov.uk.

2. Background

1. When a gas or electricity consumer with a Smart Meter switches energy supplier, the security information held on the Smart Meter needs to be changed so that it relates to the new energy supplier and not the old one. The processes that are currently in place for managing the change of security information held on Smart Meters are referred to as the “transitional change of supplier” processes and they are administered by part of the DCC Systems known as the “change of supplier party” or “CoS Party”.
2. As their name suggests, the existing transitional change of supplier processes were intended to be temporary. Changes to replace the existing transitional change of supplier arrangements to the enduring solution are already underway, according to the DCC plan that was approved by the Secretary of State on 30 March 2020 under DCC Licence Condition 13A. The plan is available on the DCC Website¹.
3. Under Part A of Appendix 2 to Condition 36 of the DCC licence, the DCC is permitted to apply for additional Baseline Margin (a “Relevant Adjustment”) under certain circumstances where there has been a variation to the nature of the Mandatory Business of the licensee. It is anticipated that the DCC will apply for a Relevant Adjustment in relation to the internal costs it additionally incurs in delivering the ECoS Arrangements.
4. By default, any such additional Baseline Margin would be put at risk under the Operational Performance Regime (OPR) administered by Ofgem and which is itself currently under review². However, the DCC licence also provides for margin associated with projects to instead be put at risk under a BMPPA Scheme made by the Secretary of State under Appendix 1 of condition 38.
5. The Secretary of State proposes to make a BMPPA Scheme in relation to the ECoS Arrangements so that any Baseline Margin associated with DCC’s ECoS activities is specifically put at risk against the success of DCC’s delivery of its ECoS plan. We do not know at this stage exactly how much Baseline Margin would be associated with the scheme as DCC’s internal costs are not yet known and any Relevant Adjustment is subject to the determination of the Authority. Provisional estimates however are that the amount of Baseline Margin could be in the region of £750k - £1m.

Proposed Scheme

6. There are a number of candidate milestones or activities that it might be appropriate to consider for incentivisation. In general, we consider it is desirable to focus the incentives primarily on the principal desired outcome of the programme of work and not to have too many incentivised activities, since this would dilute the impact of each and to lead to complexity.

¹ <https://www.smartdcc.co.uk/media/3770/3-delivery-plan-for-enduring-change-of-supplier.pdf>

² <https://www.ofgem.gov.uk/publications-and-updates/dcc-operational-performance-regime-review-may-2020-consultation>

7. In our view the principal objective of the ECoS arrangements is the timely completion of migration from the TCoS arrangements to the ECoS arrangements. This will have been achieved when all accessible Devices have had their TCoS Certificates replaced by ECoS Certificates. Additionally, new devices should have ECoS Certificates on them at the appropriate point in time.
8. In the DCC's ECoS plan, completion of migration to ECoS is due to be achieved by 14 April 2023. Once migration is complete, the DCC will no longer have to rely on the TCoS services that are provided under the existing Data Services Provider (DSP) contract with the DCC. The TCoS Certificates on Devices can only be exchanged by the TCoS service. This means that if migration is completed by 14 April 2023, it would not be necessary for DCC to seek to extend further the duration of the DSP contract for TCoS purposes past October 2023³. Consequently, this could mean that the existing DSP contract does not need to be extended past this date or, if it does, that a cost saving could be achieved because the TCoS service at least would not be required to endure past this point.
9. We are proposing therefore that 70% of the margin at risk under the incentive scheme should be retained by DCC if DCC does not have to rely on the TCoS arrangements in the DSP contract after 31 October 2023. If the DCC meets this requirement, it would retain all of the 70% margin associated with this activity, whereas if it did not, it would lose all of this margin. The binary nature of the DCC decision to extend the TCoS arrangements for a further year does not lend this part of the proposed incentive scheme to be suitable for tapering of the incentive over time.
10. Because DCC needs to give six months' notice of a contract extension under the DSP contract, DCC would have to be confident by the end of April 2023 that it could complete migration to ECoS by the end of October 2023 if it had not already done so, noting that the ECoS plan has a migration completion milestone of 14 April 2023.
11. We are proposing that the other 30% of the margin at risk under the scheme should be put at risk based on whether DCC meets the ECoS Go-Live milestone date of 30 June 2022. This is the date from which DCC has demonstrated its ability to commence replacement of TCoS Certificates on Devices with ECoS Certificates and its ability to dual operate both TCoS and ECoS arrangements ahead of migration of certificate completing.
12. ECoS Go-Live is a significant milestone in the overall programme of work demonstrating the successful culmination of: onboarding service providers; design, build and test of the systems; and ensuring the provision of ECoS Certificates to Device manufactures.
13. We are proposing that DCC would retain 100% of the associated margin (i.e. 100% of the 30% put at risk against this activity) if ECoS Go-Live takes place by this date. If there is a delay, then we propose a 6-month straight line taper of the associated margin retained such that ultimately if a Go-Live is not achieved by 31 December 2022, DCC would retain none of this margin.
14. During the migration period (i.e. the period between ECoS Go-Live and Completion of Migration), the DCC will be sending a significant number of Commands to Devices to replace TCoS Certificates with ECoS Certificates as well as running a dual change-of-

