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By email only

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Dear Ayena,

OVO response to Ofgem DCC Price Control: Regulatory Year 2022/23

Thank you for the opportunity to respond to this consultation. We support Ofgem's review and assessment of the costs related to DCC to ensure these continue to be economic and efficient.

OVO's vision, encapsulated through Plan Zero, is to power human progress with clean, affordable energy for everyone. A key enabler of our future strategy, from innovative propositions to meet demand flexibility needs, to supporting our customers with energy efficiency management, is the installation and management of smart meters. As a result, the success of the DCC Service is integral to delivering our vision.

Increase in DCC Costs for Regulatory Year 2022/23

We note the material increase in DCC costs against those forecast for the regulatory year under review; and when reviewing total costs for previous price controls, it is concerning that the total costs are not trending downwards this late into the rollout. The rationale set out in this consultation indicates that DCC did not accurately forecast the costs related to their procurement activities for new contracts.

We would welcome further work by Ofgem on reviewing the accuracy of the DCC forecasts, and what should be incorporated; the existing requirements have been queried by DCC, where the inclusion of forecasts relating to contingency and other costs could reduce uncertainties. Re-assessing how these forecasts are constructed and reported on by DCC within the Price Control process could ensure we have greater accuracy and assurance of

projected costs moving forward. It would be beneficial for this analysis to be aligned with the ongoing engagement under Ofgem's future DCC licence (DCC2) consultation process, however we would expect there to be improvements ahead of any transition to DCC2.

DCC Regulatory Reporting and Evidence

Ofgem highlights a recurring theme that, as with previous years' price control reviews, there is a lack of regulatory reporting to an appropriate quality level from DCC to enable the robust assessment of their incurred costs. We note from the Ofgem DCC Price Control Stakeholder Event, held on 8 December, that DCC responded to the proposed Ofgem disallowances by stating that further evidence and explanation will be provided; for example the SMETS1 service stabilisation in external costs.

- Given that there is an established price control review process, Ofgem must take action to assess and address the underlying reasons that result in DCC continuing to identify elements, where they will need to provide further evidence to justify their expended costs, only following their review of Ofgem's disallowance proposals;
- This theme reflects wider concerns that Industry has repeatedly raised, in terms of how DCC costs and charges are established, and that on request of further information from DCC there are incomplete or insufficient responses to fully account for the cost breakdown.

Regarding the latter point, we would like to highlight the steps taken by Industry to introduce improvements to the DCC regulatory reporting for costs, with the Smart Energy Code (SEC) modification, 'DP218 Review of the SEC Charging Methodology'¹. This modification considers the following issues:

1. Who uses the DCC Systems and how they are charged (DCC User Charges); and
2. How the DCC Fixed Charges, which includes SEC administration costs (SECAS and Sub-Committees) are apportioned between different Party Types.

It should be noted that the assessment of this modification proposal has been extremely slow to progress through the process, considering this was first raised on 30 September 2022. DCC has previously cited that the SEC does not require them to be able to split out costs and be able to identify these within their accounting, therefore contributing to a lack of transparency.

During two SEC working groups held in July 2023, it was confirmed by DCC that they would need to carry out further work to establish how the existing costs are calculated and allocated. As a result, DCC has gone out to the market to secure expertise in reviewing, and proposing options in relation to its approach to charging. This review will also include quantitative analysis of different charging models that could provide insights into how fixed costs should be apportioned in relation to network use.

The latest update we have in relation to this third party engagement by DCC is that an

¹ <https://smartenergycodecompany.co.uk/modifications/review-of-the-sec-charging-methodology/>

overview of the ongoing work by consultants on the review of DCC User charging, with a view to informing the evidence base for DP218 and DCC Charging Policy. The ad hoc working group on 14 December provided some updates on the scope and early assessment of initial analysis. We look forward to having greater visibility of the outcomes of this analysis, and that this will be efficiently progressed.

We would welcome closer engagement by Ofgem to support this assessment of the existing charging methodology. It is clear that the additional analysis in this area will be crucial in determining the future DCC Licence requirements and associated charging methodology for DCC2.

DCC Performance

We remain concerned with both DCC performance and the mechanisms they are measured against. These seem to be focused on percentages and high level outcomes, without appropriate regard for consumer impact. Within the current framework, DCC can meet the relevant system performance measures and retain their full margin whilst consumers experience detrimental impacts due to the service not delivering a successful outcome.

