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Ofgem Consultation Innovation in the Energy Retail Market

Dear Jemma,

The SEC panel is pleased to provide its thoughts and insights into the recently published consultation Innovation in the Energy Retail Market.

The Smart Energy Code (SEC) sets the regulatory and operational framework for smart metering in the GB market, covering several key areas:

1. **Roles and Responsibilities:** Establishes obligations for various stakeholders, including energy suppliers, network operators, and other parties involved in the smart metering ecosystem.
2. **Data Privacy and Security:** Outlines strict measures to ensure the secure and appropriate handling of consumer data collected by smart meters.
3. **Technical Requirements:** Specifies the functional and technical standards for smart metering systems to ensure interoperability and efficiency across all users.
4. **Change Management:** Provides a governance structure for the continuous evolution of the SEC, allowing for updates and improvements as technology and policy change.
5. **Communication Infrastructure:** Details the requirements for data transmission between smart meters and service providers, facilitated by the Data Communications Company (DCC).

The SEC is self-governed and is managed by the SEC Panel, with oversight, where appropriate, from Ofgem. Together with the DCC Licence, the SEC contains the obligations to which the DCC shall provide the smart metering communication network, supporting the installation and ongoing operation of smart metering Systems. Furthermore, as a multi-party agreement, the SEC defines the rights and obligations of parties involved in the end-to-end management of smart metering in Great Britain.

Smart metering and the SEC are key enablers and building blocks in the drive to Net Zero and the Government's Clean Power by 2030, objective and target. The role of metering is changing from recording consumption for billing and settlement purposes, to the provision of data used to support new products and services in the wider economy. SEC governance plays a key role in the support of this evolution. New uses for smart metering data are developing, to support green products and services. The SEC will continue to evolve to support and provide assurance in terms of Security of the DCC Critical National Infrastructure and Privacy of data, to ensure that the benefits from the investment in smart metering, by consumers is delivered alongside appropriate technical and business process governance.

We have not responded to the questions directly but provide our thoughts in relation to some of the issues in the consultation, noting that this work is being initiated at a time of major on-going industry change with large projects like Market Wide Half Hourly Settlement, and Energy Code Reform and consideration of the broader digitalisation of energy services, the procurement of a new DCC Licensee and development of future DCC services.

We note similarities with Energy Code Reform objectives and the initiatives discussed under the consultation. For example, Energy Code Reform is undertaking a review of all code objectives, code change, and modification processes. We agree with the aspirations and objectives of the Energy Code Reform work to ensure good consumer outcomes, while delivering Net Zero benefits. We look forward to continuing to work with Ofgem on these reforms and proposals, to deliver a speedy implementation and fulfil the anticipated benefits.

Against the backdrop of this major industry change, the SEC Panel continues to deliver its role in the governance of the SEC and oversight of the DCC services and will continue to support innovative service development.

As one specific example, acting on the industry's feedback, we have undertaken reviews of the SEC change modification process to improve this area. We will continue to improve the services and the process for initiating changes, to ensure that SEC Parties can differentiate and innovate the services they provide to end consumers. This is in line with current SEC Objectives 3 and 4¹ (provision of appropriate information and facilitate effective competition).

In this regard, we have seen over c.5 years of continued growth in services to end consumers provided by Other Users (i.e. those DCC Users who are not Licence energy market participants, but others who have chosen to connect to the DCC to access consumer data), both directly and via third party intermediaries e.g. Mobile apps. The DCC reports growth in the Other User category and interest from other DCC Users such as Suppliers utilising the Other User role alongside their existing Supplier role. Other User growth has increased over the last two years by 256%. And the number of DCC Other Users has grown 60% in the same period. This is an area where the service delivery and base data provided by the smart metering system provides useful insights for consumers and businesses to enable better understanding of their energy utilisation or to support related products in other markets, e.g. financial services to support mortgages and financing of green home initiatives.

A diverse set of use cases are developing from a range of organisations and business in both private and public sector. (e.g. banks, housebuilders, and local authorities). Industry is seeing value in the data that may be obtained from smart metering devices, enabling green products and services to develop to support the drive to Net Zero and a low carbon economy. This is driven by Government policy to decarbonise the economy, and a growing need to be able to measure and evidence the success of interventions to meet Carbon Budget requirements. For example, local authorities and businesses investing in green initiatives, are reliant on data that can demonstrate the effectiveness of the steps they have taken, to decarbonise homes and businesses.