³ The Initial Term of the DSP contract commenced on 1 November 2013 and is due to end on 31 October 2021 but can be extended by up to three 1-year terms.

supplier process. We do not believe that it would be appropriate for DCC to be immune to loss of Baseline Margin if, in the transitional period, there had been substantial issues with DCC system performance and/or issues with managing CoS events during that period as a consequence of the migration activity.

15. With this in mind we note that Ofgem is currently undertaking a review of the OPR and is minded to place some of the DCC's Baseline Margin at risk against some of the metrics which have been developed by the SEC Panel's Operations Group and which are being further refined through the progression of Modification Proposal MP122⁴. Ofgem's revised OPR proposals are expected to be implemented from April 2021. If the final OPR scheme arrangements provide sufficient incentive to DCC to drive quality outcomes during the TCoS to ECoS transition period we would not propose to include an additional performance measure for this in the BMPPA scheme, since to do so would doubly penalise DCC for poor performance.
16. However, Ofgem has not finalised its OPR proposals and BEIS proposes to continue to monitor Ofgem's work on the OPR to see how the final incentives are structured, what the metrics developed as part of MP122 look like, and what metrics end up being included (or not included) in the OPR. If, for example, the Change of Supplier metric being refined in MP122 is not included in the OPR, we would consider consulting on changes to modify this BMPPA scheme to qualify the 70% of Baseline Margin associated with successful migration of certificates in the transition period by the quality of DCC's performance in managing CoS events in the transition period.
17. Because both Ofgem's OPR review and work on MP122 are ongoing, we are not in a position to put forward any detailed proposals on any CoS related performance measures at this point in time. However, we do think there is benefit in consulting on and putting in place an initial BMPPA Scheme for the ECoS arrangements at this point in time, primarily to give DCC clarity over the principal incentives that are being proposed.

Summary of Proposed BMPPA Scheme

Initial Scheme

30% of the baseline margin at risk based on whether or not ECoS Go-Live takes place on or before 30 June 2022. If ECoS Go-Live is delayed beyond this date, this margin is lost based on a straight-line taper, such that if the DCC fails to reach ECoS Go-Live by 31 December 2022, it retains none of the 30%.

70% of the margin at risk based on whether or not the DCC avoids the need to rely on TCoS under the DSP contract after 31 October 2023.

Potential Future Amendments

Depending on the outcome of Ofgem's work on the OPR and the progression of MP122, BEIS will consider modifying the BMPPA scheme once in force to include a further performance factor that modifies the amount of margin DCC retains for Completion of Migration based on the quality of its processing of CoS events in the transitional period.

⁴ <https://smartenergycodecompany.co.uk/modifications/operational-metrics/>

3. Consultation Questions

1. Do you agree with BEIS's proposals to introduce a BMPPA Scheme for ECoS?
 2. Do you agree with BEIS's proposals for what and how DCC should be incentivised under the scheme?
 3. If not, what other alternative proposals do you suggest and why?
 4. Do you have any comments on the drafting of the actual scheme included in Annex 2?
-

Annex 2: Draft BMPPA Scheme for ECoS Activities

BASELINE MARGIN PROJECT PERFORMANCE ADJUSTMENT SCHEME

ECoS Project

Introduction

This document is issued for the purposes of the smart meter communication licences granted under the Electricity Act 1989 and the Gas Act 1986 (together, the **DCC Licence**).

