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DP224 'SEC Performance Assurance Framework'

Modification Report

Version 0.2
6 March 2023



About this document

This document is a draft Modification Report. It currently sets out the background, issue, and progression timetable for this modification, along with any relevant discussions, views and conclusions. This document will be updated as this modification progresses.

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1. Summary

This proposal has been raised by Emslie Law from OVO Energy.

The Smart Energy Code (SEC) does not explicitly define a Performance Assurance Framework (PAF), which is in contrast with some other Energy Codes. Instead, the SEC Panel, as the key decision-making authority under the SEC, is expected to deal with any performance-related matters as they arise. However, managing performance-related matters on a case-by-case basis is challenging and the scope of the Panel is broad.

A project undertaken on the Panel's behalf has concluded that the implementation of a risk-based PAF under the SEC would give confidence to Parties that: the obligations set out in the SEC are being fulfilled; that Parties are not being disadvantaged by the failure of any one Party to meet its obligations; and that performance risks and issues are dealt with in a standardised manner. The project detailed a proposed approach to the delivery of a PAF and concluded this should be progressed further via the SEC modification framework. This Draft Proposal has been raised to take this work forward.

2. Issue

What are the current arrangements?

What is a PAF?

When acceding to multi-party agreements such as the SEC, Parties accept the obligations set out within the agreement. The assumption is that fulfilment of these obligations is necessary for the objectives of the relevant agreement to be achieved.

A PAF can be set up under such agreements to give confidence to all signatories that the obligations set out in the agreement are being fulfilled, and that failure to meet obligations is not detracting from the achievement of the objectives of the agreement. It can also give confidence to signatories, both individually and collectively, that they are not being disadvantaged by the failure of any one signatory 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. However, it is not the purpose of a PAF to determine whether obligations are 'right' or optimum, though operation of the PAF may highlight areas of risk where, for example, compliance is proving difficult to achieve.

Typically, a PAF comprises four principal parts:

- **Governance arrangements**, which will likely include establishing a governance body (for example, a Performance Assurance Board (PAB)).
- A **Risk Evaluation Methodology** used to identify, evaluate, and assess the materiality of risks to the fulfilment of the code objectives.

- A set of **Performance Assurance Techniques** which can be applied to mitigate and manage the risks identified by the Risk Evaluation Methodology and cover the different aspects of assurance. These are often categorised as:
 - **Preventative:** techniques that are intended to promote assurance by acting early in the lifecycle to avoid subsequent operational non-compliances
 - **Incentivisation:** techniques which encourage operational compliance, and are often also seen as part of the 'corrective' category
 - **Detective:** techniques which discover and provide evidence of areas of risk, or non-compliances
 - **Corrective:** 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
- A **Support Capability** to facilitate the operation of the PAF. This would include support staff, explicit and detailed business processes, and support tools.

Designing 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 the areas of highest risk and a proposed assurance plan. This plan might be put to signatories and any overarching governance body for endorsement before being implemented by the PAB. This approach would also allow the appropriate phasing of the introduction of assurance measures to match the maturity of arrangements area-by-area.

Existing assurance mechanisms under the SEC

In general, the SEC does not explicitly mandate the end-to-end, coherent view of assurance that would be one of the outcomes of a PAF. As it stands, the SEC Panel is seen as the decision-making body, and would therefore be expected to deal with assurance matters individually as they arise. Compliance with the SEC is also a Licence Condition for SEC Parties, and therefore ultimately subject to Ofgem authority.

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

- Provisions providing for Parties to raise Disputes (SEC Section M7) and those allowing for the Panel to declare a material breach by a Party.
- The capability brought under the SEC through the Smart Meter Device Assurance (SMDA) scheme (SEC Section F12), providing a preventive technique.
- The Operations Group (OPSG), working with the Data Communications Company (DCC), has pursued several topics with the aim of improving compliance. In general, the OPSG has adopted a style of 'inform, encourage, persuade', as with Radio Frequency Noise compliance. In effect, this style incorporates some aspects of preventative, 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.
- The SEC includes strong provisions for assuring security (SEC Section G).

What is the issue?

The SEC does not explicitly define a PAF, in contrast with other Energy Codes such as the Balancing and Settlement Code (BSC), the Retail Energy Code (REC) and the Uniform Network Code (UNC). Instead, the SEC Panel, as the key decision-making authority under the SEC, is expected to deal with any performance-related matters as they arise. However, managing performance-related matters on a case-by-case basis is challenging and the scope of the Panel is broad.

