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DCC Price Control: Regulatory Year 2021/2022

Dear Ayena,

The SEC Panel is pleased to have an opportunity to respond to the latest consultation on the DCC Price Control for the Regulatory Year (RY) 2021-2022. We have set out our response to the consultation questions below. We would be happy to engage further, to assist with any clarifications.

Overall, it is extremely concerning to see that external Fundamental Service Provider (FSP) costs have risen year on year. This is despite the disallowances from previous Price Control reviews. Also concerning, is that forecasting for Service costs is again extremely variable year on year. We expect that after c.6 years of operational service provision, that DCC would have a much tighter grip on this process and detail. We propose as part of future reviews, that Ofgem and DCC consider a concept of a cost per connected Communication Hub, with wider programme specific costs reported separately, A cost per connected Communication Hub would provide a "cost to serve" measure for business-as-usual activities. There would be an expectation that, as the Communications Hub and supporting systems mature and greater numbers are installed and connected, that the cost per Communication Hub to serve reduces through economies of scale.

Whilst it is pleasing to see the rigour applied to DCC internal costs, we remain concerned that the same level is not applied or perhaps cannot be applied through the current Price Control process, to DCC External Costs. External Costs account for c.72% of the DCC Total Cost that DCC Users and ultimately, end Consumers pay.

We are also concerned that Ofgem finds that the submission from DCC is lacking in detail. This appears to be a recurrent theme from many of the sections of the consultation and raises questions as to the commitment from DCC to the process.

As in previous years, it is difficult to comment on the detail provided in the Price Control Consultation, as SEC Parties and wider industry do not have the same level of insight to the detail provided to Ofgem. In this regard we are pleased to see in the recent DCC Review; Phase 1 Consultation proposals to consider the application of an element of ex-ante approach for the next License term. This is something we called out in our response last year.

Throughout our response we have provided operational views on the level of System and operational service quality performance through the year. We believe these are relevant to External and Internal cost consideration, providing a view of the experience of DCC Users during the RY 21/22. We hope Ofgem will be able to take these into account in deliberations.

We noted in our assessment to DCC Engagement earlier this year, that several service issues encountered through RY 21/22 run across different Regulatory Years. We request Ofgem consider this when reaching its final determination.

If you would like to discuss this further, please do not hesitate to contact me on 020 7090 7755 or SECAS@gemserv.com

Yours Sincerely,

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Peter Davies
SEC Panel Chair

SEC
Smart Energy Code

Ofgem Consultation: Price Control Regulatory Year 2021-2022

Question 1: What are your views on disallowing External Costs associated with programme delivery?

It is difficult to provide a meaningful response to this question in the absence of the details. Throughout our response we have highlighted the relevance of performance issues in relation to External and Internal costs. We hope that Ofgem find this useful further context in terms of the services that DCC Users have experienced.

With regards to programme delivery, the Panel has had several issues with DCC programme delivery throughout the RY21/22. Anyone of these may be the issue that Ofgem is referring to here. The Panel supports Ofgem actions where it finds the DCC or its Service Providers have contributed to a failure to deliver a programme of work on time and to suitably economic and efficient costs. It is a pity however, that this area and proposal is not more transparent. It is DCC Users and ultimately Consumers who pick up the costs for these failures. Consumers and DCC Users have a reasonable right to understand the details of the issue. We make comments on experience of programme and service delivery below including, SMETS1 Final Operating Cohort (FOC), SMETS1 Dual Control Organisation (DCO), core service operations, Network Evolution Programme (NEP) and Communication Hub and Networks in questions 12-14.

Question 2: What are your views on our proposal to remove from the forecasts all costs associated with 'CSP-C&S price support' from RY22/23? Do you have any views on the issue of Working Capital Charges?

Whilst we agree with the action proposed, accepting there may be extenuating circumstances in the supply chain, it is disappointing that the DCC was unable to maintain the fixed price per the original agreements. Further, that there could not be found a means to address the issues over the full term of the contracts. We share the concerns noted by Ofgem over the controls in place and duration of any future changes to Communication Hub pricing.

