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<b>Paper Reference:</b>	<b>SECP_95_1308_04</b>
<b>Action:</b>	<b>For Decision</b>

## Performance Assurance Framework: Initial Discussion

### 1. Introduction

#### 1.1 Purpose

The Panel is invited to provide initial views and comments on the development of a Performance Assurance Framework (PAF) for the SEC. The Panel is asked, if it sees fit, to authorise the development of a Project Brief for a project to establish a PAF.

#### 1.2 Background

The paper notes some factors that may influence views on whether a PAF is necessary.

The paper sets out some illustrative features of a typical PAF: these are provided to prompt debate and should not be considered as proposals.

#### 1.3 Strategic and Budget Planning

The list of projects approved by the Panel for 2021 includes two which address performance assurance matters:

- (a) "Performance Assurance Framework – SEC Parties" (budget provision: £67,500)
- (b) "Performance Assurance Framework – Monitoring of DCC Services" (budget provision: £45,000)

Both these projects are listed as being owned by the OPSG. This paper addresses project (a) above.

A question that has been raised is whether it would be more appropriate to consider performance assurance immediately under a modification proposal, rather than initially as a project. It is likely that a modification will be required at some point: the benefit of a precursor project is that it would provide the opportunity for SEC Parties to consider the matter broadly before moving into a formal consideration of a modification.

### 2. A PAF In Short: Why and What

#### 2.1 Purpose of a PAF

The SEC is a multi-Party agreement and, in acceding to it, Parties accept obligations. The assumption is that fulfilment of these obligations is necessary for the objectives of the SEC to be achieved. In principle, a PAF is intended to:

- (a) Give confidence to all SEC Parties that the obligations set out in the SEC are being fulfilled, and that, consequently, failure to meet obligations is not detracting from the achievement of the objectives of the SEC.
- (b) Give confidence to SEC Parties individually and collectively that they are not being disadvantaged by the failure of any SEC Party to meet its obligations.

A principal benefit of having an explicit PAF is that it could require and encourage an integrated approach to assurance, which is likely to have advantages over an issue-by-issue approach.

It is not the purpose of the PAF to determine whether SEC obligations are “right” or optimum: operation of the PAF may, though, highlight areas of risk where, for example, compliance is proving difficult to achieve.

## 2.2 What is a PAF?

Typically, a PAF comprises three principal parts, listed below (these, together with some other features, are described further in Appendix 0):

- (a) **Governance Arrangements** This is likely to include establishing a governance body (for example, a Performance Assurance Board, PAB)
- (b) A set of **Performance Assurance Techniques** which cover the different aspects of assurance, often categorised as below (the examples given are illustrative and not intended as proposals for a SEC PAF):
  - i. **Preventative** These techniques are intended to promote assurance by acting early in the life cycle to avoid subsequent operational non-compliances.
  - ii. **Incentivisation** These are techniques which encourage operational compliance. They are often also seen as part of the “Corrective” category, below.
  - iii. **Detective** These are techniques which discover and provide evidence of areas of risk, or non-compliances.
  - iv. **Corrective** These are techniques which remediate any non-compliances. It should not be assumed that these are necessarily sanctions, or punitive. For example, agreed error correction processes (remediation plans), and a derogation process are likely to be important.
- (c) A **Support Capability** to facilitate the operation of the PAF. This would include support staff, explicit and detailed business processes, and support tools.

## 2.3 Setting an Appropriate Target Level of Assurance, Scope and Approach

Targeting a PAF to ensure that it is appropriate and proportionate is important. One way of doing this is to adopt an adaptive, risk-based approach. As an illustration, each year the PAB might recommend a plan identifying areas of highest risk and a proposed assurance plan. This plan might be put to SEC Parties and the Panel for endorsement before being implemented by the PAB.

The above approach would also allow the appropriate phasing of the introduction of assurance measures to match the maturity of arrangements area by area.

### 3. Why Now?

#### 3.1 Are Levels of Risk Changing?

It might be considered that, at present, there are two underlying drivers of level of risk for the SEC.

On one hand, it may be the view that, as the rollout continues, the *total impact* of any shortcomings under the SEC is increasing as the number of installations increases.

On the other hand, it would seem logical that as devices, processes, and services mature, then they should become more stable and reliable, and hence the *probability* of problems should decrease. However, it should be noted that at present various types of change continue at a high level, with a number of major changes and major programmes envisaged within the current planning horizon, and an increase in the number of device combinations possibly presenting operational challenges.

#### 3.2 Are there Instances of SEC Party Non-Compliances?

Some examples of areas where it appears non-compliances have been encountered are given below. These are included purely as illustrations, without any implication of responsibilities or impact.

