DCC Price Control Consultation: Regulatory Year 2018/19

Consultation Response

Smart DCC

20 December 2019

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1 Introduction

DCC continued to grow and mature as an organisation over the course of Regulatory Year 18/19 (RY18/19). This development has continued into this regulatory year. Key events include:

- **SMETS2**: Roll-out is progressing steadily with well over 3m meters at the end of November 2019. This is ten times the volume of that in January 2019 at a rate of around 30 devices per minute.
- **SMETS1**: DCC has locked down the majority of the technical and commercial arrangements required for the SMETS1 solution, with key milestones being the Proof of Interoperability in November 2018 followed by the start of migration in the summer of 2019.
- **Switching**: DCC completed the Enactment phase in April 2019 on schedule and under budget. During that phase it successfully mobilized the Programme for the commencement of the Design, Build and Test Phase (DBT) in May 2019; and
- Investments in **DCC's Operational Capability** resulted in a new test facility in Manchester that supports extensive and cost-effective testing of SMETS devices, and which is home to the Technical Operations Centre (TOC) and the Security Operations Centre (SOC). This will ensure DCC's end-to-end service is monitored 24/7 with the overall purpose of minimising disruptions to our customers.

Reflecting on customer feedback, DCC has taken further steps to put its customers at the front and centre of everything it does, putting in place more robust processes to ensure customer views are reflected in internal decision-making. In parallel to that, we have also reflected on our past ways of working and identified areas for improving them so that customers will benefit.

As we begin to deliver and operate at scale, we are committed to delivering services that are high-quality but also represent value for money. We will ensure this is done by:

- Delivering efficiency savings through our planned service development activities, exploiting technology, automation and new ways of working to deliver better service at lower cost.
- Using people and resources effectively, continuing to reduce contract and consultancy costs and driving savings through high quality competitive procurement.
- Continuing to improve the way we manage our supply chain, negotiating new contracts and holding our Service Providers accountable for their costs and service.
- Providing greater cost transparency for activities in flight and engaging customers on the scope and cost of new activities.

Looking forward, DCC has also started exploring opportunities on how to deliver its wider licence obligations. We have started building our capacity to deliver Elective Services and in-life change and are developing a robust business case for the delivery of innovation and new services over the coming years. Key areas of focus this regulatory year are understanding and preparing for the potential impacts of new tariffs and pricing structures (Half-Hourly Settlement), the Enduring Change of Supplier (ECoS) and the possibilities around Electric Vehicle (EV) Charging infrastructure.

This document provides DCC's detailed response to the specific points and questions laid out in Ofgem's 2018/19 Price Control consultation document.

For ease of reading, this response follows the order in which issues and questions are raised in the consultation document.

Where DCC is content with Ofgem's assessment, DCC has simply acknowledged this. But in other areas, DCC has provided extensive additional narrative justification, together with further evidence as appropriate.

2 DCC response to cross-cutting issues

2.1 Customer Engagement

Ofgem recognises that we have taken important steps to improve our customer engagement activities and expects us to provide robust evidence of how customer engagement has helped inform decision-making in future Price Control submissions. We share Ofgem's view that customer engagement is of utmost importance in enabling us to make economic and efficient decisions that benefit all DCC users.

Having reflected on the feedback from last year's submission about the need for DCC to improve its customer engagement and transparency around costs and decision making, a new team focused on customer engagement has been established. It will implement DCC's new approach to customer engagement, which we published in May 2019.

DCC's approach to delivering an outstanding Customer experience is to engage with DCC Customers through a number of channels. These include; Digital, traditional communications, Government and Industry bodies Fora in addition to a number of tailored bilateral and multilateral engagements and industry events.

Our new approach to customer engagement will follow these key principles:

- Customers will be asked to help shape DCC's annual business and development plan which sets out our programme of activity for the coming five years. Customer views on the activities DCC takes forward and the phasing of them will be particularly important.
- We will increase transparency around in-flight activities – providing forecast costs by programme or activity and reporting quarterly on progress against budget and programme benefits.
- Customer views will be sought when shaping new activities – we will share business cases for new activities for customers to review and comment on. These will be shared at each decision gate of the relevant programme.
- We will set out clearly when and where we will engage on the development of new activities so customers know when and how to engage.
- We will provide feedback on how customer views have been reflected and have been used to shape recommendations to the DCC board – 'you said, we did.'
- We will run surveys to seek customer views on activities or change that incur little or no additional cost.
- We will establish a new central customer portal which will, over time, provide a single point of contact and information for DCC customers.

In future Price Control submissions, DCC will demonstrate how all of these activities increasingly contribute to our decision-making process.

