

Energy UK Response to Ofgem Consultation on DCC Price Control: Regulatory Year 2020/21

22nd December 2021

About Energy UK

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership. We represent the diverse nature of the UK's energy industry with our members delivering nearly 80% of the UK's power generation and over 95% of the energy supply for the 28 million UK homes as well as many businesses. The energy industry invests £13bn annually, delivers nearly £30bn in gross value added on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors, and supports over 700,000 jobs in every corner of the country.

This is Energy UK's response to the [Ofgem consultation](#) on the DCC Price Control for Regulatory Year 2020/21. Energy UK welcomes the opportunity to respond to this Ofgem consultation; our response is not confidential.

General Observations

Before addressing specific consultation questions, we provide general commentary around DCC performance and cost control to give some context to our responses. We also include commentary in this section about the current ex-post Price Control arrangements becoming increasingly inappropriate, reiterating our previous suggestions for moving towards an ex-ante framework.

Lack of justification and evidence for DCC's incurred costs and performance

We are generally concerned about the number of areas in which DCC has not provided the expected level of evidence to justify its costs, forecast costs, applications for adjustments and activities that DCC incurred within RY20/21 (with respect to external costs, internal costs, application for Baseline Margin adjustment, and for application for ECGS).

We note that DCC Users are not party to all the information that forms part of DCC's Price Control submission to Ofgem; therefore, we would welcome confirmation that Ofgem has rigorously appraised the information they have that would justify an overall DCC cost increase of 21% since the last regulatory year and yet another increase in total forecast costs for DCC's Licence term.

The experience of our members is that DCC still has some way to go in improving the management of contracts and programmes, avoiding non-compliance, and planning to realistic timescales and budgets. The outcome is that DCC Users continue to pick up the bill for failures entirely outside of their control, and we see limited acknowledgement of this in Ofgem's price control proposals.

CSP North performance is glossed over

There are several areas of specific and repeated poor performance within the CSP North region relevant to RY20/21, yet there is very little to suggest this is being considered fully in the consultation document. Instead, the focus seems to be on plans for performance improvement for RY21/22.

Energy UK remain fully supportive of DCC's work towards improving the performance for the northern CSP region within RY21/22 (including their work on scaling and optimisation for Arqiva), but we must highlight the significant operational implications and cost borne by DCC Users, especially as the issues in CSP North have been ongoing for several years. We are also seeing knock-on impacts as continued delays to some of the DCC delivery programmes, namely Network Evolution CH&N, ECoS and SMETS1 Enrolment and Adoption.

We would like to see a greater recognition of these aspects in Ofgem's final considerations to provide comfort to Energy UK members and other DCC Users that Ofgem is pushing DCC for improvements across its various programmes. This becomes increasingly relevant over the next few years given the concurrent delivery programmes that DCC is managing – namely Network Evolution (including DSP and CH & Network), ECoS, MHHS, and Faster Switching – and so it is critical there is improvement in DCC (and Service Providers) performance and associated contract management.

DCC cost accountability for non-compliance

The governance and funding in cases of DCC non-compliance is a key area of concern for our members.

DCC Users are regularly expected to bear the cost of rectifying DCC failures that might have been prevented with better planning or execution. Often this will be the result of suppliers identifying the failure, raising it through governance forums (in addition to raising with DCC directly), and then waiting for DCC review to confirm the extent of the non-compliance. DCC will then present a plan and a cost to rectify the failure, which DCC Users have little choice but to agree to, given the need to address the ongoing impact on their operations. In this way, these costs are automatically approved through the price control process: whilst they did not form part of DCC's original plans, they are treated as requested and reluctantly accepted by DCC Users as the current regime offers no other route for failure remedy to be addressed financially.

While the price control process does cater generally for instances of unfairly or inefficiently allocated DCC costs, it often fails to recognise cases of inefficiency in which the spend is triggered by DCC User response to a sub-optimal DCC implementation.