Regarding Working Capital Costs, we would also like to see this area receive greater focus by the Independent Auditor. It is unclear if the approach as outlined in the consultation, is providing the value for money suggested by DCC.

Question 3: What are your views on our proposal to disallow £108.22m of forecast External Costs?

The SEC Panel agrees with this approach. If Ofgem has not been provided suitable detail and justification by DCC, it is right that these costs are disallowed.

Question 4: Have you got any other views on External Costs?

As noted in the answer to Question 1, it is difficult to comment on the detail of these proposals. We accept there has to be some level of commercial confidentiality; however, it is very difficult to provide constructive views with the information provided. DCC Users, continue to experience substandard service delivery from the DCC. Despite the Services being operational for many years, the service cannot be described as stable.

80% of the uplift for External Costs is associated with the Data Service Provider (DSP). The explanation for the increase is that these relate to SEC Modifications and Releases. These costs have been assessed via the modification process, prior to implementation. We propose that the Independent Auditor looks at the Impact Assessment process, its forecast and actual outturn. This should assess if there is a gap between the Impacts Assessments provided and the final outturn once Modifications have been implemented.

We believe lessons could be learned for both DCC and SECAS, through a future audit focus on this area, not just compliance with the timescales (as noted this year) but also a focus on the process for obtaining estimates and the challenge process applied. This would provide assurance to DCC Users that the charges are economic and efficient.

Question 5: What are your views on our proposals on DCC's approach to benchmarking of staff remuneration for both contractor and permanent staff?

Whilst we generally agree with the proposals, another aspect that should also be considered is staff retention. There continues to be a high degree of change of DCC personnel. This impacts ability for Panel and Sub Committee engagement with DCC programme and projects, where relationships are built with individuals, only for the DCC team to change, at short notice, with poor knowledge transfer to the incoming team.
More generally, we find that there is a severe weakness in "corporate memory" in DCC, where topics discussed previously are not communicated to successor staff. On a related topic, we also find that communication across DCC is sometimes poor. For both corporate memory and cross DCC integration, the Panel and subcommittees have too often to provide the "glue".

Ofgem should consider benchmarking DCC staff retention levels in addition to ensuring that remuneration packages remain economic and efficient.

Question 6: What are your views on our proposal to disallow costs associated with non-competitive procurements where we have not received satisfactory justification or evidence?

Given DCC's monopoly position, and that its core role and purpose is contract management and procurement, it is concerning that competitive procurement is being called into question. We note Ofgem observe that DCC is not consistently applying its own procurement policy or procurement obligations within its Licence. We have previously raised issues with the relationship between Capita and DCC, particularly with regards to resourcing and service provision. The Panel would like to see the procurement activities receive further scrutiny through the Independent Audit in the next Regulatory Year.
Overall, we feel it should be emphasised that competitive procurement is the assumed default approach. If a case is made for deviating from this, appropriate methods to ensure commercial discipline should be set out in advance and put to the Panel for comment before review by Ofgem.

Question 7: What are your views on our proposal to disallow the costs of the Order Management System, Customer Engagement Portal and the Executive Leadership Programme?

The Panel agrees with the proposed action. It is not right that DCC Users, pick up costs for training programmes or costs for programmes of work that have not previously been agreed or received oversight and agreement from DCC Users.

Question 8: What are your views on our proposal to disallow costs directly associated with the Business Accuracy Programme?

The Panel agrees with the proposed actions. This is an example where a lack of oversight and governance through the current ex-post Price Control mechanism appears to have enabled this cost to be incurred without appropriate oversight from DCC Users.

Question 9: What are your views on our proposals on the Shared Service Charge?

There needs to be clear and unequivocal rationale from DCC to justify the Shared Service Charges (SSC) and why resource from Capita is being utilised. We agree with Ofgem's proposal to disallow SSC for Network Evolution Programme and test houses, where no justification has been provided.

