



The Authority (Ofgem), DCC, and SEC Parties

2 January 2017

Dear Colleague,

Consultation on a draft of the proposed Baseline Margin Project Performance Adjustment Scheme for Release 2.0

I write further to the approval of DCC's plan for Release 2.0 produced in accordance with Condition 13 of the DCC Licence, dated 16 October 2017, and to the open letter conclusions on proposed changes to the DCC Licence to enable BEIS to set project incentives for DCC, dated 9 October 2017.

Context

Release 2.0 (R2.0) will be a significant step forward in enabling the installation of smart meters in an increased proportion of homes in Great Britain, by allowing Energy Suppliers to install smart meters with a Dual Band Communications Hub (DBCH) in premises where a Single Band Communications Hub (SBCH) would not provide an effective Home Area Network (HAN). It also includes the implementation of updated Technical Specifications and the GB Companion Specification (GBCS) for SBCHs.

R2.0 is planned to go live on 30 September 2018 with the first DBCHs becoming available on 15 October 2018. Availability of DBCH at full production volume is planned for 13 December 2018.

Proposals for incentivising DCC to deliver R2.0

The proposed project incentive on which the Secretary of State is now consulting, pursuant to Appendix 1 of Condition 38 of the DCC Licence, seeks to tie DCC's margin retention for delivery of R2.0 to relevant Project Activities that enable DCC Users to make progress with the testing and roll-out of DBCHs, as well as using the wider functional changes being made as part of R2.0.

We are proposing a "taper" to retained margin for late delivery of a milestone, whereby margin is lost for each week of delay. The shape of the proposed taper is such that margin is lost at a higher rate for the first 6 weeks, to incentivise timely delivery; the rate of loss then reduces over the next 12 weeks such that DCC retains some incentive to deliver even in the case of significant delay. No incentive is retained after 18 weeks' delay in delivering a milestone.

The following principles apply to the proposed incentive regime for R2.0:

- A proportion of the total Project Baseline Margin for R2.0 is applied to each relevant Project Activity¹
- This margin is retained in full if the milestone is met on or before the due date in the DCC's approved plan for R2.0
- A "taper" then applies as follows, and is illustrated in Annex A:

¹ Note that the total amount of Project Baseline Margin (including assessment of historic cost) has yet to be made, but that the full amount of this Margin is at risk under this scheme. Margin retained under this scheme is separate to that retained under the Operational Performance Regime.

- A linear loss of margin across the next 6 weeks, such that 30%² remains at 6 weeks after the milestone
- A linear loss of margin across the subsequent 3 weeks, such that 10% remains at 9 weeks after the milestone
- 10% margin is then retained for delivery between 9 and 18 weeks after the due date
- 0% margin will be retained for delivery later than 18 weeks after the due date
- Each Project Activity is specific to one Communications Service Provider (CSP), allowing completion of milestones for one CSP region only
- There is no recovery mechanism, as delivering subsequent milestones on time following a missed milestone does not recover lost time for Users
- There is no additional reward for delivering earlier than the due date

Ex-post assessment

In addition, we are proposing to ask the SEC Panel to make an *ex-post* quality assessment to ensure that DCC Systems were working correctly after all milestones. This assessment would be based on evidence provided by DCC, and assured by an independent Performance Auditor (see below). We are envisaging that this evidence from the Performance Auditor is presented to the SEC Panel after go-live for all milestones, but note that DCC and the SEC Panel can make bilateral arrangements for this.

If the SEC Panel determines that the availability and/or stability of the appropriate DCC Systems functionality which supports the provision of Services for each milestone (either UIT or Production) is materially worse than could reasonably be expected, then the milestone completion date will be the date determined by the SEC Panel as being the date on which all material problems relating to the availability and/or stability of that functionality have been satisfactorily resolved.

In the event of a dispute between the SEC Panel and DCC over such a determination, the Secretary of State will determine the appropriate date to be used and his determination will be final.

Force majeure and external dependencies

We are also proposing a process to deal with events or circumstances beyond the reasonable control of DCC or its Service Providers that cause delays to delivery of milestones. In such cases, we propose to allow the incentives to be re-set by BEIS. Whilst recognising that a failure to achieve a Project Activity by the relevant due date could arise due to events or circumstances beyond DCC's reasonable control, the Secretary of State expects DCC actively to manage its dependencies and, where possible, mitigate these risks. The mechanism for dealing with such *force majeure* would be for the Secretary of State to consult on a replacement project incentive scheme that adjusted for the event or circumstance accordingly.