2.2 Contract Management

Contract Management

DCC delivers its services by procuring and contracting with external Service Providers. Approximately 72% of our total costs are associated with the delivery of these services. Given the high proportion of these costs, we are committed to ensuring that the delivery of these services, both during phases of implementation and live operation, is done in a timely manner and to the highest possible standard.

With the recent introduction of new services i.e. SMETS1 and the Faster Switching's Centralized Registration Service, DCC has worked closely with all parties to ensure that DCC's ecosystem remains interoperable, reliant and secure. It should be noted that, as a result of the adoption of these new services over the course of the last regulatory year, our supply chain has significantly grown i.e. from three to eight key Service Providers.

DCC is fully cognisant of the importance of managing contractual risks carefully to ensure services are delivered to agreed standards, in time and on budget, especially in the context of on-boarding new suppliers. Ofgem has asked for greater clarity around how we do this, particularly when on-boarding new service providers.

Examples of how we have recently stepped up our efforts to maximise the value we get from our service providers include:

Maximising Service Value throughout Negotiations

- Use of clear procurement and negotiation strategies that we agreed up front as a business;
- Maximising the mix of in-house and outsourced skills;
- Holding 'black hat' meetings prior to contract signature to test the robustness of the contractual, financial and operational elements of the contracts. This also ensured that residual risks were at an acceptable level;
- Implementation of 'cost of failure' clauses, adaptability clauses and use of retention accounts with release of monies tied to delivery of milestones.
- Prior agreement of work scope with all costs requiring advance authorisation during all agile development phases.
- Use of commercial leverage throughout the negotiation phase as well as on an ongoing basis to apply greater scrutiny, bring down costs and drive value.

Maximising Value on an Enduring Basis

- All major contracts are subject to robust governance and oversight. This includes the tracking of commercial and technical deliverables, contract changes, Value for Money reviews as well as the performance of the service in key functional areas.
- Assigning contract managers and supplier relationship managers to hold the service provider to account on time, cost and quality.
- Use of the new Supplier Relationship Management dashboards to drive real focus.

Over the years, DCC has built up an extensive level of knowledge and expertise around the management of external service providers. DCC is committed to continuing to build on this experience and use this to further enhance its commercial and technical leverage with the ultimate purpose of providing continual value-for-money for its customers in future years.

2.3 Efficiency Targets

At DCC, we are very mindful that the costs we incur to develop, test and run the UK smart metering system are borne by our customers. We are therefore fully cognisant of our duty to identify and realise efficiencies across all parts of the business on a continuing basis whilst at the same time maintaining steady progress against our programmes and quality of service.

With value for money being central to all our activities, DCC has already been realising significant cost savings (c£250m over last two years) through long-term efficiencies across several areas. This ranges from consolidating test facilities to the refinancing of external set-up costs, as well as through continuously introducing improvements to our internal systems and processes. As we have grown and matured over the years, improvements have been made to support and realise efficiencies and savings across the business. Notwithstanding these improvements, we recognise the importance to raise our efforts in this area and share with our customers the efficiencies and savings that are realised throughout the year. In future submissions Ofgem have asked for greater clarity around the process we follow for driving out efficiencies. By means of example, we are currently setting cost efficiency targets in our internal business plans across all cost centres, delivery of these will be tracked and monitored throughout the financial year to ensure they are being realised. This is represented by the schematic below.

3 External Costs

3.1 External Costs as Economic and Efficient

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

DCC welcomes Ofgem’s position to allow all incurred external costs. Our submission provided a detailed narrative and evidence on all material spend on external cost. In future submissions, we commit to providing further assurance on our contract negotiations to ensure that Ofgem has a better view on how we assess trade-offs in our contract negotiations, as detailed in Section 2.2.

4 Internal Costs

4.1 Benchmarking of Staff Renumeration

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

Both the permanent and contractor benchmarks that we use are externally assured. This provides assurance and value for money for our customers.

- For permanent staff, we receive a salary range by role type. We use the 50th percentile of that salary range as our benchmark and have discretion to negotiate up to 10% above that benchmark without a formal approval process.
- For contractors, we have found we occasionally need to use the top end of the range as our benchmark, as this enables us to quickly hire the right expertise to work on complex programmes with very specific requirements. Our contractor roles often require niche, specialist skills that means we have to fill roles with more experienced, senior staff. Typically, these are more expensive than the mid-range of the benchmark but allow us to get things right first time and avoid wasting money. Whilst this is not our preferred route, it is a pragmatic solution to deal with the challenge.

We are disappointed by Ofgem's minded-to position to disallow £0.539m of contractor costs for RY18/19. The benchmarking we have provided to Ofgem gives transparency to the contractor rates that we use. Benchmarks are very important to help us ensure that we are paying our contractors fair market rates. But they should also be viewed in the context that the majority of the contractors we hire are based in London, requiring us to pay above the 50th percentile for many roles to ensure that we can secure the right skills in a timely way. Furthermore, we hire contractors with specialist skills that are not accurately reflected in the more generic benchmarks. Our hiring experience shows that we need to offer rates above the mid-range of the benchmark to hire the right skills into the business.