We believe that in principle topics such as procurement from a parent company, and transfer pricing between connected companies requires special attention and transparency. To improve this area in future, along with our recommendation that the Independent Auditor look at procurement activities, we suggest that programmes of work that DCC wishes to undertake would benefit from a requirement for greater oversight from DCC Users. This would be via Panel, to provide greater transparency to DCC Users who fund the work.

Question 10: What are your views on our proposal to disallow costs associated with the product management team, DCC's work on EVs and additional products?

The SEC Panel agree with the proposal. DCC should focus its work on core mandatory services. The core services are not yet stable and providing a quality service to DCC Users 24/7. DCC should focus its resources on delivering high quality mandatory services before spending resource on additional activities.

Question 11: What are your views on our proposal to disallow forecast cost variances in RY22/23 and RY23/24 in the Corporate Management, Finance & People and Operations cost centres, and the Network Evolution, SMETS1, and ECoS programmes; and all baseline forecast costs for RY24/25 onwards?

The proposal is right. If the DCC is unable to fully substantiate and justify this spend, it is right that these costs are removed. Certainly, in at least some of these areas, the expectation would be that volume effects and/or the experience curve should be tending to reduce costs, although it is recognised that other cost drivers are relevant.

Question 12: What are your views on our proposed position on DCC's System Performance?

The issue surrounding the Operational Performance Regime (OPR) Systems Performance measurement are well understood together with the need to treat this RY21-22 as a transition period. In order to provide further context to the proposed position, we provide some further insight of the DCC User experience of DCC systems and operational services.

<u>Service Incidents Volumes</u>

- ***Incident Numbers and Service Instability***

Category 1 and 2 Incidents are incidents which have caused serious or material disruption to the service provided to Users, and therefore have had a serious impact on DCC Users, and, in many cases, end Consumers.

There were 31 Category 1 and 2 Incidents in the year, occurring with an overall frequency of up to 2.5 per month. These were recorded as lasting for a total of 561 hours of service impact or total service outage, although, inevitably, the actual impact on DCC Users will have been lengthier.

We consider that this frequency and extent of Incidents indicates an unacceptably poor quality of service reliability. Compared to the previous RY (2020-2021), whilst there are fewer Incidents in the RY21/22 these have been more impactful for DCC Users.

- ***Incident management***

Categorisation of Incidents was a recurring theme in RY21/22, where delays in escalating an incident to a higher category contributed to delays in resolution. In numerous cases, DCC Users represented at the OPSG have challenged the DCC and DCC Service Provider categorisation of the severity of Incidents and whether this matches the SEC categorisation of Incidents. For avoidance of doubt the SEC defines a Major Incident as a Category 1 as this is deemed to have material impact to services. DCC is required to report to Panel for each occurrence of a Major Incident. However, we note that DCC also provides reporting to OPSG and Panel on Category 2 Incidents as it takes similar actions to resolve these. The initial categorisation of Incidents is critically important, as this impacts the actions taken by DCC Users

For example, in December 2021, INC000000806199: this Incident led to a degradation of Service Requests and Installation for multiple parties. The Incident was classified as Category 2 but due to the impacts should have been classified as Category 1 Major Incident from the start. The Incident was reported to DCC by several parties and included service degradation to Install & Commissioning and Prepayment top ups. The service took 6.5 hours to return. The DCC retrospectively agreed to upgrade the Incident to a Category 1 Major Incident, although this was after the resolution and therefore would not have provided an accurate view of the scale of the Incident, for the duration of the Incident. The reclassification of the Incident meant that the DCC had failed to achieve the SLA of 4 hours for Incident Resolution per the SEC.

<u>Planned Maintenance / Unplanned Maintenance and Outages</u>

- ***Total level of Service Outages and Service Outage Strategy***

Service outages may be for planned maintenance (up to a total of 6 hours per month), unplanned maintenance (including scheduled maintenance above the 6 hours per month allowance, short notice outages including incidents and other events), and outages for BCDR.

