

## Smart DCC Ltd Procurement Strategy

### Condition 16: Procurement of Relevant Service Capability

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## 1 Introduction and Summary

The Data and Communications Company (DCC) plays a central role in the GB smart metering system. The implementation of DCC services will be led and delivered by the DCC ecosystem. This is comprised of the Licensee, Smart DCC Ltd, the Data Service Provider (CGI IT UK Ltd) and Communication Service Providers (Telefónica Ltd and Arqiva Smart Metering Ltd). DCC's core remit, set out in the Smart Meter Communication Licence (the Licence) and the Smart Energy Code (SEC), is to implement and manage the data and communication services that enable messaging between smart meters and energy suppliers, energy networks and authorised third parties (Users).

DCC fulfils a co-ordination role on behalf of the energy industry that will secure the implementation and roll-out of smart meters. At the same time, DCC will bring focus and capability to the future development and improvement of DCC Services that drive innovation and secure value for money on behalf of the energy industry.

Smart DCC Ltd (Smart DCC) has been established as a discrete and separate entity within Capita plc. Smart DCC has been designed and established as a thin organisation with a dedicated management team. Smart DCC, as outlined in its Smart DCC Best and Final Offer (BAFO) proposal for the Licence, will be using the Capita Shared Services infrastructure to obtain services to support business operations, minimise organisational fixed costs and provide flexibility. It is also recognised that Smart DCC will need to procure specific goods and services that support their ability to deliver the Mandatory Business Services during the Licence period.

The purpose of this Procurement Strategy is to set out and explain in appropriate detail how Smart DCC has and will procure Relevant Service Capability, as well as meet the obligations set out in Licence Condition 16: Procurement of Relevant Service Capability.

The intention is that the Smart DCC Procurement Strategy of Relevant Service Capability will be reviewed once in each regulatory year. This Procurement Strategy will be provided to the Authority, and will be available on the Smart DCC website.

This is the third edition of the Smart DCC Procurement Strategy and includes an update regarding historical procurements in section 5.2.

For a list of all definitions please refer to the Licence.

### 1.1 Procurement Objectives

The Smart DCC procurement objectives for the Regulatory Year ending March 2019 are:

- Ensuring that procurement of the Relevant Service Capability is in accordance with Licence Condition 16 Part A Procurement requirements and Part B Procurement principles (refer to section 3)

- Ensuring that guidance from any Public Interest Statement is reflected in subsequent procurement activity of Relevant Service Capability (refer to section 7)
- Ensuring that all Relevant Service Capability has discrete External Service Provider Contracts and a list of the contracts will be published and maintained on the Smart DCC website ([www.smartdcc.co.uk](http://www.smartdcc.co.uk))
- Maintaining the forward plan of Smart DCC procurement activity
- Supporting delivery of the General Objectives detailed in Licence Condition 5 Part A and Part B
- Enabling Smart DCC to deliver value for money for the consumer.

## **2 Relevant Service Capability (RSC)**

Relevant Service Capability is capability procured (or provided from within the Licensee's own resources) in accordance with Condition 16 (Procurement of Relevant Service Capability) for the purposes of securing the provision of Mandatory Business Services under or pursuant to the Smart Energy Code.

Mandatory Business means the Authorised Business of Smart DCC that consists of the operation or provision, on behalf of or to SEC Parties, of Mandatory Business Services under or pursuant to the SEC.

### **2.1 Licence Condition 16**

The Licence Condition 16 sets out requirements that apply to Smart DCCs procurement of Relevant Service Capability:

"16.2 Relevant Service Capability is capability that is used (or is to be used) for the purposes of securing the provision of Mandatory Business under or pursuant to the Smart Energy Code (and includes Fundamental Service Capability).

Part A: Requirements that are imposed on procurement activities

16.4 The Licensee (Smart DCC) must procure Relevant Service Capability from External Service Providers on a competitive basis and under arrangements to be known as External Service Provider Contracts.

16.5 The duty imposed by 16.4 applies without exception to the procurement by the Licensee of such Relevant Service Capability as is specified as Fundamental Service Capability in Schedule 1.

16.6 Relevant Service Capability that is not so specified may be provided by the Licensee from its own resources, or procured from an Affiliate or related undertaking, is satisfied that the procurement of such capability by that means:

(a) would be the most economical and efficient option or (b) would be immaterial in terms of its value of use of resource within the overall context of the Mandatory Business of the Licensee.

## 2.2 Procurement of Relevant Service Capability

### 2.2.1 Overview

DCC needs to procure specific goods and services that support its ability to secure the provision of Mandatory Business Services during the Licence period. These goods and services will be competitively procured (subject to section 4.1.2) in accordance with the five Licence procurement principles detailed in the Licence and outlined in Section 3.