We understand that Ofgem's concerns are related to the process for benchmarking contractors being slightly different to that of permanent staff. Therefore, we are providing further information to Ofgem as an annex to this consultation response to provide greater transparency on our justification for hiring contractors above the 50th percentile of the benchmarked rate.

We have highlighted any disallowed contractor roles where we pay up to 10% over the 50th percentile of the benchmark. The approach taken to agreeing these salaries is in line with our policy for permanent staff, which gives us discretion to negotiate up to 10% over the benchmark without a formal approval process.

Furthermore, we have provided individual justifications for disallowed contractor roles where we pay more than 10% above the 50th percentile of the generic benchmark, explaining why we had to offer higher rights to secure these specialist skills. In our submission, we provided the wrong benchmark range for some of our roles (e.g. some commercial roles). We are providing Ofgem with a separate confidential document setting out our justifications for the disallowed contractor rates on role-by-role basis. It should be noted that the cost savings being driven by the Commercial team, far outweigh the costs of the function and so expenditure in this area generates a healthy return to our customers.

We commission an external review of all our benchmarks on an annual basis to ensure value for money. If we can secure the right contractor expertise, capable of delivering for us at short notice within the 50th percentile salary benchmark, we will do so. If we cannot secure the right resources in the required timeframes, we will offer salaries higher in the benchmark to ensure we can meet our hiring demands.

4.2 Disallowance of cost associated with external services

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

DCC is disappointed by Ofgem's minded-to position to disallow the costs associated with the KPI initiative, as we believe this spend was economic and efficient. The KPI Dashboard initiative served multiple purposes and addressed several system issues within DCC.

DCC's legacy business intelligence platform (BIMI) was designed to simply deliver monthly regulatory performance reports. It was not designed or built to allow us to monitor the end-to-end performance of the DCC system as it did not have the capability to manage simultaneous or rapidly changing data or queries. The KPI project was designed to test the benefits of moving from monthly KPI reporting to real time analysis and performance management, allowing us to move away from just monitoring the performance of the infrastructure to true customer experience monitoring and analysis. The outputs of the KPI project were used to build a near real time data model (Enterprise Data Analytics Model - EDAM) that is now the source of all the operational monitoring, KPI reporting and data analytics for customers, suppliers, BEIS and Ofgem. The next phase of activity will be to move this capability to the cloud to enable direct access for customers to use to allow them to leverage the data science and analytical capability at source rather than duplicating effort within their own environments.

The KPI project created the core dashboards and the underlying data engines for the Technical Operations centre and facilitated data and compute processing, which in turn allow us to run more complex algorithms which are being requested by customers on a more frequent basis and analyse installation times across industry with customers using different sets of service request orchestrations. These functionalities could not have been developed within BIMI, hence the KPI project was vital for building a more performant, fit for purpose, scalable architecture that can allow for rapid changes to data (over 1 million rows of data an hour) and ad-hoc querying and linking of abstract information.

The KPI project also informed the development of an underpinning data strategy for DCC and helped us align all the requirements for information into one place. We now have a consolidated warehouse for all the operational data and are the single source for information and the authoritative voice on smart metering performance whether it's customer-specific, supplier-specific or generic, we are able to answer all questions fairly rapidly.

On this basis, this expenditure was absolutely vital for the advancement of insight for our customers and the benefits coming from the TOC could not have been realised without this activity.

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

We note Ofgem's minded-to position to disallow DCC's forecasts from RY21/22 to the end of the Licence term due to a lack of justification. DCC aims to provide accurate forecasts and reduce the volatility of cost movement as we fully recognise that the incurred costs to build, test and run the smart metering network are borne by our customers. Whilst forecasts are being shared with our customers on a quarterly basis, we should note that these forecasts are only included within the annual price control submission if they meet the appropriate level of certainty. That level of certainty is not always met due to the level of change that DCC and the wider industry is subject to.

For example, last year's allowed forecasts for internal and external costs did not include the costs associated with the Design, Built and Test Phase of the Switching programme, nor costs associated with SMETS1 service providers, as contracts for these activities had not yet been signed.

5 Performance Incentives

5.1 Operational Performance Incentives

Question 5: What are your views on our proposed position on DCC's operational performance?

Question 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?