In cases where DCC envisages that the delivery of its milestones by the relevant due date will be, or has been, adversely impacted by events or circumstances beyond its reasonable control or that of its Service Providers, and where DCC has taken steps (where reasonably possible) to actively manage and mitigate the risk of such events or circumstances impacting on the milestones' delivery, then it would need to apply to the Secretary of State to request a modification of the due dates and/or criteria.

For these purposes, we propose to define *force majeure* as: an act of God, an act of the public enemy, war declared or undeclared, threat of war, terrorist act (or threat of), blockade, revolution, riot, insurrection, civil commotion, public demonstration, sabotage, act of vandalism, fire or flood (not related to weather), governmental restraint, Act of Parliament or other legislation (except modifications to conditions of electricity or gas supply licences, conditions of the DCC Licence, or the Smart Energy

² The DCC Licence deals with Baseline Margin such that DCC is allowed to recover all margin, and the Project Incentive Schemes re-recover this margin if DCC fails to meet its incentive targets. That being the case, a net position of DCC being permitted to retain 30% of its margin is equivalent to re-recovering 70% of the allowed margin under the scheme, and hence a Project Activity Performance Factor of 0.7 (rather than 0.3).

Code), by-law or directive or decision of a court of competent authority or the European Commission or any other body having jurisdiction over the activities of DCC. Neither lack of funds nor weather conditions which are reasonably expected to occur at the location of the event or circumstance would be considered to be beyond the reasonable control of DCC.

We also expect that DCC's approved plan for R2.0 takes into account any interactions with other currently anticipated developments in the Smart Metering Implementation Programme, such as the impact of changes to the Smart Energy Code and/or licence conditions to support Enrolment and Adoption of SMETS1 Smart Metering Systems. We would not therefore consider that the implementation of such changes would be able to trigger adjustments to the project incentive scheme.

In addition to *force majeure*, we would consider the following to be beyond DCC's reasonable control and therefore potentially capable of giving rise to a change to the project incentive scheme:

- A material defect in GBCS or SMETS
- A material and late change in requirements or specifications (other than those initiated by DCC, or necessitated by the action, or failure to act reasonably, of DCC or its Service Providers)
- A delay in governance decisions by BEIS and/or the SEC Panel where DCC provided sufficient documentation in a timely manner
- Supply chain dependencies that are beyond the reasonable control of DCC or its Service Providers (e.g. a fundamental problem with the ZigBee protocol or global non-availability of 868 chipset)

The Secretary of State would consider any request from DCC for such a change and may (or may not) propose modifications to the due dates and/or criteria as he considers appropriate.

Summary of incentivised project activities

The proposed Project Activities are summarised as follows and each milestone and associated incentive payment is described in further detail in Annex B:

#	Project Activity	CSP Regions	Milestone Description	%	Due Date
PA-R2.0-1a	UIT SBCH Commenced & Stable	N	The point at which UIT Entry Criteria are met for SBCH changes; service deemed to be stable/available	7.5%	21/05/18
PA-R2.0-1b		C&S		7.5%	21/05/18
PA-R2.0-2a	UIT DBCH Commenced & Stable	N	The point at which UIT Entry Criteria are met for DBCH changes; service deemed to be stable/available	10%	19/07/18
PA-R2.0-2b		C&S		10%	19/07/18
PA-R2.0-3a	DBCHs available at initial volume and DCC Systems live	N	The point at which the initial batch of compliant production DBCHs is made available and Release 2.0 has gone live; less than 0.5% DBCHs returned for DCC fault and Release 2.0 systems stable/available.	12.5%	15/10/18
PA-R2.0-3b		C&S		12.5%	15/10/18
PA-R2.0-4a	DBCHs available at full volume and DCC Systems live	N	The point at which production DBCHs can be delivered at full volume in accordance with the SEC (F5-F9) and Release 2.0 has gone live; less than 0.5% DBCHs returned for DCC fault and Release 2.0 systems stable/available.	20%	13/12/18
PA-R2.0-4b		C&S		20%	13/12/18

Governance

The User Integration Testing Approach Document (UITAD) which is approved by BEIS will contain details of the UIT Entry Criteria and a proposal for the SEC Panel to assess when DCC has met these. This process would be used to determine the completion date for Project Activities 1a, 1b, 2a and 2b.

We propose that the completion date for Project Activities 3a, 3b, 4a and 4b is determined by the SEC Panel.