This document constitutes –

- (A) a direction issued by the Secretary of State under paragraph 35.5 of Condition 35 of the DCC Licence (The Chapter 9 Particular Definitions) identifying a 'Project' (the **Project**); and
- (B) the terms of a Baseline Margin Project Performance Adjustment Scheme (a **Scheme**) made by the Secretary of State in accordance with paragraph A2 of Appendix 1 to Condition 38 of the DCC Licence (Baseline Margin Project Performance Adjustment Scheme),

and has effect for the purposes of the Price Control Conditions of the DCC Licence, and in particular Part D of Condition 38 (Calculation of the value of the BMPPA term).

Contents

Section 1 identifies the Project to which the Scheme Relates.

In accordance with the provisions of paragraphs A4 and A8 of Appendix 1 to Condition 38 of the DCC Licence (Baseline Margin Project Performance Adjustment Scheme) –

- Section 2 describes a number of activities carried out by the DCC for the purposes of the Project (the **Project Activities**).
- Section 3 specifies the weighting factor in relation to the Project Activity (the **Project Activity Weighting Factor**).
- Section 4 describes the performance target in relation to the Project Activity (the **Project Activity Milestone**).
- Section 5 specifies the performance factor in relation to the Project Activity Milestone (the **Project Activity Performance Factor**).

- Section 6 sets out provisions for the purpose of interpreting and giving effect to the Scheme (the **Scheme Principles**).

Words and phrases used in Sections 1 to 6 shall be interpreted in accordance with, and have any meanings given to them in, Section 7.

1 The Project

1.1 The **Project** means the activities carried out (or to be carried out) by the DCC:

- (a) in accordance with the implementation plan (the **Plan**) produced by the DCC in compliance with a direction issued by the Secretary of State on 1 August 2019 under Condition 13A of the DCC Licence (Enduring Change of Supplier Arrangements);
- (b) during the period up to and including 31 October 2024; and
- (c) in order to support a change in the nature and scope of the Services by implementing and migrating to the Enduring Change of Supplier Arrangements.

2 The Project Activities

2.1 Each of the following activities being carried out by the DCC for the purposes of the Project shall be a Project Activity under the Scheme.

Project Activities

2.2 **Project Activity 1** constitutes the activity required to be completed by the DCC such that the event identified in the Plan as 'ECoS Go-Live' may take place. For these purposes **ECoS Go-Live** refers to the point in time from which the DCC is first permitted under the Smart Energy Code to replace Device Security Credentials that pertain to the CoS Party, and which are held on (or in relation to) Devices that are installed in consumer premises, with information from an ECoS Certificate.

2.3 **Project Activity 2** constitutes the activity required to be completed such that the event identified in the Plan as 'TCoS to ECoS Migration Complete' takes place. For these purposes, **TCoS to ECoS Migration Complete** refers to the point in time from which the DCC will no longer need to rely on the TCoS Private Key when providing Services under the Smart Energy Code.

3 The Project Activity Weighting Factors

3.1 The Project Activity Weighting Factor in respect of each of the Project Activities shall be that which is set out in the table immediately below.

<u>Project Activity</u>	<u>Project Activity Weighting Factor</u>
1	0.3
2	0.7

4 The Project Activity Milestones

- 4.1 Each of the following performance targets relating to the DCC's undertaking of a Project Activity shall be a Project Activity Milestone under the Scheme in respect of the specified Project Activity to which it relates.

Project Activity Milestones - General

- 4.2 The Project Activity Milestone which applies in relation to each Project Activity is that the date by which certain activities are treated as being completed by the DCC (the **Specified Date**) should be a date which falls on or before a target date (the **Milestone Date**).
- 4.3 For this purpose the Specified Date and Milestone Date for each Project Activity are those identified in paragraphs 4.4 to 4.7.

Project Activity Milestone 1

- 4.4 The Specified Date in relation to Project Activity 1 is the date determined by the Secretary of State as being the date from which DCC is first permitted under the Smart Energy Code to replace Device Security Credentials that pertain to the CoS Party, and which are held on (or in relation to) Devices that are installed in consumer premises, with information from an ECoS Certificate.
- 4.5 The Milestone Date in relation to Project Activity 1 is 30 June 2022.

