



Making a positive difference  
for energy consumers

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Date: xx December 2016

Dear Anthony,

### **Framework for DCC's procurement of Centralised Registration Services**

The Switching Programme aims to deliver reliable and fast switching for consumers on a new Centralised Registration Service (CRS). Data and Communications Company (DCC) is required by the Smart Meter Communication Licence ('the licence') to make all relevant preparations to procure the CRS. This document sets out the procurement framework for the DCC's role in procuring the CRS<sup>1</sup>.

We will work in partnership with DCC, using industry standard project management techniques to establish clearly defined roles and requirements for each stage of procurement. We expect DCC to lead the procurement work taking into account stakeholder views. Work on any procurement stage is not expected to take place until a product description with agreed acceptance criteria has been signed off by the Ofgem Programme Director. For each stage of procurement, the SRO (or another party with delegated authority from the SRO) will be required to agree that the product has been completed to the pre-agreed acceptance criteria. The acceptance criteria will be specific, objective and proportionate and provide clarity to DCC and stakeholders on the requirements that must be met. Acceptance is required before the next procurement phase can be completed.

We have separately consulted on a commercial framework that puts DCC's margin at risk if it does not meet two milestones for the completion of key procurement stages to the agreed time and quality. We expect this to incentivise DCC to meet the programme procurement requirements.

This letter also sets out a number of considerations that we think are appropriate for DCC to take into account when meeting its licence obligations. We will take these considerations into account, where appropriate, when establishing acceptance criteria for each procurement stage.

We expect to rely on the use of project management techniques and incentives to encourage the right outcomes. However, should it not be possible to agree appropriate incentives we will consider whether alternative action, for example issuing a direction to DCC<sup>2</sup>, is required.

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<sup>1</sup> The CRS includes the Central Switching Service (CSS) and Market Intelligence Service (MIS). The term CRS is preferred within the Procurement Framework as it is a more generic term to cover a range of procurement activity within the Programme.

<sup>2</sup> Under LC15, DCC must comply with a direction issued to it by Ofgem for the purposes of meeting the Interim Centralised Registration Service Objective in respect of DCC's obligations in this condition.

## Background

On 17 May 2016, Ofgem published its decision to modify the licence held by DCC to give it new obligations and set out the funding arrangements for its role in the Switching Programme.<sup>3</sup> One of these new obligations is that DCC must make all relevant preparations to procure the CRS. The licence requires that the CRS must be competitively procured. The licence also sets out a range of other licence obligations that are relevant to DCC's procurement role.

As noted above, we have published a consultation on margin and incentives.<sup>4</sup> Two of these directly support DCC's procurement activity [date]. The incentives relate to the completion of Tender Packs and Contract Award Recommendation Reports<sup>5</sup>. These Implementation Milestones are currently on the critical path for delivering the Switching Programme. This consultation closes on [date] and we expect to publish a decision on our incentive proposals on [date].

This letter has been developed on the basis that appropriate incentives, along the lines of those proposed, are introduced. Were this not to be the case then we would revisit the content of this letter and consider any changes necessary to ensure that sufficient controls are in place.

## Working with DCC to achieve successful procurement

We want to work closely with DCC to support its role in delivering a successful procurement. We want to maintain a strong relationship based on project management disciplines. This will include, agreeing product descriptions for each stage of procurement as well as the acceptance criteria, reporting and assurance requirements for each stage. Ofgem will approve the products against the product descriptions and agreed acceptance criteria.

This letter sets out how we expect this relationship to work in the context of DCC's licence obligations and the proposed incentive arrangements. It includes:

- DCC's licence obligations that are most relevant to CRS procurement (annex 1)
- Additional information taken from DCC's published Procurement Strategy for Relevant Service Capability, that must be adhered, in accordance with its licence, for the procurement of the CRS (annex 2)
- Considerations that we think it may be appropriate for DCC to take into account when seeking to meet its licence obligations in order to deliver the required Switching Programme outcomes (annex 3)
- Governance and assurance requirements for each procurement stage (annex 4)
- For ease of reference we have also set out relevant project documentation (annex 5)

This content of this letter has been developed by the Commercial Workstream Procurement Design Team (comprising Ofgem and DCC members). Through its development, it has been reviewed by an internal Ofgem Procurement Peer Review and User Group of energy industry stakeholders. It has also been reviewed by the External Design Advisory Group (EDAG).<sup>6</sup>

## Next steps

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<sup>3</sup> Modification of the conditions of the smart meter communication licence, Ofgem, 17 May 2016; <https://www.ofgem.gov.uk/publications-and-updates/decision-dccs-role-developing-centralised-registration-service>

<sup>4</sup> [Name of consultation, date published (planned for end Nov) and link to doc].

<sup>5</sup> The consultation proposes that, to support Ofgem's assessment of the criteria for an award of an incentive, the SRO will secure a report from an Independent Assurer on the completion of these stages. The stages will be assessed against the quality criteria, relevant considerations and timing in relation to the Switching Programme Plan. Failure to meet the agreed quality criteria within the agreed timings will result in a drop of DCC's margin with up to 100% of margin related to all procurement linked costs being at risk.

<sup>6</sup> See annex 4 for further detail on the composition of these groups.

We are now requesting your response to this letter by [date]. We would welcome your confirmation that you agree with the approach and considerations described in it as well as any further information on how you would expect to address these considerations. We propose to publish this letter, and DCC's response, on our website so that stakeholders have a clear understanding of the procurement framework for the CRS.

We expect DCC to use the content described in this letter, and its response to it, as well as the emerging Switching Programme plans and requirements, to develop the Procurement Plan and later phases of procurement.

The Procurement Plan should provide details on the approach to and timing of procurement of components of the CRS solution and service, and should itself be further developed into Sourcing Strategies for each component.