DCC is disappointed by Ofgem's minded-to position to disallow the baseline margin associated with the missed SDM1a milestone on the grounds that DCC should seek to ensure that the CSPs meet their contractual commitments. We welcome the opportunity to respond to this position and would like to raise the following issues:

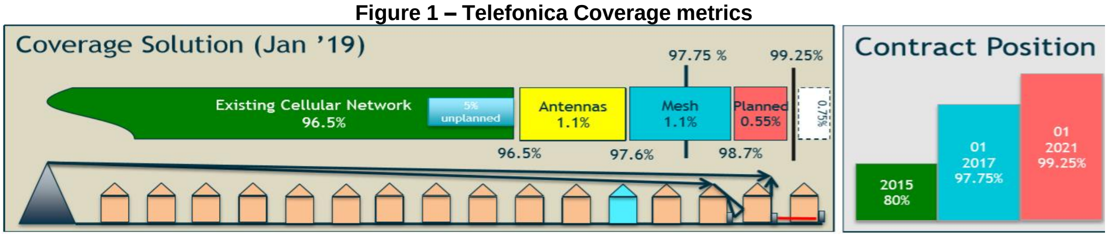
- Only one milestone was missed.
- The missed milestone had only a minimal impact.
- The relevant Operational Performance Regime (OPR) metric is binary and provides weak incentives.
- We have had significant customer engagement on the issue and worked to understand the impacts the missed milestone was having on them.

Impact of SDM1 on Roll-out

Firstly, we would like to reiterate that over the course of RY18/19, only one component of one milestone was missed - SDM1a (WAN coverage) in the North was impacted; WAN coverage in the central and south region was delivered and the second component SDM1b (WAN reliability) showed a 99.9% performance rate of first time SMWAN connectivity at install.

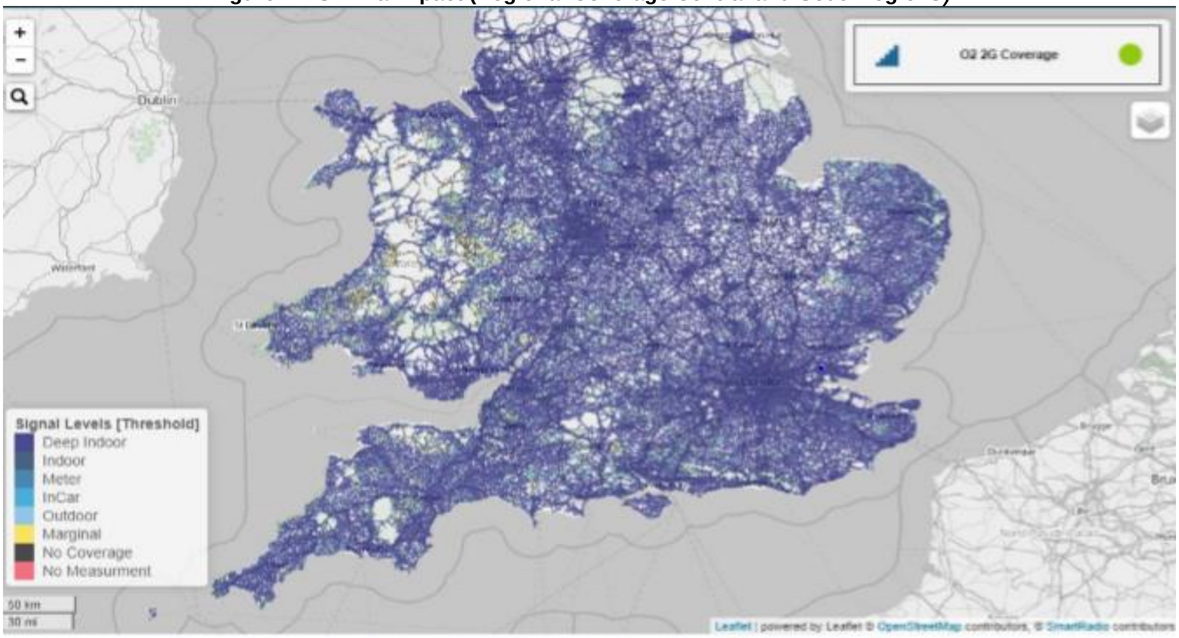
During the period Jan-Mar 2019[1], **actual WAN coverage** of **98.7%** was achieved in the central and south regions exceeding the contracted position of 97.75%[2] (see figures 1 and 2).

Figure 1 – Telefonica Coverage metrics



[1] Affected period in which the SDM1 Milestone was not met.
[2] The coverage threshold of 97.75% will move to 99.25% from Jan 2021 onwards.

Figure 2 – SDM1a impact (Regional Coverage Central and South regions)



In the North, although the WAN coverage milestone was missed in December 2018, DCC worked closely with the respective CSP to ensure that the coverage milestone was recovered by the end of the regulatory year and 99.25% coverage was delivered.

