



Department for  
Business, Energy  
& Industrial Strategy

Department for Business, Energy &  
Industrial Strategy

1 Victoria Street  
London SW1H 0ET

[www.gov.uk/beis](http://www.gov.uk/beis)

The Authority (Ofgem), the SEC Panel, SEC Parties and  
other interested parties

21 July 2020

Dear Colleague,

**CONSULTATION ON THE PROPOSED UPDATE AND REVISION OF THE BASELINE  
MARGIN PROJECT PERFORMANCE ADJUSTMENT SCHEME RELATING TO DELIVERY OF  
RELEASE 2.0 (INCLUDING DUAL BAND COMMUNICATIONS HUBS) BY THE DCC**

The consultation in Annex 1 to this letter seeks stakeholders' views on the proposal to amend the Baseline Margin Project Performance Adjustment (BMPPA) Scheme for the delivery of Release 2.0 by the DCC (which is also included at Annex 2). In addition to amending the timeframe within which the scheme is applicable, it is also proposed to amend the incentives in relation to two of the Project Activities.

We are consulting on both the principles behind the proposal to amend the Scheme, as well as the specific legal drafting changes that would be required to give effect to these principles. In parallel, we have directed the DCC to prepare a revised LC13 plan for the delivery of Release 2.0 which was released on 16 July 2020 for consultation. The Dual Band Communication Hubs delivery dates in the DCC's consultation document reflect the dates set out in the recently consulted upon Joint Industry Plan (JIP) overseen by the Implementation Managers Forum (IMF) and have informed the proposed milestone dates in the scheme. We propose to take into account the response to the revised LC13 plan when finalising the details of revised Scheme, recognising that the consultation is currently ongoing and implementation of the plan is at an advanced stage.

I welcome views on the proposals, and I look forward to your response to this consultation which closes on 18 August 2020. Details of where responses should be sent to are set out in the consultation.

Yours faithfully,

*IMMcKenzie*

Ian McKenzie  
Deputy Director & Head of Stewardship  
Smart Metering Implementation Programme

**Annex 1** Consultation document

**Annex 2** Draft amended BMPPA Scheme for Release 2.0 (shown as change-marked from the existing Scheme)

# Annex 1: Consultation document

## 1. Table of Contents

1. Table of Contents .....	2
2. General Information .....	3
Why we are consulting .....	3
Timing .....	3
Responding to the consultation .....	3
Confidentiality and data protection .....	3
Territorial extent .....	3
Quality assurance .....	4
3. Overview .....	5
4. Existing BMPPA Scheme .....	5
Background .....	5
Current Delivery Status .....	6
5. Dependency for BMPPA Scheme amendments .....	8
6. Proposed Revisions to the BMPPA Scheme Arrangements .....	8
7. Why we are proposing these specific changes .....	10
8. Consultation Questions .....	11

## **2. General Information**

### **Why we are consulting**

This consultation seeks stakeholders' views on the proposal to reintroduce incentivisation of DCC's delivery of Dual Band Communications Hubs, through amendments to the Baseline Margin Project Performance Adjustment (BMPPA) Scheme for Release 2.0. This scheme incentivised margin retention by the DCC set against delivery milestones for Release 2.0 including Dual Band Communication Hubs. It is intended that the arrangements would inform the publication of a revised scheme to re-incentivise timely and efficient delivery of mass availability of Dual Band Communications Hubs (DBCH) by the DCC, set against an updated LC13 plan for project activities through to March 2021.

### **Timing**

Responses to this consultation should be submitted by 17:00 on 18 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](mailto: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](mailto:beis.bru@beis.gov.uk).

### 3. Overview

The original Release 2.0 BMPPA Scheme ended on 31 March 2019; however, Dual Band Communications Hub (DBCH) delivery is currently ongoing following a number of historical delays during early testing, and DBCH are forecast to be available in supply chains in all regions before the end of 2020. A revision to the BMPPA Scheme is being considered in order to re-incentivise the DCC to make available DBCHs at scale in a timely manner.

The role of the scheme is recognised as providing a platform on which to encourage and re-incentivise DCC to prioritise and drive the remaining stages of DBCH delivery. As a key programme dependency for rollout completion, it is important that supporting levers including incentivisation schemes are appropriately considered against such programmes of work.

A number of changes are being proposed to the original scheme, these include additional quality and interoperability assessment criteria within the BMPPA Scheme wording against whether the milestones have been met, a shorter backstop period for margin retention and a focus on supply chain availability as the key delivery milestone. In addition, the Secretary of State is proposed to replace the SEC Panel as the person to determine the Specified Date on which Project Activities have been completed.