Please refer to Section 5 Procurement Forward Plan for the goods and services that are defined as Relevant Service Capability that will need to be procured.

Smart DCC will review all of the goods and services it purchases on a regular basis; and maintain procurement procedures to both ensure and demonstrate that they remain competitive. The costs of providing these services are also subject to retrospective review by Ofgem.

### 2.2.2 Internal Support Functions

As per the Smart DCC BAFO submission for the Licence, internal support functions will be sourced from existing Capita shared service infrastructure. This is either through a specific charge for services directly provided to DCC, or services that DCC utilises, the costs of which are included within the shared service charge.

The costs of providing Smart DCC internal support functions through the shared service charge were reviewed as part of the Licence application process, and therefore tested and accepted as part of the application. Smart DCC does not anticipate competitively re-procuring these services. These support functions provide flexibility to changes in demand without incurring additional costs ensuring it is an economical and efficient way of using these services.

Smart DCC will review all of the goods and services it purchases (including Capita shared services) on a regular basis and develop a strategy to both ensure and demonstrate that they remain competitive. The costs of providing these services are also subject to retrospective review by Ofgem.

The following services are currently sourced from Capita internal support infrastructure:

Service	Service Directly paid for	Benefit received through overhead charge
Company Secretariat Services	✓	
Internal Audit and Accounting Services		✓

HR Advice and Training		✓
Payroll and Pension Services		✓
Property and Facilities Management Services	✓	
ICT hardware, software and support services, including telecommunications	✓	
Legal Services		✓
Capita SAP solution accounting and general ledger	✓	

Where Capita bids to provide services to DCC, DCC considers the Special Position in the Licence and ensures that there is no preferential treatment for Capita. Any contracts with Capita have a lower limit of delegated authority and hence are subject to review/approval by the Board (including the sufficiently Independent Directors).

Where Capita is a Service Provider, DCC manages the relationship as it would for any other supplier, both in terms of negotiating contracts (subject to recognising the bid position, where Capita was the named bid provider for some services), internal governance processes and subsequent performance management.

### **2.2.3 Fundamental Service Capability (FSC)**

Fundamental Service Capability is Relevant Service Capability that is provided under Legacy Procurement Contracts and defined in Schedule 1 to the Licence, including the provision of all such capability (including goods and products) as is necessary to enable Smart DCC to provide, or arrange for the provision of, the Communications Hub Service pursuant to Part E of Condition 17 (Requirements for the provision of Services).

FSC includes the capability provided by the Data Service Provider, Communication Service Providers as defined in Schedule 1 and Adopted Communication Service Providers.

The key attributes when procuring FSC include:

- A full competitive procurement process will be conducted following the five Licence procurement principles outlined in Section 3
- An External Service Provider will deliver the service
- The External Service Provider Contract for the FSC must include terms that provide for the novation or transfer to a Successor Licensee

This capability will not be procured through Capita plc.

### 3 Licence Condition 16: Procurement Principles

Licence Condition 16 Part B outlines principles that are applicable to procurement activities for Relevant Service Capability. The five procurement principles for Relevant Service Capability and how Smart DCC will evidence compliance is outlined in section 3.1.

#### 3.1 Part B: Procurement Principles

Smart DCC will apply the following five procurement principles when procuring Relevant Service Capability:

<b>Principle 1</b>	RSC must be procured with due regard for the Licensee's ability at all time to fully exercise the functions it has under or by virtue of the Principle Energy Legislation, the Licence, and the SEC.
<b>Evidenced by</b>	<ul style="list-style-type: none"> <li>Formally approved Smart DCC document, such as a sourcing strategy, business case or Project Initiation Document, that links the requirement to the Licence Application Business Plan, Licence, Legislation or Smart Energy Code.</li> </ul>
<b>Principle 2</b>	RSC must be procured competitively wherever practicable and proportionate, and with due regard for (i) the principles of equality and non-discrimination between economic operators and (ii) the employment of transparent and objective procurement processes.
<b>Evidenced by</b>	<ul style="list-style-type: none"> <li>Approved sourcing strategy outlining the requirement, procurement process, evaluation methodology and suppliers to be invited.</li> <li>Documented Request for Quote (RFQ) or Request for Proposal (RFP)</li> <li>An award report detailing the procurement outcome and recommendation for approval.</li> </ul>
<b>Supported by</b>	<ul style="list-style-type: none"> <li>Use of an e-tendering sourcing portal (Curtis Fitch).</li> </ul>
<b>Principle 3</b>	RSC must be procured from suitable and appropriate organisations, having due regard to: <ul style="list-style-type: none"> <li>(a) The good standing, conduct, and financial capacity of such organisations; and</li> <li>(b) The capability and capacity of such organisation to deliver the RSC.</li> </ul>
<b>Evidenced by</b>	<ul style="list-style-type: none"> <li>The procurement evaluation process includes:               <ul style="list-style-type: none"> <li>Financial assessment of an organisation/s</li> <li>Capability and capacity assessment</li> </ul> </li> <li>Detailed specification outlining the RSC, incorporating known standards, service levels, current and future requirements</li> </ul>
<b>Principle 4</b>	RSC must be procured in a manner that:

	<p>(a) Secures value for money in terms of the combination of quality and cost over the lifetime of the contract;</p> <p>(b) Delivers the required goods, services or works to the appropriate standards according to the needs of service users;</p> <p>(c) Takes account of the potential need to replace from time to time the persons engaged in providing the capability; and</p> <p>(d) Incorporates (at a cost that is not disproportionate to any expected benefit) sufficient flexibility to adapt to changing services user requirements over the duration of the contract.</p>
<b>Evidenced by</b>	<ul style="list-style-type: none"> <li>• The procurement evaluation process includes: <ul style="list-style-type: none"> <li>• Capability and capacity assessment</li> <li>• Commercial and pricing assessment</li> </ul> </li> <li>• Detailed specification outlining the RSC, incorporating known standards, service levels, current and future requirements</li> <li>• Contract and performance management reviews</li> <li>• Assurance and review of outputs and services delivered (if appropriate or specified)</li> <li>• Periodic reviews and benchmarking of the External Service Provider Contracts, conducted in line with value for money provisions in their contracts, and the Procurement Policy.</li> </ul>

<b>Principle 5</b>	<p>RSC must be procured under contractual arrangements that make provision for the full and enduring protection of business continuity. Including</p> <p>(a) Appropriate provision to secure Smart DCC ability to exercise all of the Relevant Functions in the event of any material financial default of an External Service Provider;</p> <p>(b) Appropriate provision to secure Smart DCC's ability to exercise all of the Relevant Functions in the event of any operational failure of an External Service Provider; and</p> <p>(c) Appropriate provision to secure the transfer or novation of the contract in the circumstances of a handover of the business of the Smart DCC to a Successor Licensee.</p>
<b>Evidenced by</b>	Signed External Supplier Contracts incorporating suitable provisions, proportionate to the service.

Relevant Service Capability that is specified as Fundamental Service Capability must be competitively procured and all five procurement principles demonstrated.

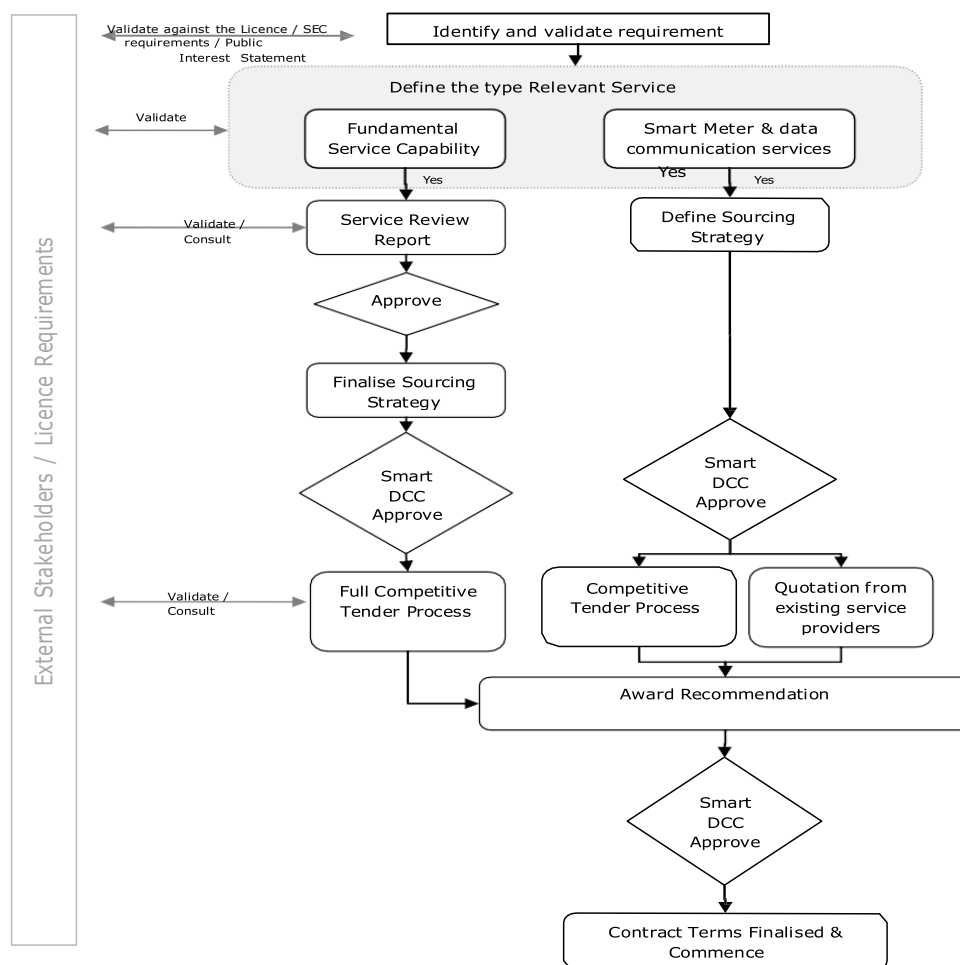
Competition in the procurement process is an easy means of establishing value for money and to satisfy the Licence principles. However Licence condition 16.6 allows Smart DCC to provide from its own resources or to procure from an Affiliate or Related Undertaking. Smart DCC will determine on a case by case basis applicability of condition 16.6 taking into consideration factors outlined in Section 4.1.2. The level and detail of evidence will be proportionate to the value and complexity of the procurement. Key documentation supporting the decisions will be retained and made available to the Authority in accordance with Smart DCC Licence Conditions 16.34 and 16.35 and appropriate Regulatory Information and Guidance.