The Panel therefore considered whether a PAF and a PAB should be established under the SEC. It subsequently approved the Smart Energy Code Administrator and Secretariat (SECAS) undertaking a project to investigate this further. The aim of this project was to facilitate the development of a proposal to implement a PAF¹.

The project concluded that the implementation of a risk-based PAF under the SEC would give confidence to Parties that:

- The obligations set out in the SEC are being fulfilled, and that any failure to meet obligations will not detract from the achievement of the SEC Objectives;
- They are not being disadvantaged, either individually and collectively, by the failure of any one Party to meet its obligations; and
- Performance risks and issues are dealt with in a standardised manner.

The project's findings, approved by the Panel, detailed a proposed approach to the delivery of a PAF, based on the premise that:

- Changes to the SEC will be required to fully enable the introduction of a PAF – a PAB could be established under the existing SEC provisions, but would lack the 'weight' to apply any PAF without corresponding obligations being placed on Parties;
- The PAF will require a delivery/responsible body, a PAB, to develop and manage the framework;
- The changes will be further developed and implemented via the SEC modification process, after which an 'annual' budget will be established to facilitate the PAF, to be managed by a PAB; and
- All Parties who will be included in the PAF will have the opportunity to shape it into a working model that best supports the SEC Objectives.

The Panel agreed that further work on the delivery of a PAF should be undertaken via the modification framework, to avoid duplication of effort. It therefore agreed that a Draft Proposal should be raised to take this forward². The work and materials (including the proposed SEC changes and the proposed PAB terms of reference) developed under the project will be handed over for use under this modification.

What is the impact this is having?

Having the Panel manage performance-related matters on a case-by-case basis is challenging and the scope of the Panel is broad. One of the challenges the Panel has faced has been to ensure that

¹ Please see [SEC Panel paper SECP_95_1308_04](#) (White) for further details

² Please see [SEC Panel paper SECP_111_1612_08](#) (Green) for further details

sufficient resources with the required time and detailed technical expertise are available to deal with issues and risks as they arise, especially as the volume of Parties, data and change has increased.

Under the project, SECAS and the OPSG identified a range of historical issues and potential instances of non-compliance with obligations that might have fallen under the remit of a PAF and sought to quantify their impact. This analysis provided an indicative view of the type of SEC obligations that may fall within the scope of a PAF.

A workgroup was established under the project to seek input from industry members, but no wider consultation was undertaken. Consultation will therefore be undertaken with Parties during the Development Stage to seek further input on the issue raised under this Draft Proposal, including further examples that may have fallen within scope of a PAF, and the impacts this is having.

Impact on consumers

Any Party failing to meet its obligations or required performance levels under the SEC could have an adverse impact on the service provided to consumers. The specific impact on consumers of any given failure will depend on the obligation in question, but as a minimum could lead to a negative perception among consumers regarding the smart metering arrangements.

3. Assessment of the proposal

Areas for assessment

Scale of the issues that could fall within the scope of a PAF

The project was primarily focused on the development of a potential solution, though undertook some analysis of historical issues that could have fallen within scope of a PAF. This analysis was attached to the Panel paper setting out the PAF project's conclusions². As part of the Development Stage, consultation with Parties should be undertaken to provide further understanding of the issues that could fall under a PAF and the magnitude of the impacts these are creating.

Scope of the PAF

The scope of the PAF will be developed and confirmed as part of this modification's development.

Any scope will need to ensure that maximum benefit is achieved, whilst managing costs and ensuring that performance assurance activities are proportionate and not unduly onerous or intrusive. Given the extensive nature of the SEC, seeking to assure that every obligation is being fulfilled is unlikely to be a productive or cost-effective exercise. A risk-based PAF would identify the areas of the greatest risk to the achievement of the SEC Objectives and then make sure that appropriate performance assurance techniques are focussed on these. In the solution proposed by the project, this prioritisation process (the 'Risk Evaluation Methodology') would be developed and then managed by a PAB. This 'Risk Evaluation Methodology' would also be subject to periodic consultation with SEC Parties and endorsement by the Panel, providing for an additional level of scrutiny to give confidence to Parties that performance assurance activities are proportionate and not unduly onerous or intrusive.

