

Modification proposal:	Smart Energy Code (SEC) Modification Proposal (MP) 111: SMDA Budget Amendments		
Decision:	The Authority ¹ determines that this modification ² should be made ³		
Target audience:	Data and Communications Company (DCC), SEC Panel, Parties to the SEC and other interested parties		
Date of publication:	22 January 2021	Implementation date:	One working day following approval

Background

Suppliers have a licence obligation to ensure the smart metering Devices they install are compliant with the Smart Metering Equipment Technical Specifications (SMETS), and one key outcome delivered is that Devices are interchangeable (i.e. smart meters and associated Devices work with each other) and interoperable (i.e. will continue to operate following a Change of Supplier (CoS)). The Smart Meter Device Assurance (SMDA) Scheme was developed and introduced by industry to provide independent test assurance for consumers, Suppliers and other industry parties that smart metering Devices meet these requirements.

The Proposer explains that the SMDA Company (SMDA Co) has advised that the current SMDA funding model is unsustainable for a variety of reasons, including: delays within the overall Smart Metering programme rollout, a number of issues within the development of the Data Communications Company (DCC) Communications Hubs, and the low volume of Devices being voluntarily submitted into the Scheme. In addition, the SMDA Scheme is a 'not for profit' scheme currently relying on Supplier members, Device Manufacturers, and Meter Asset Providers (MAPs) for voluntary membership funding.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² 'Change' and 'modification' are used interchangeably in this document.

³ This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989 and by section 38A of the Gas Act 1986.

Following the National Audit Office (NAO) November 2018 report "Rolling Out Smart Meters"⁴, BEIS⁵ commissioned an independent review⁶ into Device interoperability. The report was released in October 2019, with one of the recommendations being that "Energy suppliers and the SMDA Board should review the SMDA funding model to ensure SMDA can provide long-term test assurance." This forms the basis for the progression of SECMP111.

The Proposer suggests that the current funding deficiencies puts the SMDA Scheme at risk of being unable to continue providing testing capabilities, which could raise the risk for all Suppliers and consumers of reduced interoperability on CoS. Ultimately, the Proposer explains that this could potentially risk the success of the smart metering programme and the delivery of the potential cost savings predicted by BEIS.

The modification proposal

SECMP111 was raised by the Energy and Utilities Alliance (the Proposer) on 20 January 2020. The Proposed Solution is that the SMDA Co Board will become a SEC Panel Sub-Committee (the SMDASC), and the SMDA Management Panel (SMDAMP) will become a Sub-Group of the SMDASC as set out in the SMDASC terms of reference. The Smart Energy Code Company (SECCo) would become responsible for contracting with the Test House(s), which provides the testing facilities for the Scheme, and the Scheme Operator. The SEC Panel would be responsible for overseeing the work of the SMDASC and would also agree the SMDASC budget as part of the SEC Panel budget. The SMDA Scheme's fixed costs would be funded through the SEC and the variable costs would be paid directly to the Test House by the Party submitting the Devices for testing.

The SMDA fixed costs would be agreed and approved as part of the SEC Panel budget and then be charged to Parties as DCC fixed costs. These are charged 94% to Suppliers and 6% to Network Parties further apportioned by market share. The Proposer explains that whilst it is a licence condition for Suppliers to ensure the Devices they procure are compliant with SMETS, both Suppliers and Network Parties interact with Devices, send Service Requests and receive responses and Alerts.

⁴ <https://www.nao.org.uk/report/rolling-out-smart-meters/>

⁵ BEIS is the Department for Business, Energy and Industrial Strategy.

⁶ Review of Smart Metering assurance for device interoperability on change' Report Commissioned by UK Government Department for Business, Energy & Industrial Strategy.

Although the Scheme is suggested to be part of the SEC governance, it is not mandated for SEC Parties to utilise the service. The Proposer also notes that non-SEC parties would be allowed to become SMDA members for an administrative fee.

SEC Change Board⁷ recommendation

At the SEC Change Board meeting on 18 December 2020 a majority of the Change Board (CB) considered that SECMP111 would better facilitate the first⁸ and third⁹ SEC Objectives and therefore recommended its approval.

Our decision

We have considered the issues raised by the proposal and the Final Modification Report (FMR) submitted to us on 18 December 2020. We have also considered and taken into account the votes of the SEC Change Board on the proposal which is attached to the Change Report. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the SEC Objectives;¹⁰ and
- directing that the change is approved is consistent with the Authority's principal objective and statutory duties.¹¹

Reasons for our decision

We consider this modification proposal will better facilitate first and third SEC Objectives and have a neutral impact on the other Objectives.