We are also proposing that DCC appoints an independent Performance Auditor to assess the evidence for completion of each Project Activity before presentation to the SEC Panel. This assessment would include evidence for both the completion of criteria, and of systems stability (as described in Annex B). We are envisaging that this evidence from the Performance Auditor is presented to the SEC Panel after go-live for all milestones, but note that DCC and the SEC Panel can make bilateral arrangements for this.

Responding to this consultation

We would welcome views on the following questions:

- i. Do you agree with the proposed incentives for delivery of R2.0?
- ii. Do you agree with the proposed *ex-post* assessment, and do you have proposed criteria for this assessment?
- iii. Do you agree with the proposed handling of *force majeure* and external dependencies?
- iv. Do you agree with the proposed governance for determining the date when each Project Activity was completed?
- v. Do you have any comments on the proposed details of incentives for delivery of R2.0 in Annex B?

Comments on these proposals should be submitted by 17:00 on 16 February 2018 to:

smartmetering@beis.gov.uk

or addressed to:

Smart Metering Implementation Programme
Department for Business, Energy & Industrial Strategy
Orchard 5, 1 Victoria Street
London, SW1H 0ET

Yours sincerely,



TERESA CAMEY

Deputy Director Stewardship, Smart Metering Implementation Programme

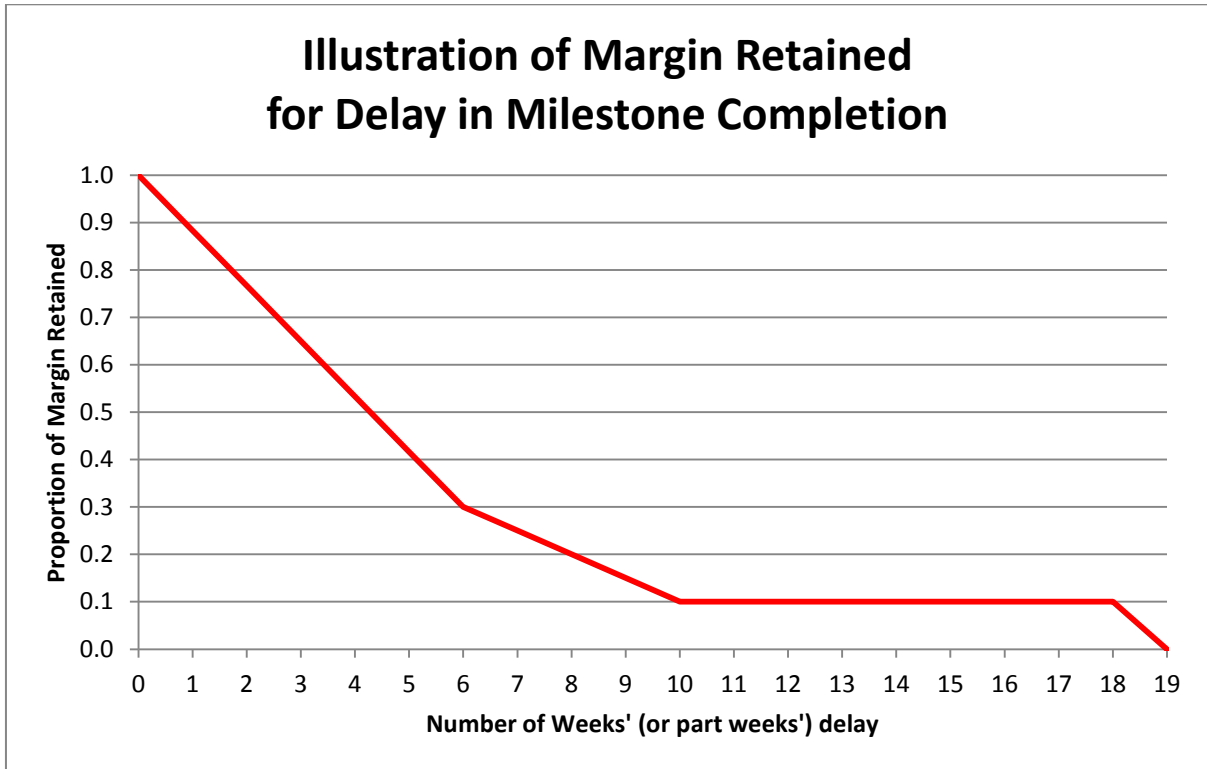
(an official of the Department for Business, Energy & Industrial Strategy authorised to act on behalf of the Secretary of State)

Information provided in response to this consultation, including personal information, may be subject to publication or release to other parties or to disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004).