We note in the consultation that DCC highlighted the following achievements during RY22/23; our ability to scrutinise these two points are limited, and we are not aware of the evidence that demonstrates this was achieved:

- 1. DCC achievement: Reducing planned maintenance/outages by 85%** - the amount of maintenance events continues to significantly exceed that which should be deemed acceptable. Users have no option other than to 'allow' these additional periods of maintenance to take place, in the interests of service continuity. The rules within the SEC permit a set amount per month (6 hours per month unless sanctioned by Panel) and, due to statements from the DCC as to the huge complexity of the solution they have inherited, they require an increasing amount of time per month to keep everything working.
- 2. DCC achievement: Reducing prepayment top up failures by 50%** - we can only assume this directly relates to DCC implementing the Northbound prioritisation, however this was driven by the implementation of an Industry raised modification requesting the changes to support this outcome. We also note that outages and incidents lead to increasing the volume of top-up failures. Linked to the above, the regularity with which maintenance outages are initiated between 8pm and 2am often creates a sub standard consumer experience, especially for prepayment customers who lose the ability to vend remotely at these times. Evidence shows that prepayment customer vending often takes place over evening hours before 10pm. We have therefore repeatedly petitioned the DCC to conduct maintenance at more appropriate times, but without success. Further, any suggestions of raising a SEC Modification have been rejected, without appropriate regard to the impacts on consumers.

Recommended next steps

Our understanding is that DCC is still unable to change or terminate some contracts where the performance of the service provider falls short, and this has an adverse impact on consumer outcomes. Given the criticality of the service to ensure customers receive consistent and effective outcomes, it is essential that the performance framework and contract management is fit for purpose.

Further, we consider it critical that all Ofgem workstreams in relation to the DCC are renewed to include a core duty to consider consumer outcomes, ensuring that the future licensing, monitoring and commercial arrangements are structured around the need to reduce and avoid detrimental consumer impacts wherever possible, as well as ensuring fair and appropriate value for money for industry.

We welcome the ongoing engagement with Ofgem for the future review of DCC licence arrangements. A key aspect of this workstream must also include a review of the DCC charging methodology and price control review process; this is to ensure that the challenges and constraints identified in this consultation and subsequent industry responses, are fully considered and addressed in the detailed development of DCC2.

Our detailed responses to the consultation questions are provided in the below Appendix. We would be happy to discuss our response further, and should you have any questions please contact policy@ovoenergy.com.

Kind regards,

Samantha Cannons
Regulation Manager, OVO

Appendix - OVO's responses to Ofgem's consultation questions

External Costs

Question 1: What are your views on our proposal to disallow £4.159m in incurred External Costs and £12.406m in forecast External Costs associated with DCC's procurement of an interim solution for the SMETS1 supply chain?

Yes, we agree with the proposed disallowance for incurred External Costs. We also support the disallowance in the forecast costs for the procurement of the interim solution for the SMETS1 supply chain. The disallowances are a positive move to ensure that this incentivises the ongoing drive down of future costs. This is based on the information provided by Ofgem following their assessment of the DCC evidence, as set out in the Price Control consultation.

Question 2: What are your views on our proposed cost disallowance of up to £2.675m in relation to SMETS1 service stabilisation in RY22/23?

Yes, we agree with the proposed cost disallowance in relation to the service stabilisation of SMETS1, based on the rationale set out in the consultation.

As noted in the consultation, DCC customers should not have to bear the costs associated with under-delivery or poor performance of the DCC service providers.

Question 3: What are your views on our proposal for a disallowance up to the amount of External Costs incurred on a directly awarded contract in the 4G CHs & Networks programme?

We fully support the proposal for a disallowance regarding a directly awarded contract on the basis that this did not follow the required process for a Fundamental Service Provider (FSP), as set out in the DCC Licence.

Whilst the DCC set out the rationale for this approach, it seems that engaging in their original actions, they did not ensure a competitive procurement from the outset, and this led directly to the outcomes of a time constrained approach having to be followed. In addition, as noted in the consultation, there was insufficient justification of having achieved the most cost effective outcome.

Question 4: What are your views on our proposal to disallow £44.054m in forecast FSP External Costs?

We fully support the proposals set out in the consultation relating to the disallowance of some of the forecast FSP External Costs.

It is clear that insufficient evidence was provided by DCC to substantiate the projected costs where these meet the materiality threshold of £1m. In addition, it is concerning to see

that some forecast costs exceed the amount of the justification provided by DCC. We would note that reference is made to scrutiny by the industry of the costs associated with SEC Modifications; we refer to the section in our cover letter that sets out the challenges with obtaining clearer reporting of costs and their breakdown from DCC.

Question 5: Do you have any other views on External Costs?

It seems clear that many items that were highlighted to DCC by Ofgem during previous price control reviews, have continued to be issues in this Price Control review. This has led to Ofgem having to disallow elements of the External Costs and to set out the lack of adequate management by DCC of their cost processes.