Another important change would arise if the duration of the BMPPA Scheme is extended to end on 31 March 2021, since this would have the effect of placing any additional Baseline Margin that DCC is allowed on internal costs it incurs in relation to Release 2.0 work during the extension period at risk under the revised scheme instead of the Operational Performance Regime.

This consultation is an opportunity for industry to feedback on proposed revisions to the scheme if it were to be amended, including to consult on the broader question of whether the scheme itself should be reopened.

### 4. Existing BMPPA Scheme

#### Background

1. The revenue that the Data and Communications Company (DCC) is permitted to recover each year is controlled under its licence. The Allowed Revenue formula in Condition 36.7 of the DCC licence permits the DCC to include a Baseline Margin within the revenues it may recover. The values of the Baseline Margin for each Regulatory Year were initially determined at the time that the DCC licence was granted. There is also provision<sup>1</sup> within the DCC licence for the DCC to seek to an adjustment to the Baseline Margin values.
2. The DCC's Baseline Margin is put at risk under the Operational Performance Regime (OPR) and any BMPPA Scheme made by the Secretary of State<sup>2</sup>. These schemes are used to determine a Baseline Margin Performance Adjustment amount. The Secretary of State originally made a BMPPA Scheme for the Release 2.0 Project on 12 April 2018. This tied the DCC margin retention for delivery of Release 2.0 functionality to the

---

<sup>1</sup> See Appendix 2 of Condition 36

<sup>2</sup> The Baseline Margin Implementation Performance Adjustment arrangements no longer apply.

milestone dates by which the project activities should be completed. Under this scheme any Baseline Margin that Ofgem permits the DCC to recover and which is associated with the Release 2.0 project is put at risk against incentives determined by BEIS (rather than under the Operational Performance Regime).

3. The Release 2.0 project encompasses the provision by the DCC of Dual Band Communications Hubs (DBCHs). DBCHs are expected to be needed in order to establish working Home Area Networks (HANs) in approximately 25% of premises in which smart meters are installed in Great Britain. The availability of DBCHs is therefore crucial for achieving the completion of the smart meter roll-out and the realisation of the associated benefits. The scope of Release 2.0 also includes the provision of updated Single Band Communications Hubs (SBCHs) in all CSP Regions – and it is implicit that successful delivery of R2.0 SBCHs is needed in order for the DBCH delivery timescales to be maintained. However, we are not proposing to explicitly incentivise R2.0 SBCH delivery as part of the proposed changes to the BMPPA Scheme.
4. Each Project Activity within the original BMPPA Scheme for Release 2.0 had a 4-month margin retention period, where the quantity of margin retained would decrease against a set profile subject to the number of days delay in the activity delivery. Following the 4-month period the DCC would retain zero margin for that Project Activity if it had not been delivered.
5. Each primary deliverable under the scheme was associated with two Project Activities, each with their own Project Activity Milestone – “A” represented the milestone date for achievement in CSP North, whereas “B” represented the milestone data achievement in CSP Central & South.
6. The amount of margin at risk for each Project Activity is determined by the Project Activity Weighting Factor (PAWF) for that Project Activity, with the sum of all the PAWF values being 1, such that all of the margin associated with the internal costs of the project is put at risk against one of the Project Activities.
7. Each Project Activity also has a Project Activity Performance Factor (PAPF) which is used to determine the proportion of the Baseline Margin that is allocated to that Project Activity that the DCC is permitted to retain. The value of each PAPF is determined depending on DCC’s performance under the scheme. A PAPF of 1 would mean that the DCC would lose all of its margin for a particular Project Activity, whereas a value of 0 would mean that it would retain it all.
8. The duration of the incentives in the original scheme covered project activities during the period of 1 April 2017 to 31 March 2019.

## **Current Delivery Status**

The table below covers a summary of the Project Activity Milestones and their current status. As of August 2019, DCC had lost a minimum associated amount of baseline margin of 45%. The maximum lost Baseline Margin if DCC is not determined to have met the original milestones 4A and 4B is 85%. Of the baseline margin that has been assessed, DCC has retained 26% (lost 74%).