BEIS may publish the individual responses to this consultation on its website and you should therefore let us know if you are not content for the response or any part of it to be published. If you indicate that you do not want your response published we will not publish it automatically but it could still be subject to information requests as detailed above. If you do not want your individual response to be published on the website, or to otherwise be treated as confidential please say so clearly in writing when you send your response to the consultation. For the purposes of considering access to information requests it would also be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

ANNEX A: MILESTONE TAPER ILLUSTRATION

The principles of the taper as outlined above, and given in detail in Annex B are shown visually in the graph below:³



³ Note that there is a "step" decrease each week rather than the smooth line as shown on the graph

ANNEX B: BASELINE MARGIN PROJECT PERFORMANCE ADJUSTMENT SCHEME

RELEASE 2.0 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 for paragraph 35.5 of Condition 35 of the DCC Licence (The Chapter 9 Particular Definitions) identifying a '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).

In this Scheme, in accordance with the provisions of paragraph A4 of Appendix 1 to Condition 38 of the DCC Licence –

- Section 1 identifies the project to which the Scheme relates (the **Project**).
- Section 2 describes a number of activities carried out by the DCC for the purposes of the Project (the **Project Activities**).
- Section 3 specifies a weighting factor in relation to each Project Activity (the **Project Activity Weighting Factors**).
- Section 4 describes a performance target in relation to each Project Activity (the **Project Activity Milestones**).
- Section 5 specifies a performance factor in relation to each Project Activity Milestone (the **Project Activity Performance Factors**).

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

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 produced by the DCC in compliance with a direction issued by the Secretary of State on 24 January 2017 under Condition 13 of the DCC Licence (Arrangements relating to the Transition Objective);
- (b) during the period 1 April 2017 to 31 March 2019;
- (c) in order to support a change in the nature and scope of the Services by facilitating the effective delivery of Service Release 2.0.

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 Activity 1A

2.2 **Project Activity 1A** constitutes all the activities undertaken by the DCC in order to provide a User Integration Testing facility for the DCC Systems functionality relating to upgraded single-band Communications Hubs (**SBCH**), including by making available upgraded test SBCH as part of that facility for use in the North Region.

Project Activity 1B

2.3 **Project Activity 1B** constitutes all the activities undertaken by the DCC in order to provide a User Integration Testing facility for the DCC Systems functionality relating to upgraded SBCH, including by making available upgraded test SBCH as part of that facility for use in the Central Region and South Region.

Project Activity 2A

2.4 **Project Activity 2A** constitutes all the activities undertaken by the DCC in order to provide a User Integration Testing facility for the DCC Systems functionality relating to upgraded SBCH and upgraded dual-band Communications Hubs (**DBCH**), including by making available both upgraded test SBCH and DBCH as part of that facility for use in the North Region.

Project Activity 2B

- 2.5 **Project Activity 2B** constitutes all the activities undertaken by the DCC in order to provide a User Integration Testing facility for the DCC Systems functionality relating to upgraded SBCH and upgraded DBCH, including by making available both upgraded test SBCH and DBCH as part of that facility for use in the Central Region and South Region.

Project Activity 3A

- 2.6 **Project Activity 3A** constitutes the activity of delivering DBCH during the period:
- (a) which falls after the SEC modifications requiring the DCC to provide Enrolment and Communications Services in accordance with Service Release 2.0:
 - (i) becoming effective in relation to Smart Metering Systems located in the CSP North Region; and
 - (ii) being supported by appropriate DCC Systems functionality; and
 - (b) in which the DCC is not required to deliver DBCH by virtue of Section F6 of the SEC, but is obliged by virtue of variations made under Section X3 of the SEC to make a limited quantity of DBCH available to SEC Parties.

Project Activity 3B

- 2.7 **Project Activity 3B** constitutes the activity of delivering DBCH during the period:
- (a) which falls after the SEC modifications requiring the DCC to provide Enrolment and Communications Services in accordance with Service Release 2.0:
 - (i) becoming effective in relation to Smart Metering Systems located in the CSP Central Region and South Regions; and
 - (ii) being supported by appropriate DCC Systems functionality;
 - (b) in which the DCC is not required to deliver DBCH by virtue of Section F6 of the SEC, but is obliged by virtue of variations made under Section X3 of the SEC to make a limited quantity of DBCH available to SEC Parties.