We would like Ofgem to either require DCC to improve so we are not in the same position next year, or to review the drivers and incentives for DCC to ensure there is sufficient evidence and justification provided to this process. This results in a detrimental impact to suppliers, as it creates uncertainty in future costs.

Internal Costs

Question 6: What are your views on our proposals to disallow a 50% proportion of the RY22/23 resource costs associated with Corporate Management, Design and Assurance, Security cost centres and the Network Evolution programme?

We support these proposals on the basis of the reasons set out in the consultation.

Question 7: What are your views on our proposals on DCC's approach to benchmarking of staff remuneration for both contractor and permanent staff?

We support these proposals on the basis of the reasons set out in the consultation.

Question 8: What are your views on our proposal to disallow the continued costs that are linked to the activities that we disallowed in RY21/22 – these include additional costs associated with the Executive training programme, innovation and growth as well as a continuation of the RY21/22 non-competitive procurements?

There is no justification or explanation provided and therefore the proposal to disallow these continued costs seems reasonable.

Question 9: What are your views on our proposal to disallow a proportion of the costs linked to the activities that we consider not have been resourced in the most economic and efficient way?

The need to ensure that costs related to activities that have not been resourced economically and efficiently should be a key driver, and therefore we support the disallowance of a proportion of the costs.

Question 10: What are your views on our proposal to disallow costs directly associated with the Business Accuracy Programme?

As noted in the consultation, given the lack of information provided to Ofgem to evaluate this programme, with no plan in place to realise the benefits or outcomes, we support these views and the proposed disallowance.

Question 11: What are your views on our proposal to disallow costs associated with the RY22/23 non-competitive procurements for which we have not received satisfactory justification or evidence?

The need for DCC to provide satisfactory justification or evidence to DCC is a clear part of the price control process, therefore we agree with this proposal.

Question 12: What are your views on our proposals on the Shared Service Charge?

We view that DCC's inconsistency and lack of justification for the Additional Baseline activities means these costs should not be allowed; a repeat of the assessment in last year's price control review.

Question 13: What are your views on our proposal to disallow forecast resource cost variances in RY23/24 and RY24/25; and disallow all baseline forecast costs for RY24/25 onwards?

It is concerning that the proposed amount being disallowed, given a lack of justification from DCC to Ofgem, is significant. We would note that this seems to result from the lack of forecasting and a clear explanation.

It seems that some of these FTE increases do not align to the work that we, as DCC Users, are seeing any benefit from. As such, we question their need and how they provide value for money to our end consumers, who are directly impacted by DCC costs.

Performance Incentives

Question 14: What are your views on our proposed position on DCC's System Performance?

We remain concerned with both DCC performance and the mechanisms they are measured against. These seem to be focused on percentages and high level outcomes, without appropriate regard for consumer impact.

SRV8.11 metric in the interim OPR: It is disappointing that a clear measure (SRV8.11) is seen as too problematic and 'hard' to identify, to enable the measurement of success for a device getting set up using DCC Services.

We encounter many instances where the Communications Hubs 'births' but the 8.11 fails due

to WAN or Hub issues, neither of which is due to Installer or User behaviour, and any attempts to flag these are met with pushback by both the DCC and the CSP. It must be noted the success of the SRV is far lower in the CSP-N region than in Central or South. As a result, we have been in talks with DESNZ on their work on Non Communicating Devices and received feedback that they too have seen similar outcomes. The matter of SRV control in the North means that it is considerably less resilient and unable to cope when more than one command is sent to some towers, all of which is work being undertaken by the CSP-N Scaling and Optimisation project. This means there is not a singular view of performance across the whole of the DCC's contracted coverage areas, as the different CSP solutions means behaviour outcomes are not the same.

In order to update the SEC, and to consider the impact of us not being able to complete an installation to the satisfaction of both ourselves and the consumer, SEC modification 'DP255 - WAN issues during Smart Meter installations'² has been raised. This is seeking to evaluate WAN issues and to change the metric from a signal getting only to the Comms Hub as being a successful install, and move it to include all devices attached to the HAN too, so the SRV8.11 must be successful. This would also enable a full costing of the work needed for DCC to identify this and allow for suitable updates to either the OPR or the actual PMR itself to include failed installs due to the SRV8.11 not completing and a change to the WAN status to being insufficient for a Supplier to install a fully working Smart Metering System. All due to the measure today only needing a Communications Hub to be connected.

As such, we see the proposed move to zero weighting of the item in the OPR as being a disincentive to DCC to address this consumer impacting issue. We would welcome further work with Ofgem on ensuring that an appropriate measure, aligned to SEC Modification DP255, can be established.

