

This document is classified as **White** in accordance with the Panel Information Policy. Information can be shared with the public, and any members may publish the information, subject to copyright.

SEC Panel Draft Budget 2018 - 2021 Consultation Responses

The SEC Panel consulted on the SEC Panel Draft Budget 2018 – 2021 in January 2018 in accordance with SEC Section C8.11. The Draft Budget sets out the Panel's good-faith estimate of the Recoverable Costs that it anticipates will be incurred (or committed to) for the next three Regulatory Years (2018 – 2021).

Two organisations submitted responses to the SEC Panel Draft Budget 2018 – 2021 consultation. The responses are set out below along with the comments from the Panel on each of the areas raised.

The Draft Budget has been published on the SEC Website and will become the Approved Budget on the 8th March to be effective on 1st April 2018.

| Comment Reference | Response | SEC Panel Comments |
|---------------------------|---|---|
| Respondent: npower | | |
| 1 | Concern around the apparent large reductions in costs detailed in the Draft Budget, and SEC not drawing down financial provisions, without a fully transparent explanation of why, including when costs are phased in and/or taken out of “project” costs and the associated controls that operate to mitigate risks. | The Draft Budget and estimated overrun attempts to explain the variances between estimated overrun and budget. Costs have been removed from projects where, after agreement with the Board, the level of spend on these flexible projects should be reduced. The Board reviews the drivers and costs spent each month to ensure oversight of spend. |
| 2 | The use of Community of Expert Resource – involves a high value of cost allocation, sometimes for accessing support on ad hoc basis that would again benefit from greater transparency, including whether the planning on such resource could be co-ordinated on a more central basis (and therefore more cost efficient utilisation) rather than as separate line items against a range of categories? | The Board on a regular basis review the spend against each budget line. The Draft Budget for 2018-21 has attempted to further breakdown budget lines to be clear on when and how the CoE flexible resource is being used. The CoE resource is coordinated centrally within SECAS since there are limited expertise in the industry on the technical and security elements of Smart Metering. |
| 3 | In addition a concern that the call on such (CoE) resource was intended to be transitional in nature and perhaps parties should reasonably expect a decreasing demand with a corresponding upturn in expertise/ knowledge within the core delivery team. | Since the establishment of the SECAS team upon the designation of SEC 1.0 in September 2013, the SECAS resourcing model has continued to use the Community of Expert resource for the establishment and design of processes and activities along with providing expert support to the Core Team. This support will continue to reduce over time as knowledge is transferred to the Core Team. Currently, use of CoE resource is limited to the highly technical areas and new services e.g. supporting the Security Sub Committee and providing expert support to the Modifications team, which has had to mobilise quickly and manage a high influx of Modification Proposals from the outset with the majority being technical in nature. |

| Comment Reference | Response | SEC Panel Comments |
|-------------------|---|---|
| 4 | Question of whether the SEC Panel Budget is benchmarked against other equivalent budgets under other Codes arrangements, ensuring that this is a fair comparator given the subject matter i.e. smart metering? | The budgeted amount is based on the agreed rate card for SECAS resource that underwent benchmarking against other industry codes in 2014/2015. |
| 5 | Query around the costs surrounding the appointment of Independent Chairs, including specifically the number of days that feed into the calculation of payments and again the reference to this being a function of contractual arrangements? In short this would again benefit from greater transparency of the payments being made and rigour in ensuring a clear rationale and defence for the cost outcomes. | <p>Independent Chairs are contracted on individual basis but generally provide support for four Working Days based on:</p> <ul style="list-style-type: none"> • 1 Working Day to attend the meeting; and • A further 3 Working Days to: <ul style="list-style-type: none"> ○ review agendas and any meeting documentation prior to circulation; ○ discussions and review of post meeting documentation; ○ undertaking any actions / expert support as required based on the Panel and Sub-Committee activities; ○ this can also include representing the Sub-Committee at other Committee meetings. <p>The costs for the Independent Chairs are based on the rate cards as agreed by the Board on appointment.</p> |
| 6 | We wanted to also explore the potential for double counting, that may be a function of the way the Draft Budget is presented (?), with splits between Project and BAU costs, particularly where costs are being moved to and from between these areas | We can confirm that the SECAS Projects are not double-counted. The SECAS Projects have been included as a separate line so the Board can have greater oversight of the work to be carried out on specific areas. The requirements and resource effort remain flexible and therefore remain subject to further scrutiny and justification through the Work Packages on a quarterly basis. In addition, the resource requirements are also not necessarily from the Core Team, specialist support from the Community of |

Administered by

| Comment Reference | Response | SEC Panel Comments |
|-------------------|--|---|
| | | Experts may be required to be called upon to support the activities for the project. |
| 7 | <p>In summary at face value there are some large elements of cost contained in the Draft Budget and movement in those cost elements. They are often accompanied by narrative that is less than clear on the why and justification of the associated cost impact.</p> <p>Overall the cost position expressed in the Draft Budget looks acceptable, a relatively small increase from the previous estimate for 2018/19 and a large reduction from the Approved Budget for 2017/18. However, beneath that there are large shifts in cost and we have some concerns whether the falling away of costs, reducing provisions or cost contingencies perhaps suggests some less than efficient oversight of areas of the budget, given the lack of clarity in those areas?</p> | <p>The Draft Budget has attempted to provide an explanation of which activities are included under each budget line and ensure this is as clear as possible. The reason the budget this year is presented differently than last year is an active move from having “blocks” of high level costs such as “core” and breaking them into more transparent pieces.</p> <p>The figures presented in the Draft Budget, and explanation of those figures, have also been fully reviewed by the Panel Finance and Contracts Group, and are regularly under the scrutiny of the Board.</p> |
| 8 | <p>You pose the additional query on whether the scope of Panel work, as outlined in the budget, is appropriate? Our response is generally yes, subject to the comments contained elsewhere in this letter around the need for greater transparency, controls and rigour on the movement and use of resources, activities, meetings/groups and the associated costs that flow through from them.</p> | Noted |