There are two ongoing examples of this:

- **The DCC User portal** was intended to provide DCC Users an online platform for easy access to services and information. The portal still remains in development as its first release did not meet DCC Users' requirements. Our members and other DCC Users have highlighted these shortfalls to DCC. The continued work to improve this service will no doubt incur additional costs and our members believe this is an example of additional DCC activity that DCC Users should not be expected to fund – because it was not built to requirements in the first place. It is suggested that all additional work – despite being requested by DCC Users – should be included within DCC's disallowed internal costs.
- **DCC's over-procurement of comms hubs** has driven additional storage costs that could have been avoided with better and more efficient planning at the time of procurements. DCC Users now have little choice but to agree to DCC securing the necessary storage arrangements and, as is the current process, DCC Users will be expected to fund this. This storage issue and associated costs that end up being borne by DCC Users can also be demonstrated in discussions this calendar year relating to the CRP535 (reuse of devices on the HAN) issue:
 - Suppliers in their testing earlier this year (in RY 20/21) identified DCC has implemented the requirements of CRP535 (SEC Mod 093) in a sub-optimal manner which has created issues for Suppliers in Install and Commission. Following further discussions between DCC, BEIS, Suppliers and Energy UK a fix was agreed to be delivered via a Technical Specifications uplift with BEIS intervention given the importance for Suppliers, resulting in a BEIS-led SEC consultation to address the matter.
 - Unfortunately, DCC has quoted costs of c£3million (for CSP C&S) to deliver the implementation approach favoured by Suppliers (not to manufacture Comms Hub on GBCS v3.2). One of the three drivers for the costs quoted by DCC is the costs for the refurbished Comms Hubs needing to be put in storage until the Comms Hubs on GBCS v4.1 are made available. Suppliers (via an Energy UK paper to the BEIS IMF) have made clear that Suppliers do not expect to be liable for these excessive costs given the issue was created by DCC in the first place.

In addition to DCC's non-compliance concerns noted above, members are concerned that DCC non-compliances and failures are not fully considered by Ofgem due to the DCC failures spanning multiple regulatory years. The price control process allows the evaluation for only DCC's costs and failures for a specific regulatory year. This process has led to some DCC failures that have occurred over earlier regulatory years to be overlooked when evaluating the result of the DCC failings, which has led to DCC's inefficiencies to never be truly taken into account. Examples of this include the costs that were incurred in RY20/21 on SMETS1 E&A are a result of poor decision-making and management in RY18/19 and RY19/20, as well as issues that are occurring in this current RY21/22 relating to CRP535 as noted above caused by sub-optimal DCC delivery in RY20/21.

We would welcome Ofgem's acknowledgement of the asymmetry of the treatment of DCC and DCC User non-compliance, and we are keen to discuss ways to ensure that where appropriate DCC Users do not bear the full cost of rectifying DCC non-compliance, including failures that have occurred over a number of regulatory years.

Ofgem engagement and understanding of enduring governance activities

Energy UK are becoming increasingly concerned with the level of active involvement from Ofgem representatives within the existing enduring governance (SEC-led) forums. Whilst the current Regulatory Price Control process is based largely on a submission by the DCC in the lead up to the Ofgem Price Control assessment process, the DCC presents detailed information on its current performance in many of the enduring governance forums, which should provide Ofgem with valuable real-time information to help it prepare for the formal Price Control Review – rather than simply relying on one set of evidence at a point in time.

As noted throughout this response, Energy UK are fully reliant on Ofgem holding DCC to account for its performance, and wherever needed, using all available information and evidence (whether provided by DCC as part of the Price Control Review process, or via information and evidence provided in enduring governance forums). Energy UK are clearly concerned that by simply looking at information at a 'point in time' is not showing the true position of DCC's performance over the entire regulatory period.

Ex-Post vs Ex-Ante

As raised within previous Energy UK responses to various Ofgem consultations over the years (Price Control and the Call for Evidence on future DCC regulatory arrangements), the current ex-post Price Control arrangements are increasingly inappropriate for the future tasks faced by DCC, and a move towards an ex-ante framework has been proposed due to DCC's continued rising costs.

An additional proposal to the Price Control arrangements could be to have the ex-ante review process to complement the current ex-post review process, which allows for DCC activities and associated costs to be scrutinised before and after they are incurred or taken forward. This means the costs can be challenged beforehand / upfront, with actual costs then being reviewed against forecasts in subsequent years. There is a view this could be delivered through an independent governance body in the enduring structure to provide a fair and separate evaluation for DCC activities and associated costs. This proposal could be an effective solution to dealing with DCC's continued rising costs and with DCC's future activities evolving.