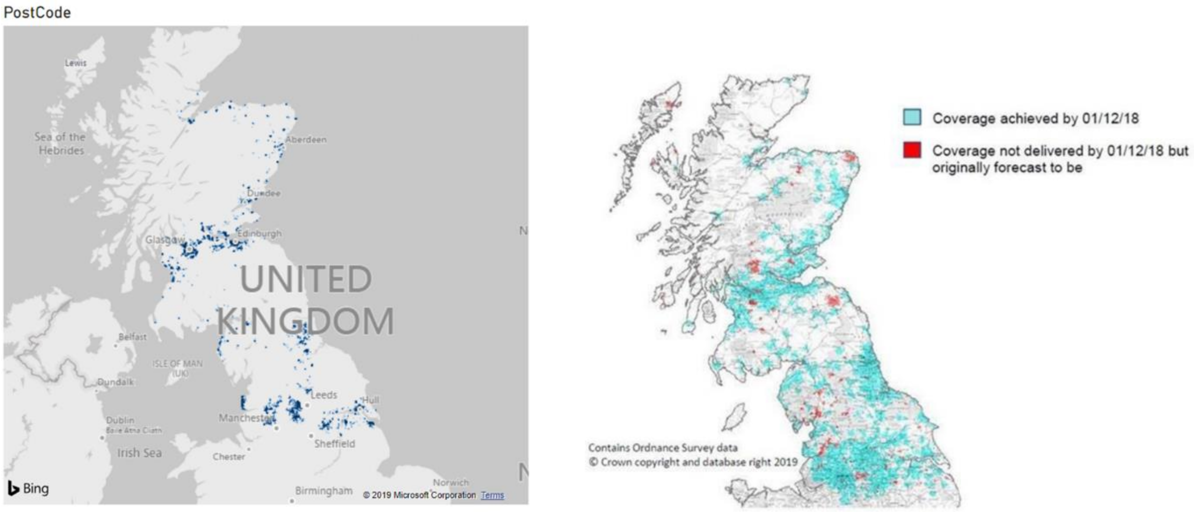
DCC worked very closely with its customers, BEIS and the respective CSP to ensure that installs were affected as little as possible during the four months where coverage was 1.25% below the milestone target, ensuring customers could fully utilise their workforces. During this period overall national WAN coverage was 98.5%. The analysis and evidence provided in figure 3 demonstrates that the impact on roll-out in the North was minimal. There were just 51 failed installs in the north out of a total of circa 29.5k installs due to no SMWAN, equating to just a **0.17% failure rate**[3].

Finally, we would also like to reiterate concerns around measuring performance against this metric. As part of SDM1, DCC must ensure that the CSPs meet all contractual coverage commitments in the Regulatory Year. Where we do not achieve this, we are at risk of losing all baseline margin that is associated with this metric, irrespective of how we perform against the second component around service reliability. Additionally, we note that the existing OPR arrangements aggregates DCC's performance in all regions based on a number of commonalities despite the CSP network in the North region being significantly different to that in the Central and South regions i.e. the latter being supported by an existing cellular network as opposed to the network in the North region operating on new bespoke radio technology.

Taking into account the points above, we would like to request that all baseline margin associated with the Central and South regions is retained due to there being no impact to these regions. Notwithstanding the impact in the North was minimal, we however recognise that given the recent issues in the North Ofgem may still be minded to disallow the baseline margin associated with that region.

[3] Whilst we recognise that the number of installs during the affected period is below the forecasted levels, it should be noted that this was predominantly due to Radio Frequency interference issues.

Figure 3 – Analysis on SDM1 impact on Roll-Out (Regional Coverage North region)



Meter Installs **Coverage**

Managing our Supply Chain

As to contract management, we would like to reiterate the importance DCC attaches to carefully managing its supply chain to ensure that all customers enjoy that services are delivered in time, on budget and to an agreed standard. DCC uses a mix of commercial levers to manage the performance of our supply chain, address contractual and supplier risks, and where appropriate improve performance and capability. Where service providers' performance has historically been poor in certain areas e.g. due to outages on our network or for not meeting payment milestones, DCC has been able to claim compensation, either directly or through the retention of payments via retention accounts that were agreed as part of the commercial arrangements.

Looking forward, and in light of future programmes and the recent on-boarding of new service providers, DCC remains committed to working closely with industry to maximise the value and performance of our services in key functional areas.

Stakeholder Engagement

DCC generally engages with its customers on a daily basis, either through a 1-1 session, in a SEC Group, BEIS group, DCC led workshop, wider industry event, email or via one of our web platforms. DCC use these different mediums and formats to speak and collaborate with customers on their issues, and their roll-out strategies.