Project Activity 4A

2.8 **Project Activity 4A** constitutes the activity of delivering DBCH that are required to be delivered to support the roll-out of Smart Metering Systems in the North Region:

- (a) during the period which falls after the SEC modifications requiring the DCC to provide Enrolment and Communications Services in accordance with Service Release 2.0:
 - (i) becoming effective in relation to Smart Metering Systems located in the CSP North Region; and
 - (ii) being supported by appropriate DCC Systems functionality; and
- (b) in accordance with the provisions of Section F6 of the SEC, and in response to Valid Communications Hubs Orders that are not subject to quantitative limits set by virtue of variations made under Section X3 of the SEC.

Project Activity 4B

2.9 **Project Activity 4B** constitutes the activity of delivering DBCH that are required to be delivered to support the roll-out of Smart Metering Systems in the Central Region and South Region:

- (a) during the period which falls after the SEC modifications requiring the DCC to provide Enrolment and Communications Services in accordance with Service Release 2.0:
 - (i) becoming effective in relation to Smart Metering Systems located in the CSP Central Region and South Regions; and
 - (ii) being supported by appropriate DCC Systems functionality; and
- (b) in accordance with the provisions of Section F6 of the SEC and in response to Valid Communications Hubs Orders that are not subject to quantitative limits set by virtue of variations made under Section X3 of the SEC.

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>
1A	0.075
1B	0.075
2A	0.100
2B	0.100
3A	0.125
3B	0.125
4A	0.200
4B	0.200

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:

- (a) the Specified Date and Milestone Date in respect of each Project Activity are those identified in paragraphs 4.4 to 4.18;
- (b) each of the Specified Dates identified in those paragraphs is subject to the provisions of paragraphs 4.19 and 4.20 (Determinations by the Secretary of State).

Project Activity Milestone 1A

- 4.4 The Specified Date in relation to Project Activity 1A is whichever is the later of the following dates:

- (a) the date determined by the Panel as being the date on which both:
 - (i) the User Testing Entry Criteria have been met for the commencement of User Integration Testing in respect of the DCC Systems functionality relating to:
 - 4.4.a.i.1. upgraded SBCH; and
 - 4.4.a.i.2. the North Region; and
 - (ii) upgraded test SBCH have been made available within that User Integration Testing environment for use in the North Region; or
- (b) if the Panel has determined that the availability and/or stability of that User Integration Testing environment is materially worse than could reasonably be expected, the date determined by the Panel as being the date on which all material problems relating to the availability and/or stability of that environment have been satisfactorily resolved.

4.5 The Milestone Date in relation to Project Activity 1A is 21 May 2018.

Project Activity Milestone 1B

4.6 The Specified Date in relation to Project Activity 1B is whichever is the later of the following dates:

- (a) the date determined by the Panel as being the date on which both:
 - (i) the User Testing Entry Criteria have been met for the commencement of User Integration Testing in respect of the DCC Systems functionality relating to:
 - 4.6.a.i.1. upgraded SBCH; and
 - 4.6.a.i.2. the Central Region and South Region; and
 - (ii) upgraded test SBCH have been made available within that User Integration Testing environment for use in the Central Region and South Region; or
- (b) if the Panel has determined that the availability and/or stability of that User Integration Testing environment is materially worse than could reasonably be expected, the date determined by the Panel as being the date on which all material problems relating to the availability and/or stability of that environment have been satisfactorily resolved.

4.7 The Milestone Date in relation to Project Activity 1B is 21 May 2018.

Project Activity Milestone 2A

4.8 The Specified Date in relation to Project Activity 2A is whichever is the later of the following dates:

- (a) the date determined by the Panel as being the date on which both:
 - (i) the User Testing Entry Criteria have been met for the commencement of User Integration Testing in respect of the DCC Systems functionality relating to:
 - 4.8.a.i.1. both upgraded SBCH and upgraded DBCH;
 - 4.8.a.i.2. the North Region; and
 - (ii) upgraded test SBCH and DBCH have been made available within that User Integration Testing environment for use in the North Region; or
- (b) if the Panel has determined that the availability and/or stability of that User Integration Testing environment is materially worse than could reasonably be expected, the date determined by the Panel as being the date on which all material problems relating to the availability and/or stability of that environment have been satisfactorily resolved.

4.9 The Milestone Date in relation to Project Activity 2A is 19 July 2018.

Project Activity Milestone 2B

4.10 The Specified Date in relation to Project Activity 2B is whichever is the later of the following dates:

- (a) the date determined by the Panel as being the date on which both:
 - (i) the User Testing Entry Criteria have been met for the commencement of User Integration Testing in respect of the DCC Systems functionality relating to:
 - 4.10.a.i.1. both upgraded SBCH and upgraded DBCH;
 - 4.10.a.i.2. the Central Region and South Region; and
 - (ii) upgraded test SBCH and DBCH have been made available within that User Integration Testing environment for use in the Central Region and South Region; or
- (b) if the Panel has determined that the availability and/or stability of that User Integration Testing environment is materially worse than could reasonably be expected, the date determined by the Panel as being the date on which all material problems relating to the availability and/or stability of that environment have been satisfactorily resolved.