In the RY, the total level of outages was 260 hours, including 106 hours for BCDR. This total clearly represents a very significant level of service unavailability with consequent impact on Users and end consumers. The total excluding BCDR 154 hours should be compared with the 6 hours per month expectation for planned maintenance in the SEC. We strongly believe that this continuing high level of maintenance is a serious matter, reflecting a serious shortfall in service provision.

We pressed DCC to develop a strategic, rather than simply reactive approach to this serious matter. It was disappointing that it took a considerable time for DCC to recognise the importance and scope of this piece of work (although it is now underway). We believe this was a failing in the RY.

- ***Annual Outage Planning***

During the RY the Operations Sub Group (OPSG) and DCC collaborated to produce and agree a view of the scheduled outages for the coming year. This is important because of the current high level of maintenance. It enables the OPSG to review the overall outage picture for the coming year, rather than having to consider individual proposed outages in isolation. We believe this was an example of good customer engagement by DCC.

- ***Outage Notifications***

The SEC requires the DCC to limit Planned Maintenance outages to 6 hours per month, as well as requiring the DCC to specifically request and notify SEC Parties of any additional scheduled Maintenance time required. The use by the DCC of Planned Maintenance windows has been a constant issue across several Regulatory Years, with not enough prior notice provided to SEC Parties, where large programmes of work are being undertaken.

During RY 2021/2022 the DCC continued to make several requests to change Planned Maintenance windows, at short notice, that did not meet SEC requirements. The impact is felt by DCC Users and end Consumers, who see business as usual activities, such as installation of Smart Meters, collection of data and Prepayment services impacted at short notice.

Additionally, a number of Category 1 and 2 Incidents occurred as a result of actions and overrunning of Planned Maintenance events. For example, CRQ000000134669: this internal change and subsequent Category 1 Incident, included a failure to promptly identify and communicate the loss of connection to 135,000 Communication Hubs, which in turn delayed the incident resolution. This is an example of DCC failing to manage and actively monitor its Service Providers and health of the overall Network.

CSPN Performance

Performance issues in the CSPN region have been an issue since RY 2019/2020, with the DCC failing to meet Code Performance Measures (CPM) CPM1 and PM2. Performance issues continued in the CSP N region throughout the RY period. Following several attempts in the prior Regulatory Year a further remediation plan was provided by DCC. With close monitoring of the remediation plan by DCC, and monitoring and user engagement via the OPSG and CSPN Common Issue Forum improvements were seen throughout the year, resulting in a positive out turn.

The remediation approach and user engagement approach finally adopted, provided good communication to DCC Users of the work being done, and importantly the expected trajectory of performance improvement against SEC measures.

Data Service Provider Technical Refresh

In October 2021, the DCC reported to the OPSG that a Data Service Provider (DSP) Technical Refresh was urgently required as some components had reached the end of their operational life. This had security and operational implications. This very short notice statement by DCC clearly meant that there had been serious failures of planning on the part of the service provider, contract management by DCC, and customer engagement by DCC.

The DCC advised the OPSG that their preferred option for managing the Technical Refresh was via 14 additional maintenance windows, each requiring a full-service outage, starting the following month (November 2021), and ending in July 2022.

The OPSG rejected the proposals, noting the serious implications for DCC Users and end consumers (including Prepayment customers). The DCC was asked to re consider the impacts and to engage with all SEC committees (OPSG, Security and Technical and Business Architecture) to ensure all aspects, options and impacts of the proposed activities had been considered prior to undertaking the proposed maintenance activities.

A revised plan with options was presented to the December 2021 SEC Panel. The urgency of the plan presented by DCC meant the Panel had to accept the “least bad” of the two options proposed. This included three 'High' Impact windows over March 2022, requesting an additional two 'High' impact windows on the Tuesday 1 and Saturday 12 March (one for 6 hours, and one for 10-12 hours).

This is a further example of poor contract and Service Provider Management by DCC, leading to direct operational impacts to DCC Users and end Consumers. The original proposed action by DCC highlighted that DCC User and end Consumer impacts had not been considered during the formulation of the original plan.