Whilst DCC has frequent and open communication with customers about delivery of the smart metering programme in the North., The WAN coverage issue was discussed at length and customers' main interest has always been dominated by the radio frequency (RF) interference issues caused by non-compliant meters, as opposed to actual WAN connectivity issues. DCC proactively took the lead in resolving the RF interference issue, worked collaboratively across industry and with government through various fora. As a result, monthly installs in the North region are continuing to increase, with currently more than 70,000 installations a month, which is 19 times the installation rate at the start of the new year.

Further to Ofgem's request to provide additional feedback from stakeholders on how the WAN coverage issue in the North had impacted their roll out plans, DCC approached customers who had SMETS2 meters installed in the North between December 2018 and March 2019. DCC asked them how the missed SDM1 milestone impacted on their roll-out plans. Two large energy suppliers provided their views on the missed SDM1 milestone, confirming that the missed coverage milestone had an immaterial and negligible effect on their roll out, and that their focus was much more on the RF interference issue.

5.2 Modification of Operational Performance Regime

Question 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?

DCC welcomes Ofgem's proposal to initiate a review of OPR over the course of 2020. We agree with the objective of optimising the regime's metrics whilst maintaining the intent of OPR incentivising DCC to provide a quality standard service for its customers. RY18/19 was the first year in which our performance was assessed through the OPR. Experience and feedback from across industry is indicating that the existing metrics and the manner of their aggregation may not be providing the most effective incentives to DCC, and by extent does not represent the best interests of our customers in terms of requirements and priorities.

We would like to note our recent engagement with industry, and in particular with the SEC Ops Group (OPSG) that has been tasked with the review of the operational metrics to help identify improvements in the set of measures that are defined in the SEC for the measurement of the delivery of DCC Services. Whilst the OPSG's review and analysis of the operational measures is yet to complete, DCC is of the view that the improvements should follow an outcome-based approach and principally focus on those areas of the business which customers regard as a priority and critical to the operational performance of DCC services.

DCC is committed to continue to work together with Ofgem and industry to ensure that the future OPR arrangements will help transform operational change, and ultimately result in better business outcome for the industry as a whole.

5.3 DCC's Project Performance

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

DCC welcomes Ofgem's proposal on its project performance.

5.4 Switching Performance

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

DCC completed the Enactment phase in April 2019 on schedule and significantly under budget. During that phase it successfully mobilized the Programme for the commencement of the Design, Build and Test Phase (DBT) in May 19. We therefore welcome Ofgem's minded-to position to allow all Switching costs.

6 Baseline Margin and External Contract Gain Share

6.1 Application for Baseline Margin Adjustment

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

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

DCC welcomes the opportunity to share its views in respect of Ofgem's assessment of our application to adjust this year's Baseline Margin. DCC broadly accepts Ofgem's views in respect of the proposed reductions, in particular in relation to the "New Scope – Future Activities" driver which was included in this year's application. DCC recognises that there is currently insufficient certainty around the costs that are associated activities beyond 2020. DCC is however minded to reapply for an adjustment of Baseline Margin in the future, once certainty levels around the scope and costs of these activities have increased.

DCC broadly agrees with Ofgem's position in relation to the decrease in costs for activities which were awarded Baseline Margin in previous years. DCC acknowledges that Baseline Margin should not be retained on costs which were not incurred due to either the activities not being done, or an overestimation of the costs. Notwithstanding that, we are of the view that there may be circumstances in which case DCC is able to retain that Baseline Margin, for example in instances where we can demonstrate that activities were carried out more efficiently than initially planned and savings were realised for customers. Whilst we do not intend to comment on any of the cost reductions as part of this consultation response, we intend to do so in future submissions for costs that have decreased as a direct result of realising efficiencies.

Finally, DCC would like to take the opportunity to provide a more granular level of detail on the grounds for application and added value to customers for the respective grounds "Investing in Business Volume Engagement" and "Increased Demand for Customer and Stakeholder Engagement".

Investing in Business Volume Engagement

We fully acknowledge that the roll-out of SMETS2 devices is progressing at a rate slower than originally anticipated at the point of LABP. However, we welcome the opportunity to provide additional context and added value and benefits in respect of this driver, and more specifically the sub-grounds EDAM tools and the BSS Reconciliation Project.