Administered by



| Comment Reference | Response | SEC Panel Comments |
|-------------------------------|--|---|
| Respondent: EDF Energy | | |
| 9 | Close management of expenditure is essential if the energy industry is to obtain cost savings for its customers. The SEC Panel must fully explain and justify to stakeholders all areas of potential expenditure as well as providing robust evidence to demonstrate the industry is getting value for money in all cases. If necessary, additional measures, such as greater consultation with stakeholders should be put in place to ensure SEC costs are kept to an absolute minimum. | The Panel recognise the importance of ensuring cost efficiency in the running of the SEC. As well as undertaking the consultative process to produce the Draft Budget, the Panel and Board have stringent controls in place to ensure costs are managed efficiently throughout the year. This includes monthly operations and management reports and approval of quarterly Work Packages to ensure work is undertaken in the most cost-efficient manner. |
| 10 | EDF Energy is generally supportive of the Draft Budget of £6,767,775 and the reduction of £227,325 from the Approved Budget. While we are we are pleased to see a potential reduction in the forecast out-turn charges for 2017/18 of £972,125 against the Draft Budget, we are concerned there is no real reduction in SEC charges from 2017 to 2021, with the estimated budget for 2020/21 being £6,888,043 | Noted – The estimate budgets for 2019/20 and 2020/21 are based on current knowledge. Without detailed knowledge of what is likely to occur, in what is currently a turbulent sector, it is difficult to accurately estimate costs for those periods. It is noted that there is no increase in the budget expected and it is assumed it will become easier to identify any potential cost reductions as the market settles down in an enduring regime. |
| 11 | We note the proposed budget only provides an overview of cost areas, with no detailed explanation on divergences, cost saving potentials (and how these will be achieved), deliverables or options. | <p>The Draft Budget sets out a prudent estimate of costs that the Panel reasonably anticipates it will spend throughout the financial year.</p> <p>In the case of the Project budget lines, these are a provision. The actual drawdown against these items will be driven by the time and effort required to deliver the associated piece of work.</p> <p>The Panel and Board keep close scrutiny on the budget line items throughout the year, with monthly updates on activities and drawdown to date through the Operations and Management Report. Work Packages are</p> |

Administered by

| Comment Reference | Response | SEC Panel Comments |
|-------------------|---|---|
| | | presented on a quarterly basis to the Board for approval and with commencement of any new activity or Work Package; further detail will be provided for approval on deliverables, timescales and costs to ensure costs are managed effectively. |
| 12 | EDF Energy is concerned to see a proposed increase in SECAS Services of £339k (£5.208m - £4.869m) for 2018/19. We would have hoped SECAS would have made savings to minimise the impact of the 3% (£100,000) increase in CPI. We question the additional £250k for an increase for an additional 0.9 FTE to support the new Operations Group | The addition of a higher grade resource into the team is to assist in the transition of knowledge from CoE and imbed knowledge within the team, thus reducing the utilisation of the CoE. The costs will be continually reviewed by the Board to ensure budgets are accurate and savings will be realised where they can. |
| 13 | The £550,000 provision for Panel & Board (Core Team Activities) should be examined to see if cost savings could be made in this area. In particular, meeting attendance where more than one person from SECAS attends a meeting. A further area for review where the £250,000 provision appears high is the technical expertise to support the TABASC, TAG and Operations Group | The important of continually monitoring activities to identify cost saving areas is recognised including ensuring only necessary team members are supporting meetings. The Panel and Board provision also includes time for papers to be produced for the Panel, not just attendance and secretariat general support. As with the rest of the budget, there will be greater visibility of potential savings at the end of the financial year once there is a year's worth of data using the new budget reporting lines. The provision of £250K for technical support to TABASC, TAG and the Ops Group is a prudent provision based upon current run rates, the expected level of TAG and TABASC input into upcoming change/releases and the infancy of the Ops Group. Again, we would expect that more accurate provisions can be set next financial year once there is a year's worth of data available for analysis. |

| Comment Reference | Response | SEC Panel Comments |
|-------------------|---|--|
| 14 | We are pleased to see the £360k decrease in costs for 2018/19, and support the SEC Panel in continuing to tightly manage all project costs in order that SEC Parties can be reassured costs are realistic, represent value for money and will be incurred during the regulatory year. | The Panel and Board will continue to scrutinise and management all spend under the SECAS contract and are thankful efforts to date have been successful. |
| 15 | We are pleased to see the Panel have agreed in 2018/19 to reduce the contingency provision from 10% to 5% of the total budget which results in a saving of £333k. We believe the Panel should consider reducing this figure even further in future years. | The Panel and Board will continue to review the contingency provision. |