## 4 The Smart DCC Procurement Process

Smart DCC is required to satisfy the Procurement Principles listed in Licence Condition 16 and in section 3 above. In order to achieve this Smart DCC has developed the following, high level, procurement process for procuring goods and services to support compliance to Licence Condition 16, and support the achievement of the Licensee general objectives provided in Licence Condition 5. This high level process is supported by more detailed procedures included within the DCC Procurement Policy and Procedures document<sup>1</sup>

By adhering to the Procurement Principles it is Smart DCC's aim to achieve the best outcome for services users. These processes have been developed as Smart DCC Ltd is not a public organisation and is of the view that it is not subject to the Public Procurement procedural rules of the EU Procurement Directives or the UK Procurement Regulations including Utilities Directives as listed in section 9.1.<sup>2</sup>



### 4.1.1 Type of Relevant Service Capability

Once the need is identified, a Smart DCC cross functional team will firstly determine if it is a valid requirement, for example, is it included in the Licence Application

<sup>1</sup> DCC Procurement Policy and Procedures v2.2

<sup>2</sup> This assumption will be reviewed at each Strategy Update, or when any indication of change of status

Business Plan (and updates) and Charging Statements. Smart DCC will also define the type of Relevant Service Capability, using the definitions in Section 2.

For Fundamental Service Capability there is a defined and separate process that needs to be followed prior to moving to the next stage, this is outlined in Section 6.

Where the procurement of RSC is not FSC, Smart DCC will define the Sourcing Strategy. Approval to proceed, specific governance requirements including consultation and discussion with the wider DCC will be defined at this stage. Where necessary, if consultation as part of the procurement process is required the level of, the form of consultation and point in the procurement processes will be based on input from stakeholders such as SEC and Ofgem. Procurement related consultation will be determined on a case by case basis.

#### **4.1.2 The Sourcing Strategy for RSC**

The sourcing strategy for each RSC procurement will clearly document the rationale and route to establishing the External Service Provider Contract/s for that requirement. The options for establishing RSC include completing a competitive procurement process (section 4.1.3), providing the services from its own resources, or procuring from an Affiliate or Related Undertaking, or procuring from an existing External Service Provider. It is the policy of Smart DCC to use a competitive procurement process unless it is in the interests of all stakeholders not to do so. The factors that will be considered for this are:

- is it interdependent, complementary or independent of existing Relevant Service Capability;
- value;
- capability and capacity to provide the goods and services;
- Affiliate, Related Undertaking or existing External Service Provider have recently provided costs that have been tested in a competitive procurement process;
- Economically efficient for Smart DCC to run a competitive procurement process; and
- Timescale and urgency.

The above determination will be evidenced as within the sourcing strategy and such evidence will be made available to the Authority as and when required. It should be noted that a competitive procurement process may also include tenders from an Affiliate or Related Undertaking or existing External Service Provider. In such cases, as with all competitive procurement, Smart DCC will strictly adhere to confidentiality provisions to ensure that there is no advantage given to these parties compared with other bidders.

When Smart DCC concludes that RSC should either be provided from its own resources or procured from an Affiliate or Related Undertaking the key criteria that will need to be met is that this provides the most economic and efficient solution. This may be tested in a number of ways but a starting point will be whether or not the RSC formed part of the Licence Application Business Plan (LABP) and its value is in

accordance with the plan. The cost of RSC not in the original plan would be tested against current market rates in order to ensure value for money.