SMETS1 operational issues

- ***SMETS1 Final Operating Cohort (FOC) issues***

Throughout the RY21/22 issues were reported with SMETS1 FOC operations, centred on SMETS1 Service Providers (S1SP) operation.
A particular concern was that operational issues emerged soon after Go-live, and required a substantial remediation plan. It was concerning that these issues were not identified at the readiness assessment stage prior to Go-live. It was also disappointing that the remediation plan communication to the OPSG was not as effective, as was eventually achieved for CSPN (as described above).

The remediation work for FOC was not completed in the RY, and, indeed, is still in progress. It is now anticipated that remediations will not be complete until about 2 years after Go-live.

Concerns were raised that the reporting of operational issues was not being done in line with the SEC, in turn leading to an impact on DCC Users and end Consumers. An ongoing issue throughout the RY21/22 was found with the S1SP platform, causing Incidents and negative impacts to migrations.

It has been identified that DCC are not yet applying service credits to the S1SPs regarding failure to meet SEC requirements.

Overall, therefore there has been a serious and continuing shortfall in Service Quality for SMETS1 FOC, and it appears that inadequacies in DCC's contract management and the contractual management framework are significant factors in this.

- ***SMETS1 Firmware Download Service (IOC/DCO)***

The DCC reported constraints with the deployment of a SMETS1 manufacturers Firmware image. It was noted three Large Suppliers were rolling out a Firmware release which caused an impact on the DCC service. Concerns were raised that SEC requirements for DCC Service were not being met, as Firmware updates were not able to be distributed without constraint.

The DCC was requested to provide clear workaround plans, and a remediation plan leading to the SEC requirement being satisfied, including specifically, how the capacity would be improved. Despite several attempts throughout the RY21/22, this issue remained unresolved in the RY, and, indeed, has not yet been fully resolved.

Volumes of Alerts

During the RY the DCC continued its successful oversight and management of the volume of superfluous alerts.

RF Noise (Noisy meters)

During the RY, the DCC took a proactive approach to quantifying and addressing this issue.

CH exceptions

We believe that in the RY, the DCC improved its oversight and validation of CH exceptions claimed by CSPs, this being an improvement in Contract management.

Question 13: What are your views on our proposed position on DCC's Contract Management?

We welcome the inclusion, of an independent audit of the DCC Contract Management function. We agree with the position proposed by Ofgem. Whilst accepting the position the auditor has reached, the Panel noted in its response to the audit findings, that some areas were not reflected in the commentary or scoring in the auditor report. Initial thoughts, include increasing the score from 1-3 to 1-5 with 5 being exceptional, and 1 being poor, to increase granularity. We welcome the proposal that changes to the scoring will be consulted in the New Year and look forward to providing further views at that time.

Further, we propose the following items should be the focus of next year's audit exercise including:

- Overall we believe there should be focus in future audits to track shortfalls in Contract management and Service quality needs (we have provided some examples above).
- Working Capital Costs (WCC), it is unclear if this approach is providing the value for money suggested.
- Commercial Procurement activities to ensure contracts are let with appropriate scrutiny and competitive tender processes applied.
- Commercial and Contract Management, to ensure all potential avenues for savings within the Service Provider contracts are being fully explored.
- SEC Modification Impact Assessments and engagement with Service Providers in the Change Process.
- A focus should also be on ensuring DCC demonstrates that areas of deficiency noted in this year's audit have been actioned. The Performance Incentive scheme should ensure DCC is doing what it needs to rectify and ensure that necessary changes have been made to its commercial and contract management teams. However, the absence of a formal remediation plan, brings this into question.

Question 14: What are your views on our proposed position on DCC's Customer Engagement?

Through the Panel OPR assessment earlier this year, Panel has provided its views and those of SEC Parties. We agree with the proposed position Ofgem has reached. Overall experiences of DCC engagement, was variable. From a SEC Panel and Committee perspective, The Testing Advisory Group generally had good engagement and papers were delivered on time, whereas Panel and other Sub Committees often had papers provided late or withdrawn at short notice. We acknowledge that DCC is making continuing efforts in this area.