Project Activity Milestone 2

- 4.6 The Specified Date in relation to Project Activity 2 is the date determined by the Secretary of State as being the date from which the DCC no longer has in place contractual arrangements with an External Service Provider that provide for the use of (or for an option to use) a TCoS Private Key when processing communications to modify Device Security Credentials held on Devices.
- 4.7 The Milestone Date in relation to Project Activity 2 is 1 November 2023.

5 The Project Activity Performance Factors

5.1 Each of the numbers identified below in respect of a Project Activity shall be treated as the Project Activity Performance Factor (**PAPF**) in respect of that Project Activity for the purposes of this Scheme.

Project Activity Performance Factor for Project Activity 1

5.2 Where in relation to Project Activity 1:

- (a) the Specified Date is either on or before the Milestone Date, the PAPF in relation to that Project Activity shall be zero;
- (b) the Specified Date occurs later than the Milestone Date, the PAPF shall take the value, or be calculated in accordance with the methodology, specified in the row of the second column of the table immediately below that corresponds to the Specified Date.

Project Activity 1 Specified Date	Value of, or methodology for calculating PAPF
On or before 30/06/2022	0
Between 01/07/2022 and 31/12/2022 inclusive	$\frac{n}{185}$ Where n is the number of calendar days from 01/07/2022 up to and including the Specified Date for Project Activity 1.
After 31/12/2022	1

Project Activity Performance Factor for Project Activity 2

5.3 In relation to Project Activity 2:

- (a) if the Specified Date is either on or before the Milestone Date, the PAPF in relation to that Project Activity shall be zero; and
- (b) if the Specified Date is after the Milestone Date, the PAPF shall be one.

6 BMPPA Scheme Principles

6.1 For the purposes of the Scheme, the DCC shall:

- (a) maintain accurate records, supported by documentary evidence, sufficient to establish the date upon which ECoS Go-Live was achieved and the date upon which TCoS to ECoS Migration Complete was achieved;
- (b) whenever requested by the Secretary of State or the Authority to do so, promptly provide a report to the Secretary of State, the Authority and the SEC Panel containing such up-to-date information and evidence relating to those records as has been requested.

7 Definitions and Interpretation

7.1 Except to the extent to which an alternative definition is set out in paragraph 7.3:

- (a) words and phrases defined in either the DCC Licence or in the Smart Energy Code shall have the same meaning in this document;
- (b) if the same word or phrase is defined in both the DCC Licence and the Smart Energy Code and the definitions are not consistent, the definition in the Smart Energy Code shall take precedence for the purposes of this document.

7.2 The rules of interpretation set out at Condition 2 of the DCC Licence shall apply as if they formed part of this document.

7.3 For the purposes of this document, unless the context otherwise requires –

TCoS to ECoS Migration Complete has the meaning given to that expression in paragraph 2.3.

DCC Licence means the smart meter communication licences granted under the Electricity Act 1989 and the Gas Act 1986, taken together.

ECoS Certificate means an Organisation Certificate (or one of a number of Organisation Certificates) that contains a Public Key which has an associated Private Key that will, as part of managing change of supplier events and following the completion of the implementation of the Enduring Change of Supplier Arrangements, be used to Digitally Sign all Commands to replace Device Security Credentials that pertain to a Supplier Party on, or in relation to, Devices installed in consumer premises.

ECoS Go-Live has the meaning given to that expression in paragraph

	2.2.
Plan	has the meaning given to that expression in paragraph 1.1.
Project Activity 1	has the meaning given to that expression in paragraph 2.2.
Project Activity 2	has the meaning given to that expression in paragraph 2.3.
Scheme	means this Baseline Margin Project Performance Adjustment Scheme.
TCoS Certificate	means an Organisation Certificate (or one of a number of Organisation Certificates) that contains a Public Key which has an associated Private Key that, as part of managing change of supplier events, is used to Digitally Sign all Commands to replace Device Security Credentials that pertain to a Supplier Party on, or in relation to, Devices installed in consumer premises, other than where the Device Security Credentials held on such Devices have been modified to include information from the ECoS Certificate.
TCoS Private Key	means a Private Key associated with a Public Key that is contained within a TCoS Certificate.