As the Procurement Plan develops, we will work with DCC to establish the acceptance criteria for each of the subsequent procurement stages noted in annex 4. The acceptance criteria will be included within the product description for each procurement product. This means that the proposals for acceptance criteria will be reviewed in conjunction with the review process for the product descriptions. The acceptance criteria will describe the conditions that must be met for a procurement stage to be completed. As noted above, we expect to approve the acceptance criteria. We will work with DCC to develop effective principles for acceptance criteria.

We recognise that in a dynamic programme environment, the procurement requirements may change. Where the SRO, DCC or other energy industry stakeholder consider that the content of this document is no longer fit for purpose, we will discuss this with DCC and the relevant industry governance group(s). If necessary, following such consultation, we will publish a further version of this letter.

For the avoidance of doubt, the content of this letter in no way binds Ofgem as to its interpretation of the associated licence conditions of DCC's licence, including its approach to enforcement of those conditions. In addition, the publication of this document or the meeting of steps outlined in it or the response by the DCC does not mean that Ofgem considers the DCC is compliant with its licence obligations.

Yours sincerely,

**Rob Salter-Church**  
**SRO, Switching Programme**  
**Partner, Consumers and Competition**

## Annex 1: DCC licence obligations

DCC's licence sets out important requirements that will shape its procurement activity. We have, in this annex, highlighted those conditions that will be key to procurement. We have focused on licence conditions 15 and 16. At the end of this annex we provide a summary of other relevant conditions. We note that it is DCC's responsibility to ensure that it takes into account all of its licence obligations when undertaking CRS procurement. This annex is provided for ease of reference only.

### ***Licence Condition 15 – Incorporation of the Centralised Registration Service***

The obligations contained in Licence Condition 15 that relate to the design and procurement of CRS are shown in the box below. This Licence Condition makes DCC responsible for procuring CRS.

#### **Part A: Interim Centralised Registration Service Objective of the Licensee**

15.4 Subject to paragraphs 15.6 and 15.7, the Licensee must comply with the Interim Centralised Registration Service Objective by:

- (a) contributing to the achievement of a full and timely design for an efficient, economical and secure Centralised Registration Service that would, if implemented, provide a platform for fast and reliable switching for all Supply Points in the GB market;
- (b) making all relevant preparations for the procurement of Relevant Service Capability to deliver and operate a Centralised Registration Service; and
- (c) procuring Relevant Service Capability to deliver and operate a Centralised Registration Service that:
  - (i) reflects the design of a Centralised Registration Service which has been designated by the Authority for this purpose (including any amendments to that designated design); and
  - (ii) would, if executed, in all likelihood, give effect to an efficient, economical and secure Centralised Registration Service that would provide a platform for fast and reliable switching for all Supply Points in the GB market.

15.5 For the purposes of paragraph 15.4(a), the Interim Centralised Registration Service Objective includes, but is not limited to, a duty to contribute to the development and documentation of the design of the Centralised Registration Service.

The definition of CRS contained in Licence Condition 15 is shown in the box below.

### **Part C: Interpretation**

15.8 For the purposes of this condition:

Centralised Registration Service means a service provided by DCC pursuant to the Smart Energy Code which:

(1) includes (but is not limited to) the provision of services equivalent to those which are currently included within:

- (a) such services relating to the supply of gas under the 1986 Act that fall within:
  - (i) the supply point information service provided under standard condition 31 of the Gas Transporter Licence as relate directly to (i) the provision of supply point information and (ii) the maintenance of a register of technical and other data required by Gas Shippers and Gas Suppliers for change of supplier purposes; and
  - (ii) the supply point administration service provided under or pursuant to the Supply Point Administration Agreement.
- (b) such services relating to the supply of electricity under the 1989 Act that fall within the metering point administration services as defined in standard condition 18 of the Electricity Distribution Licence and that are provided under or pursuant to the Master Registration Agreement; and
- (c) where required, arrangements for the secure communication and exchange of data between parties and the Centralised Registration Service, and

(2) supports any further or alternative arrangements as may be identified as being required of the Centralised Registration Service by the Authority for the purposes of the Switching Programme.

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## **Licence Condition 16 – Procurement of Relevant Service Capability**

This condition sets out requirements and principles that apply to DCC's procurement of the CRS. The requirement to procure CRS by open competition without exception is contained within the elements of Licence Condition 16 shown along with the definition from Licence Condition 1 in the box below.

### **Part A: Requirements that are imposed on procurement activities**

16.4 The Licensee must (subject to paragraph 16.6) procure Relevant Service Capability from External Service Providers on a competitive basis and under arrangements to be known as External Service Provider Contracts that are compliant with the principles established by Part B below ("the Part B Principles").

16.5 The duty imposed by paragraph 16.4 applies without exception to the procurement by the Licensee of such Relevant Service Capability as is specified as:

- (a) Fundamental Service Capability in Schedule 1 (which has effect as part of this condition) to this Licence; or
- (b) Fundamental Registration Service Capability.

16.6 Relevant Service Capability that is not so specified may be provided by the Licensee from its own resources, or be procured from an Affiliate or Related Undertaking, or from elsewhere, if the Licensee, having had regard to the Part B Principles (excluding Principle 2), 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 or use of resources within the overall context of the Mandatory Business of the Licensee.

### **Licence Condition 1**

Fundamental Registration Service Capability means Relevant Service Capability that is provided in respect of the Centralised Registration Service and procured by the Licensee in accordance with Condition 16.

The principles that are applicable to DCC's procurement of the CRS are established within Licence Condition 16, Part B (LC16.7-LC16.12). These principles are described further in annex 2, together with further information on how DCC will evidence that the principles are being met within the context of the Switching Programme.