A key area of focus to explore further is that DCC is unable to change any contracts to a better outcome for all, and that they have inherited such agreements that cannot be changed. This must be addressed as part of the work being undertaken by Ofgem for DCC2 for the future framework for DCC.

Question 15: What are your views on our proposed position on DCC's Contract Management?

It is unclear what is meant in the consultation by the term "2nd Tier Suppliers" or the rationale that the Auditor feels they should engage with SEC Parties. It is the responsibility of the DCC to manage those relationships, yet there is mention of that outcome. We are also disappointed that the Auditor feels that we should allow the DCC longer to enable it to meet the already very generous and long time scales for SEC Modification Primary and Full Impact Assessments.

²

<https://smartenergycodecompany.co.uk/modifications/wan-issues-during-smart-meter-installations/>

We have observed that several of these modification assessments are delayed due to a lack of either commercial or contractual functions to ensure their timeliness. Allowing more time does not address the reason for the delay or the length of time taken. It is also disappointing that VFM is seen as being so low in the scoring and a lack of competitive processes is driving costs up. As such, we support the lowering in the score and would like to see measures put in place for DCC to actively manage and improve these for the next RY23/24 period, after failing to do so in this period as part of their required activities.

Question 16: What are your views on our proposed position on DCC's Customer Engagement?

DCC has made a marked change in the last year in their Customer Engagement to the detriment of DCC Users. Unfortunately, due to the loss of key staff and internal changes that are still ongoing, we have noticed that DCC representatives in attendance at external sessions and forums are not fully engaged on the topic at hand regarding the purpose of the forum they're attending or the expectations of them in such a forum. It is with regular frequency that we attend a meeting to discuss items critical to us as Users, and are met with another new individual who has recently joined the DCC. This has a detrimental impact on the effectiveness of their engagement and the value of these sessions.

We have been attempting to tackle the inefficiencies and manual elements of the Nominated Contact List for several years now however, unfortunately, the forum that covered this topic was closed by the DCC and the individuals dealing have left. This leads to new functions and areas within the DCC being unaware of its purpose, and using ad hoc mailing lists instead of relying on this single source of data. Our attempts to resolve this critical communication mechanism have, as yet, been unsuccessful and are not seen as a priority as it is not a SEC defined process.

Whilst we support the position set out, we would welcome more time and effort by DCC to improve the customer engagement provided and the associated mechanisms used to communicate with Users in relation to the Services we rely upon and consider important to us. For example, the sending of a mass communication to the wrong individuals is an easy problem to fix, and yet it remains an issue that industry has struggled to overcome since the closure of all of the Customer Forums DCC used to host. Parties are either told to raise items individually via our Service Reviews or to point any items to one of the SEC Sub Committees, even though the behaviour is not set out in the SEC or covered by the Code Administration activities.

Question 17: What are your views on our proposed position on the assessment of the SMETS1 Baseline Margin Project Performance Scheme (BMPPAS)?

We agree with the proposed position and the reasons that Ofgem has given in this consultation.

Baseline Margin Adjustment and External Contract Gain Share

Question 18: What are your views on our assessment of DCC's application to adjust its Baseline Margin?

The minded-to rejection proposed by Ofgem to the Baseline Margin Adjustment seems reasonable. Our views are on the basis of the assessment set out in the consultation. We note that this is another area where DCC have not successfully provided enough evidence or justification to Ofgem for numerous items.

Question 19: What are your views on our assessment of DCC's application to adjust its ECGS?

The assessment of DCC's application provides clear rationale, and we support the proposals by Ofgem to reduce the Relevant Adjustment to the ECGS term by £0.051m.

Switching

Question 20: What are your views on our proposed position on DCC's costs associated with Switching?

We support the proposals set out in the consultation as these seem reasonable. We note that this is another area where DCC have not successfully provided enough evidence or justification to Ofgem for the forecast costs associated with Switching.

Question 21: What are your views on our assessment of Delivery Milestone 5 of the Switching Programme?

We agree that the requirements of DM5 were met based on the evidence set out, therefore the assessment of the entitlements by Ofgem are valid.

Proposals to amend future Baseline Margin and Shared Services Charges

Question 22: Do you agree with our proposal to apply a margin somewhere in the range of 7-9% when calculating BM adjustments from 01 April 2024 onwards? Do you have a specific figure that you think should be applied?

Yes, we agree with this proposal.

Question 23: Do you agree with our proposal to adjust the Shared Services Charge (SSC) from 9.5% to 4.5%?

Yes, we agree with this proposal.

Question 24: Do you agree with our proposal that any services provided to DCC by Capita, whether through a services contract or through the SSC arrangements, should not be eligible to earn any additional BM through the adjustment process from 01 April 2024 onwards?

Yes, we agree with this proposal.