Department for Energy Security & Net Zero

Department for Energy Security & Net Zero
3-8 Whitehall Place
London
SW1A 2HP

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

13 November 2024

Dear Colleague,

Smart Metering Implementation Programme: consultation on minded to position for Project Activity 1 (Customer Engagement) of the DCC Baseline Margin Project Performance Adjustment Scheme for the 4G Communications Hubs and Networks Programme.

By this letter and its annexes government is today consulting on our minded to position for Project Activity 1 – Customer Engagement of the Baseline Margin Project Performance Adjustment (BMPPA) Scheme for the 4G Communications Hubs and Networks (CH&N) Programme.

The BMPPA Scheme for the 4G CH&N Programme was consulted on and subsequently made on 21 July 2023, with an updated notice under paragraphs 6.2, 6.3, 6.4, 6.6 and 6.8 of the BMPPA Scheme published on 23 May 2024. The BMPPA Scheme comprises four “Project Activities” seeking to incentivise the Data Communications Company’s (DCC’s) customer engagement in relation to the effective delivery of the 4G CH&N Programme (for Project Activities 1 and 2), the timely Live Service Criteria decision to enable the volume manufacture of 4G Communications Hubs (for Project Activity 3) and the absence of issues with the DCC’s 4G service (for Project Activity 4).

As set out in the timetable for Project Activity 1 within the notice under paragraphs 6.2, 6.3, 6.4, 6.6 and 6.8 of the Scheme, we are today consulting on our minded to position on the amount of margin the DCC should be permitted to retain in relation to Project Activity 1, and what this means in terms of the value of the Project Activity 1 Quality Factor. Stakeholders’ responses to our consultation will serve as a ‘right of reply’ to our assessment and can include further evidence or examples of DCC’s performance that we should consider.

Yours faithfully,

J Cosgrove

James Cosgrove

Deputy Director and Head of Delivery
Smart Metering Implementation Programme
(An official of the Department authorised to act on behalf of the Secretary of State)

Annex 1: Consultation document

Annex 2: DCC submission (separate document)

Annex 3: SEC Panel submission (separate document)

Annex 1: Consultation document

1) General information

Why we are consulting?

This consultation seeks stakeholders' views on the Department for Energy Security & Net Zero's minded to position for Project Activity 1 (Customer Engagement) of the Baseline Margin Project Performance Adjustment Scheme for DCC's 4G Communications Hubs and Networks Programme.

Timing

Responses to this consultation should be submitted by 5pm on **18 December 2024**.

Responding to the consultation

Your response will be most useful if it is framed in direct response to the questions posed, by reference to our numbering, though further comments and evidence are also welcome.

Responses should be submitted to smartmetering@energysecurity.gov.uk

When responding, please state whether you are responding as an individual or representing the views of an organisation.

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please tell us but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our privacy policy.

We will summarise all responses and publish this summary on the SEC website. The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Territorial extent

This consultation applies to the gas and electricity markets in Great Britain. Responsibility for energy markets in Northern Ireland lies with the Northern Ireland Executive's Department for the Economy.

Quality assurance

This consultation has been carried out in accordance with the government's consultation principles.

If you have any complaints about the way this consultation has been conducted, please email: bru@energysecurity.gov.uk