### **Part B: Principles that are applicable to procurement activities**

16.7 This Part B establishes principles:

- (a) that are to apply to the Licensee's procurement of Relevant Service Capability; and
- (b) taking account, except in respect of the Fundamental Registration Service Capability, of any guidance contained in a Public Interest Statement issued under Part D below.

Licence Condition 16 also establishes a requirement on DCC to comply with, maintain and publish a Procurement Strategy for Relevant Service Capability (which includes Fundamental Registration Service Capability). This is shown in the box below.

#### **Part D: Procurement Strategy for Relevant Service Capability**

16.19 Except where the Secretary of State otherwise consents, the Licensee must within twelve months after the Licence Commencement Date have in place a statement of its Procurement Strategy for Relevant Service Capability.

16.20 That statement must have been approved by the Secretary of State for the purposes of this condition following consultation (subject to paragraph 16.23) with the Licensee and with the Authority, SEC Parties, and any other persons who are likely to be materially affected by the strategy.

16.21 The statement of the Procurement Strategy for Relevant Service Capability must explain the Licensee's conclusions with respect to the nature and extent of its procurement activities, in such detail and by including such information as may be appropriate for the purpose, with particular reference to:

- (a) the determination of the Relevant Service Capabilities necessary to enable the Licensee to exercise its Relevant Functions;
- (b) the determination of which of those capabilities are to be procured from External Service Providers by means of a competitive process (having due regard to paragraph 16.6);
- (c)...

16.22 The Licensee must take all appropriate steps within its power to comply with the provisions of any Procurement Strategy for Relevant Service Capability that is for the time being in force under this condition.

#### **Part E: Procedure for reviewing the Procurement Strategy for Relevant Service Capability**

16.24 The Licensee must, for the purposes of ensuring that its Procurement Strategy for Relevant Service Capability at all times continues to be a document that accurately reflects the requirements of this condition:

- (a) review that strategy at least once in each full Regulatory Year following the Secretary of State's designation of it under Part D above; and
- (b) propose to the Authority such revisions (if any) of the strategy as the Licensee thinks are appropriate or necessary for the purpose of better complying with those requirements.

#### **Part Availability of statement of the Procurement Strategy for Relevant Service Capability**

16.27 The Licensee must promptly and properly reflect every revision of its Procurement Strategy for Relevant Service Capability in a corresponding revision of the statement of that strategy that is in place by virtue of paragraph 16.19.

Retention of Procurement Strategy for Relevant Service Capability particulars and records

16.35 The Licensee must supply the Authority with any information that it reasonably asks for about the Licensee's procurement and use of Relevant Service Capability.

There are several other licence obligations imposed on DCC that are of relevance for DCC's role within the Switching Programme. We have not summarised the content of these conditions, but have included the licence condition headings in the table below for reference. We note that other licence conditions may also be relevant and it is for DCC to ensure that it complies with all its licence obligations.

<b>Licence Conditions</b>
Part 2 of the Licence: Terms in Respect of Revocation
Section A: Emergency Revocation Events
Section C: Other Revocation Events
Licence Condition 6: Authorised Business of the Licensee
Licence Condition 8: Security controls for Authorised Business
Licence Condition 9: Independence and autonomy of the Licensee
Licence Condition 10: Protection of Confidential Information
Licence Condition 11: Duties arising from Licensee's special position
Licence Condition 12: Appointment and duties of Compliance Officer
Licence Condition 16: Procurement of Relevant Service Capability
Appendix 1: Adoption of Energy Supplier Contracts
Licence Condition 17: Requirements for the provision of Services
Licence Condition 22: The Smart Energy Code (SEC)
Licence Condition 28: Disposal of Relevant Business Assets
Licence Condition 31: Reporting of Quality of Service Information
Licence Condition 32: Reporting of Price Control Information
Licence Condition 33: Regulatory Instructions and Guidance (RIGs)
Licence Condition 34: Annual Service Report to the Authority
Licence Condition 36: Determination of the Licensee's Allowed Revenue
Licence Condition 37: Assessment of Mandatory Business costs
Licence Condition 43: Arrangements for handover of business
Licence Condition 44: Treatment of Intellectual Property Rights (IPR)
Schedule 2: Novation of External Service Provider Contracts



## Annex 2: Extract from DCC’s Procurement Strategy

Licence condition 16 requires DCC to publish and comply with the provisions of a Procurement Strategy for Relevant Service Capability. In delivering the required Switching Programme’s outcomes, DCC is required to procure Relevant Service Capability in accordance with its published Procurement Strategy.

The latest version of the Procurement Strategy for Relevant Service Capability was published on 17 September 2014.<sup>7</sup> For ease of reference we have presented an extract of this document. This shows the procurement principles (as described in licence condition 16) alongside the evidence of compliance that DCC would, as a minimum, be required to provide for each procurement that it undertook.

As DCC state in the Procurement Strategy for Relevant Service Capability, “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 RIG (regulatory information and guidance).”

Compliance with the Procurement Strategy for Relevant Service Capability will also be considered when assessing the completion of the proposed Implementation Milestone incentives.

<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>	Formally approved Smart DCC document, such as a PID or sourcing strategy that links the requirement to the Licence Application Business Plan, Licence, Legislation, published SEC.

<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>	Use of an e-tendering sourcing portal.