⁷ The SEC Panel and Change Board are established and constituted pursuant to and in accordance with DCC Licence 22.25(a).

⁸ To facilitate the efficient provision, installation, and operation, as well as interoperability, of Smart Metering Systems at Energy Consumers' premises within Great Britain.

⁹ To facilitate Energy Consumers' management of their use of Energy through the provision to them of appropriate information by means of Smart Metering Systems.

¹⁰ The Objectives in accordance with DCC Licence 22.10-22.17

¹¹ The Authority's statutory duties are wider than matters that the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended and the Gas Act 1986 as amended.

The first General SEC Objective is to facilitate the efficient provision, installation, and operation, as well as interoperability, of Smart Metering Systems at Energy Consumers' premises within Great Britain.

We agree with the Proposer's assertion that this modification will better facilitate this Objective. The Proposed Solution will provide the SMDA with a sustainable funding mechanism, which will allow them to have a more stable operation and expand upon their work of providing independent assurance of Devices, whilst also supporting overall compliance with the SEC Technical Specifications. However, SEC Parties should keep the funding mechanism under review and ensure that it does not become an obstacle to other businesses providing testing services. This should also ensure consumer benefits are realised and any issues relating to Device interoperability and interchangeability will be identified earlier or potentially avoided altogether.

There is a general expectation from industry that only Devices that have had robust testing should be allowed into the supply chain. The SEC provides greater transparency to all parties on the testing arrangements. This will allow equal access to testing and enables all Parties to be involved with the governance of the SMDA Scheme, including any possible future changes to the scope of the Scheme to incorporate the issues that have been raised in the discussions around this modification under SEC governance. We agree that these arrangements will enable Parties to easily identify any compliance issues earlier in the process, allowing for a timelier resolution and ultimately getting fully interoperable and interchangeable Devices into the supply chain more efficiently.

The third General SEC Objective is to facilitate Energy Consumers' management of their use of Energy through the provision to them of appropriate information by means of Smart Metering Systems.

We consider that the Proposed Solution will better facilitate this Objective as it will help ensure that Smart Metering Systems provide consumers with accurate and timely information. In addition, ensuring that all Devices meet the technical SMETS requirements will facilitate interoperability, including when switching supplier. This should ensure that Devices retain smart functionality, which ultimately benefits consumers and their ability to reduce their energy bills.

Incorporating the SMDA Scheme into the SEC will increase the testing possibilities across various Devices and firmware which will lead to an improved Smart Metering System experience for consumers, as well as the opportunity for SEC Parties to work together on addressing concerns. In turn this should lead to a higher level of confidence that all Devices released into the market are operating as intended. The solution will also support the identification and resolution of issues affecting communications between Devices within the consumer's HAN, further enhancing the consumer experience and confidence in the overall Smart Metering System.

We are of the view that the detection and resolution of issues before Devices enter consumers' premises will contribute to a greater overall consumer experience and interaction with their devices.

Other Issues Relating to Our Decision

We note that during the Change Board meeting the Network Party Members raised objections to this modification on two grounds. The first being that they did not benefit directly from the Scheme as the scope is limited and doesn't provide them with testing capabilities which are beneficial/applicable to their Party category. The next being in relation to contributing to the funding for this Scheme if it is implemented within SEC.

The scope of the SMDA Scheme is a common concern for most parties, including those who are currently members. It should be noted that the scope is currently driven by the members of the Scheme. As the solution will move the SMDA into SEC governance, it would allow all Parties the ability to examine the breadth of the Scheme and to incorporate any applicable changes. We agree with one member who stated that the modification was not simply about funding the SMDA Scheme but was as much about ensuring the governance of the Scheme was opened up to all SEC Parties to ensure there was a benefit to the whole industry and to the Smart Metering Programme. Our view is that this would be a positive change for the Scheme and would address the industry's concerns regarding the limitations of the scope.

The Network Party Members also noted their concerns over paying a portion of the annual charges for this Scheme when, in their view, they would not directly benefit, and that this was a Supplier licence condition and therefore should be a Supplier cost. Whilst we understand that view, we note that when we consider a modification for decision, we are determining whether it will better facilitate the Code Objectives on its own merits and be an improvement to the

status quo. Our view is that any modification, SECMP111 included, should demonstrate that it will provide a benefit to the code, industry and ultimately to the consumer, and in this instance, this is our view of the SMDA Scheme being incorporated into the SEC.

Decision notice

In accordance with standard licence condition 23 of the Smart Meter Communication licence, the Authority hereby determines that modification proposal SECMP111 'SMDA Budget Amendments' be made.

Jacqui Russell

Head of Metering & Market Operations

Signed on behalf of the Authority and authorised for that purpose