SSE Energy Services
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Submitted by email to smartmetering@ofgem.gov.uk

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Dear Jacqui,

SSE Energy Services response to Ofgem consultation on DCC Price Control: Regulatory Year 2018/19

SSE Energy Services broadly supports the proposals set out in this consultation in respect of the DCC and Ofgem's assessment. We welcome the assurance that Ofgem is focusing on ensuring that costs are being monitored and scrutinised; given that we are only able to view part of the evidence submission by DCC. We are reliant upon this thorough assessment by Ofgem that costs are economic and efficient.

During this Regulatory Year we view that DCC engagement with SEC Parties and their customers was not of a consistent quality or transparency. Whilst we recognise that there were challenges during this year with steps taken to review Customer Engagement and develop new communication approaches and strategy, the outcomes of this review are still in the process of being implemented and embedded by DCC.

We welcome the introduction of the re-structured Quarterly Finance Forum however this is still in its infancy and has not yet demonstrated that it will be meeting the concerns of customers. For this to further develop an open, structured and transparent relationship between DCC and its customers, and to build confidence, we view that this forum must enable us to:

- Engage in a structured, consistent and confidential way to be able to assess and constructively challenge DCC proposals on expenditure;
- Provide input into the anticipated business benefits to DCC and its customers, and establish user priorities to support informed assessment and decision making by the DCC Board;
- Continue this open engagement by receiving timely updates from DCC with informed rationale where there may be changes to the DCC project approach, milestones or variances to the initial costs;
- Actively track the realisation of benefits for implemented changes, based on the expected delivery and duration, recognising this may be for a specific time period.

Looking at potential future work, we would also urge consideration by DCC of their engagement strategy for the initiation of new projects, particularly where these may have significant expenditure.

SSE Energy Services welcomes the news that Ofgem will be reviewing the Operational Performance Regime in early 2020. We are actively engaging with the SEC Operations Group in their initial review of the metrics, that we understand will be taken into consideration. On reflection, we believe these need to be expanded to assess services required for key operational processes, particularly where these will impact the end consumer. We also recognise that certain measures do not necessarily reflect the level of service and the challenges we experienced with Service Providers when using DCC Services.

Our experience during this Regulatory Year, and subsequently, was one of inconsistencies in the availability and reliability of Services between CSP North and CSP Central/South:

- We were unable to install SMETS2 meters at the expected volume within CSP North, due to ongoing issues with the stability of the network and performance of the Communications Hub;
- We have found there to be significantly longer Install and Commission times for smart metering systems and installation failure rates in CSP North, compared to those seen in the CSP Central and South regions;
- We have experienced significant issues with firmware releases for the Communications Hub in CSP North, particularly with Prepayment, and this has impacted our ability to rollout with confidence.

During this time, there was limited engagement with DCC and a lack of visible action in terms of contract management for this Service Provider, understanding that this may have been behind the scenes and recognising commercial confidentiality. We believe there should have been greater engagement by DCC with its customers to keep them apprised.

We would be happy to discuss any of our views set out in this response and we look forward to further engagement with the review of the Operational Performance Regime.

Yours sincerely,

Samantha Cannons
Policy and Regulation

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Annex 1: SSE Energy Services response to Ofgem consultation on DCC Price Control: Regulatory Year 2018/19

Section 2: External Costs

1. What are your views on our proposal to consider External Costs as economic and efficient?

SSE is broadly supportive of the proposal to consider External Costs as economic and efficient, whilst recognising that our assessment of this is limited due to the lack of visibility of the evidence submission.

We note the reasons set out for the percentage variance from the forecast in RY17/18 compared to expenditure in RY18/19, attributed to SMETS1 costs not being in the forecast, however we would seek greater certainty of forecasted costs in future Regulatory Years.

We welcome the reference made by Ofgem on expecting DCC to provide fuller assurance around how they plan to manage contractual risks to ensure performance and delivery throughout the terms of the contract. Based on our experience to date of the variation in performance between CSPs, this is of significant interest with the management of SMETS1 Communication Service Providers contracts.

