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Draft DCC Internal Business Case for the Design, Build and Test Phase of the Switching Programme

Thank you for providing the opportunity to respond to your consultation on the Draft DCC Internal Business Case for the Design, Build and Test Phase (herein 'Business Case') of the Switching Programme (herein 'Programme'). This letter and Annex A constitute the response of Ofgem. I can confirm that we are content for this response to be treated as non-confidential and suitable for publication.

This letter and Annex A reflect Ofgem's position as the Programme Sponsor and overall delivery body during the Design, Build and Test (DBT) Phase. For clarity, the proposals being consulted on by DCC do not affect the baseline costs for price control purposes. The Switching Programme in the DBT Phase will operate against a zero baseline for price control purposes. This means that DCC will have to justify all Incurred Costs associated with the DBT Phase within its annual price control. Based on the evidence presented within the business case we would not consider all costs to be justified and would invite DCC to provide further justification within its price control submission to demonstrate that any forecast and Incurred Costs are economic and efficient.

We welcome the consultation on the Business Case and the opportunity this gives to programme stakeholders to understand and challenge costs before they are incurred. This gives an important level of advance transparency and, done well, can help build confidence in DCC's approach and management. When baselined, this Business Case will act as a tracking and reporting tool for Programme management and delivery. This reporting should include progress against time, cost and quality for DCC's identified deliverables and activities. We strongly encourage DCC to communicate more proactively with customers regarding developments in its approach, timelines, and related costs.

Resource

Based on the limited information provided within the Business Case it is hard to provide specific comments. In general, the Internal Costs, especially those in relation to resource, appear high for the scale and complexity of the Programme. This is particularly the case when comparing the costs associated with the DCC's activities and those of its External Service Providers who will be undertaking the majority of the work to put in place the new switching arrangements. While we acknowledge that DCC is involved in ensuring the successful delivery of the Programme as a key deliver partner to Ofgem and this may require resource and expertise beyond contract management, in some aspects the resource forecasts within the Business Case appear to us to be a high estimate. We reiterate our

expectation that DCC operates in an economic and efficient manner, which can be fully and transparently justified through the annual price control.

As well as our general concerns about the overall costs and risks of duplication across the business case, we have specific queries around the forecast resource levels for regulation and industry engagement. These are areas that will be led by Ofgem (with support for engagement from the Programme Co-ordinator). These areas will require careful management to ensure minimal duplication and that they are carried out as efficiently as possible. We recognise DCC should be involved in these areas, but remind DCC that activities in all areas, including engagement, must be economic and efficient. Any activity and cost incurred should, on balance, deliver net benefit to DCC customers and the end consumer. In particular, we expect DCC to reflect on its approach (and the costs of its approach) to industry engagement in the light of feedback from its customers, including their willingness to meet these costs. To this end we strongly encourage DCC to consult with industry, Ofgem and the Programme Co-ordinator as to the most appropriate ways to engage to ensure this is done in the most beneficial and efficient way.

Engagement

DCC's customers have an important role to play in scrutinising DCC's costs because, as customers, they are particularly well-placed to judge value for money. We want to see DCC's decisions strongly informed by an understanding of its customers' needs, replicating the pressures a company would experience in a competitive market. In addition, we want to see DCC provide greater transparency on its costs, so that DCC's customers understand what they are paying for and why.

DCC has taken steps to strengthen its engagement with customers, and this pro-active consultation further demonstrates this. It will be key now that DCC continues this transparency and that DCC's customers are offered the right opportunities to inform or understand DCC's decisions. We expect DCC to agree with its customers, and programme participants, processes and governance structures that facilitate timely, informed, transparent and proportionate engagement. This will allow DCC, for future price control submissions, to provide robust evidence of how it has taken customer views into account in its decision-making.

Contract and commercial management

A large part of DCC's role is as the contract and commercial manager of some of the key programme parties that are integral to the success of the programme including: Central Switching Service ('CSS' including the Address and Registration Service), System Integrator ('SI'), Core Systems Assurance ('CSA') and Service Management. Alongside this, DCC with the SI and CSA will also have a role in orchestrating the delivery of the Existing Service Providers (ESPs). A key part of this management goes beyond just contract management, and includes supplier relationship management, tracking and monitoring performance on a regular basis. It is unclear from the business case if all contracts will be assigned a relationship manager, but as a minimum these should cover the core contracts, especially the CSS and the SI and the links this has through to the ESPs.