<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</li> </ul>
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<sup>7</sup> Smart DCC Ltd Procurement Strategy for Condition 16: Procurement of Relevant Service Capability Regulatory Year 2014/15; [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/357052/SMIP\\_REG\\_Response\\_to\\_consultation\\_on\\_approval\\_of\\_procurement\\_strategy\\_and\\_statement\\_of\\_service\\_exemptions\\_ANNEX1.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/357052/SMIP_REG_Response_to_consultation_on_approval_of_procurement_strategy_and_statement_of_service_exemptions_ANNEX1.pdf)

	the RSC.
<b>Evidenced by</b>	<p>a) The procurement evaluation process includes:</p> <ul style="list-style-type: none"> <li>• Financial assessment of an organisation/s</li> <li>• Capability and capacity assessment</li> </ul> <p>b) Detailed specification outlining the RSC, incorporating known standards, service levels, current and future requirements</p>
<b>Principle 4</b>	<p>RSC must be procured in a manner that:</p> <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>	<p>c) The procurement evaluation process includes:</p> <ul style="list-style-type: none"> <li>• Capability and capacity assessment</li> <li>• Commercial and pricing assessment</li> </ul> <p>d) Detailed specification outlining the RSC, incorporating known standards, service levels, current and future requirements</p> <p>e) Contract and performance management reviews</p> <p>f) Assurance and review of outputs and services delivered (if appropriate or specified)</p> <p>g) Periodic reviews of and benchmarking of the External Service Provider Contracts, conducted in line with value for money provisions in their contracts.</p>
<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.

## **Annex 3: Considerations**

Ofgem wishes to ensure that the procurement activity, which will be a critical enabler of the Switching Programme, is designed and conducted in a way that contributes to successful delivery of the programme as whole.

This section sets out certain considerations that Ofgem believes could assist DCC in meeting its licence obligations and the Switching Programme procurement requirements. Note that this is not intended to be an exhaustive list of all of the matters to which DCC should give consideration to when meeting its licence obligations and the requirements of the Switching Programme.

As noted above, we are requesting that DCC responds to this letter to confirm that it agrees with these considerations and provide views, where relevant, on how it expects to address these.

We will work with DCC during the development of the Procurement Plan to establish the acceptance criteria for each of the procurement stages and we will review proposals with industry, as part of the review of product descriptions. We will review the considerations as part of this exercise to see which (as currently drafted, or tailored to meet the specific requirements of the procurement stage) it would be appropriate to reflect in these acceptance criteria.

The considerations set out in this annex in no way bind Ofgem as to its interpretation of the associated licence conditions of DCC's licence, including its approach to enforcement of those conditions. In addition, the publication of this document or the meeting of steps outlined in it or the response by the DCC does not mean that Ofgem considers the DCC is compliant with its licence obligations.

If there was a concern that DCC had not met the requirements of its licence in relation to procuring the CRS, Ofgem would look at this document and any commitments provided by DCC in response to it. We will also consider if DCC has met the acceptance criteria agreed for each procurement stage. As with any enforcement investigation, Ofgem would consider all of the facts of the case, for example, whether compliance with the specific procurement commitment was required at all or if the outcome was achieved through a different mechanism.

The broad areas that Ofgem expects DCC to address in order to contribute towards certainty of outcome for the Programme are described in the remainder of this annex and include the following areas:

1. Procurement process
2. Governance
3. Transparency
4. Services procured
5. Lifecycle

### **1) Procurement process**

The Switching Programme requires that the procurement process is robust and seeks to provide the best overall outcome in terms of cost, timeliness and quality. The Switching Programme wants to ensure that the procurement process can withstand challenge, for example by a potential service provider that has not been successful in being awarded a contract.

We expect DCC to:

- a) ensure that the procurement process is carried out to good and accepted practice and by a specialist procurement team; DCC should document in the Sourcing Strategies the reasons for its chosen procurement approach, with reference to the application of industry practice in the context of the Programme
- b) undertake reasonable steps designed to ensure that there are a suitable number of potential service providers to provide effective competition for tendered contract(s)
- c) ensure that all potential bidders are treated equally and without undue discrimination in a transparent and proportionate manner
- d) take measures to address and manage potential or actual conflicts of interest
- e) deliver value for money (VFM) in terms of the quality of procurement and the likely outcome of the procurement, taking account of consequential costs on market participants
- f) manage the timings of its procurement activities to align with plans for the Switching Programme
- g) align the content of procurement products with the designs and regulatory requirements of the Switching Programme, and accurately transpose design information into Statements of Requirements align plans and milestones for procurement, to the extent possible, with the milestones in the Switching Programme plan, with reference to the documented assumptions that underpin that plan.

## **2) Governance**

Ofgem expects DCC to play an active part in the different aspects of procurement governance and assurance and to contribute to wider Programme governance, reflecting the importance of procurement as a key contributor to the overall success of the Switching Programme. Further detail on the governance arrangements is set out below.

DCC's active role in governance, and the programme more generally, should help ensure that procurement documentation reflects the intended design. This should also help to facilitate management of inter-dependencies with other areas of delivery, allowing procurement to contribute to the overall success of the Switching Programme.

We expect DCC to:

- a) work with the Programme governance arrangements to ensure that procurement activities are reflected in the overall programme plan and that progress can be tracked and dependencies managed
- b) participate in the Programme assurance process by assisting in the development of acceptance criteria and providing information to the designated assurer. The acceptance criteria will be agreed by DCC and Ofgem.
- c) engage with stakeholders to maintain confidence and buy-in. Consider, and reflect stakeholder feedback where appropriate, when developing and completing deliverables
- d) support Programme risk management by identifying risks and mitigations associated with procurement that require attention at Programme level
- e) input into the wider Switching Programme requirements traceability mechanisms to ensure the traceability of procurement activities, such as contractual terms
- f) comply throughout with all relevant legal obligations

## **3) Transparency**

The principles contained in DCC's published Procurement Strategy for Relevant Service Capability provide the basis for maintaining transparency throughout procurement. Transparency will build and maintain confidence in the DCC's procurement activity and the wider Programme.