Section 3: Internal Costs

2. What are your views on our proposals on DCC's approach to benchmarking of staff remuneration?

SSE welcomes the ongoing reduction in the percentage split of permanent staff versus contractors and the focus on its recruitment, remuneration and benchmarking approach. We recognise that DCC needs to recruit staff in a timely manner to meet resource needs and we support the expectation set by Ofgem to apply a consistently robust approach to recruiting contractors.

3. What are your views on our proposal to disallow all costs associated with the external service to develop a KPI Dashboard?

Based on our experience, our view is that the TOC has been a valuable capability and addition, however we agree that unless DCC can provide further evidence of additional value then the costs to develop the KPI Dashboard should be disallowed.

4. What are your views on our proposal to disallow variance in forecast internal costs?

SSE agrees with Ofgem's view that this variation should not be allowed and that DCC should be actively identifying efficiencies and delivering value for money. We are concerned that DCC forecasts continue to be increasing year on year, whilst also not providing sufficient evidence to justify these increases as being economic and efficient.

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We remain concerned about the standard percentage for Shared Service Charges and how these services are accounted for to ensure there is no risk of duplication of costs, given that we are still expecting the outcome of the detailed review DCC committed to in response to RY17/18.

Further, we believe that costs should be presented by project in addition to the current Cost Centre breakdown, to provide further transparency. This would enable assessment of those costs associated to “steady state” and those required for development and enhancement of Services.

Section 4: Performance Incentives

5. What are your views on our proposed position on DCC’s operational performance?

SSE notes that it can only provide an assessment based on the current OPR and as such is broadly supportive. We fully support Ofgem’s view that there is scope to review and refine the operational metrics to better incentivise the delivery of service.

6. What are your views regarding DCC’s failure to ensure all CSPs met their contractual milestones and our proposed performance adjustments in response to this?

SSE is supportive of the proposed performance adjustments in response to this contract management failure. Given that we were not engaged with, nor advised about, this specific milestone in conjunction with the other issues highlighted with CSP North, it would be difficult to ascertain what would or would not have happened and to estimate the impact.

7. What are your views on how the Operational Performance Regime could be modified to better incentivise DCC to provide a good service to its customers and deliver upon its objectives?

SSE believes that further metrics are required to monitor those services that have an impact on end consumer operational processes.

In addition, we view that further assessment of the existing measures would be beneficial to consider the following service challenges we have experienced:

- Communications Hubs Faults and Returns [SUM2b and SUM2c]: we are still to have a fully operational CH returns process established, including for bulk returns. Accounting for defects and unavailability of firmware upgrades;
- System/Service Availability [SDM3]: we have experienced several P1 and P2 faults such that this could be classified as available and yet the service is not able to be used. Extent of additional maintenance time that we have experienced and how this is accounted for within the measures.

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8. What are your views on our proposed position on DCC's project performance?

SSE agrees with Ofgem's proposed position on DCC's project performance and notes that it has performed poorly in meeting the milestones set out.

9. What are your views on our proposed position on DCC's switching performance?

We agree with the proposed position set out by Ofgem.

Section 5: Baseline Margin adjustment and External Contract Gain Share

10. What are your views on our assessment of DCC's application to adjust its Baseline Margin?

SSE are broadly supportive of Ofgem's assessment of the Baseline Margin adjustments:

- We agree that with the move to Brabazon House, there should have been acknowledgement of the existing rent costs;
- We firmly support the non-adjustment relating to SMETS2 volumes given these are below the anticipated volumes for this period;
- We agree that costs associated to New Drivers should only be included where there is certainty;
- We firmly agree that the demand for customer engagement has not increased and is at a level that we would have expected from licence award.

11. What are your views on cost uncertainty in relation to Baseline Margin applications and the process for dealing with this issue?

SSE supports Ofgem's view that DCC should not recover Baseline Margin on costs that have not been incurred due to work not having been done, or because DCC has overestimated the cost associated with the work.

12. What are your views on our assessment of DCC's application to adjust its ECGS?

SSE agrees with Ofgem's assessment that SMETS1 programme contracts awarded to existing DSP and CSPs should be considered as new contracts. Therefore, the interest rates agreed while signing SMETS1 contracts should not be treated as cost reduction factors.

Whilst we support the findings presented by Ofgem, this is an area where disclosure of further information in relation to Service Providers would be welcome from DCC.

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