BIMI, EDAM Reporting Tools and the Enterprise Data Hub

As previously explained in our submission, the primary purpose of the BIMI tool was to support regulatory reporting, as defined by the requirements set out in the Smart Energy Code (SEC). Due to the DSP's work load at the time, DCC contracted in 2016 with ITES, a Capita subsidiary, for the development of a temporary tool (BIMI tool) for an initial period of 1 year, in anticipation of CGI supporting this functionality on an enduring basis. Whilst BIMI was considered fit for purpose in the early phases of the programme, it should be noted that under the initial contract the capacity of the tool was limited to the regulatory reporting of operational data of a maximum of 1m live meters. In addition to the scalability issues, BIMI showed the following challenges and limitations:

- It does not have access to more recent and timely data to allow the TOC to monitor and manage the network.
- BIMI was only designed for monthly reporting, not ad-hoc queries, limiting more frequent reporting as regularly requested for by BEIS and customers.
- It cannot meet the requirement to produce the regulatory and new reporting requirements from BEIS and customers on a more frequent basis, and in a more granular and configurable way.

DCC's decision to move away from BIMI and have it replaced by EDAM has resulted in the following already delivered benefits:

- An enterprise class and scalable architecture that is allowing us to proactively monitor and manage the end to end service for customers and suppliers alike, including the measurement of real performance of customer transactions and alerts.
- Customers being supported on a 24/7/365-basis, as opposed to the BIMI solution only being supported Mon-Fri, 9-5.
- £1.14m cost avoidance due to the same team supporting EDAM carrying out changes and further development on the platform, whereas extra development and changes on BIMI incur additional costs for each change.

Benefits EDAM is further expected to realise over the course of RY20/21 include:

- BIMI decommissioning will provide roughly 30% (circa £0.3m) saving on current yearly charges (From February 2020).
- We are moving to the cloud to enable customer and supplier access to the data sciences. (AWS Environment currently in SIT, Production environment due Feb 2020)
- Moving EDAM from the current Capita Private Cloud will provide a roughly 15% (circa £0.05m) saving on currently yearly charges. (March/April 2020 once business have signed off CPC closure off).
- DCC will save circa £0.14m by re-using SQL Licences purchased under the BIMI contract (Feb 2020).

BSS Reconciliation

The current process for reconciling charging and billing for Comms Hubs is highly manual and therefore prone to failure and errors., But whilst volumes remained small it was seen as sufficiently reliable to cope with the complexity of the charging structure and data requirements for reconciling and validating the charges in from CSPs and charges out to DCC customers. As volumes increased the risk of errors also grew and the FTE requirement for administering the process was anticipated to grow to 4 FTE. It was always envisaged that the current process for reconciling charging and billing for Comms Hubs would need to be automated once volumes passed a threshold of one million. The Comms Hub threshold was reached in December 2018.

In terms of immediate benefits, we would like to note that the introduction of a fully automated tool to manage the Comms Hub charging process end-to-end will ensure that an additional four FTE are not required as volumes increase during mass roll-out. At the same time, it will also ensure that the accuracy of charges levied on DCC customers is maintained irrespective of the volumes of Comms Hubs that have been delivered, installed and returned during their lifecycle. In addition, the software will make available an automated suite of reports to DCC Customers providing a detailed breakdown of all Comms Hubs charges at an individual asset level. This will give continued transparency of our charges and further assurance to DCC customers regarding the accuracy of the charges levied each month.

Increased Demand for Customer and Stakeholder Engagement

We welcome the opportunity to comment on Ofgem's minded-to position to reject the "Increase in Demand for Customer and Stakeholder Engagement" driver by providing additional evidence that demonstrates our increased levels of customer and stakeholder engagement.

At first, we would like to reiterate that as a growing and maturing business, DCC has witnessed a significant increase and change in its customer and stakeholder base, and its supply chain. Over the course of the years, DCC has recognised the importance of establishing good industry practice in terms of transparency by increasingly involving customers and other stakeholders in decision-making processes, including those decisions that incur costs to industry.

Whilst the increase in DCC's customer and stakeholder engagement activities follows recent feedback from our customers and Ofgem, it should be noted that the extent to which these efforts have increased is in response to direct feedback from industry about what they are expecting from us. In support of our case, we would like to clarify that the increase in demand mainly stems from existing industry fora being run on a much more frequent basis and attended by a significantly greater number of industry representatives often expressing different interests in DCC's activities. The increased frequency of meetings together with the growing number of industry attendees has inevitably led to DCC attending these meetings more frequently; where appropriate changing the format of these fora; and as a direct consequence, responding to an increased volume of actions that arise from these meetings.