We expect DCC to:

- a) set out its high level approach to evaluation in the Procurement Plan, including a means of maintaining an audit trail for evaluation decisions
- b) develop its evaluation approach and selection criteria in a manner that reflects Switching Programme objectives and requirements, and communicate effectively with stakeholders on the key aspects of evaluation

#### **4) Services procured**

As set out in its licence, DCC is expected to contract with service providers for the provision of the CRS. The Programme requires that DCC ensures that service providers have the required capabilities as defined in the solution for the implementation phase (ie Design, Build and Test) and for live services.

We expect DCC to:

- a) contract with service providers for all of the services and support functions required to implement Switching Programme designs designated by Ofgem under LC15.<sup>8</sup>
- b) include requirements in tenders that reflect the specified Switching Programme design requirements for the components procured from different service providers to function effectively in aggregate
- c) take into account all relevant issues when determining the length of contracts for services and set out its reasons for the chosen contract length within Sourcing Strategies

#### **5) Lifecycle**

We want DCC's activity to support a high quality procurement lifecycle, from developing the Procurement Framework to executing a contract that fully supports the Programme.

In addition to its licence obligations and its requirements under the Procurement Strategy for Relevant Service Capability, we expect DCC to:

- a) agree with Ofgem how it will take into account in its evaluation approach the whole-life costs of the solution and the impact of costs incurred by other industry parties involved in delivery
- b) undertake its procurement activities with parties in a manner that will secure competition between potential service providers/bidders
- c) ensure that continuity of service provision is delivered through appropriate entry and exit arrangements
- d) consider and, where appropriate, include incentives in service provider contracts to encourage good performance in key areas

Programme requirements are expected to develop over time. We therefore expect DCC to:

- e) maintain alignment between the Switching Programme design documents, regulatory requirements and the procurement documents provided to potential service providers
- f) ensure that the contractual arrangements that DCC enter into are designed to account for change
- g) ensure that stakeholders have an opportunity to review the principles that DCC propose to include in its contracts with service providers and publish the final contract (redacted where appropriate). Stakeholders should also be able to see the main contract terms in the published tender packs.

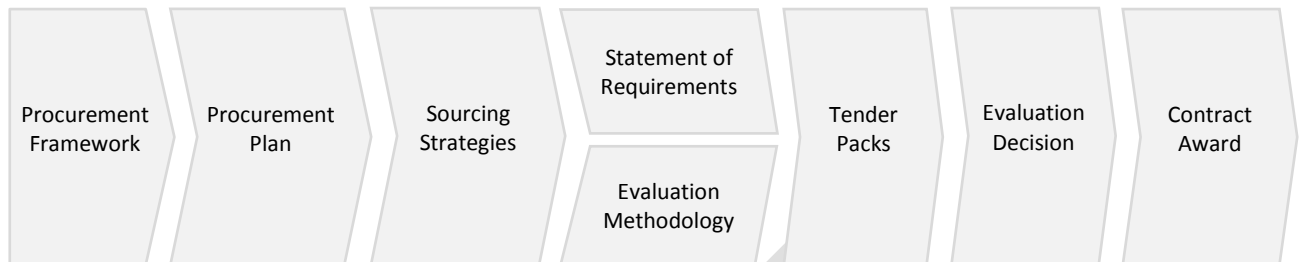
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<sup>8</sup> LC15.4(c) requires DCC to procure Relevant Service Capability to deliver and operate the CRS that reflects the design designated by Ofgem for this purpose.

## Annex 4: Governance and assurance

### Introduction

This section describes how each of the procurement activities are expected to be governed and assured, across the following stages<sup>9</sup>:



Ofgem expects DCC to meet the governance and assurance requirements set out below. It should be noted, however, that this information is not exhaustive and that further governance and assurance arrangements may be required as the Switching Programme develops. Equally, DCC should not consider identification and resolution of issues or any comments or advice from Ofgem as an indication of compliance approval.

### Overall Approach

Governance and assurance at each stage comprise the following steps:

#### *Deliverable Preparation*

- **Drafting** by DCC's Procurement Project Team as part of its Switching Programme activities
- **Engagement** of stakeholders by DCC and the Switching Programme in parallel with drafting, to gain buy-in and obtain feedback. Stakeholder engagement plans will be detailed within product descriptions for each deliverable.
- **Finalisation** by DCC ready for the assurance steps explained below, including identification of any substantive issues raised by stakeholders that have not been resolved, as well as a self-assessment against acceptance criteria

#### *Assurance*

- **Validation** by an Assurer to confirm that a deliverable meets acceptance criteria and to review points that are relevant to the particular deliverable. For example, this could be done by a fully independent party, or by a separate governance group with that specific remit. Where we are clear that this should be undertaken by a wholly independent party for the purposes of incentive milestones then we have stated this in the text below. Beyond the need for wholly independent assurance on incentive milestones, at this stage we have not yet confirmed who should provide assurance for all of the procurement stages or whether there are other products which could benefit from increased assurance. Assurance requirements will be confirmed within product descriptions for each deliverable.
- **Modification** by DCC if there are issues identified in validation that prevent the SRO from accepting the deliverable
- **Acceptance** of the deliverable by the SRO (or a delegated authority) once the deliverable has been confirmed as meeting acceptance criteria
- **Approval** of the deliverable by the DCC Board (or a delegated authority)
- **Inform** interested parties that the deliverable has been approved

<sup>9</sup> Note that the flow of products in this diagram is for illustration only. The timings and choreography of the products will be set out in the Product Plan.

## **Product Descriptions**

Product Descriptions will be developed for each stage of procurement. These Product Descriptions will include plans for stakeholder engagement within the detailed governance and assurance arrangements, including the acceptance criteria, for each procurement stage. The acceptance criteria will be proportionate to the impact of the procurement stage. The Product Descriptions will be developed by DCC and agreed by Ofgem alongside the development of the Procurement Plan.