2) Background

Project Activity 1 of the 4G CH&N BMPPA Scheme

1. Under Part A of Appendix 2 to Condition 36 of the Data Communications Company (DCC) Licence, the DCC is permitted to apply for additional baseline margin (a "Relevant Adjustment") under certain circumstances where there has been a variation to the nature of its mandatory business. Ofgem confirmed that the DCC applied for a Relevant Adjustment in relation to the internal costs it additionally incurs in delivering the 4G Communications Hubs and Networks (CH&N) Programme. By default, any such additional baseline margin would be put at risk under the Operational Performance Regime administered by Ofgem.
2. However, the DCC Licence also provides for baseline margin associated with projects to instead be put at risk under a Baseline Margin Project Performance Adjustment (BMPPA) Scheme made by the Secretary of State under Appendix 1 of Condition 38 of the DCC Licence.
3. On 21 July 2023, following consultation with industry, the Department for Energy Security & Net Zero ('the Department') made a BMPPA Scheme to incentivise the DCC's delivery of the 4G CH&N Programme.
4. The BMPPA Scheme for the 4G CH&N Programme includes four categories of activities or "Project Activities" being incentivised under the Scheme. The first category "Project Activity 1" seeks to incentivise the DCC's engagement with its customers over the period 1 August 2023 to 31 March 2024 in relation to the effective delivery of the 4G CH&N Programme and carries a DCC baseline margin at risk of £213k.
5. Under Project Activity 1 of the BMPPA Scheme and as per the notice under paragraphs 6.2, 6.3, 6.4, 6.6 and 6.8 of the Scheme published on 23 May 2024, the DCC and the Smart Energy Code (SEC) Panel were required to prepare a submission to the Department assessing the DCC's customer engagement over the period 1 August 2023 to 31 March 2024. Once the submissions are received from the DCC and the SEC Panel, the Department, acting on behalf of the Secretary of State, is then expected to form a 'minded to position' as to what score should be awarded to the DCC under Project Activity 1, which in turn should determine the Project Activity 1 Quality Factor. The Project Activity 1 Quality Factor is a number between zero and one that represents the proportion of the baseline margin at risk under Project Activity 1 that the DCC is allowed to retain. This should consider the submissions from the SEC Panel and the DCC and any other information the Department considers relevant. The Department must then consult on its minded to position.
6. On 30 July 2024 and 31 July 2024 respectively, the SEC Panel and the DCC submitted an assessment of the DCC's performance under Project Activity 1 of the BMPPA Scheme. The SEC Panel's submission also included individual views from the SEC Sub-Committee chairs.
7. The Department assessed the DCC and SEC Panel's submissions and is now consulting upon its minded to position relating to the scores that should be awarded to the DCC under Project Activity 1 of the Scheme and to the Project Activity 1 Quality Factor.

Assessment process and scoring

8. As per the notice under paragraphs 6.2, 6.3, 6.4, 6.6 and 6.8 of the BMPPA Scheme published on 23 May 2024, the DCC's performance under Project Activity 1 of the BMPPA Scheme must be assessed using a set of assessment questions split between three different 'aspects' as set out in **Table 1** below. Each of the three aspects is associated with an 'aspect weighting' that represents its weight in the calculation of the overall score for Project Activity 1.
9. For each aspect, the DCC and the SEC Panel must each submit a score of either 0, 1, 2 or 3 that is based on the Scoring Framework in **Table 2** below.
10. While the scores submitted by the DCC and the SEC Panel must be whole numbers, the scores awarded by the Department to the DCC can be a decimal value between 0 and 3.
11. The overall score for Project Activity 1 is then determined by taking a weighted average of the scores assigned by the Department for each of the three aspects.

Table 1 – Aspects, assessment questions and aspect weightings for Project Activity 1

Aspects	Assessment questions	Aspect weightings
Timing and frequency of engagement	Has DCC enabled customers to feed in views at appropriate points and with appropriate frequency in decision-making cycles? Has DCC provided appropriate notice and allowed sufficient time for customers to contribute views? Has DCC provided general information to customers on the CH&N Programme in a timely manner and with sufficient frequency (including general updates, reactive engagement on unplanned issues impacting customers)?	25%
Quality of information provided by DCC	Has DCC provided its customers with sufficient quality of information to allow them to feed into a decision-making process e.g. clear costs and benefits and/or consequences of decisions? Has DCC provided sufficient quality of information in its broader engagement (e.g. general updates, reactive engagement etc) for customers to understand the issues relating to the CH&N Programme and the actions DCC is taking? When engaging with customers, has DCC ensured to engage with relevant audiences, and tailored the information appropriately?	25%

Taking account of customer views	Has DCC ensured its customers understand on which issues their views will inform decision-making? Have DCC's decisions demonstrated that customer views have been taken into account? Has DCC clearly explained how customer views have informed its decision making, and where relevant why DCC has disagreed with customer views?	50%

Table 2 – Scoring Framework for Project Activity 1

Score	Description	Margin retained
3	Strong evidence that the DCC has met the required standard with minor areas for improvement – the DCC is performing to the expected standard.	100%
2	Evidence that the DCC meets the required standard with very few material areas of concern and/or some minor areas of concern.	66.67%
1	Evidence that the DCC meets the required standard but inconsistent with some material areas of concern.	33.33%
0	Limited evidence that the DCC has met the required standard with multiple material issues of concern.	0%

3) Department's minded to scores for Project Activity 1

Aspect 1: 'Timing and frequency of engagement'

Summary of scores

- **DCC score** – 3
- **SEC Panel score** – 3
- **Department's minded to score** – 3

Summary of responses from DCC and the SEC Panel

12. The DCC noted in its response that it recognised the complexity and critical nature of the 4G CH&N Programme, suggesting that it has provided customers with regular opportunities to feed in their views throughout the programme, including consultations, workshops, webinars and bilateral conversations, in addition to regular engagement via the SEC Panel and its Sub-Committees, and the Department-led Implementation Managers Forum (IMF).
    - The DCC's response also noted that it has attended the Communications Transition Group (CTG) Sub-Committee on a monthly basis to discuss programme updates and plans, thus providing its customers with an opportunity to review and comment on those plans.