By means of examples to support the above, we would like to note increased levels of activity and frequency in the following areas:

- **Quarterly Finance Updates:** In summer 2019, we made a decision to host all finance updates as face-to-face sessions. This allowed us to be more transparent as we were able to share confidential information in the room in a controlled way. Since the Q3 2019 Finance Update, DCC has evolved the format of the forum to help increase transparency by providing Programme and portfolio updates such as Next Gen and presenting business cases for new activity (e.g. test automation). At these sessions we also explain movements in cost forecasts. This allows us to engage with customers before, during and after spending decisions. The feedback for the enhanced finance updates has been positive, with customers expressing greater satisfaction with the type of content, level of detail, and the format and running order.[4] We have also piloted a new digital post-event survey, so that we can gather more meaningful and measurable customer feedback, which can be used to keep the sessions under review by generating a Customer Effort Score (CES) and Customer Satisfaction Score (CSAT).
- **Customer webinars**: these are held monthly and are aimed primarily at independent suppliers who are not always able to attend the various forums to keep them informed on DCC updates. These have only started in April 2018 and attendance to these have been increasing with this year on average 35 – 50 attending each month as opposed to approximately 20-30 last year.
- **Top Issues forum:** This forum is for our customers, DCC and other industry parties to discuss current top issues in both the Production and Test environments. At the forum, customers share insights and their own learnings of the issues raised with the aim of resolving other customers' issues. Due to the increased levels of attendees, we had to move off-site in May 2019 as we were unable to accommodate the numbers within DCC offices which incurs additional expense. On average this forum is attended by 45-55 people.
- **Meetings run by DCC's Customer Service Management team:** this team performs an account management function for our customers (Suppliers, Networks, MSPs and SEC Other Users). They provide the day-to-day support and assistance throughout our customers' smart metering journey; from on-boarding, to pilot installs to SMETS2 scaling. Traditionally we met with our customers at their request, however, we have recently introduced a new engagement plan where we schedule meetings with our customers 12 months in advance. In this new meeting plan, two key meeting types are offered: regular meeting with their service manager and a senior performance/technical review. Larger customers also meet with our Executive Committee biannually and we invite a customer to attend our Executive Committee Meeting every month, to share their views, challenge and initiatives. The frequency of these meetings is based on their preference on the frequency of engagement (i.e. typically less frequent for smaller customers, at their own request). Moreover, we look to host meetings via skype/teleconference where possible, to reduce travel cost for both DCC and our customers. Our customers have welcomed our new approach to this engagement plan. It provides our customers with better structure and frequent opportunities to engage with DCC, across different areas of our business.

[4] For example, 83% of respondents were satisfied with content of the Dec 19 finance update – an improvement on the 68% score from Sep 2019

- **Engagement workshops**: a number of these were held in June and July 2019 to explain to customers DCC's improved customer engagement strategy. One was held in Birmingham to reach out to customers outside of London where more independent suppliers attended compared to the London workshop. During those sessions, DCC was able to demonstrate and discuss how we would better engage through digital means (online portal) and provide a preview of a business case template. The feedback from these sessions has helped form the business cases we share at the quarterly finance update and provided input into the development of the customer portal.
- **SECAS-led fora**: compared to last year, we note that the frequency of some fora e.g. TAG and the Ops Group have significantly increased. In comparison, last year these meetings occurred on average once a month; this year, there have been occasions where these meetings took place multiple times per month[5].

5 Between Apr-Dec 18: 7 TAG meetings and 9 Ops Group meetings; Between Apr-Dec 19: 13 TAG meetings and 15 Ops Groups meetings.

7 External Contract Gain Share

7.1 Assessment on DCC's application to adjust its ECGS

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

DCC largely welcomes Ofgem's minded-to position in respect of our proposal to adjust the ECGS term between RY2019/20 and RY2024/25. As per previous years, we would like to note the substantial effort that went into the negotiations and implementation of new finance arrangements, which ultimately result in significant savings to our customers and the wider industry over the remainder of our licence. Going forward, DCC will continue to seek further opportunities to create savings for our customers, and will look beyond the areas of financing, to ensure that the SMIP is delivered by our FSPs in the most economic and efficient manner possible.

With regards to the proposal to reject the ECGS adjustments that are linked to the SMETS1 programme, we would like to clarify that these are directly related to changes to the existing DSP network to accommodate the SMETS1 service. Whilst we recognise that the scope of the ECGS mechanism is based on securing cost reductions with our existing FSPs – as opposed to new external contracts – we would like to emphasise that the respective amendments to the current DSP network formed an integral part of the original DSP contract, as negotiated by the Department of Energy and Climate Change (DECC) in September 2013. The original DSP contract [1] (Schedule 6.4) set out the process for the Enrolment and Adoption of Foundation Smart Meters by DCC, which was primarily included into the original contract to:

- Minimise (and ensure certainty of) the costs of (i) the Enrolment and Adoption process and (ii) the ongoing provision of services in relation to the relevant Foundation Smart Meters.
- Minimise the need for re-negotiation of this Agreement in relation to the Enrolment and Adoption of Foundation Smart Meters.

As to the net effect of not lowering the interest rates in respect of the SMETS1 specific amendments, the total cost to industry would be £0.79m higher than the current cost.

[1] Schedule 6.4 of the DSP contract (2013) (Foundation Meters).