4.11 The Milestone Date in relation to Project Activity 2B is 19 July 2018.

Project Activity Milestone 3A

4.12 The Specified Date in relation to Project Activity 3A is whichever is the later of the following dates:

- (a) the date determined by the Panel as being the date from which the DCC is capable of delivering DBCH that are required to be delivered to support the roll-out of Smart Metering Systems in the North Region in circumstances in which the DBCH are to be delivered pursuant to the requirement on the DCC, by virtue of variations made under Section X3 of the SEC, to make a limited quantity of DBCH available to SEC Parties;
- (b) the date on which SEC modifications requiring the DCC to provide Enrolment and Communications Services in accordance with Service Release 2.0 become effective in relation to Smart Metering Systems located in the North Region; or
- (c) if the Panel has determined that the availability and/or stability of the appropriate DCC Systems functionality which supports the provision of Services in accordance with those SEC modifications is materially worse than could reasonably be expected, the date determined by the Panel as being the date on which all material problems relating to the availability and/or stability of that functionality have been satisfactorily resolved.

4.13 The Milestone Date in relation to Project Activity 3A is 15 October 2018.

Project Activity Milestone 3B

4.14 The Specified Date in relation to Project Activity 3B is whichever is the later of the following dates:

- (a) the date determined by the Panel as being the date from which the DCC is capable of delivering DBCH that are required to be delivered to support the roll-out of Smart Metering Systems in the Central Region and South Region in circumstances in which the DBCH are to be delivered pursuant to the requirement on the DCC, by virtue of variations made under Section X3 of the SEC, to make a limited quantity of DBCH available to SEC Parties;
- (b) the date on which SEC modifications requiring the DCC to provide Enrolment and Communications Services in accordance with Service Release 2.0 become effective in relation to Smart Metering Systems located in the Central Region and South Region; or
- (c) if the Panel has determined that the availability and/or stability of the appropriate DCC Systems functionality which supports the provision of Services in accordance with those SEC modifications is materially worse than could reasonably be expected, the date

determined by the Panel as being the date on which all material problems relating to the availability and/or stability of that functionality have been satisfactorily resolved.

- 4.15 The Milestone Date in relation to Project Activity 3B is 15 October 2018.

Project Activity Milestone 4A

- 4.16 The Specified Date in relation to Project Activity 4A is whichever is the later of the following dates:

- (a) the date determined by the Panel as being the date from which the DCC is capable of delivering DBCH that are required to be delivered to support the roll-out of Smart Metering Systems in the North Region in accordance with the provisions of Section F6 of the SEC and in response to Valid Communications Hubs Orders that are not subject to quantitative limits set by virtue of variations made under Section X3 of the SEC;
- (b) the date on which SEC modifications requiring the DCC to provide Enrolment and Communications Services in accordance with Service Release 2.0 become effective in relation to Smart Metering Systems located in the North Region; or
- (c) if the Panel has determined that the availability and/or stability of the appropriate DCC Systems functionality which supports the provision of Services in accordance with those SEC modifications is materially worse than could reasonably be expected, the date determined by the Panel as being the date on which all material problems relating to the availability and/or stability of that functionality have been satisfactorily resolved.

- 4.17 The Milestone Date in relation to Project Activity 4A is 13 December 2018.

Project Activity Milestone 4B

- 4.18 The Specified Date in relation to Project Activity 4B is whichever is the later of the following dates:

- (a) the date determined by the Panel as being the date from which the DCC is capable of delivering DBCH that are required to be delivered to support the roll-out of Smart Metering Systems in the Central Region and South Region in accordance with the provisions of Section F6 of the SEC and in response to Valid Communications Hubs Orders that are not subject to quantitative limits set by virtue of variations made under Section X3 of the SEC;
- (b) the date on which SEC modifications requiring the DCC to provide Enrolment and Communications Services in accordance with Service Release 2.0 become effective in relation to Smart Metering Systems located in the Central Region and South Region; or

- (c) if the Panel has determined that the availability and/or stability of the appropriate DCC Systems functionality which supports the provision of Services in accordance with those SEC modifications is materially worse than could reasonably be expected, the date determined by the Panel as being the date on which all material problems relating to the availability and/or stability of that functionality have been satisfactorily resolved.