- The DCC also noted in its response that it has met monthly with chairs of the SEC Panel Sub-Committees and provided a view of upcoming engagement to give assurance that customers are feeding in at the right times and with desired frequency.

13. The SEC Panel's response noted that the DCC updates to the SEC Panel, CTG and SEC Operations Group have allowed DCC's customers to provide views as the 4G CH&N Programme has developed.

    - Comments by the Security Sub-Committee (SSC) chair noted that the DCC did not engage with the SSC ahead of its consultation on Phase 2 regulatory changes issued by the DCC on 24 April 2024. While this date falls outside of the assessment period for Project Activity 1, the actual engagement should have taken place during this period. This was acknowledged by the DCC.
    - One response from the SEC Panel noted that the DCC provided a considerable volume of communications, and that it was therefore difficult to identify relevant information. They felt that more high-level updates would be beneficial.
    - Finally, one SEC Panel respondent was of the view that the DCC's engagement with smaller parties was lacking. Despite these comments, the SEC panel gave the DCC a score of 3 for this aspect.

Department's minded to position and rationale

14. After considering the comments, evidence and scores from the DCC and the SEC Panel, the Department is of the view that, despite an issue with the timing of the DCC's engagement with the SSC on the Phase 2 regulatory consultation, the DCC has met the required standard for this aspect with minor areas of improvement. The Department's minded to score therefore aligns with that of the DCC and the Panel.

Aspect 2: 'Quality of information provided by DCC'

Summary of scores

- **DCC score** – 3
- **SEC Panel score** – 2
- **Department's minded to score** – 2.5

Summary of responses from DCC and the SEC Panel

15. The DCC noted that it provided throughout 2023/24 "a significant amount of information to its customers, a large proportion of that information has been to the CTG and at industry workshops to help develop outcomes for the programme." The DCC noted that its engagement had been well received by SEC Panel Sub-Committees; the CTG chair reported that the "DCC's progress updates are being received very well and feedback suggests that CTG are getting the right level of information at the right time" and recognised at the February CTG meeting the comprehensive input from the DCC and highlighted improvements in the quality of presentations in general.

    - The DCC stated in its response that workshops on Mesh Communications Hub replacements contained detailed information on how the current Mesh network operates and the different options available to replace 2G/3G Mesh Communications Hubs.
    - The DCC also issued four consultations during the Project Activity 1 assessment period. Noting that there "is always a balance to strike between the need for plain language against the need for technical precision", the DCC's view was that overall, the consultations have been clear and enabled customers to respond clearly.

- The DCC noted that the consultation they issued on Radio Frequency (RF) Noise limits in November 2023 could have been “clearer on the issue and the analysis undertaken at that point to enable an informed decision from customers”, the DCC suggested that it has since taken steps to rectify this issue.

16. The SEC Panel noted in its response that a considerable amount of information was provided through the CTG and updates through relevant SEC Forums and IMF have generally been appropriate and detailed to inform DCC customers’ decision making.

    - The Technical Architecture & Business Architecture Sub-Committee’s (TABASC) chair noted that “the DCC seemed ill-prepared to discuss the topics that they raised and did not appreciate the impact of the proposals on the SEC when presenting proposals on the 4G Order Management System to TABASC”. The TABASC chair added that “the DCC presented with a focus on internal impacts on the DCC without having due regard to the impact that their approach will have on Users. As a result, TABASC had to dissect the issue and coax information from the DCC as to the potential impact on Users”.
    - A SEC Panel respondent suggested that there is “room for improvement”, as some key information relating to future 4G network coverage that they required to drive internal decision making was not provided by the DCC initially.
    - Another SEC Panel respondent noted that there was insufficient engagement targeted at smaller parties.

<u>Department’s minded to position and rationale</u>

17. After assessing the comments, evidence and scores from the DCC and the SEC Panel, the Department recognises that there have been areas of concern noted by the Panel where the DCC can improve in its preparation for engagement and the quality of information provided to industry that could be required to drive decision making.
18. These points, however, have not been substantiated by sufficient evidence from the Panel to justify a score of 2. A minded to score of 2.5 was reached by the Department on the balance that it acknowledges some areas of concern, whilst also recognising that the DCC predominantly met the required standard.