In particular in the RY we continued to see instances where DCC engagement plans lacked overall structure and detail. Further, we found the quality of papers presented as part of engagement to be variable.

Examples of engagement;

- ***Network Evolution Programme (NEP).***

Panel and SEC Parties noted issues with Network Evolution engagement being poorly timed, unclear, or too late to make a difference to the overall decision. With large programmes of work that the DCC undertakes such as NEP, there needs to be a clear and consistent approach across all the programme workstreams, so that SEC Parties and relevant governance forums understand what and when issues are being discussed and or decisions / input required.

The lack of clear DCC engagement plan and process, raises concerns about the DCC ability to manage and deliver significant transformational projects such as NEP. This is a recurring issue that spans Regulatory Years. Whilst the DCC has provided information to Panel and Sub Committees on previous programmes, the information is not provided consistently; both in terms of structure, content and timing. As a result of concerns raised at Panel, work is underway to develop a Programme Assurance methodology under SEC governance, for the DCC to deliver timely, appropriate and detailed proposals at each stage of a project lifecycle.

- ***Communication Service Provider North (CSPN) Remediation Plan***

As noted above, the Operational performance in the CSPN region has been below minimum requirements since RY19/20. Several attempts had been made during the intervening period to present plans to improve the service and to meet the SEC Code Performance Measurement targets. These plans were not successfully executed, and it was not clear that DCC had been focussed on achieving improved performance from the service provider. Following considerable effort, DCC presented and delivered on its remediation plans overseen by OPSG. This is an example of positive engagement of a plan of work that was well executed, and effectively communicated to Parties.

The CSPN is an example of good practice that we hope the DCC will apply to its other programmes of work.

- ***Price Support for CHs***

We were concerned that DCC determined that it was not possible to adhere to a fixed price contract for CH manufacturing. Whilst the Panel has had little visibility of the details of the contract, and recognise that external circumstances are demanding, it was disappointing that the consequences will apparently result in price increases for SEC Parties

Question 15: What are your views on our assessment of DCC's application to adjust its Baseline Margin?

We are in agreement with the proposed action. We note the findings in this section from Ofgem are similar to earlier areas of the consultation, that the submission from DCC is not of the right standard, and detailed description. Where DCC has not provided sufficient information, in compliance with the Licence Conditions, it is right that DCC should not be afforded the change.

Question 16: What are your views on our assessment of DCC's application to adjust its ECGS?

Overall we agree with the position reached by Ofgem. We note that Ofgem is minded to accept an adjustment for refinancing arrangements of Communication Hubs. However, we also expect DCC to be looking for wider savings within its contractual arrangements to ensure DCC Users benefit from a range of potential savings. It is not clear to us from the detail in the consultation that this is the case. We suggest that this could be an area of further focus by the Independent Auditor, to see if all potential avenues are being exploited through DCC commercial and contract management teams. We are keen to see that all opportunities are explored.

Question 17: What are your views on our proposed position on DCC's costs associated with the Switching Programme?
Question 18: What are your views on our assessment of Delivery Milestone 4 of the Switching Programme?

The Switching Programme is outside the remit of SEC Governance. We note the proposal from Ofgem but as Panel has had no direct involvement with the Switching Programme, the Panel is unable to provide a specific view to these questions.

Question 19: What are your views on our proposal on DCC's over-recovery of revenue?

We note the proposal to apply a penalty interest rate in relation to DCC over recovery of costs. We understand that the total of the over recovery, plus the penalty interest charges, will be offset against future DCC User charges, where the threshold is exceeded, in accordance with the DCC Licence condition. This process, however, takes time to work through following the end of each Regulatory Year. As a result DCC Users and Consumers ultimately have to wait a considerable time for the offset to take effect. We understand Ofgem are looking at this area, and we urge them to take appropriate action that may be able to speed up this process. We also understand Ofgem is considering what and how arrangements deal with any over-recovery scenario that may arise as the current DCC Licensee term comes to an end.