Energy UK would like to reiterate the request for examination of this idea as part of Ofgem's ongoing work on the future of DCC Licence Arrangements. We would be happy to support Ofgem in helping shape any potential change to the Price Control mechanism that will enable industry as a whole to protect consumers from additional rising costs.

Our Responses to Ofgem's Consultation Questions

Question 1: What are your views on our proposal to accept DCC's External Costs incurred in RY20/21 as economic and efficient?

Energy UK disagree with Ofgem's proposal, and believe DCC's service performance has not been fully considered within Ofgem's evaluations of DCC's costs. This is where DCC Users should not bear

additional external costs that have been incurred as a result of DCC's non-compliance, ineffective contract management, reactive fault-fixing approach and sub-optimal contingency planning throughout RY20/21.

As an example, the SMETS1 costs noted in paragraph 2.13 of Ofgem's consultation paper should be re-considered as disallowed costs due to the additional support and extensions needed to help continue the SMETS1 programme. None of this cost was the result of DCC User actions, but by DCC's poor contract management, lack of contingency planning and poor implementation of the extended support service. This led to delays, unexpected change requests and additional activities (additional testing, enduring support for the IOC, MOC testing and migration, FOC testing, and extended DCO support and re-design of the migration solution), and thus, led to a rise in costs by c£4.26m for RY20/21.

We have provided further examples in Annex 1 to our response which are derived from the SEC Operations Group and SEC Panel reporting that highlight DCC's non-compliances that they should be accountable against. We would like to invite Ofgem to consider these examples and we would be happy to provide additional information for any of these examples (via our members where appropriate).

Question 2: What are your views on our proposal to disallow the variance in enduring forecast costs for S1SP_3b and a proportion of the UIT forecast costs for DSP?

Energy UK agrees with Ofgem's proposal to disallow the variance in enduring forecast costs for S1SP_3b and a proportion of the UIT forecast costs for DSP. There have been several delays and defects that could have been prevented if identified and addressed earlier.

Question 3: What are your views on our proposals on DCC's approach to benchmarking of staff remuneration for both contractor and permanent staff?

Energy UK broadly agrees with Ofgem's proposal on DCC's approach to benchmarking of staff remuneration for both contractor and permanent staff. The increasing ratio of recruiting permanent staff compared to contractor staff is welcomed.

One of our members has highlighted specific concerns on this area, as follows:

- The model does not appear to be lean or in line with industry average, particularly around the allocation of staff bonuses.
- The bonus rate outlined appears to be set by DCC / Capita internal policy rather than being benchmarked.
- The importance for DCC of retaining valued staff is understood; however, the levels of bonus should be reviewed and revised to bring them back in line commensurate with other commercial organisations – such organisations across various industries are forced to make tough decision on salaries and any bonus allocation (DCC should be the same).
- It is unclear why there is no specific disallowance in relation to car allowances as DCC's approach to this appears to have not been economic according to Ofgem, or at least not benchmarked.

Overall, it is difficult for Energy UK to comment in any more detail on the appropriateness of the benchmarking given that we have no clarity on what individuals (and sometimes entire teams) are doing, and the skill level and scarcity in the market of the resource required to undertake those activities. On staffing more generally, our expectation is now that we should start to see a decline in FTE requirements as SMETS1 integration activity ramps down and SMETS2 development requirements stabilise.

Question 4: What are your views on our proposal to disallow the Shared Service Charge associated with external services procured for Additional Baseline activities such as NEP and ECOS?

Energy UK members agree with Ofgem's proposal to disallow the Shared Service Charge associated with external services procured for additional baseline activities. We share the expectation that DCC must actively achieve value for money when applying the Shared Service Charge costs.

A potential suggested solution to support DCC to achieving value for money here is by establishing a benchmarking requirement for Shared Service Charges, such as is similarly performed for the remuneration of permanent and contractor staff. This potential solution has been recommended in the past, and should be re-considered.

Question 5: What are your views on our proposal to disallow non-resource recruitment costs in the Commercial and Operations cost centres?

Energy UK members agree with Ofgem's proposal to disallow non-resource recruitment costs in the Commercial and Operations cost centres. As noted in Question 3, there is an expectation that DCC recruitment costs will generally decrease due to the increased level of recruitment in permanent staff for the RY20/21.