Aspect 3: ‘Taking account of customer views’

<u>Summary of scores</u>

- **DCC score** – 3
- **SEC Panel score** – 3
- **Department’s minded to score** – 3

<u>Summary of responses from DCC and the SEC Panel</u>

19. The DCC noted in its response that, as part of its monthly updates to IMF and CTG, it presented clear programme plans that set out the key decision points and how/when customers could engage on different topics. During the regular engagement with IMF and CTG, the DCC stated that they sought views on how best to obtain customer input into decisions.
20. The DCC noted that “close collaboration with CTG, and numerous workshops held over the period, have led to decisions being made in a transparent manner and in partnership with our customers” and “ongoing dialogue means that feedback is naturally addressed throughout the process”. The DCC provided three examples to demonstrate where they have taken customer views into account:

- Mesh Replacement - After discussing the approach to the replacement of Mesh Communications Hubs during the Initial Pallet Validation (IPV) window with customers, the DCC decided to “add a provision to support the replacement of Mesh Communications Hubs as a pilot during IPV in small, controlled numbers”.
- Order Management System Workshop - The DCC took account of customer feedback on the end-to-end process for forecasting, ordering and deliveries of 4G Communications Hubs, and designed a new bespoke template specific to each ordering party for placing orders and forecasts.
- RF Noise limits - To address customer concerns about potential impacts of a new RF Noise limit for ESMEs interfacing with 4G Communications Hubs, the DCC provided customers with a plan that set out how additional testing would be completed and how progress updates on testing would be communicated to customers via CTG, TABASC and the Intimate Communications Hub Interface Specification (ICHIS) Working Groups.

21. The DCC noted that they had worked with their customers in a collaborative way throughout the programme; especially in shaping programme progression and not just on the key decisions themselves, highlighting that where items have been presented for decision at SEC Sub-Committees e.g. Network Evolution Transition & Migration Approach Document (NETMAD) drafting at CTG, they set out the rationale for the preferred position and the views received by customers that have led them to that conclusion. Where workshops have led the DCC issuing a consultation, they noted that they set out how they reached the preferred option by referencing the workshops and customer input from relevant Sub-Committees.
22. Over the reporting period, the DCC noted that they had published four consultations under this programme. For each, the DCC published a decision document on their website that summarised the views from customers and how the feedback informed their decisions. It also highlighted any areas of disagreement between the DCC and customer responses, setting out the rationale and next steps.
23. The SEC Panel submission did not provide detailed information in response to the assessment questions under Aspect 3, though those SEC Panel members who did comment on Aspect 3 agreed that the DCC had met expectations.

<u>Department’s minded to position and rationale</u>

24. After considering the comments, evidence and scores from DCC and the SEC Panel, the Department is of the view that the DCC performed to the expected standard for this aspect. The Department’s minded to score therefore aligns with that of the DCC and the Panel.

4) Calculation of the Project Activity 1 Quality Factor

25. The Project Activity 1 Quality Factor is a percentage representing the extent to which, in the Department’s view, the DCC has successfully engaged with its customers during the period 1 August 2023 to 31 March 2024 by reference to the aspects, aspect weightings, assessment questions and scoring framework in **Table 1** and **Table 2**.
26. Considering the Department’s minded to score of 3, 2.5 and 3 respectively for Aspect 1, Aspect 2 and Aspect 3, the weighted average based on those minded to scores and the aspect weightings across all three aspects set out in **Table 1** has resulted in a Project Activity 1 Quality Factor of **0.958**.

27. This figure was obtained by multiplying the minded to score for each aspect with the aspect weighting factor, then by adding the three sub-totals together, and finally by dividing that sum by the maximum score of 3.

28. In practice, a Project Activity 1 Quality Factor of 0.958 means that the DCC is allowed to retain **95.8%** of its baseline margin that was placed at risk under Project Activity 1 of the BMPPA Scheme, or in other words that it will lose **4.2%** or c.**£9k** of its baseline margin that was placed at risk under this Project Activity.

5) Consultation questions

Consultation questions	
1.	Do you agree with the Department's minded to score and rationale for Aspect 1?
2.	Do you agree with the Department's minded to score and rationale for Aspect 2?
3.	Do you agree with the Department's minded to score and rationale for Aspect 3?
4.	Do you have any other comments?