4.19 The Milestone Date in relation to Project Activity 4B is 13 December 2018.

Determinations by the Secretary of State

4.20 Where the Panel has made a determination of a type described in any of sub-paragraphs 4.4(b), 4.6(b), 4.8(b), 4.10(b), 4.12(a), 4.12(c), 4.14(a), 4.14(c), 4.16(a), 4.16(c), 4.18(a) or 4.18(c), and where the DCC disagrees with that determination, the DCC:

- (a) may within 14 days of the Panel's determination apply to the Secretary of State to make a fresh determination of the same question that was determined by the Panel; and
- (b) shall, where it makes that application, promptly provide to the Secretary of State all such information and evidence as he requests in relation to the question that is to be determined.

4.21 Where, following the receipt of any such application and all such information of evidence as he may request, and having followed any such process as he may consider appropriate, the Secretary of State makes a determination, and where the date that is determined by him is different from that originally determined by the Panel, then for the purposes of this Scheme:

- (a) the date determined by the Panel shall be treated as having no effect;
- (b) the date determined by the Secretary of State shall:
 - (i) be substituted for that determined by the Panel; and
 - (ii) have effect in its place as the date identified by the relevant sub-paragraph;
- (c) any consequential amendment to the Specified Date shall be made accordingly.

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, but subject to the overriding provisions of paragraphs 5.3 to 5.6.

5.2 Where in relation to any Project Activity:

- (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 be the date which corresponds to the Specified Date in relation to that Project Activity in the table immediately below.

Project Activities 1A and 1B Specified Date	Project Activities 2A and 2B Specified Date	Project Activities 3A and 3B Specified Date	Project Activities 4A and 4B Specified Date	PAPF
Up to and including 21/05/2018	Up to and including 19/07/2018	Up to and including 15/10/2018	Up to and including 13/12/2018	0.000
Between 22/05/18 & 28/05/18	Between 20/07/18 & 26/07/18	Between 16/10/18 & 22/10/18	Between 14/12/18 & 20/12/18	0.117
Between 29/05/18 & 04/06/18	Between 27/07/18 & 02/08/18	Between 23/10/18 & 29/10/18	Between 21/12/18 & 27/12/18	0.233
Between 05/06/18 & 11/06/18	Between 03/08/18 & 09/08/18	Between 30/10/18 & 05/11/18	Between 28/12/18 & 03/01/19	0.350
Between 12/06/18 & 18/06/18	Between 10/08/18 & 16/08/18	Between 06/11/18 & 12/11/18	Between 04/01/19 & 10/01/19	0.467
Between 19/06/18 & 25/06/18	Between 17/08/18 & 23/08/18	Between 13/11/18 & 19/11/18	Between 11/01/19 & 17/01/19	0.583
Between 26/06/18 & 02/07/18	Between 24/08/18 & 30/08/18	Between 20/11/18 & 26/11/18	Between 18/01/19 & 24/01/19	0.700
Between 03/07/18 & 09/07/18	Between 31/08/18 & 06/09/18	Between 27/11/18 & 03/12/18	Between 25/01/19 & 31/01/19	0.750
Between 10/07/18 & 16/07/18	Between 07/09/18 & 13/09/18	Between 04/12/18 & 10/12/18	Between 01/02/19 & 07/02/19	0.800
Between 17/07/18 & 23/07/18	Between 14/09/18 & 20/09/18	Between 11/12/18 & 17/12/18	Between 08/02/19 & 14/02/19	0.850
Between 24/07/18 & 30/07/18	Between 21/09/18 & 27/09/18	Between 18/12/18 & 24/12/18	Between 15/02/19 & 21/02/19	0.900
Between 31/07/18 & 06/08/18	Between 28/09/18 & 04/10/18	Between 25/12/18 & 31/12/18	Between 22/02/19 & 28/02/19	0.900
Between 07/08/18 & 13/08/18	Between 05/10/18 & 11/10/18	Between 01/01/19 & 07/01/19	Between 01/03/19 & 07/03/19	0.900
Between 14/08/18 & 20/08/18	Between 12/10/18 & 18/10/18	Between 08/01/19 & 14/01/19	Between 08/03/19 & 14/03/19	0.900
Between 21/08/18 & 27/08/18	Between 19/10/18 & 25/10/18	Between 15/01/19 & 21/01/19	Between 15/03/19 & 21/03/19	0.900
Between 28/08/18 & 03/09/18	Between 26/10/18 & 01/11/18	Between 22/01/19 & 28/01/19	Between 22/03/19 & 28/03/19	0.900
Between 04/09/18 & 10/09/18	Between 02/11/18 & 08/11/18	Between 29/01/19 & 04/02/19	Between 29/03/19 & 04/04/19	0.900
Between 11/09/18 & 17/09/18	Between 09/11/18 & 15/11/18	Between 05/02/19 & 11/02/19	Between 05/04/19 & 11/04/19	0.900
Between 18/09/18 & 24/09/18	Between 16/11/18 & 22/11/18	Between 12/02/19 & 18/02/19	Between 12/04/19 & 18/04/19	0.900
25/09/18 and any subsequent date	23/11/18 and any subsequent date	19/02/19 and any subsequent date	19/04/19 and any subsequent date	1.000