Additionally, we believe DCC could provide further justification on the costs spent for recruitment to demonstrate DCC's continued improvements in spending economically and efficiently within this area. This is especially relevant to concerns regarding DCC's interest in increasing their resources to focus on influencing and shaping regulation / Government policy, as well as the financial interests for DCC and its current licence holder.

One way of performing this is by providing a list of all current and newly recruited staff which outlines the tasks and activities they are responsible for to be delivered for DCC Users. This would make it easier for DCC Users to determine whether the additional resource is necessary (efficiency) and whether the overall pool resource at DCC is providing value for money (economic). We would especially welcome this sort of information for the RY21/22 price control, given the forecast increase in staff cost.

Question 6: Do you have any views on potential proxy measures to calculate cost disallowances in areas where DCC may not have acted economically and efficiently, but the dependencies and scale of the impact are not clear?

Energy UK recognise the challenge in providing a solution to calculate these cost disallowances, due to the limited evidence of DCC activity and exposure the detailed methodologies available to DCC Users as part of this price control process.

However, there are several options that could potentially be considered as potential proxy measures to calculate cost disallowances. These areas include:

- Reviewing and monitoring volume of change requests. The more change requests occurring may suggest uneconomic and inefficient spending due to unplanned and unexpected changes being performed within activities.
- Reviewing and monitoring the high priority maintenance windows, for example as a result of a required DSP Technical Refresh.
- Reviewing and monitoring unexpected actions, activities and results from projects which have led to negative impacts or outcomes. This also includes reviewing and monitoring the delivery of time, cost and quality of projects or programmes. For example, the late confirmed DSP contract extension which was signed very late by DCC (with CGI), the continued delays that continue to occur within the Network Evolution CH & Network Programme, and several areas of the SMETS1 programme which experienced delays and extra support to progress the programme.

We acknowledge that some of these potential options above may require further assessment and refinement, and we also note that we have no view currently in whether these would ultimately lead to any improvement vs. the status quo. There is also an argument that any alternative could have the effect of incentivising a shift in performance focus which may ultimately be a worse outcome.

Notwithstanding the above, we remain concerned that there are still areas in which DCC is unable to provide sufficient information to Ofgem for their decision making. DCC is accustomed to working under price control arrangements and must be given sufficient incentive to gather and provide the information necessary as a matter of course.

Question 7: When it is determined that DCC may not have acted in an economic or efficient manner but an appropriate methodology cannot be applied to calculate the proportion of costs impacted, we propose to take these instances into account when deciding DCC's score under the Contract Management and Customer Engagement aspects of the OPR. What are your views on this proposed approach to be adopted from RY2021/22 Price Control, if an alternative measure is not determined?

Following on from the points made in Question 6, Energy UK acknowledge the difficulties of the process to provide an appropriate conclusion to what the proportion of costs were impacted and what can be deemed as not economically and efficiently incurred costs within DCC's activities. We would be interested to understand DCC's proposed alternative approaches. Otherwise, we see no reason not to adopt Ofgem's proposed approach for RY21/22 Price Control.

However, our members are still unclear as to why DCC is unable to provide the cost information that Ofgem needs, broken down to the appropriate extent. If DCC is not currently assigning resource costs to individual activities or projects, we would encourage Ofgem to seek justification for this given the additional clarity it would provide for the purposes of price control.

Question 8: What are your views on our proposal to disallow forecast variances in Network Evolution, SMETS1, and ECoS programmes?

Energy UK agrees with Ofgem's proposal to disallow forecast variances for the Network Evolution, SMETS1, and ECoS programmes.

Question 9: What are your views on our proposal to disallow the costs associated with DCC's activity relating to EVs? Please provide any evidence if you have engaged with DCC in this area.

Energy UK agrees with Ofgem's proposal to disallow the costs associated with DCC's activities relating to EVs. DCC's focus should remain on the delivery of the core business which does not include EV activities, and therefore DCC should not incur costs where not defined as a mandatory requirement for DCC to deliver.

Energy UK believes it is only appropriate for DCC to include EV-related services or activities within this funding mechanism when these actions meet all of the following requirements:

- Fulfils a mandatory requirement of DCC's authorised business;
- Improves DCC's ability to meet current delivery for mandatory service requirements to provide the services that are needed for DCC Users; and
- Improves the ability to provide value for money with their services through economic and efficient ways of spending.