The Product Descriptions will set out how DCC expects to engage with stakeholders. The governance framework for the later stages of the programme has not yet been established. DCC will be required to consider how best to engage with stakeholders and incorporate relevant feedback. We expect stakeholders to be asked for views on alignment of procurement products to design and on industry impacts. We expect to include appropriate stakeholder engagement as a requirement in the acceptance criteria for each of the procurement stages.

## **Incentives**

Ofgem has published a consultation on proposed incentives for DCC to meet procurement Implementation Milestones. These incentives relate to the timely completion of the Tender Packs and Contract Award Recommendation Reports. In assessing whether these milestones have been met, Ofgem will rely on the agreed Product Descriptions and acceptance criteria. We also expect to include an assessment of whether preceding procurement stages have been successfully concluded, in determining if an implementation milestone has been met to sufficient quality.

## **Consultations**

In addition to ongoing engagement with industry, Ofgem expects to publish three consultations as part of the Switching Programme. In these consultations, views will be sought on elements of procurement, providing an opportunity for all interested parties to contribute. Ofgem expects to consult on:

- DCC's Business Case and the proposal on margin and incentives for the transitional phase towards the end of 2016. This consultation will describe DCC's expected procurement activity and costs and will provide parties with an opportunity to comment on the procurement activities that DCC expects to undertake
- An early draft of the key elements of the Procurement Plan as part of the Blueprint consultation. This consultation will provide stakeholders with the opportunity to review the plan at this point before it is finalised at the end of the Blueprint Phase
- A draft Full Business Case during the Enactment Phase. We anticipate that this consultation will support the statutory consultation on modifications to codes and licences. Within the Full Business Case Consultation, we expect to set out the latest position on procurement. We will identify the stage of procurement that will support this consultation as part of the Procurement Plan

## **Gateway Reviews**

In addition to the measures set out in this document, the Switching Programme expects to make use of Infrastructure and Projects Authority Gateway Reviews, and procurement documentation will be included in the information provided to Gateway reviewers. We are not expecting procurement to be the focus of the Gateway Reviews; however, these reviews will provide an opportunity for additional scrutiny.

## **Other Assurance Activities**

As part of the wider price control arrangements, DCC is expected to report monthly to Ofgem on the costs and activities contained within its Business Case. It will also provide a summary of progress against the costs and activities set out in the Business Case to the relevant programme governance group. Where activity in the procurement workstream identifies issues that require resolution through programme governance, these issues will be notified to the programme PMO so that they can be reviewed at the appropriate forum.

## Governance and assurance activities

### 1. Procurement Plan

The Procurement Plan will be developed by DCC and will set out the scope and content that the end-to-end procurement process will encompass. It will set out each of the procurement projects and the plan for delivering these. The applicable governance and assurance process details are as follows:

Activity	Step	Note
<b>Deliverable Preparation</b>	Drafting	The DCC Design Team will draft the Procurement Plan. The Ofgem Design Team will support DCC by reviewing the Procurement Plan as it develops.
	Engagement	As noted above, the Programme expects to incorporate DCC's early views on the Procurement Plan within the Blueprint Consultation materials. This approach will provide an opportunity for all stakeholders to contribute comments for DCC to consider when developing this document. Ofgem will provide non-confidential comments received to this consultation to DCC, and DCC will take these comments into account.  During the drafting stage, the document will be reviewed by stakeholders so that feedback is captured.  When submitting the Procurement Plan for Assurance, DCC will set out how it has responded to comments received during this review process and from the Blueprint Consultation.
	Finalisation	DCC Design Team
<b>Assurance</b>	Validation	The review by an Assurer will confirm that the agreed acceptance criteria have been met and that procurement activities articulated in the Procurement Plan will enable Switching Programme milestones to be achieved.
	Modification	DCC Design Team
	Acceptance	SRO (or another party with delegated authority from the SRO)
	Approval	DCC Switching Board
	Inform	Workstreams, the EDAG and SPDG will be provided with copies of the approved document.

Agreement that the Procurement Plan meets acceptance criteria by the SRO and subsequent approval by the DCC Board are required before further detailed stages of procurement activity can be initiated.

### 2. Sourcing Strategies



Sourcing Strategies describe the procurement approach and procurement process for each of the procurement projects that will deliver components of the CRS solution. These documents will be developed by the DCC Procurement Project Team.

The DCC Procurement Project Team will replace the DCC Design Team and will have the role of delivering the procurement of the CRS.

Activity	Step	Note
<b>Deliverable Preparation</b>	Drafting	The DCC Procurement Project Team will draft the Sourcing Strategies and will seek input from stakeholders. These teams will make themselves available to resolve any questions that the DCC Procurement Project Team has when developing the Sourcing Strategies.  The Ofgem Design Team will review a final draft of the Sourcing Strategies and provide comments to the DCC Procurement Project Team on matters concerning the achievement of Switching Programme objectives.
	Engagement	The DCC Procurement Project Team will comprise appropriate cross-functional expertise to ensure adequate consideration is given to all aspects of alignment with the programme throughout the procurement process. For example: an industry stakeholder will if appropriate be offered a place on one or more of the procurement projects to provide industry expertise and perspective.
	Finalisation	DCC Procurement Team
<b>Assurance</b>	Validation	The review by an Assurer will confirm that acceptance criteria have been met and will flag any concerns that remain outstanding after this review.
	Modification	DCC Procurement Team
	Acceptance	SRO (or another party with delegated authority from the SRO)
	Approval	DCC Switching Board
	Inform	Other Workstreams, the Programme Board and the SPDG will be informed when these documents have been approved and provided with a copy. Note that updates will be provided through the normal programme governance routes.

Agreement that the Sourcing Strategies meet acceptance criteria by the SRO and subsequent approval by the DCC Board are required before further detailed stages of procurement activity can be initiated.