Project Activities 3A and 3B

5.3 Where the circumstances described in paragraph 5.4 apply:

- (a) the PAPF in relation to each of Project Activities 3A and 3B shall be 1 (one);
- (b) any different PAPF that would otherwise apply by virtue of the table at paragraph 5.2 shall be disregarded for the purposes of this Scheme.

5.4 The circumstances described in this paragraph are that:

- (a) DBCH have been delivered by the DCC pursuant to the requirement on it, by virtue of variations made under Section X3 of the SEC, to make a limited quantity available to SEC Parties; and
- (b) more than 0.5% of those DBCH which were delivered within the first month in which that requirement had effect, have been, within three months of the date of delivery:
 - (i) returned, lost or destroyed for a reason that constitutes a CH Pre-Installation DCC Responsibility or a CH Post-Installation DCC Responsibility; or
 - (ii) subject to a Product Recall or Technology Refresh.

Project Activities 4A and 4B

5.5 Where the circumstances described in paragraph 5.6 apply:

- (a) the PAPF in relation to each of Project Activities 4A and 4B shall be 1 (one);
- (b) any different PAPF that would otherwise apply by virtue of the table at paragraph 5.2 shall be disregarded for the purposes of this Scheme.

5.6 The circumstances described in this paragraph are that:

- (a) DBCH have been delivered by the DCC pursuant to the provisions of Section F6 of the SEC and in response to Valid Communications Hubs Orders that are not subject to quantitative limits set by virtue of variations made under Section X3 of the SEC; and
- (b) more than 0.5% of those DBCH which were delivered within the first month in which those provisions had effect, have been, within three months of the date of delivery:
 - (i) returned, lost or destroyed for a reason that constitutes a CH Pre-Installation DCC Responsibility or a CH Post-Installation DCC Responsibility; or
 - (ii) subject to a Product Recall or Technology Refresh.

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5.7 For the purposes of paragraphs 5.3 to 5.6, the DCC shall:

- (a) maintain accurate records, supported by documentary evidence, sufficient to establish whether the circumstances described in each of paragraphs 5.4 and 5.6 apply;
- (b) whenever requested by the Secretary of State to do so, promptly provide a report to him containing such up-to-date information and evidence relating to those records as he may request;
- (c) within one month of the delivery to a SEC Party of the last DBCH falling within the scope of each of paragraphs 5.4:
 - (i) submit a report to the Secretary of State identifying, by reference to those records, whether or not the circumstances described in that paragraph apply;
 - (ii) provide together with that report such supporting information and evidence as is reasonably required to support the conclusion set out in it;
- (d) whenever requested by the Secretary of State to do so, make its records, and their supporting evidence, available for inspection and audit by any person nominated by him for that purpose.

6 Definitions and Interpretation

6.1 Except to the extent to which an alternative definition is set out in paragraph 6.4:

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

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

6.3 References to a Project Activity followed by an alphanumeric indicator shall be interpreted in accordance with the relevant provisions of paragraphs 2.2 to 2.9.

6.4 For the purposes of this Scheme, unless the context otherwise requires –

DBCH	means dual-band Communications Hubs.
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DCC Licence	means the smart meter communication licences granted under the Electricity Act 1989 and the Gas Act 1986, taken together.
Milestone Date	has the meaning given to that expression in paragraph 4.2.
PAPF	means Project Activity Performance Factor.
Project	has the meaning given to that expression in paragraph 1.1.
SBCH	means single-band Communications Hubs.
Scheme	means this Baseline Margin Project Performance Adjustment Scheme.
Service Release 2.0	has the meaning given to that expression in the direction issued by the Secretary of State on 24 January 2017 under Condition 13 of the DCC Licence (Arrangements relating to the Transition Objective).
Specified Date	has the meaning given to that expression in paragraph 4.2.