



Department for
Business, Energy
& Industrial Strategy

Department for Business, Energy &
Industrial Strategy

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

19 October 2020

Dear Colleague,

**SMART METERING IMPLEMENTATION PROGRAMME: GOVERNMENT RESPONSE TO
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**

On 21 July 2020, the Government issued a consultation¹ seeking views on the proposal to amend the Baseline Margin Project Performance Adjustment (BMPPA) Scheme for the delivery of Release 2.0 by the DCC. The consultation covered 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.

We received four responses to the consultation which closed on 18 August 2020. We have considered the stakeholder views and the document at Annex A constitutes the Government response.

Yours faithfully,

IMMcKenzie

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

Annex Response document

¹ <https://smartenergycodecompany.co.uk/latest-news/25841/>

Annex: Government Response

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2. General Information

Purpose

Following consideration of responses to the smart metering consultation on the proposal to amend the Baseline Margin Project Performance Adjustment (BMPPA) Scheme for the delivery of Release 2.0 by the DCC, this government response provides conclusions on proposals put forward.

Issued

19 October 2020

Enquiries

Smartmetering@beis.gov.uk

Territorial extent

This government response applies to the gas and electricity markets in Great Britain.

3. Introduction

- 3.1. The July 2020 consultation document² explained the purpose of the BMPPA Scheme, DCC's historic performance against the existing scheme, and set out the proposed new milestones and dates for delivery of Dual Band Communication Hubs (DBCH) into the supply chain at scale, if the scheme were to be revised.
- 3.2. The July 2020 consultation document went on to propose a number of amendments, to the duration of the scheme, the criteria upon which Project Activities would be determined to have been met, as well as the core party who would make the determinations. The proposed changes were as follows:
- i. A modification of the duration of the scheme to extend it by 2 years to run until 31 March 2021. This modification would have the effect of putting additional Baseline Margin at risk under the scheme (instead of under the Operational Performance Regime (OPR)). 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, estimated at £800k-£1m over the regulatory years 19/20 and 20/21.
 - ii. Placing 40% of the margin at risk under the original scheme, that was focussed on milestones 4A and 4B (Delivery of DBCH in response to valid Communications Hub Orders, not subject to quantitative limits), to be at risk under the revised milestone delivery dates in November 2020. In addition to the new margin under the scheme described above, this would result in DCC effectively having a second opportunity to retain the margin that was placed at risk against milestones 4A and 4B in the original scheme, but now against the proposed revised dates for 4A and 4B, an approximate value of £500k.
 - iii. Proposed modified Milestone Dates to apply to Project Activities 4A and 4B only. The most critical milestones are those that incentivise the availability of DBCHs at scale for energy suppliers to be able to place orders against, therefore the proposal was not to re-open project activities associated with earlier elements of DBCH delivery, such as provision of first pallets of DBCHs.
 - iv. A change to the definition of, and milestones associated with, Project Activities 4A and 4B to:
 1. update the definition in light of the fact that the X3 variations originally made no longer apply; and
 2. reflect the fact that the activity requires that the Dual Band Communications Hubs that are provided do not have any substantive interoperability issues.
 - v. Utilise the re-baselined LC13 plan to inform the new dates for milestones 4A and B – in November 2020.
 - vi. A change to the way in which the specified date for activities 4A and 4B is determined. The Secretary of State was proposed to replace SEC Panel as determiner of milestones having been met. This also includes provisions that the Specified Date is not deemed to have been achieved if:

² <https://smartenergycodecompany.co.uk/latest-news/25841/>

1. 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
 2. substantive interoperability issues with other smart metering Devices (meters, IHDs, PPMID) exist.
- vii. Changes to halve the margin retention backstop period from a period of approximately 4 months down to 2 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.

4. Consultation Responses

- 4.1. We received four responses to the consultation including three from energy suppliers and one from the DCC.
- 4.2. Two respondents were strongly against the proposal to renew or revise any form of incentive scheme for DCC, seeing it as unacceptable on the basis of DCC's historic delivery delays meaning that DBCHs were not yet delivered at the time of responding to the consultation. Additionally, the same responses indicated that it would be too late into the delivery activity for such a scheme to make a meaningful difference to DCC activity.
- 4.3. One respondent indicated they were not supportive of offering second chances overall or setting a precedent that it is acceptable for DCC to miss its targets. However, they caveated this position by stating they would be open to consider a proposal where it was confirmed that DCC would not be in a position to obtain a greater amount of margin than was associated with the original BMPPA scheme.
- 4.4. The DCC was supportive of the proposals, and sought clarity on how wider industry readiness issues, such as availability of sub-GHz 868 gas meters for energy suppliers would impact the determinations made against the proposed milestones.
- 4.5. A number of other questions were raised over how the detail of some of the proposed amended provisions would work in practice.

5. Government Response

- 5.1. We consulted on a proposal to re-open the original BMPPA Scheme for Release 2.0 at the request of the DCC, recognising that DBCH delivery was ongoing but that the original scheme was due to expire.
- 5.2. We recognise that a number of factors have contributed to the delay associated with the delivery of Release 2.0, and that whilst these factors have not been attributable solely to the DCC and management of its supply chain, the delays have led to additional costs for energy suppliers who, notwithstanding the progress made with delivery of DBCH in recent months, do not believe that it is now appropriate to give DCC a second chance to retain margin under the scheme as a consequence.
- 5.3. In light of this, and of the consultation responses received more generally, in particular that there was no support for and in some cases strong opposition to the proposal to re-open the existing scheme from respondents other than the DCC, we are no longer proposing to do so. We therefore conclude that changes to the existing BMPPA scheme will not be made.
- 5.4. We note that a consequence of this decision is that, to the extent that DCC is awarded additional Baseline Margin in relation to its internal costs on the Release 2.0 Project in Regulatory Years 2019-2020 and 2020-2021, this margin will continue to be put at risk under the OPR, rather than an amended Baseline Margin Project Performance Adjustment (BMPPA) Scheme for Release 2.0.