### 3. Statement of Requirements

The Statement of Requirements is a critical document in each procurement project, in that it describes the relevant programme and design requirements that need to be met by bidders in order to achieve a successful procurement. The DCC Procurement Project Team will develop each project's Statement of Requirements using the design documentation developed by the Switching Programme. It is vital that the Statement of Requirements is aligned with the Switching Programme design and regulatory requirements.

Activity	Step	Note
<b>Deliverable Preparation</b>	Drafting	The DCC Procurement Team will draft the Statements of Requirements.
	Engagement	DCC will test the content of the Statements of Requirements with the Ofgem Design Team and also with stakeholders.
	Finalisation	The DCC Procurement Team will set out how it has responded to comments received when it submits the documentation for Assurance.
<b>Assurance</b>	Validation	The SRO will secure a report from the Switching Programme governance group (still to be determined) with responsibility for design assurance, in parallel with the other reviews noted above to confirm that the Statements of Requirements accurately represent Switching Programme designs and objectives.
	Modification	DCC Procurement Team
	Acceptance	SRO (or another party with delegated authority from the SRO)
	Approval	DCC Switching Programme Board
	Inform	The SPDG and other Workstreams will be informed of the status and outcome of reviews of the Statement of Requirements.

Given the importance of the Statements of Requirements, agreement that the products meet agreed acceptance criteria by the SRO and subsequent approval by the DCC Switching Board are required before further stages of procurement activity (other than development of the Evaluation Methodology and Tender Packs) can be initiated. Work on the Evaluation Methodology, Tender Packs and the Statements of Requirements is expected to take place in parallel. Approval of the Statement of Requirement must be given before the Evaluation Methodology and Tender Packs can be accepted.

#### 4. Evaluation Methodology

The Evaluation Methodology describes how responses to the tender will be assessed. The Evaluation Methodology includes a description of how scoring will be allocated and weighted, how bids will be assessed for compliance and scored, and how the outcome will be validated through DCC internal governance. A description of the Evaluation Methodology will be included in Tender Packs.

Activity	Step	Note
<b>Deliverable Preparation</b>	Drafting	The DCC Procurement Team will draft the Evaluation Methodology and will review this methodology with the Ofgem Design Team to ensure that it aligns with the programme requirements and objectives.
	Engagement	Stakeholders will be engaged.
	Finalisation	DCC Procurement Team
<b>Assurance</b>	Validation	A review by an Assurer will confirm that acceptance criteria have been met and will flag any concerns that remain

		outstanding after this review.
	Modification	DCC Procurement Team
	Acceptance	SRO
	Approval	DCC Switching Programme Board
	Inform	The EDAG (or its successor body) and SPDG will be informed once the Evaluation Methodology has been approved.

Agreement that the Evaluation Methodology meets acceptance criteria by the SRO and subsequent approval by the DCC Switching Board are required before further stages of procurement activity (other than the Statement of Requirements) can be initiated. Work on the Evaluation Methodology and the Statement of Requirements is expected to take place in parallel. Approval of the Evaluation Methodology must be given before Tender Packs can be accepted.

### 5. Tender Packs

Tender Packs comprise the documents that will be issued to potential service providers. These documents will be developed by the DCC Procurement Project Team.

Activity	Step	Note
<b>Deliverable Preparation</b>	Drafting	The DCC Procurement Project Team will draft the Tender Packs.
	Engagement	Not applicable
	Finalisation	The Ofgem Design Team will review a final draft of the Tender Packs Strategies and provide comments to the DCC Procurement Project Team.
<b>Assurance</b>	Validation	As set out in Ofgem's Margin and Incentives consultation, incentives are proposed to align to the completion of Tender Packs. To support Ofgem's assessment of the criteria for an award of this incentive, the SRO will secure reports from an Independent Assurer on the completion of this stage.  The assurer will assess the achievement of this Implementation Milestone based on the quality criteria and agreed timeline. Independent assurance will also be used when Ofgem and DCC cannot agree on the quality of inbound dependencies.  This review will also flag any concerns in relation to specific aspects of the Tender Pack information, such as alignment to Programme timescales and descriptive content that represents to bidders the objective and designs of the Programme.
	Modification	DCC Procurement Team
	Acceptance	SRO (or another party with delegated authority from the SRO)
	Approval	DCC Switching Programme Board
	Inform	Other Workstreams, the Programme Board and the SPDG will be informed on the status of these documents and of any substantive concerns. Stakeholders will also see the main contract terms in the published tender packs.

Agreement that the Tender Packs meet agreed acceptance criteria by the SRO and subsequent approval of the Tender Packs by the DCC Switching Programme Board are required before these documents can be issued to potential service providers.

### 6. Evaluation Decision

Evaluation will be carried out by the DCC Procurement Project Team. A recommendation report will be produced for the DCC Board setting out the outcome of the evaluation and the project team’s recommendation.

In accordance with its licence, DCC must only enter into a contract with the service provider(s) for the design of a Centralised Registration Service which has been designated by the Authority for this purpose. This designation is expected to follow Ofgem’s decision to modify codes and licences to implement the new switching arrangements at the end of the Enactment Phase.

We expect to publish the designation prior to DCC undertaking its evaluation of the contract bids so that DCC has clarity on the design requirements.