Where applicable, contracts for RSC, whether with new or existing External Service Providers or with an Affiliate or Related Undertaking, shall contain provisions for the periodic benchmarking of the services to ensure ongoing value for money.

The Sourcing Strategy needs to take into account the type of goods or services required, the value, the ease or difficulty in procuring the service, the strategic importance to the Smart DCC, the speed to obtain the new requirement and how it will satisfy the procurement principles. Smart DCC will also include its determination of the discrete contract/s that will be required for that RSC as well as its outline evaluation methodology and scoring criteria.

The Sourcing strategy may be a standalone document or form part of a larger project initiation document (PID). It will include the rationale, timetable and resources for the proposed procurement process.

### 4.1.3 The Procurement Process

Smart DCC is able to deploy a range of flexible and adaptable procurement processes to procure goods and services to meet its needs and to satisfy the General Objectives, the processes are listed below.

Process and Approach	Features	Rationale & Benefit	Example
<b>Competitive Procurement 1</b> Full Tendering Process*	Defined multi-stage or gateway approach. Create a preferred bidder short list against complex specification Duration: Nine months+	Multi-layer capability review. Refine solution options, test assumptions (both parties). Control and rigour. Early relationship building.	FSP Re-Procurements.
<b>Competitive Procurement 2</b> Request for proposal (RFP)*	Optional multi stage or gateway approach against detailed specification Duration: Three months+	Competition from a short list of identified suppliers. Control and rigour applied in shorter timescales.	Parse & Correlate solution. SMKI service.
<b>Competitive Procurement 3</b> Request for quote (RFQ) Frameworks e.g. Three suppliers	Standard or non-complex specification to obtain quote Duration: Two weeks+	Competition against simple specification. Speed and agility.	Consultancy support.

<b>Procurement 4: <u>Call-off contracts</u></b> Preferred Supplier Lists, Frameworks, Affiliates (RFQ)	<u>Only awarded after a competitive process has been followed to ensure that best value can be demonstrated. Frequently purchased and pre-defined</u> <del>Existing negotiated contracts</del> for goods and services. RFQ confirms ability to deliver Duration: One week+	Access to services at agreed rates. Speed and agility. Leverage Capita purchasing power to achieve economies of scale.	Technical specialist consultancy services. ICT products and services. Office and supplies.
Additional services from Existing Service Providers	RFQ against a specification confirms scope and ability to deliver Duration: One week+	Speed and agility. Lower access costs. Coherence and alignment with Smart DCC architecture. Knowledge and understanding of FSPs.	Testing Services.
	The execution and contractual delivery of this service may be in the form of a: a) Change control process, if the existing contract had included the goods / services as existing set of service/s or b) A discrete and separate contract		

\*Full tendering and RFP procurements will be conducted utilising an e-sourcing portal (currently Curtis Fitch).

Regardless of the procurement process or approach used Smart DCC will prepare an award recommendation report for Smart DCC to approve. The approval to award will be based on defined delegated authority and will include Smart DCC Board approval where required. The award recommendation report is a summary of the outcome of the procurement demonstrating how it has satisfied the five procurement principles and how the outcome represents value for money.

The key procurement documentation (including but not limited to the sourcing strategy, request for proposal / quote, evaluation, award recommendation) will be retained and made available to the Authority in accordance with Smart DCC Licence Conditions 16.34 and 16.35. In addition, Smart DCC is required to submit price control reporting to the Authority under Condition 32. Accordingly, the Authority has issued the Regulatory Instructions and Guidance (RIGs) referred to under Licence Condition 33, setting out how DCC must collect and provide Price Control Information to the Authority. DCC must at all times act in accordance with the RIGs, and these will continue to apply to each year of price control reporting for the duration of the Licence. Section 7, Specified Information, specifically requires reporting on Procurement for Relevant Service Capability. The annual regulatory report shall contain appropriate details of each procurement undertaken by Smart DCC for relevant service capability including justifications for any procurement where Smart DCC has elected not to use a competitive procurement exercise.

#### **4.1.4 The External Service Provider Contract**

The basis of the commercial relationship with any External Service Provider for Relevant Service Capability will be in the form of an External Service Provider Contract. Smart DCC has determined that it will use the use the following contracts,

these are:

1. Competitively Procured Contract
2. Agreement with Affiliates and Related Undertakings

Regardless of the basis for the commercial contracts outlined above, Smart DCC has determined that the contracts will derive standard terms and conditions from the Fundamental Service Capability Legacy Procurement Contracts and the Licence conditions.

External Service Provider contracts will include terms providing for:

- the novation or transfer in the event of Licence expiry or a revocation event.
- Periodic reviews of and benchmarking of the External Service Provider Contracts will be conducted in line with value for money provisions in their contracts.

A list of External Service Provider contracts is available on the Smart DCC 's website

## 5 Procurement of Relevant Service Capability Forward Plan

Smart DCC is required to have a forward plan of procurement<sup>3</sup> activity to secure RSC External Provider Contracts. This section outlines the Fundamental Service Capability Contracts and the known RSC External Service Provider Contracts it needs to establish.

Smart DCC will create a forward plan for RSC that it needs to establish; it will be reviewed regularly to take into account new RSC requirements and anticipated activity. If there are changes to the forward plan then the Procurement statement for RSC will need to reflect this update.

### 5.1 Fundamental Service Capability and External Service Provider Contracts

Below is the list of current External Service Provider Contracts for Fundamental Service Capability.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033			
Fundamental Service Capability																							
Smart Meter Communication Licence (Smart DCC Ltd)	Initial Term												Extension (6 years)										
DSP Contract (CGI)	Initial Term						Service Reviews			Extension (3 x 1 yr)													
CSP Contract North (Arqiva)	Initial Term												Service Reviews		Extension (5 x 1 yr)								
CSP Contract Central (Telefonica)	Initial Term												Service Reviews		Extension (5 x 1 yr)								
CSP Contract South (Telefonica)	Initial Term												Service Reviews		Extension (5 x 1 yr)								

The Smart Communication Licence was awarded to Smart DCC Ltd on 23 September 2013. The Licence is for 12 years with the option to extend for a further six years. As per the Licence condition Part 1, Section C Continuation of Licence the 31 March 2018 is the earliest date from which it may be determined if the Licence can or will be extended.

The Data Service Provider (DSP) Contract is for the provision of data services and covers the whole of Great Britain. The contract was awarded to CGI IT UK Ltd on 9 September 2013. The contract is for eight years, plus three optional further periods each of twelve months' duration.

The Communication Service Provider (CSP) contract is for the provision of communication services, they were awarded as follows:

The Northern Region of Great Britain including Scotland. Awarded to Arqiva Smart Metering Ltd on 20 September 2013. The contract is for fifteen years, plus five optional further periods each of twelve months' duration.

<sup>3</sup> Licence Condition 16.21 (e)

The Central Region of Great Britain including Wales. Awarded to Telefonica Ltd on 12 September 2013. The contract is for fifteen years, plus five optional further periods each of twelve months' duration.

The Southern Region of Great Britain. Awarded to Telefonica Ltd on 12 September 2013. The contract is for fifteen years, plus five optional further periods each of twelve months' duration.

Smart DCC do not anticipate re-procuring or procuring FSC in this Regulatory Year.

## **5.2 Status of Procurement Requirements reported in RY 2016/17 Procurement Strategy**

	Reference Name	Description (i.e. licence, SEC etc.)	Planned Procurement Process	Update
1	Difficult Property Solutions	Implementation Mgt Forum (IMF)	Competitive RFP	Replaced by Alt- HAN activity – no DCC activity
2	Registration Services	Licence Condition 15	Competitive Tender/s	Delivered via the Switching Programme
3	Strategic Order Management System		Competitive RFP	Requirement not taken forward
4	Comms Hub Charging Project		Competitive RFP	Tender underway
5	SMETS1 Software Development	Licence Condition13	Competitive RFP	Completed as planned
6	SMETS1 DSP	Licence Condition13	Competitive RFP	Tender underway
7	Systems Integration		Competitive RFP	Not yet undertaken
8	Independent Test Auditor - 1.4		Competitive RFP	Completed as planned
9	Switching Architecture Consultancy		Competitive RFP	Completed as planned
10	Provision of Risk, Governance and Compliance System		Competitive RFP	Completed as planned
11	SMETS2 technology viability LE		Competitive RFP	Requirement not taken forward
12	Demand Modelling Phase 2	SEC H3	Competitive RFP	Completed as planned

### 5.3 New Requirements for RSC External Provider Contracts

Smart DCC has identified the following Relevant Service Capability requirements that will need to be procured from External Service Providers.

	Reference Name	Description (i.e. licence, SEC etc.)	Planned Procurement Process
1	Switching CSS	Licence Condition 15	Competitive Tender
2	Switching SI	Licence Condition 15	Competitive Tender
3	Switching Core Assurance	Licence Condition 15	Competitive RFP
4	Comms Hub Charges Reconciliation		Competitive RFP
5	SMETS1 ANSO	Licence Condition13	Competitive Tender
6	Systems Integration		Competitive Tender
7	Independent Test Auditor – 2.0		Competitive RFQ
8	SOC2 Auditor		Competitive RFQ
9	Intranet		Competitive RFQ
10	TOC		Competitive Tender
11	POC Customer Data		Competitive RFQ
12	DIT Meter Support		Competitive RFP



## 5.4 Procurement Forward Plan

The following section outlines when Smart DCC anticipates procuring the identified Relevant Service Capability. For some requirements, Smart DCC know there will be a time delay between the procurement activity ('Procure') of the RSC and 'go live' of the RSC due to build and test requirements', these distinct activities are shown on the forward plan ('Service starts'). If there is no time delay it is assumed the procurement activity directly precedes contract and service delivery.

Regulatory Year → Reference Name ↓		2018 - 19		2019 - 20	
		Q1 & Q2	Q3 & Q4	Q1 & Q2	Q3 & Q4
1	Comms Hub Charging Project	Procure and Start Service			
2	SMETS1 DSP	Start Service			
3	Systems Integration		Procure	Start Service	
4	Switching CSS		Procure	Start Service	
5	Switching SI		Procure	Start Service	
6	Switching Core Assurance		Procure	Start Service	
7	SOC2 Auditor		Procure & start service		
8	Intranet	Procure And Start Service			
9	TOC	Procure	Start Service		
10	POC Customer Data	Procure			
11	DIT Meter Support	Procure & start Service			
12	Independent Test Auditor – 2.0	Procure & start Service			

## **6 Re-Procurement of Fundamental Service Capability (FSC)**

For the Regulatory Year 2018/19 Smart DCC does not anticipate the re-procurement of the CSP contracts. For these contracts the review and determination if those individual contracts would be extended or re-procured would not take place earlier than 36 months prior to initial contract term expiry as Smart DCC is not able to issue the Termination Assistance Notice prior to this time.

The review of the DSP contract is scheduled to begin in 2019.

In the event that Smart DCC did need to re-procure, in part or all, of the Fundamental Services as a result of early termination it would start the following three stage process. The three stages are briefly outlined below.

### **6.1.1 Stage 1: Service Review**

In advance of a formal decision to re-procure Smart DCC would undertake a detailed Service Review for the individual FSC contract would be required. The Service Review would have input from a technical, operational, commercial and future capability perspective. The output will be a Service Review report.

The outcome and recommendations of the Service Review would be presented to SEC Panel before proceeding.

### **6.1.2 Stage 2: Procurement (Re-Procure)**

If the decision is taken to re-procure the Fundamental Service Capability a formal procurement programme to conduct a full tendering exercise will be initiated.

An outline procurement project plan would be created and included in the Stage 1: Service Review.

### **6.1.3 Stage 3: Transition and Implementation**

Planning for transition would commence during Stage 2: Procurement. An Exit Team would be established, their role being to ensure that the ramp-up of services required by new suppliers align with the plans and commitments set out in Exit Plans of the incumbent External Service Provider Contracts.

### **6.1.4 Fundamental Service Provider Exit Plans**

The DSP and CSP contracts contain a specific Exit Schedule that details the requirements required by the External Service Providers in the event of Exit. Each individual service provider, as part of the Exit Schedule has established Ordinary Exit Plans and Emergency Exit Plans. Smart DCC would refer to and utilise the specific Exit Plan to manage ongoing service delivery during any re-procurement phase, be it Ordinary or Emergency Exit.

## 7 Adoption of Energy Supplier Contracts

Licence Condition 16: Part I outlines the arrangements and requirement for Smart DCC to adopt Energy Supplier Contracts as part of the SEC Adoption Process. The specific provisions of this adoption are still to be finalised.

An Energy Supplier Contract is a contractual arrangement that an Energy Supplier has entered into with any person other than Smart DCC for the purpose of procuring and providing communication or data services for Metering Systems.

Following adoption of some or all of the relevant Energy Supplier Contracts, Smart DCC will review all of its Service Provider contracts to determine if further commercial efficiency can be achieved by negotiating and consolidating contracts.

These contracts will be FSC. Any re-procurement or extension of these services will follow the process outlined in Section 6: Re-procurement of FSC.

It is proposed that all new SMETS1 Services contracts (for the purposes of providing communication or data services with respect to SMETS1 Smart Metering Systems) will be classed as **Legacy Procurement Contracts**.

Following a review of the existing contracts it was concluded that novation (adoption) for the CSP provider contracts was not a viable solution and the following approaches are being undertaken depending on the supplier:

Supplier	Approach
Vodafone	new contract – direct negotiation
Stream	new contract – direct negotiation
Telefonica	Via Change request to existing FSP contract.

The work to create these contracts and contract changes is underway and will be completed during 2018-19.

## **8 Public Interest Statement**

No Public Interest Statement has been issued during this period.

## 9 References

For further information please refer to the following:

Smart Meter Communication Licence

A copy of the licence can be found at:

<https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

External Service Provider Contracts

List of External Service Provider Contracts can be found on our website:

<https://www.smartdcc.co.uk/about-dcc/service-providers/>

### Smart Energy Code (SEC)

<https://www.smartenergycodecompany.co.uk/>

Ofgem

<https://www.ofgem.gov.uk/>

### 9.1 EU Procurement Directives and UK Procurement Regulations

European Legislation	UK Implementation
<u>Public Contracts Directive 2014/24/EU</u> Procedures for the award of public works contracts, public supply contracts and public service contracts.	<u>Statutory Instrument 2015 No. 102</u> <u>The Public Contracts Regulations 2015</u>  <u>Statutory Instrument 2006 No. 5</u> The Public Contracts Regulations 2006 (see amendments below) <u>Scottish Statutory Instrument 2012 No. 88</u> The Public Contracts (Scotland) Regulations 2012.
<u>Utility Contracts Directive 2014/25/EU</u> Procedures of entities operating in the water, energy, transport and postal services sectors.	<u>Statutory Instrument 2006 No. 6</u> The Utilities Contracts Regulations 2006 (see amendments below). <u>Scottish Statutory Instrument 2012 No. 89</u> The Utilities Contracts (Scotland) Regulations 2012.
<u>Concessions Directive 2014/23/EU</u> Procedures for the award of works and services concession contracts.	
<u>Defence &amp; Security Directive 2009/81/EC</u> Procedures of entities operating in the fields of defence and security.	<u>Statutory Instrument 2011 No. 1848</u> The Defence and Security Public Contracts Regulations 2011

<p><u>Directive 2007/66/EC Remedies Directive</u> Amends the existing Remedies Directives (89/665/EEC and 92/13/EEC) to improve the effectiveness of review procedures concerning the award of public contracts.</p>	<p><u>The Public Contracts (Amendment) Regulations 2009</u>  <u>The Utilities Contracts (Amendment) Regulations 2009</u> The Utilities Contracts (Amendment) Regulations 2009 Incorporated into The Public Contracts (Scotland) Regulations 2012 and The Utilities Contracts (Scotland) Regulations 2012 as above.</p>
<p><u>Standard Forms - Regulation 842/2011</u> Standard forms for the publication of notices in the framework of public procurement procedures pursuant to Directives 2004/17/EC and 2004/18/EC</p>	
<p><u>Threshold Amendments – Regulation 1336/2013</u> Amending Directives 2004/17/EC, 2004/18/EC and 2009/81/EC of the European Parliament and of the Council in respect of their application thresholds for the procedures for the awards of contract.</p>	
<p><u>Communication 2013 C366/01</u> The corresponding values in the national currencies other than the Euro of the thresholds as amended by Commission Regulation (EC) No 1336/2013.</p>	
	<p>The Public Contracts Regulations 2006 &amp; The Utilities Contracts Regulations 2006 have been amended as below: <u>The Money Laundering Regulations 2007</u> <u>The Public Contracts and Utilities Contracts (Amendment) Regulations 2007</u> <u>The Public Contracts and Utilities Contracts (Postal Services Amendments) Regulations 2008</u> <u>The Public Contracts and Utilities Contracts (CPV Code Amendments) Regulations 2008</u> <u>The Bribery Act 2010 (Consequential Amendments) Order 2011</u></p>

## **Appendix A – Criteria for Direct Award**

As per principle 2 of Licence Condition 16 of the Smart Meter Communication Licence, Relevant Service Capability must be procured competitively wherever practicable and proportionate. However, in situations where it is not practicable and proportionate to procure competitively, we expect DCC to demonstrate and share evidence, at the request of the Authority, detailing its reasoning for why it has chosen not to adopt a competitive procurement process.

We include below some examples for where it may potentially not be practical and proportionate to run a competitive procurement. For the avoidance of doubt, these examples should be referred to as guidance only; DCC will nonetheless be required to justify and demonstrate to Ofgem, during the price control process and on a case-by-case basis, that the use of a direct award was appropriate.

- Procuring a prototype or other novel good or service.
- No suitable tenders or requests to participate have been received in the competitive tendering procedure and DCC considers that the award of a contract using a competitive tendering procedure is not possible in the circumstances.
- DCC wishes to partly replace existing goods, services or works which are the same or compatible with existing provisions. A direct award may be made here if a change of supplier would result in DCC receiving goods, services or works that are incompatible with the existing goods, services or works, and that the degree of incompatibility would result in disproportionate technical difficulties in operation or maintenance.
- The goods, services or works to be supplied under the contract are strictly necessary for reasons of extreme and unavoidable urgency. For the avoidance, the urgency is considered unavoidable if it could not have been reasonably foreseen by DCC.