Number	Project Activity	Original BMPPA Milestone Date	Current status summary	PAPF	Current Status
1A/B <sup>3</sup>	Provision of a User Integration Testing (UIT) facility for DCC systems and of test SBCH	21 May 2018	Both milestones met 19 June 2018	1A - 0.483 1B – 0.483	Both A and B milestones were met on 19 June 2018. Performance factor of 0.483 confirmed. This equates to a 48% loss of associated baseline margin.
2A/B	Provision of a User Integration Testing (UIT) facility for DCC systems and test SBCH & DBCH <sup>4</sup>	19 July 2018	Milestone 2B only met, 3 August 2018	2A – 1.00 2B – 0.250	Milestone 2A was not met, meaning a loss of 100% of associated baseline margin. Milestone 2B met of 3 August 2018, equating to 25% of margin lost.
3A/B	Delivery of limited quantities of DBCH	15 October 2018	Milestone 3B only met, 20 February 2019	3A – 1.00 3B – 0.992	Milestone 3A was not met, meaning a loss of 100% of associated baseline margin. Milestone 3B was met 20 February 2019, equating to 99% of margin lost.
4A/B	Delivery of DBCH in response to Valid Communications Hub Orders, not subject to quantitative limits	13 December 2018	Not yet determined, but dates are not expected to have been met given DBCH is not yet available in supply chain	N/A	Not yet assessed for completion – the margin retention back stop date was 25 April 2019, which was after the RY 18/19, ending 31 March 2019. DCC anticipates that it will report its progress in the RY20/21 price control.

Correct as at time of publication (21 July 2020), a 6-week UIT phase is currently underway in both CSP North and Central & South for Dual Band Communication Hubs, having formally opened on 22 June 2020 and 26 June 2020 respectively, following the successful exit of Device Integration Testing (DIT) in May and June respectively. A Joint Industry Plan (JIP) Change Request (CR) activity was conducted between March and May 2020 to re-baseline the delivery plans for Dual Band – version 7.4. These plans confirmed the inclusion of an additional phase of initial installations to take place by energy suppliers over

<sup>3</sup> A indicates where the project activity related to CSP North delivery, B indicates relation to CSP Central & South delivery.

<sup>4</sup> This activity requirement to provide a User Integration Testing facility, or environment for the DCC systems functionality for test participants relating to SBCH and DBCH. Noting DBCH UIT is currently in progress, this activity covered the provision of the environment itself, rather than successful completion of the UIT phase.

an 8-week period from August to October 2020. This involves the provision of a total of 5 pallets of Comms Hubs (c.4,300 DBCHs) as a limited supply for suppliers to conduct installations before a mass manufacturing decision is taken. Currently this phase remains on track to commence as scheduled (in the JIP), subject to successful exit from UIT. Manufactured Dual Band Communication Hub devices are expected to be available at scale in supply chains from 16 November 2020 for CSP North and 26 November 2020 for CSP Central & South.

## 5. Dependency for BMPPA Scheme amendments

On 30 June 2020, BEIS gave separate directions under Condition 13.14 of the DCC licence requiring DCC to update its plans for delivery of Release 2.0. A consultation was issued by the DCC on 16 July 2020<sup>5</sup> and will conclude on 30 July 2020. The proposed dates for the same associated milestones will inform the revised project activity milestone dates for the revised scheme in this consultation. As the LC13 plan revised dates are currently under consultation with industry, the revised dates will need to be considered in light of the final LC13 plan dates following consultation.

## 6. Proposed Revisions to the BMPPA Scheme Arrangements

This section covers the changes proposed to the original BMPPA Scheme. The proposed changes are:

1. A modification of the duration of the scheme to extend it by 2 years to run until 31 March 2021. This modification has the effect of putting additional Baseline Margin at risk under the scheme (instead of under the Operational Performance Regime). The additional Margin in question is the margin associated with DCC's internal costs of the Release 2.0 Project in the Period from 1 April 2019 to 31 March 2021. 100% of the margin associated with the project in the years 19/20 and 20/21 would become additionally at risk against milestones 4A and 4B. By modifying the dates of the duration of the scheme by an additional two years, the amount of Baseline Margin at risk under the scheme is additionally increased to include any project related Baseline Margin over this additional two-year period. Whilst the exact, revised baseline margin is not yet able to be determined, this could be in the range of approximately £800k-£1m across both milestones. The transfer of this margin to be at risk under the BMPPA Scheme rather than the OPR is a direct consequence of the modification to extend the BMPPA Scheme. We have discussed with Ofgem the implications of this change for the OPR, and they have indicated that they are satisfied that an adequate amount of margin will remain at risk under the OPR to allow sufficient incentives to be given to DCC under those arrangements.
2. Placing the 40% of the margin at risk under the original scheme that was focussed on 4A and 4B now at risk under the revised milestone delivery dates in November 2020. This would result in DCC effectively having a second opportunity to retain the same level of margin as in the original scheme, against the proposed revised dates for 4A and 4B (in addition to the extra margin for 19/20 and 20/21 referred to in the paragraph above). This is expected to be approximately £500k across both milestones and would be in addition to the £800k-£1m baseline margin detailed in