We would expect DCC to be able to demonstrate clearly which costs have been incurred in an advisory/collaboration capacity (to industry workgroups for example), and which costs are related to 'business development' activity in the EV space. As noted in Question 7, it should be possible for DCC to demonstrate this by providing the time spent on it by DCC staff (and associated costs) rather than based on just a headcount basis.

We are not opposed to DCC undertaking EV-related activities and developing related services as an additional element of DCC's wider future business, due to the critical importance of developments for EV services in supporting Government and industry targets for the Net Zero transition. However, it is important that DCC engages with DCC Users via the governance forums to ensure awareness and sign-off, especially where costs for DCC activities could end up being funded by DCC Users.

Question 10: What are your views on our proposals to disallow forecast cost variances in the Corporate Management, Commercial, Finance, Operations, and Programme (Service Delivery) Cost Centres in RY21/22 and RY22/23, and all baseline forecast costs for RY23/24 onwards?

Energy UK agrees with Ofgem's proposal to disallow forecast cost variances for the following cost centre areas in RY21/22 and RY22/23 and for all baseline forecast costs for RY23/24 onwards. We believe the cost variances are at least in part due to the limited progress of DCC's disaggregation strategy.

We are concerned that DCC is trying to resolve the issue of complexity in service provider management by increasing the number internal staff across DCC. It is increasingly evident that the growth of the cost centres is linked to improving the management of additional service providers currently undergoing procurement. This would seem to be counter-productive to the disaggregation strategy which had the initial ambition of consolidation and simplification.

Question 11: What are your views on our proposed position on DCC's performance under OPR and trial run for customer engagement, and implementation of the contract management incentive?

Energy UK is unconvinced that sufficient rigour has been applied to appraising DCC's performance under the OPR. We disagree that DCC has achieved all of its targets under the OPR for RY20/21, specifically in relation to the target SDM2 which includes the 'percentage of service responses delivered within the target response times'.

Within the DCC Performance Measurement Report (PMR) for RY20/21, it can be demonstrated that SDM2 has not been achieved by taking the average of both CPM1 and CPM2 within the report. Both measures are required to derive DCC performance against the SDM2 target¹.

We calculate CPM1 and CPM2 results from April 2020 to March 2021 giving an average of 97.21%, lower than the 99.31% suggested in Ofgem's consultation document. We have provided this evidence for reference in Annex 2 of this response (Figure 1).

It may be that CPM3 has been used to calculate DCC's overall performance against the SDM2 target. CPM3 should however be excluded from the calculation as it is related to the percentage of alerts delivered within the applicable Target Response Time, and not to measures relating to service management or service requests. The CPM3 is poorly measured (e.g., firmware activation for energy suppliers and power outage alerts for DNO's are not measured correctly/in the required time) which also makes the results less reliable if CPM3 is included.

We recognise that DCC follows specific guidance in producing its quality-of-service information for the OPR², but we are remained concerned that DCC does not need to provide evidence to support its achievement of OPR targets for RY20/21 (noted 'N/A' for evidence provided to Ofgem under each OPR target summary within their OPR supplementary document published for their overall Price Control submission for RY20/21). Such a requirement to evidence reported outcomes would increase DCC User confidence in this price control process.

Energy UK acknowledges Ofgem's proposed position on the trial run for customer engagement, and implementation of the contract management incentive, and broadly agree.

Question 12: What are your views on our assessment of DCC's application to adjust its Baseline Margin?

Energy UK acknowledges and broadly agree with Ofgem's assessment of DCC's application to adjust its Baseline Margin.

Question 13: What are your views on our assessment of DCC's application to adjust its ECGS?

Energy UK has no strong views on Ofgem's assessment of DCC's application to adjust its ECGS.

Question 14: What are your views on our proposed position on DCC's costs associated with the Switching Programme?

¹ CPM1 – Percentage of On-Demand Service Responses delivered within the applicable TRT. CPM2 – Percentage of Future-Dated Service Responses delivered within the applicable Target Response Time.

² Data Communications Company (DCC): Regulatory Instructions and Guidance via [link here](#). Data Communications Company (DCC): Regulatory Instructions and Guidance – Annex 1 Quality of Service Information via [link here](#).