- (a) Installation and maintenance of compliant devices (for example, not providing the full functionality required by the SEC ie Technical Specifications, Interoperability, ICHIS compliance) – Section F – Smart Metering System Requirements
- (b) Installation of Comms Hub (HAN/WAN Variant including Mesh and Region) - Section F – Smart Metering System (and SEC Appendix I – CH Installation and Maintenance support)
- (c) Installation and commissioning processes (for example, missing CH Status updates - CH Install Success or No SM WAN) – Section F – Smart Metering System Requirements (and SEC Appendix AC – Inventory, Enrolment and Decommissioning Procedures)
- (d) Post Commissioning Obligations (for example, recycle Device Certs and apply DNO certs) - SEC Appendix AC – Inventory, Enrolment and Decommissioning Procedures
- (e) Inventory Management (for example, Crossed MPxN, Decommissioning devices) – Section H5.6-H6.12 – DCC Services (and SEC Appendix AC – Inventory, Enrolment and Decommissioning Procedures)
- (f) Change of Tenancy (for example, sending the Restrict Access for Change of Tenancy Service Request) – Section H3.17 – DCC Services
- (g) CH Removal and Returns – Section F – Smart Metering System Requirements
- (h) Incident and Problem Management (for example, resolving and responding to Incidents in accordance with the Incident Management Policy) – Section H9.2-H9.9 – DCC Services

#### 3.3 Doesn't the SEC Already Provide Assurance Mechanisms?

Yes, some. The SEC does not explicitly define a PAF, in contrast with some other industry Codes. In general, the SEC does not explicitly mandate the end to end, coherent view of assurance that would be one of the outcomes of the PAF. As it stands, the Panel is seen as the decision-making authority under the SEC, and would therefore be expected to deal with assurance matters individually as they arise.

Some examples of assurance mechanisms which are already intrinsic parts of the SEC and its associated processes are:

- (a) Provisions providing for Parties to raise Disputes and those allowing for the Panel to declare a Material Breach by a Party (Corrective Techniques).
- (b) The capability brought under the SEC through the SMDA is a Preventive Technique
- (c) The OPSG, working with DCC, has pursued a number of topics with the aim of improving compliance. In general, the OPSG has adopted a style of “inform, encourage, persuade”, as with RF Noise compliance. In effect, this style incorporates some aspects of Preventive, Detective and Corrective techniques. Experience to date indicates general willingness by SEC Parties to address compliance matters, once they are provided with specific information regarding shortcomings.
- (d) The SEC includes strong provisions for assuring security.

### 3.4 Isn't SEC Compliance a Topic for Ofgem?

Yes, ultimately. Compliance with the SEC is a licence condition for SEC Parties, and therefore ultimately subject to Ofgem authority.

However, the starting assumption (which would need to be confirmed with Ofgem), would be that a suitably designed assurance regime within the SEC would contribute to achieving the SEC objectives and would not conflict with (and could support) Ofgem's remit.

## 4. Other Codes

Some other industry Codes include explicit PAFs, for example:

- (a) The Balancing and Settlement Code
- (b) The Retail Energy Code
- (c) The Uniform Network Code

## 5. Process to Develop the Project Brief

The suggested steps leading to the authorisation of a Project Brief are as below. Given the possible reach of a PAF, these make allowance for early engagement with the Panel, and SEC Parties:

- (a) Initial view and comments by OPSG and the Strategic Working Group (to be done before initial Panel discussion)
- (b) The Panel provides direction to proceed and provides input to shape the Project Brief
- (c) SECAS drafts the Project Brief  
*(This is likely to include engagement with the OPSG, Panel and subcommittees, SEC Parties, and Ofgem)*
- (d) OPSG reviews and endorses the Project Brief
- (e) The Panel reviews and approves the Project Brief and decides whether the OPSG should oversee the project work

## 6. Questions for Panel Discussion

- (a) Does the Panel wish to authorise work to develop a Project Brief for a project to establish a PAF?

Implicit in this question is whether the Panel considers that in principle there is likely to be sufficient justification to subsequently implement a PAF.

The Panel may also wish to consider whether a project is the appropriate vehicle for initial consideration of this topic, or whether it would be better taken directly into the modifications process.

- (b) Does the Panel wish to provide any initial comments to shape the Project Brief, including for example
- i. Purpose of the PAF
  - ii. Approach to determining and describing the target level of assurance
  - iii. Governance arrangements, including the PAB and relationship to the Panel
  - iv. Assurance techniques
  - v. Scope of assurance and method of application (eg risk-based)
  - vi. Alternatives to an explicit PAF
- (c) Does the Panel have any requirements for the Project Brief development work, for example:
- i. Engagement with SEC Parties
  - ii. Oversight by the Panel (or, for example, OPSG)
  - iii. Approval of Project Brief (e.g. by Panel?)