---

<sup>5</sup> [<https://www.smartdcc.co.uk/customer-hub/consultations/consultation-on-the-delivery-plan-for-dcc-release-20/>]



the paragraph above. The most critical milestones are those that incentivise the availability of DBCHs at scale for energy suppliers to be able to place orders against, i.e. milestones 4A and 4B. Therefore, these are the proposed priority milestones on which DCC is encouraged to focus via these incentives. We are not proposing to re-open Project Activities 1A/B, 2A/B or 3A/B in any of the options within this consultation.

3. Proposed modified Milestone Dates to apply to Project Activities 4A and 4B. The new proposed dates are 16 November 2020 for milestone 4A and 26 November 2020 for milestone 4B. These dates reflect the dates currently in the Joint Industry Plan (JIP), on which DCC have also based the revised dates for the requested LC13 plan now under further consultation. As the dates in the JIP have only recently been amended, we do not currently anticipate there being any difference between the LC13 plan dates for these milestones and those in the JIP and would expect a robust explanation if there was any such difference. However, we will consider a further reconciliation of dates before finalising any changes to the scheme if required.

4. A change to the definition of, and milestones associated with Project Activities 4A and 4B.

Proposed definition changes to the Project Activities 4A and 4B. These are to:

- a. Update the definition in light of the fact that the X3 variations originally made no longer apply; and
- b. Reflect the fact that the activity requires that the Dual Band Communications Hubs that are provided do not have any substantive interoperability issues.

5. A change to the way in which the Specified Date for activities 4A and 4B is determined. The Specified Date is the date on which the DCC is determined to have completed a Project Activity. More specifically, the changes we have proposed include:

- a. making the Secretary of State, rather than the SEC Panel the person that determines what the Specified Date is for these activities recognising that BEIS led industry forums have been overseeing the delivery of functionality;
- b. a change to reflect the fact that the original X3 changes no longer apply;
- c. inclusion of provisions that mean that the Specified Date is not deemed to have been achieved if the DCC is meeting all Dual Band Communications Hubs Orders because suppliers are not placing them, because they know that the DCC will not be capable of meeting them; and
- d. including provisions that mean that the Specified Date is not met if substantive interoperability issues with other smart metering Devices (meters, IHDs, PPMID) exist.

6. Changes to halve the margin retention backstop period. We have proposed to reduce the duration of the period over which the amount of margin retained is tapered for milestones 4A and 4B from a period of four months (approximately) in the original scheme to a reduced period of approximately two months. This means that the amount of margin retained for milestones 4A and 4B would fall to zero if the DCC had failed to meet them by 22/01/2021 and 02/02/2021 respectively. The revised proposals are shown in Figure 1 below.