With the decentralisation of energy generation, an efficient smart metering communication system is important to underpin developments in the growing flexibility market and trading arrangements. We are seeing the development of some 'smart tariffs' using existing smart metering capabilities, to support load control, which may include Electric Vehicle battery use. The combination of smart metering functionality, Consumer Access Devices (CAD) and Half Hourly data allows consumers to better understand their consumption, make better choices and optimise their usage, reduce cost and lower carbon emissions.

¹ the third General SEC Objective is to facilitate Energy Consumers' management of their use of electricity and gas through the provision to them of appropriate information by means of Smart Metering Systems; the fourth General SEC Objective is to facilitate effective competition between persons engaged in, or in Commercial Activities connected with, the Supply of Energy.

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We are working closely with the DCC and DESNZ to ensure that the development of alternative communications technology, required to support areas where standard Communication Hub (CH) Wide Area Network signal may be poor/missing, are not unduly delayed. This will ensure the benefits of smart metering are available to as many consumers as possible.

Providing DCC Services in an economically efficient and reliable manner, is important, so that smart metering delivers the foundation for secure and reliable data for the services of the future. To deliver those services, a reliable communications link to the meter point is vital. We are keen that the close working with DCC and DESNZ over the last 2+ years on the development of the 4G CH programme continues, to ensure that the delivery of the next generation of CHs is as quick as possible.

Longer term, we consider the wider regulatory framework needs to ensure faster development of replacement technology to enable benefits for consumers. With the transition of smart metering governance from DESNZ to the SEC Panel / SEC Code Manager over the coming years, there is an opportunity to review and ensure that the formal governance processes enable quick decision making and faster product delivery. However, this must be balanced with careful governance of Smart Metering Security and Privacy obligations, to maintain integrity of the DCC Systems, part of Critical National Infrastructure.

Another area where we have been working closely with Ofgem, is the scope of the new DCC Licence and arrangements for governance of the future DCC. "DCC 2.0" as it has become known, is subject to ongoing Ofgem consultation to finalise the scope and governance arrangements. Some SEC Parties believe that they can best determine how to use the information they retrieve from the smart metering systems themselves, to develop, manage and control new products and services for consumers. To provide relevant and beneficial information to Parties there should be an element of innovation in the products and services the DCC provides to SEC Parties that should be enabled by the new governance regime. An example is the use of the "DCC Boxed" tool, which enables DCC Users to test and learn through a service that emulates the smart metering network. DCC boxed provides a suite of testing tools that enables DCC Users to better understand, enhance or develop their solutions ensuring these will work with smart metering asset combinations in homes and businesses. DCC boxed is being used by a range of organisations including Suppliers and Device Manufacturers.

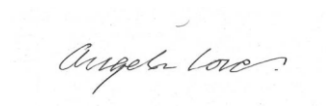
Looking more broadly at the code landscape, Code Performance Assurance Boards (PABs) have specific code requirements to monitor and ensure compliance with Code obligations. There may be an opportunity for code PABs to consider how they can encourage behaviours from Parties to facilitate greater innovation whilst maintaining the obligations and code requirements. Additionally, through the proposed work under the Energy Code Reform, there is an opportunity to rationalise and align code objectives such that all industry codes are pushing forward services that facilitate future innovation, in support of Net Zero aims and objectives.

We are cognisant of the pressures that the cost of energy decarbonisation, on-going industry reforms, and movement to digitalisation place on the energy bills that consumers pay. We are keen that any changes to facilitate wider market innovation have consumer benefit and accountability at their core, ensuring these show tangible benefits for consumers' overall energy expenditure. Innovation proposals that are accurately costed and delivered efficiently and economically, should enable innovators to provide products and services to consumers, which differentiate and provide consumer pull, resulting in reduced operating costs. Whilst innovation of services provides useful upsides to consumers, changes do not come without cost which may be both financial and reputational to industry. Governance bodies should ensure a balanced view of proposals and developments in the market ensuring that consumers are not negatively impacted in the long term. For example, we are seeing growth in use of smart metering data beyond the traditional regulatory requirements, resulting in greater use of the DCC Services, from organisations, and Parties who are taking services via an existing User.

Whilst the SEC has governance control and assurance of the User collecting data on behalf of its client / customer, the consumer is served by an organisation who is outside industry governance. This may pose future challenges for governance bodies. We have initiated work through our Strategic Working Group to conduct “horizon scanning” activities to better understand these forthcoming challenges.

If you would like to discuss any of the points further, please do not hesitate to contact SECCo Head of Code and Regulatory Strategy, Alina Bakhareva at alina.bakhareva@seccoltd.com.

Yours Sincerely,



Angela Love

SEC Panel Chair