Energy UK acknowledges and broadly agree with Ofgem's proposed position on DCC's costs associated with the Switching Programme.

Question 15: What are your views on our assessment of Delivery Milestone 2 and Delivery Milestone 3 of the Switching Programme?

Energy UK has no strong views on Ofgem's delivery milestone assessments.

Should you wish to discuss any of the above further, please do not hesitate to contact Anastasis Alexandrou at anastasis.alexandrou@energy-uk.org.uk

Annex

Annex 1 – list of non-compliances that DCC should be accountable against – from SEC Panel and SEC Operations Group material:

- CSPN issues:
 - Regular poor performance of PM2 services.
 - TRT Performance requirements in CPM1.
 - Device connection alerts: DCC not processing all 8F3E alerts in CSPN in order to suppress false alerts during I&C
- SMETS1 programme device specific or behaviour testing issues.
- DNO power outage alerts issue, ongoing since 2014 and power outage alerts performance.
- OMS consignment status is not provided.
- SEC Mod impact assessment process does not meet SEC SLA's.
- Planned maintenance time allowed is being exceeded by DCC.
- Job/scheduling and batch size constraints: DCC operate constraints on customer operational behaviour.
- SMETS1 EPCL migration issue: DCC unable to migrate 'bi-lingual' SMETS1 Geo PPMID due to device behaviour causing migration to fail.
- EPCL checks for SMETS1 migration: Secure Meters have not completed necessary DMC vs EPCL checks prior to migration, creating migration risk.

Annex 2 – DCC Performance Measures Report (PMR) for RY20/21



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CCSP_PerformanceM

Figure 1: highlighted yellow at the bottom of the figure notifies average of RY20/21 performance for CPM1 and CPM2:

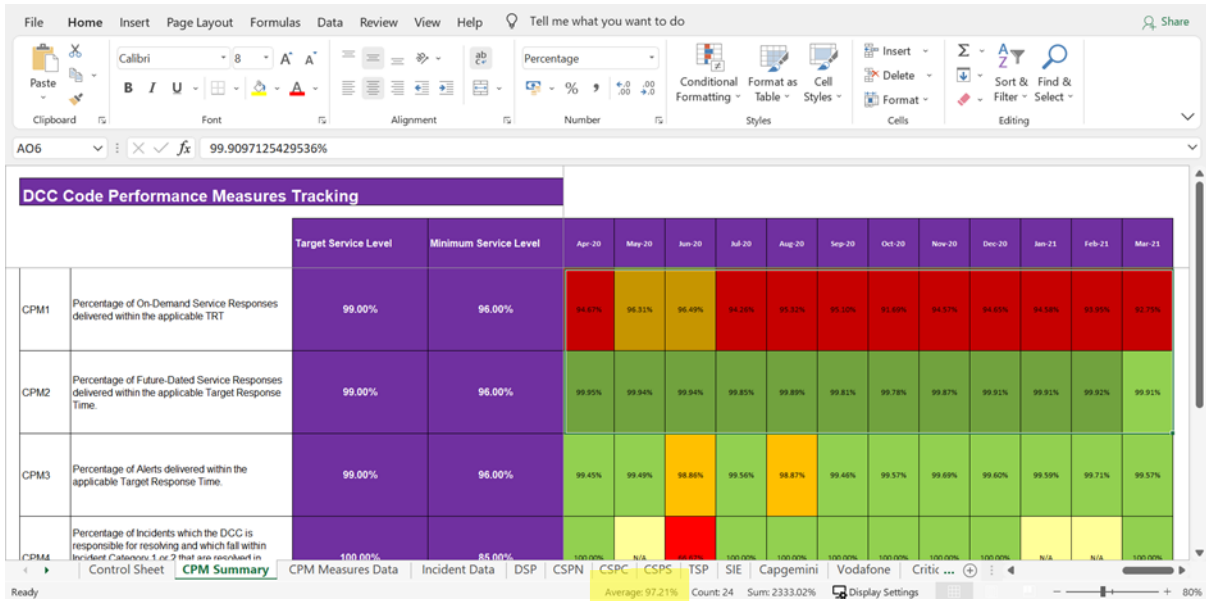


Figure 2: highlighted yellow at the bottom of the figure notifies average of RY20/21 performance for CPM1, CPM2 and CPM3:

