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Ofgem

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Dear Rob

RE: Framework for DCC's Procurement of Centralised Registration Services

This letter provides Smart DCC Limited (DCC)'s response to Ofgem's letter outlining the framework for procuring the Centralised Registration Service (CRS). The content of this letter sets out how DCC will carry out the procurement activity for the Switching Programme in general terms and also provides information on how it will support the considerations provided by Ofgem in their part of the framework. Both letters together will form the Procurement Framework for the Switching Programme.

DCC has reviewed Ofgem's letter and is materially in agreement with the approach to procurement that is set out.

DCC recognises the importance of CRS procurement activities in contributing to the success of the wider Switching Programme and will work in partnership with Ofgem to ensure that CRS procurement activities are as closely aligned with the requirements of the Switching Programme as possible.

In undertaking the work required to carry out the procurement of CRS, DCC's first regard shall be to ensuring compliance with DCC's obligations under the Smart Meter Communications Licence.

When undertaking the procurement of CRS, DCC shall adhere to the Procurement Strategy for Relevant Service Capability required by Licence Condition 16, as well as employing procurement best practice. This will ensure that the portfolio of procurement activity is delivered in a compliant manner and to a good standard.

The DCC procurement work stream will utilise the programme management disciplines employed by DCC as part of the wider programme, for example: proactively feed into the programme risk management function and formal reporting activity. DCC will also ensure adherence to the agreed governance mechanisms.

DCC agree that the use of acceptance criteria to determine whether a product has been successfully completed is a structured way to measure progress within the procurement work stream, which will help to provide a clear and measured approach to governance and assurance. DCC will actively support the creation of the acceptance criteria for all procurement products and agree that all acceptance criteria must be agreed by both Ofgem and DCC and such agreement needs to be in place before work can be started on a product

DCC have reviewed the Procurement Considerations provided by Ofgem in this context and agree that they provide broadly appropriate guidelines to take into account as part of the overall procurement activity. Furthermore, DCC agrees that considerations which meet the principles used for developing the programme acceptance criteria; (Ofgem and DCC are developing principles for use across the whole programme), can be utilised as inputs to the drafting of the acceptance criteria for procurement products.

The following sections describe how DCC will support specific areas of procurement work stream activity:

Alignment to the Switching Programme

DCC recognise that the procurement work stream is a key part of the Switching Programme which will contribute to the successful delivery of faster and more reliable switching for the energy industry. As such, DCC will ensure that all procurement activity is aligned to the overall programme requirements wherever this is possible and where it is not DCC will align to programme controls and change management processes.

DCC will ensure that procurement products are aligned with the Switching Programme design requirements. For example: DCC will ensure that the agreed CRS requirements are accurately transposed into a Statement of Requirements for the purpose of procuring the CRS.

DCC will maintain the plans and milestones for procurement ensuring that they are aligned wherever practical with the Ofgem Switching Programme plan, with the aim of enabling CRS implementation to start by the agreed date (subject to the dependencies from other parts of the Switching Programme).

Procurement Work Stream Governance

DCC will ensure that governance of the procurement work stream is fully integrated with Switching Programme governance. This will ensure that Programme work streams and stakeholders have visibility of progress and any issues that arise and also, that any dependencies with the wider programme can be managed.

DCC will support the specific governance and assurance requirements as agreed in this Procurement Framework.

DCC will seek to minimise the burden of governance to ensure the procurement is run as efficiently as possible, for example: DCC expects to submit the Statement of Requirements (SOR) and Evaluation Methodology for the Ofgem governance steps as part of the consolidated Tender pack this will mean one round of governance steps instead of three, saving resource effort and time for both parties.

DCC will actively identify and manage risk within the Procurement work stream, reporting to the DCC and Ofgem programme risk management functions.

Stakeholder Engagement

DCC recognise that the Switching Programme will impact on a wide stakeholder group and as such will lead the CRS procurement work with appropriate engagement from stakeholders throughout the process.

Further detail on how DCC propose to carry out the procurement work is provided in the "Procurement Strategy for Relevant Service Capability" and the annexes included with this document as listed below:

- Annex 1 - Procurement Methodology
- Annex 2 - Procurement Sourcing Approaches
- Annex 3 - Contract Structure.

DCC will test its planned stakeholder engagement approach with industry to ensure that it is considered suitable and effective

Annex 1: Procurement Methodology

DCC will utilise a structured methodology to carry out the procurement activity that follows recognised procurement processes and tools whilst aligning to the DCC licence obligations.

DCC will design the procurement activity to ensure that appropriate levels of competition are achieved as they undertake the procurement process. The procurement process is set out below and DCC will conduct all procurement activity in a manner that is transparent. Key procurement decisions will be recorded and maintained to ensure clarity and traceability of the procurement work stream.

DCC will actively seek to manage any potential conflicts of interest within potential bidders where it is in their control to do so and will flag any concerns it has to Ofgem. The procurement process will be carried out to ensure that it is transparent and non-discriminatory

A high level overview of aspects of the methodology are provided below:

Procurement Process

The following, high level, procurement process will be used for procuring goods and services by DCC for the Switching Programme.

The detailed procurement processes for each procurement project will be designed once the procurement approach has been agreed.
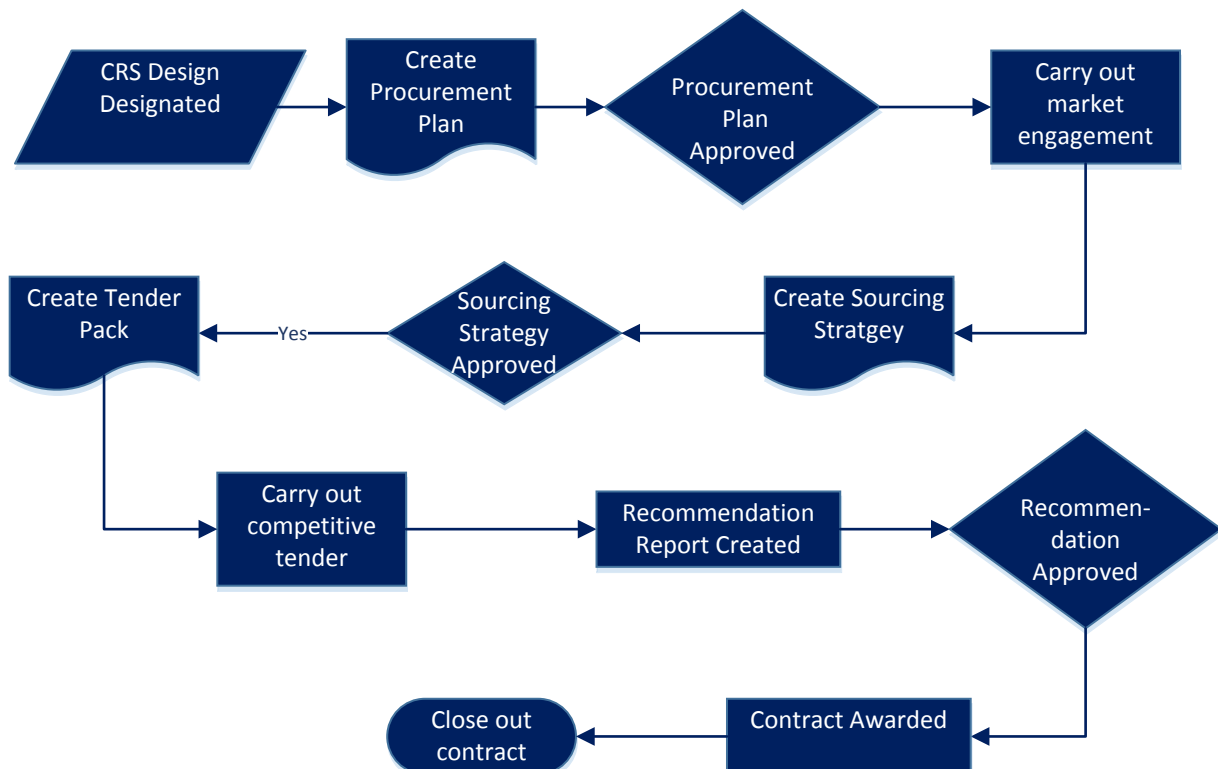
Market Engagement

Market engagement activity will be carried out by DCC to support the various stages of procurement activity, as appropriate. Where market engagement is to be used, it will be identified in the Procurement Plan and sourcing strategies.

It may be used for a variety of purposes including:

- Identifying current market conditions and service providers
- Informing potential bidders of the upcoming opportunity
- Shaping the market place
- Testing the appetite of the market for the opportunity and assessing the level of competition
- Testing procurement approaches

Procurement Products

The following table shows the potential procurement products that will be used during the Switching Programme procurement activity. The list is intended to demonstrate the logical flow of products that will be produced during the procurement activity. It is not exhaustive and not all of the products will be used in all of the projects rather, the actual products used will be dependent on the sourcing strategy and procurement approach selected and be proportionate to the scale of each procurement project.

Process Stage *(when product is used; not when product is prepared)*	Products
Pre-Tender	Procurement Plan
Pre-Tender	Sourcing Strategy
Pre-Tender	Market engagement plan and products
Pre-Tender	Non-Disclosure Agreement (NDA)
Pre-Tender	Expression of Interest (EOI)
Pre-Tender	Service provider information table
Tender	Pre-Qualification Questionnaire (PQQ)
Tender	Request for Tender (RFT)
Tender	Specification
Tender	Terms & Conditions

Tender	E-sourcing documents
Tender	Clarification Management
Evaluation	Evaluation Methodology
Evaluation	Evaluation Workbook
Evaluation	Award Recommendation Report
Negotiation and Contract Closedown	Contract
Negotiation and Contract Closedown	Procurement Project Summary

DCC will utilise their standard procurement product templates where ever possible to ensure that the procurement process is conducted as efficiently as possible.

DCC's Procurement Team

Each procurement project will have its own procurement project team, which will be formed specifically to meet the needs of the individual project. Some team members may be on more than one project team.

The DCC Procurement Project Team will be formed with the aim that all members have a shared goal of delivering a successful project and ensuring the best outcome by making quality assurance part of the process of developing procurement products and carrying out procurement activity. In this way, proactive quality assurance will be built into the procurement process rather than relying solely on quality control after the event.

DCC procurement project team members will be selected for their technical and specialist skills sets as well as their ability to work collaboratively and effectively as a team.

All project team member responsibilities will be clearly set out in a project charter, ensuring clarity of purpose and that the required level of commitment is understood and agreed to.

The DCC procurement lead will be responsible for all the procurement project teams under the overall governance of the Switching Programme.

Each project team will be actively involved in the development of the key procurement products and will be responsible for the review and agreement of the products prior to them being presented to the relevant party for approval. This will provide cross-functional perspectives to the product development, including the wider programme needs and ensure that products are not developed in isolation.

Industry stakeholders will be invited to participate in procurement projects teams to provide industry expertise and perspective, where this is appropriate.

The procurement project teams may comprise the following types of functions:
- Procurement Specialist
- Delivery/ Implementation Specialist Manager
- Solution/ technical specialist/s

- Commercial specialist and /or legal
- Finance
- Testing specialist
- Operations/ service management specialist
- Security Specialist
- CTO
- HR

Note that this list is provided for illustration and is not exhaustive.

Evaluation Approach

DCC will use an evaluation approach that will conform to the procurement principles published in the "Procurement Strategy for Relevant Service Capability"

In General

The following statements are true of all procurement activity in the Switching Programme:

- All tenders will be evaluated in a structured, disciplined and transparent manner that will be fairly applied across all bidders.
- The evaluation criteria and weightings for each procurement project will directly relate to the specification.
- The evaluation methodology will be designed before tenders are issued and will be included in in the tender pack to provide clarity to bidders.
- The tenders will be evaluated to ensure both value for money and fitness for purpose.
- The terms and conditions of each contract will be included in the relevant tender pack and bidders asked to identify any issues as part of their submission. These will be reviewed as part of the evaluation activity to help de-risk contractual issues later in the process.

Timescales

- The evaluation process will vary between procurement projects depending on the approach and complexity of the specification.
- The timescales for the decision making process will be published with the tender documents.

Evaluation Panel

- The evaluation team will be multi-disciplined and be formed to ensure that expertise relevant to the specific project's requirements is included in the evaluation decisions.
- The evaluation panel will be fully briefed on the evaluation methodology prior to evaluation being undertaken.

The following is a list of the core specialisms that will usually be included on the evaluation team:
- Procurement specialist
- Programme Management
- Solution/ technical specialist/s
- Commercial specialist and/or legal specialist
- Finance

Additional specialisms that may form part of the evaluation team are:

- Testing specialist
- Operations/ service management specialist
- Security Specialist
- Chief Technical Officer
- HR

The above list is not exhaustive.

Some of the roles listed above may be substituted with alternative roles that provide the same or similar capabilities.

Carrying out the evaluation

The evaluation team will review any submitted tenders against the evaluation criteria set out in the evaluation methodology.

The first review and scoring of the submissions will be done individually, with each team member recording the reasons for their score.

This will be followed by a facilitated consolidation session where a final evaluation score for each submission will be reached and this will be used to inform the Award Recommendation Report.

Ultimately, the evaluation will seek to identify which submission best meets the requirements of the tender and offers the best Value for Money (the best balance of quality and cost). It will be carried in line with this Procurement Framework and adhere to the programme governance requirements

Evaluation Criteria

The evaluation criteria will be considered as part of the Procurement Plan, but the detailed evaluation methodology including the criteria will be devised for each procurement project and included for agreement with the sourcing strategy.

Each criterion will be weighted to reflect the level of importance to the procurement project. Some criteria will also be identified as mandatory and if not met, will mean the tender submission is excluded.

The criteria used will be specific to each requirement but will generally be divided into two main criteria areas, commercial and quality.

Commercial criteria can include:

- Whole life costs of solution and consequential costs to the industry (where appropriate)
- Price
- Legal - acceptance of terms and conditions
- Service provider stability
- Affordability
- Commercial arrangements
- Consequential costs

Quality Criteria can include:

- Technical capability
- Suitability of technical solution

- Quality of customer service
- Compliance with monitoring and contract management arrangements
- Satisfactory staffing and management arrangements
- Knowledge and ability to work with client or user group
- Capacity
- Programme/ project management capabilities
- Integration with the wider programme

Award Recommendation Report

Following the evaluation of submissions for each procurement project, the decision of the evaluation panel will be summarised in an Award Recommendation Report. The report will clearly state the evaluation outcome and why the selected supplier has been recommended. Each Award Recommendation Report must be approved in accordance with the DCC delegation of authority, (depending on contract value)prior to any contract award being made.

Annex 2: Procurement Sourcing Approaches

DCC will consider the use of different procurement approaches and select the most appropriate for each procurement project. DCC will document the reasons for choosing a particular procurement approach, this will be included in the Sourcing Strategy document produced for each procurement project.

The following table outlines some potential procurement approaches that could be utilised for the Switching Programme. The list is not exhaustive and there maybe alternative approaches put forward once the certainty of the procurement plan increases.

Please note that Approaches 1 and 2 would require re-planning of the overall programme due to the extended time required to complete them. They were considered for completeness, but unless a decision was taken by the Ofgem Switching Programme, these two approaches would not be considered further.

Approach	Advantages	Disadvantages	Typical Timescales
1. Multi-staged Refinement Procurement This is a tendering option that allows for bidders to develop alternative proposals in response to the outline requirements. Only when their proposals are	• Allows structured negotiation as solution develops • Can create greater confidence in the quality of the solution as it is worked through, especially if tested as the process progresses. • The developing nature	• This is a long, extended process. It typically takes around 80 weeks, not including the initial development work. • Total costs can be higher for the buyers and the bidders incur significant bid costs. • Because of the above factors the number of	18 – 24 months

Approach	Advantages	Disadvantages	Typical Timescales
developed to sufficient detail are tenderers invited to submit competitive bids, (known as Competitive Dialogue in the public sector). Best used where the requirements cannot be met without adaption of solutions that are readily available or where the outcome can be described but not the specification to achieve it.	of the process can work well with the development of complex projects where no clear solution to the requirement has been set. • Can generate alternative design proposals to be considered.	organisations willing to participate in this type of process can be limited to those with the best bid resources, potentially restricting the bidder base and often rules out smaller companies with more limited bid teams at their disposal. • There can be limited pressure on the bidders to comply with the requirement for a best value bid as the number of competitors is restricted from the beginning. • There is no binding offer on the table during the process until final bids are requested. So potential for a lot of investment throughout the process and no guarantees of an affordable solution at the end.	
2. Design & Development Procurement A multi-stage procurement. Used where the requirements include a design or innovation stage. Assessing first solution design, then prototype/ model development. Can be combined with	• Useful where a product does not currently exist to encourage R&D in a required area. • Can bring about real innovation and new ways of thinking. • Allows development of best solution rather than adapting a current product.	• Funding is not typical and a financial model would need to be agreed before going down this route. • Transition from design into commercial procurement needs to be carefully planned and managed. • Process is longer than a standard procurement. • Would need a different approach to market engagement. • Potentially introduces or maintains uncertainty until the end of development stage.	12 – 24 months (Less evidence exists for this type of procedure so this is an estimate which can vary depending on the number of stages and complexity of

Approach	Advantages	Disadvantages	Typical Timescales
purchases elements.		• May restrict the type/ number of bidders interested in the opportunity. • Can be challenging to run a procurement that involves both the R&D and subsequent purchase of a product, without infringing principles of transparency, equal treatment and non-discrimination.	the requirement being developed).
3. Traditional Competitive Tender A single stage process against a detailed specification with selection and bids submitted at the same time. All interested service providers are able to submit bids	• Encourages the widest range of all service providers to bid and therefore potentially providing the highest level of competition. • Competed requirements • Configurable to suit the scale of procurement project. • Good control over process and timescales.	• Depending on the market, may result in a large very number of submissions that can elongate the workload and timescale. • Can produce a large amount of unsuitable bids.	3-9months
4. Traditional Competitive Tender - Restricted. A full tender process against detailed specification, where a selection stage has been used prior to the issue of the full tender pack.	• Fully competitive. • Robust control and rigour applied over shorter timescales. • Pre-qualified bidders providing increased confidence in procurement process. • Focussed market engagement	• Potential to reduce competition by controlling the longlist/ shortlist more than the open option.	3-9 months
5. Low Value Competitive Procurement Request for quote (RFQ) e.g. Three service providers	• Quick and agile process • Competitive	• Only suitable for easily specified and relatively simple, low value procurements	1-2 weeks

Approach	Advantages	Disadvantages	Typical Timescales
6. Pre-existing procurement options Make use of frameworks and preferred Service Provider Lists.	• Compliant as pre-competed • Generally quicker to use than full tender. • Rates and pricing benchmarked or set. • Scalable and agile.	• Limited goods and services currently available	1-4 weeks depending on complexity of requirement

Note:

- Approaches 1, 2, 3 and 4 do not preclude the use of pilot activity.
- The opportunity to seek alternative proposals may be utilised where appropriate.

Variables depending on Scenario

The following hypothetical scenarios illustrate how the procurement approaches may vary depending on how the Switching Procurement is planned.

Scenario 1 - Total Managed Service

Where the majority of the requirement is provided via a single tender as a "provide and manage" service. Potentially still requires some additional supporting procurements such as assurance services.

Procurement Considerations

- This contract could be undertaken by one large organisation or a consortium with a lead service provider.
- Provides potential to simplify contract management arrangement with fewer service providers to provide the overall solution, but moving the bulk of the responsibility for delivery one tier down would mean a potential loss of control to DCC as decisions move further down supply chain, it could also incur higher costs to cover "management fees".
- Where the DCC is heavily reliant on a single service provider, DCC would be locked in to a scenario with a single point of failure. If the service provider proves to be poor, is acquired by an uninterested party or fails financially there may be no suitable fall-back position, as there will not be other service providers providing elements of the solution with an equivalent level of knowledge or capability that could step in.
- Performance could suffer from the single service provider approach without the pressure or incentive that could be applied by additional service providers, if a dual or multi-service provider approach was in place.
- Contract management function would need to be very sophisticated but could lead to a close service provider relationship; i.e. a service provider could become heavily invested in the success of the programme.
- There may be limited or no service providers with the capability of delivering this type of solution which could restrict competition from the outset.
- May severely limit direct competition and the ability to select other service providers.
- If the need arises, (because of performance issues or change of service provider following a renewal tender) to exit the contract it will complicated and most likely need a staged and highly managed approach.

Potential Procurement Approach

Possible Approach	Reason	Procurement Impact
Multi-staged Refinement Procurement	Where the requirement is difficult to define and complex a staged procurement approach may help to refine/ complete the specification.	• Protracted timescales which may be difficult to manage with the programme delivery requirements. • Resource heavy • Still requires careful approach design, even though the final Specification is designed as part of the process. • Solution uncertainty still needs to be managed throughout procurement process • High bidding costs may reduce level of competition.
Traditional Competitive Tender – Restricted.	High degree of control. Only bidders with the correct capabilities invited to tender. Competitive process to provide VFM.	• Specification and tender pack must be fully completed prior to tender process being run. • Reduces the number of "take a chance" bidders as full specification shared at beginning of process with selection criteria. • More reasonable timescale compared to the multi-stage refinement approach

Scenario 2 - Minimal Change/ Light Touch Solution

Where the agreed solution is to have a form of "light touch" fine-tuning of the current systems and overlaying them with technology to make them more efficient. Components individually purchased.

Procurement Considerations
- For this scenario it is likely that multiple procurement projects would be required to provide overall solution. Some of them may be fairly small in complexity/ value.
- Although a smaller, possibly less complex requirements presented by this scenario might widen the number of bidders, it may prove to be less attractive to the market place because of the value of contract and having to integrate with legacy systems.
- More contractors to manage post award, clarity on delivery responsibilities would be crucial.
- This scenario may more easily lend itself to dividing the opportunity into apply lots allowing a view on where consolidating service providers would provide value for money.

Potential Procurement Approach

Possible Approach	Reason	Procurement Impact
Traditional Competitive Tender - restricted	Provides a competitive, controlled process that may appeal to a wide supply base but only bidders with the correct capabilities invited to tender.	• More controllable timescale • Only suitable bidders are asked to spend resource on producing a submission. • Controlled number of submissions to evaluate. • Several projects run in parallel or with overlapping timescales.
Traditional Competitive Tender	The specification may lend itself to a single stage process that could encourage bids from a larger number of service providers potentially providing the highest level of competition.	• If all submissions must be evaluated, there is less control around the timescales and potentially more resource required. • A level of uncertainty must be accounted for until submissions are received. • Higher potential for nuisance or unsuitable submissions • Several projects run in parallel or overlapping.

Scenario 3 – Bundled Packages

Where the solution lends itself to be split into bundles i.e. where the solution components are grouped into projects based on technology or alternative criteria such as process responsibility.

Procurement Considerations
- Provides an opportunity to bundle components to find a balance between the value of the contract and the number of service providers contracted with by DCC e.g. the bundle could be similar in overall value.
- Can package less attractive elements with those that are more competitive
- Provides a means to apply different contract lengths to different technology types i.e. where technology moves on quickly, is easy to switch service providers or is very competitive - a shorter contract length may be preferable
- Allows best in each field to be selected e.g. the best database provider, the best messaging provider
- This would involve several procurement projects, possibly of similar size and type.

Potential Procurement Approach

Possible Approach	Reason	Procurement Impact
Traditional Competitive Tender - restricted	Provides a competitive, controlled process that may appeal to a wide supply base but only bidders with the correct capabilities invited to tender.	• More controllable timescale • Only suitable bidders are asked to spend resource on producing a submission. • Controlled number of submissions to evaluate. • Several projects run in parallel or with overlapping timescales.
Traditional Competitive Tender	The specification may lend itself to a single stage process that could encourage bids from a larger number of service providers potentially providing the highest level of competition.	• If all submissions must be evaluated, there is less control around the timescales and potentially more resource required. • A level of uncertainty must be accounted for until submissions are received. • Higher potential for nuisance or unsuitable submissions • Several projects run in parallel or overlapping.

Sourcing Strategy Structure

After the Procurement Plan has been approved the first task for each project will be to produce a sourcing strategy. There will be a sourcing strategy produced for each procurement project. The purpose of the sourcing strategy is to describe the rationale and procurement approach proposed for each project including elements such as relevant market information, the more detailed procurement plan, high level evaluation methodology and resources for the proposed procurement process. Each sourcing strategy will be developed to be proportional to the complexity and scale of its associated project.

The sourcing strategy sets out the direction for the procurement project to go forward and seeks approval from the DCC Switching Programme Board to move forward to the next stage of procurement activity.

Annex 3: Contract Structure

The procurement activity will conclude with signed contracts between DCC and the selected service providers.

It is crucial that the contracts adequately capture the commercial relationship between DCC and the service providers as well as clearly articulating all the contract deliverables and how they will integrate into the overall programme.

It is too early to state categorically what form the contracts for Switching Programme procurements will be in, but at this time the preferred starting point would be to model the CRS contracts on the existing DCC Service Provider contracts.

These have in turn been largely based on the Model Services Contract. Click here to see current DCC Service Provider contracts. This provides consistency in the legal documentation that DCC manages and provides flexibility of approach i.e. they contract can use the same form but be the number and types of schedules can be amended to suit the purpose and scale of the procurement projects, as has been carried out with other DCC service providers such as SMKI.

DCC has considered other forms of contract, but until the levels of certainty around the solution are firmed up, using the current DCC style of contract will remain the desired starting point. This will provide the required DCC Licence and SEC provisions that will be relevant to the Switching Programme.

DCC will ensure that a determination of the appropriate contract length and the use of appropriate break clauses are built into the contract structure to ensure competition can be used for future contract awards and that contract renewals will be re-procured through competition. DCC will set out reasons for the decision on contract length in the Sourcing Strategies.

DCC will ensure that all Service Provider contracts include terms that require service providers to facilitate exit and to support the entry of new service providers and that support structured change management processes where cost transparency and continued alignment with the programme requirements and governance are obligatory

DCC will consider the use of incentives as contractual levers in CRS Service Provider contracts in both development and operational environments.

DCC will ensure that an appropriate change management mechanism forms part of the contractual terms with the CRS Service Provider/s

Stakeholders will be briefed on the principles that will be adopted to create the contract terms and will have sight of the proposed terms and conditions as part of the tender packs.

If there are any major deviations from this approach to the CRS contract structure the SRO will be notified.