## 7. Recommendations

The Panel are asked to:

1. **PROVIDE** views and comments in response to the questions in Section 6,
2. **APPROVE** the development of a Project Brief for a project to establish a PAF for the SEC

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**6 August 2021**

## Appendix A: Some Illustrative Features of a PAF

### Components

Typically, a PAF comprises three main parts:

- (a) **Governance Arrangements** that set out objectives, scope, the powers the PAF encompasses (including any authority to enforce), the body that will exercise these powers, any appeal processes, and how the PAF will be operated.

A *Performance Assurance Board (PAB)* may be established as the governance body. This might be a new role for an existing body (for example, the SEC Panel might convene as the PAB), or an entirely new body. Typically, two main themes of the PAB's work would be:

- i. Directing the overall operation of the PAF (for example, determining which assurance techniques should be deployed and where) to achieve a defined level of assurance
- ii. Ascertaining and assessing non-compliances by individual Parties and overseeing their rectification

An important feature of a PAF is that, by establishing a PAB, it facilitates and encourages risk management from an overall perspective, rather than instance by instance.

- (b) A set of **Performance Assurance Techniques** which cover the different aspects of assurance, often categorised as below (the examples given are illustrative and not intended as proposals for a SEC PAF):

- i. **Preventative** These techniques are intended to promote assurance by acting early in the life cycle to avoid subsequent operational non-compliances. As examples, clarification and communication of requirements and standards, entry qualification processes and testing, and device certification, would fall into this category.
- ii. **Incentivisation** These are techniques which encourage operational compliance. They are often also seen as part of the "Corrective" category, below. Examples might be provision of and/or broader communication of comparative performance information, and financial sanctions (for example liquidated damages)
- iii. **Detective** These are techniques which discover and provide evidence of areas of risk, or non-compliances. Examples might include routine monitoring of operational performance, audit, or notification by a Party (or third party)
- iv. **Corrective** These are techniques which remediate any non-compliances. Examples include agreement to and monitoring of remediation plans, the Dispute Process, and the processes for declaring and handling material breach, including constraints on operations, and, possibly, referral to the Authority.

- (c) A **Support Capability** to facilitate the operation of the PAF. This will include support staff, explicit and detailed business processes, and support tools.

### Scope and Style

#### Level of Assurance

Performance assurance regimes may vary in the level of assurance they seek to deliver; this in turn will determine the extent and cost of required assurance activities. Describing the target level of assurance is therefore an important task early in the establishment of a PAF and would be addressed in the project.

### ***Underlying Scope of PAF Applicability***

Another early decision is the underlying scope of applicability of the PAF, and in particular, which provisions of the SEC the PAF would apply to. To illustrate, this might be considered as one of the following:

- (a) *All the provisions in the SEC.* But the SEC contains many obligations which are not of an “operational” nature, so this may not be the most useful scope.
- (b) *All operational provisions in the SEC.* (Recognising that this requires a definition of “operational”). But, for example, there are separate, explicit, and comprehensive provisions dealing with security risks and compliance. The starting proposition might well be that these would not be transferred to the PAF. Again, credit management processes could be considered as operational, but would there be any benefit in moving the oversight of these from the Panel to the PAB?
- (c) *A subset (to be defined) of operational provisions in the SEC.* This seems likely to be the most productive starting point for scope.

As regards applicability to categories of SEC Parties, it is assumed that the PAF would apply to all, as determined by the SEC obligations included within scope.

### ***Fixed or Adaptive Operation***

Once the underlying scope of applicability is determined, a further question is how to focus the PAF such that maximum benefit is achieved, whilst containing costs, and ensuring performance assurance activities are proportionate, and not unduly onerous or intrusive.

Given the extensive nature of the SEC, an approach involving continually seeking assurance about the fulfilment of every obligation within scope is unlikely to be productive or popular.

More likely to be effective might be a strategy of identifying areas of greatest risk to the achievement of the SEC objectives, and then ensuring the appropriate performance assurance techniques are focused on these. This prioritisation process could be managed by the PAB, perhaps subject to periodic (eg annual) endorsement by the Panel and/or SEC Parties.

### ***Relationships with the Panel and Panel Subcommittees***

Part of the establishment of the PAF would be the definition of relationships with existing SEC mechanisms. This might include:

- (a) *The role of the PAB could be fulfilled by an existing SEC body* For instance, the Panel could fulfill the role of the PAB
- (b) *Governance and decision-making processes* For instance, the Panel could be identified as the body to hear appeals against PAB decisions (but not if (a) above were adopted).
- (c) *Roles in the Execution of Performance Assurance Techniques* For instance, the OPSG might be tasked to provide the PAB with information and commentary on operational performance.