Activity	Step	Note
<b>Deliverable Preparation</b>	Drafting	The DCC Procurement Team will carry out evaluation in accordance with the defined methodology and will prepare the recommendation report.
	Engagement	DCC will produce a summary statement of the evaluation outcome, once the recommendation has been approved by DCC Board. This will be available for information to stakeholders.
	Finalisation	DCC Procurement Team
<b>Assurance</b>	Validation	As set out in Ofgem’s Margin and Incentives consultation, incentives are proposed to align to the approval of the contract award recommendation reports. To support Ofgem’s assessment of the criteria for an award of this incentive, the SRO will secure reports from an Independent Assurer on the completion of this stage.  The assurer will assess the achievement of this Implementation Milestone based on the quality criteria and agreed timeline. Independent assurance will also be used when Ofgem and DCC cannot agree on the quality of inbound dependencies.  The Independent Assurer will confirm that DCC’s evaluation report demonstrates compliance with the Evaluation Methodology set out in the Procurement Plan.
	Modification	DCC Procurement Team
	Acceptance	SRO (that Evaluation Methodology has been followed only)
	Approval	DCC Board
	Inform	Other Workstreams, EDAG (or its successor body) and SPDG will be informed of the DCC Board’s decision and the outcome of the review of the evaluation report. While the review will be confidential, its results will be of interest to industry stakeholders as a means of confirming the validity of the outcomes of the process.

Agreement by the SRO that the evaluation approach meets agreed quality criteria and approval of the recommendation report by DCC Board are required before Contract Award.

## 7. Contract Award

We do not anticipate any design changes at this stage of the programme. A preferred service provider will be awarded the contract pending the successful completion of the T&C's the solution will be stable at this point. Negotiations will be around wording and ensuring clarity of the contract.

DCC will be held accountable for the contract(s) that it enters into under its licence.<sup>10</sup>

### Summary of key stakeholders

The following table provides a summary of the key stakeholders that we expect to be involved in the governance and assurance of the Switching Programme procurement process. Although for subsequent phases of procurement, the composition of some of the external stakeholder groups may change.

Other interested parties will also have an opportunity to engage through the Switching Programme consultations noted at the beginning of this annex.

<i>Senior Responsible Owner (SRO)</i>	<i>Ofgem Senior Responsible Owner for Switching Programme</i>
<i>DCC Board</i>	<i>The DCC's Board</i>
<i>DCC Design Team</i>	<i>Working with the Ofgem Design Team, responsible for producing the procurement framework and procurement plan and for facilitating the review of these products by the Commercial User Group</i>
<i>DCC Procurement Project team</i>	<i>This is the DCC's procurement team that will be responsible for delivering a successful procurement once the Procurement Plan has been approved. The DCC Procurement Project Team will replace the DCC Design Team and will have the role of delivering the procurement of the CRS.</i>
<i>Ofgem Design Team</i>	<i>Working with the DCC Design Team, Working with the Ofgem Design Team, responsible for producing the procurement framework and procurement plan and for facilitating the review of these products by the Commercial User Group</i>
<i>Ofgem Peer Review Group</i>	<i>Internal Ofgem experts on procurement, IT and project management. The group acts as a critical friend to the Ofgem members of the Design Teams. It will review intermediate outputs and products produced by the Design Teams before they are taken to the Commercial User Group.</i>

<sup>10</sup> LC15.4(c) requires DCC to procure in line with the design requirements designated by Ofgem and in the manner that would, if executed, in all likelihood give effect to an efficient, economical and secure CRS that would provide a platform for fast and reliable switching for all Supply Points in the GB market.

<i>Switching Programme Board</i>	<i>Switching Programme senior governance comprised of Ofgem members and a DCC representative. It will oversee the programme to enable successful delivery.</i>
<i>DCC Switching Programme Board</i>	<i>DCC Switching Programme governance comprised of senior DCC members.</i>
<i>External Design Advisory Group</i>	<i>Membership will be constituted of representatives from Ofgem, the industry and consumer bodies. Objective of group to provide expert advice into the overall design baseline, identify links and dependencies and provide strategic direction.</i>
<i>Commercial User Group</i>	<i>Membership of the User Group will be constituted of procurement, price control and charging expert representatives from Ofgem, industry (including DCC), consumer bodies, as well as other subject matter experts as appropriate.</i>
<i>Switching Programme Delivery Group</i>	<i>Membership will be constituted of senior-level representatives from Ofgem, the industry and consumer bodies. It is a senior-level forum through which the Programme can work together with key industry partners to monitor and drive delivery. It will also agree actions required to mitigate major risks and resolve issues that could affect the successful delivery of the reforms.</i>

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## Annex 5: Related documents

This document is set within the wider context of the Switching Programme as described in the following programme documentation:

- Modification of the conditions of the smart meter communication licence, Ofgem, 17 May 2016  
<https://www.ofgem.gov.uk/publications-and-updates/decision-dccs-role-developing-centralised-registration-service>
- DCC Price Control Decision document 2014/15. Ofgem, 25 Feb 2016  
<https://www.ofgem.gov.uk/publications-and-updates/dcc-price-control-decision-regulatory-year-201415>
- Proposals for DCC's role in developing a Centralised Registration Service and penalty interest proposals, Ofgem, 17 December 2015  
<https://www.ofgem.gov.uk/publications-and-updates/final-proposals-dcc-s-role-developing-centralised-registration-service-and-penalty-interest-proposals>
- Switching Significant Code Review (SCR) and requests for expressions of interest to participate in Programme workshops: Consultation, Ofgem, 17 Nov 2015  
<https://www.ofgem.gov.uk/publications-and-updates/switching-significant-code-review-launch-statement-and-request-expressions-interest-participate-programme-workgroups>
- Updated Target Operating Model and Delivery Approach, Ofgem, 17 Nov 2015  
<https://www.ofgem.gov.uk/publications-and-updates/moving-reliable-and-fast-switching-updated-target-operating-model-and-delivery-approach>
- DCC's role in developing a Central Registration Service (CRS) and penalty interest proposals: Consultation, Ofgem, 28 Jul 2015  
<http://www.ofgem.gov.uk/publications-and-updates/dccs-role-developing-central-registration-service-and-penalty-interest-rate-proposals>
- Moving to reliable next-day switching: Decision. Ofgem, 10 Feb 2015  
<https://www.ofgem.gov.uk/publications-and-updates/decision-moving-reliable-next-day-switching>