The project's recommendation was that only those obligations under SEC Section G 'Security' and SEC Section J 'Charges' be excluded from the scope of the PAF. The SEC already contains explicit provisions for dealing with compliance with security risks and credit management processes. Consequently, there would seem to be little benefit in moving oversight of these to a PAB. To deem anything else to be out of scope at this stage could potentially limit the effectiveness of a PAF before the key risks to compliance with SEC objectives have been established. Consequently, all other obligations should be deemed in scope, at least until such time as the 'Risk Evaluation Methodology' has been developed and approved.

Inclusion of DCC obligations

At present, feedback to the DCC on the performance of operational services, impacts on Users, and the resolution of problems and defects falls under the scope of the OPSG, with performance issues being highlighted to the SEC Panel as required. Experience to date indicates that this process generally works well and there is a willingness by SEC Parties and the DCC to address compliance matters once they are provided with specific information regarding shortcomings.

The project considered there would seem little value in moving the existing OPSG and associated DCC performance reporting arrangements fully under the scope of a PAB, at least initially. Instead, it considered a PAB should take on more of an oversight and escalation role, similar to that currently undertaken by the Panel. This approach would be consistent with a risk-based PAF process, with the application of the current OPSG processes seen as one of the 'Performance Assurance Techniques' that a PAB could bring to bear should DCC compliance with obligations be flagged via the application of the 'Performance Assurance Methodology' as one of the key risks to be mitigated. This approach would also be consistent with the proposed approach to any other risk identified by the 'Performance Assurance Methodology' and any other impacted SEC Party.

The project recommended that DCC obligations should be considered in scope until any 'Risk Evaluation Methodology' has been established and applied to identify the main risks to compliance with SEC Objectives. This will be confirmed as part of this modification.

Sub-Committee input

SECAS will engage with the Chairs from the OPSG, the Technical Architecture and Business Architecture Sub-Committee (TABASC), the Security Sub-Committee (SSC) and the Smart Metering Key Infrastructure (SMKI) Policy Management Authority (PMA) to confirm what input is required from these forums. SECAS believes the following Sub-Committees will need to provide the following input to this modification:

Sub-Committee input	
Sub-Committee	Input sought
OPSG	The OPSG has been consulted as part of the project and will continue to be consulted on the solution under this modification and what obligations and performance levels should be included under a PAF
SMKI PMA	SMKI-related areas under SEC Section L 'Smart Metering Key Infrastructure and DCC Key Infrastructure' may fall within the scope of any PAF. The SMKI PMA should therefore be consulted on this and to what extent these should be monitored under a PAF
SSC	Security-related areas are expected to be out of scope of any PAF, and so the SSC should not need to be consulted

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Sub-Committee input	
Sub-Committee	Input sought
TABASC	There are no system or architectural impacts expected from this modification or any system changes expected to deliver any solution, and so the TABASC should not need to be consulted

Observations on the issue

This Draft Proposal was presented to the Change Sub-Committee (CSC) for initial comment. Members had no comments on the issue.

The DCC has confirmed they are supportive of the purpose underpinning this exercise stating that the performance assurance landscape has become overly complex and unwieldy. They continued that any reform must be seized as an opportunity to improve and simplify the status quo rather than drive further inefficiency, complexity and additional cost on consumers.

Appendix 1: Progression timetable

This modification is currently undergoing the Development Stage and a request for information (RFI) has been issued to better understand the issue.

Timetable	
Event/Action	Date
Draft Proposal raised	9 Jan 2023
Presented to CSC for initial comment	17 Jan 2023
Request for information issued	6 Mar – 6 Apr 2023
<i>RFI responses discussed with the Panel</i>	<i>25 Apr 2023</i>
<i>Working Group consulted on the issue</i>	<i>3 May 2023</i>
<i>CSC converts Draft Proposal to Modification Proposal</i>	<i>16 May 2023</i>

Italics denote planned events that could be subject to change

Appendix 2: Glossary

This table lists all the acronyms used in this document and the full term they are an abbreviation for.

Glossary	
Acronym	Full term
BSC	Balancing and Settlement Code
CSC	Change Sub-Committee
DCC	Data Communications Company
OPSG	Operations Group
PAB	Performance Assurance Board

Glossary	
Acronym	Full term
PAF	Performance Assurance Framework
PMA	Policy Management Authority
REC	Retail Energy Code
RFI	request for information
SEC	Smart Energy Code
SECAS	Smart Energy Code Administrator and Secretariat
SMDA	Smart Metering Device Assurance
SMKI	Smart Metering Key Infrastructure
SSC	Security Sub-Committee
TABASC	Technical Architecture and Business Architecture Sub-Committee
UNC	Uniform Network Code