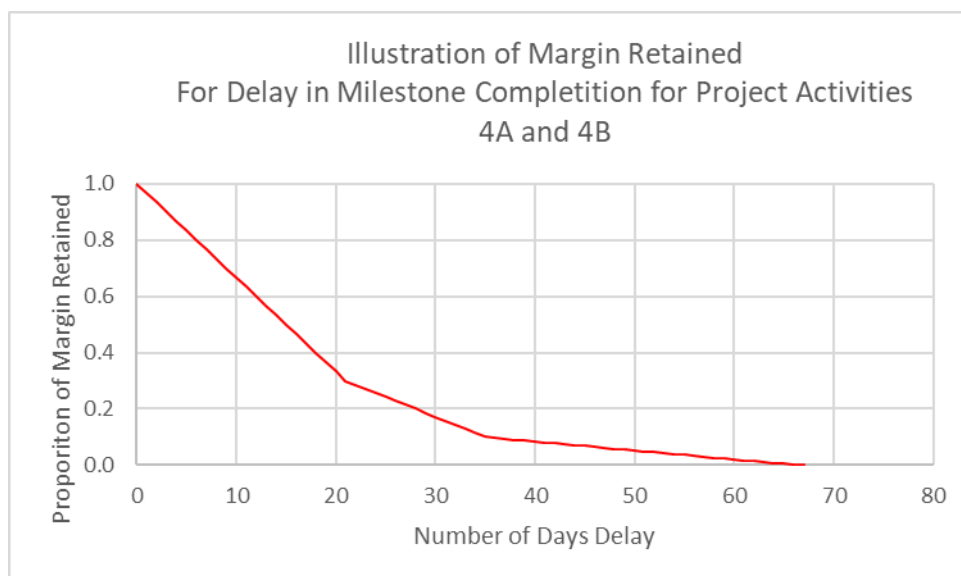


Figure 1

Whilst it could be in the range of £800k - £1m, we do not know at this point in time precisely what the amount of this additional Baseline Margin is<sup>6</sup> and so we propose that the PAPF values are determined algebraically in order to give effect to this proposal. The detail of the proposal is included in the draft BMPPA scheme supporting document to this consultation Section 3.

## 7. Why we are proposing these specific changes

It is fully recognised that DBCH delivery has been running as a programme for a number of years now. Three key factors were seen as relevant to the delay.

- First there were delays in provision of sufficient volumes of sub-GHz meters for DIT where there was only one meter manufacturer with a device available to put into DIT and this device was still undergoing development in parallel with DIT;
- Second the historical DIT phases had to be halted due to critical Zigbee chipset stability issues being uncovered which required resolution by third party organisations, the timescales of which were outside of DCC and their supply chain's control; and
- Third it was also recognised that it was in the interests of the industry as a whole to minimise the future number of testing cycles by industry required for the delivery of DBCH, due to the additional investment of resource and time required to complete this. It was therefore sensible to wait to ensure robust DIT and SIT test phases were conducted prior to user testing commencing.

These factors combined were responsible for a substantive period of the delay.

Noting the previous points, the revision of the scheme provides a platform on which to encourage and re-incentivise DCC to prioritise and drive the remaining stages of DBCH

<sup>6</sup> The DCC can apply for additional Baseline Margin under the provisions of Appendix 2 to condition 36 of the DCC licence. The precise timings of the DCC's application and allocation of any additional margin to various projects is managed by Ofgem through the price control process.

delivery as a key programme dependency for rollout completion to be delivered in a timely manner.

There are a number of reasons why we are proposing the outlined amendments to the BMPPA Scheme.

- As described above, because of the importance of DBCH, we believe there are benefits in giving DCC incentives to deliver them in line with the new programme plans. Implicitly recognising that outcomes of smart meters being able to be offered to up to c.95% of premises is reliant on Dual Band Comms Hubs successfully completing the testing and production process, managed by DCC.
- In order to provide these incentives, BEIS must put in place a new BMPPA Scheme or revise the existing scheme.
- We believe that it is appropriate the Baseline Margin associated with DCC's internal costs of the Project in the period 1 April 2019 – 31 March 2021 is used to provide these incentives, but acknowledge that, particularly in the period 2019/2020, there would be a degree of retrospectively reallocating margin to any such scheme, rather than it being put at risk under OPR.
- In light of this, and with the objective of proposing a balanced new set of arrangements, we propose to give DCC a second opportunity to meet Project Activities 4A and 4B, although we believe that DCC should only be considered to have met these milestones if there are no material interoperability issues. We do not propose to re-open other, as-yet undelivered Project Activities (e.g. 3A).
- The proposed reduced two month backstop period recognises criticality of timely delivery, as this is the second opportunity for the DCC to retain margin against DBCH delivery, they should not have the same length opportunity window in which to still receive margin upon further delay. Equally we do not think removing all tapering arrangements is justified given the delivery challenges involved.
- We recognise explicitly that giving DCC a second chance to retain the margin placed at risk against Project Activities 4A and 4B should not set a precedent for reopening incentive arrangements into the future.

A draft revised BMPPA scheme document incorporating the proposed changes and confirmed milestone dates from the DCC has been developed as part of this consultation. Please see Annex 2.

## 8. Consultation Questions

- |    |  |
|----|--|
| 1. | Do you think it is a good idea to reopen the BMPPA scheme, including to extend the duration of the project to 31 March 2021 to help drive the delivery of Release 2 and specifically Dual Band Communication Hub delivery? |
| 2. | Do you have any views on the appropriateness of the focussed revision of Project Activities 4A and 4B only associated with Dual Band Communications Hub delivery?  |

3. Do you agree with the proposals in sections 6.4 and 6.5 to amend the project activity definitions and how these are determined to have been met, for the revised milestones?
4. Do you agree with the proposal to reduce the margin retention period for each milestone down to 2 months from 4 months?
5. Do you have any specific comments on the drafting of the revised scheme included in Annex 2?

Please provide an explanation of any views you have.

---