It would be beneficial to see DCC demonstrate that it has learnt from previous experience and how this, and lessons from other industry projects, have been taken on-board to help ensure that external service providers are able to deliver to the programme requirements (including time, cost and quality). Open communication from DCC on the additional tools / levers within these contracts and DCC's management approach that will help ensure change is managed tightly would help build confidence. Key areas that we would expect to see covered would include (but are not limited to):

- **Change:** ensuring timely, robust Impact Assessments are communicated transparently through the required Programme governance structures.

- **Performance:** regular monitoring of performance with appropriate Service Level Agreements set out.
- **Cost:** additional tools and options to ensure that the cost of change is as economic as possible and does not give suppliers a position of power to dictate costs.

The annual price control includes a review of DCC's contract management processes by Ofgem. DCC's role is to coordinate and oversee the performance of its Service Providers so it is vital that its processes enable effective management of these contracts. There is a need for greater engagement with customers to provide transparency on contract management and any potential changes. When seeking approvals for change requests that may give rise to future costs, we encourage DCC to conduct comprehensive risk assessments, and clearly present the risks and reasonable options available.

Data Service Provider

The costs of consequential change to the Data Service Provider (DSP) are a material part of the DCC's External Costs for the DBT Phase. We note that these costs are only included as estimates at an aggregated contract level but believe that there should be an opportunity, when these costs are more finalised, for DCC's customers to have transparency around these costs. As well as transparency on the costs, we would strongly encourage engagement with customers on the nature and cost of the consequential change. We welcome the commitment by DCC within the Business Case to publish the updated DSP costs - when these are available - as a schedule of change and will involve industry within this, so the costs and impact are understood prior to the change.

Next phase

Going into the next phase of the Programme (steady state Operations), we encourage DCC to give in-depth and thorough consideration to the cost, activities and resource associated with delivering this phase. We would anticipate costs in managing the steady state Operational Phase to be significantly lower, with an efficient ratio of Internal Cost to External Cost. Further to this, any perceived risk by DCC in relation to the Programme should be much lower, and we would therefore expect contingency levels to reflect this. Furthermore, as DCC's margin is commensurate with the degree of associated risk, our intention would be that the margin level that DCC can earn in steady state operations on the costs it economically and efficiently incurs should be significantly lower.

If you have any questions about our response, please do not hesitate to contact me.

Yours Sincerely

Rob Salter-Church
Director, Retail Systems Transformation

03 May 2019

ANNEX A: Response to the DCC's consultation questions

- 1. Do you believe the activities DCC has proposed in the Business Case match the scale and focus of the role set out under the DCC licence and the REC? Are there any gaps or possible areas of duplications with other parties?**

As mentioned previously, it is important that DCC considers all roles and activities and appropriately manages these to avoid possible duplication. In particular, we would highlight those related to:

- **Industry engagement:** Programme engagement is being led through Ofgem and the Programme Co-ordinator. Programme communication should follow the Programme structures and be guided by the needs and wishes of Programme stakeholders. We encourage DCC to engage transparently with its customers on the Business Case and in a way that avoids duplication and misinterpretation of other Programme messages.
- **Testing and Assurance:** this should be carried out in line with the Programme assurance frameworks and managed in a way to minimise duplication between DCC's own activities and those of the Programme service providers

- 2. Noting that contingency is not charged upfront, do you feel the level considered reflects the size and likelihood of risk across the DCC part of the programme?**

We note that DCC does not intend to charge contingency and appreciate this step to manage the costs. Beyond this we would encourage DCC to take on board comments from stakeholders on this. We would also encourage DCC to clearly communicate when and why contingency will be drawn down with clear traceability to Programme events.

- 3. Are the business case's structure and base assumptions clear enough to use in setting a realistic programme budget and forecast charges as part of the ex-post plus regime? Is it clear what DCC is accountable for delivering and how governance will oversee that?**

We encourage DCC to take on-board any feedback received on this. It will be key that DCC presents its Business Case in a transparent way that allows for updates to be easily followed and identified. DCC should engage with its customers to ensure the right opportunities to inform and understand DCC's decisions are presented. We expect DCC to agree with its customers and programme participants, processes and governance structures that facilitate timely, informed, transparent and proportionate reporting and tracking against the Business Case.