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

We are pleased to see Ofgem taking a robust stance on the DCC costs. We welcome the analysis conducted by Ofgem on behalf of the industry and strongly support Ofgem continuing the activity.

The decision to implement CR160 has driven the majority of the additional cost. The split release and overlapping of test stages has led to significant problems, including a system which is still being tested one year from 'live'. CR160 has increased costs but reduced delivery expectations on the DCC which we consider not to be economic or efficient - compared to the LABP and original service expectations we cannot consider the service delivery to date a success.

The spiralling costs of the DCC, which seem to have been going further out of control throughout 2017, have been a major cause for concern and Ofgem are currently the industry's only enforcement body to keep the DCC in check – the SEC Panel has no power to curtail the DCC spending. We stress the importance of Ofgem's role in smart metering, the costs of which will ultimately be borne by the customer. It is also essential to note the impact of poorly controlled DCC costs on suppliers. Suppliers have no way of controlling or protecting against costs imposed by the DCC. Where suppliers are subject to price caps and the cap methodology fails to recognise DCC cost impacts, suppliers directly bear the impact of increasing DCC costs.

We support the approach of requiring the DCC to bear directly the impacts of its own poor performance or poor cost management.

We note the quality of DCC's forecasting is very poor, making it hard to respond on any forecast reductions imposed by Ofgem. If future breaches are seen, we would expect to see more punitive penalties that bring recovered revenue closer to previous forecast positions, especially where the information provided by the DCC for monitoring purposes has not been of sufficient quality.

Question 2: Do you have any views on DCC's contract management performance?

We recognise that contract management is one of the key objectives for the DCC. Whilst they have made some progress in this area recently, we note that poor contract management has been one of the major shortcomings of the programme. While recent changes are encouraging, overall we do not believe the DCC's contract management performance has been a success. We would note that Capita, as the managing agent, are not responsible for the content of the DSP and CSP contracts which they have to manage – we also note that these contracts are heavily redacted in the public domain. We are therefore unable to identify the root cause of the issue but we strongly encourage Ofgem to do that analysis and address the causal issues of the DCC contract management issues, given the resulting consumer exposure to costs.

DSP and CSP costs are higher than the DCC's Internal Costs and therefore should have the tightest controls applied. A lack of transparency and responsibility has created issues throughout with very little CSP and DSP accountability across the programme. Although we recognise that Ofgem can only operate within the agreed financial framework, comparing the original scope with the LABP, we must recognise that we are significantly past expected delivery with a significantly reduced scope and increased costs.

All costs associated with modifications (both proposed total costs and the cost of initial impact assessments) appear misaligned with the expectations of industry and are stifling change. A lack of transparency to these costs leads us to believe that this discrepancy may be due to FSPs. The SEC Panel have no power to enforce timescales on the DCC, which is leading to a greatly lengthened process, frustrating industry efforts to improve the service received. To date, no DCC system changes have been agreed. Utilita have been unable to reconcile the proposed costs for SECMP0007 which seeks to adapt an already existing update firmware command for a relatively simple device – the proposed cost is upwards of £8m.

Finally, on DCC contract management, we need to raise the issue of unplanned outages and notification of said outages. Recent timescales associated with notifying DCC Users of outages are unacceptable. We believe that the DCC's contracted partners must be responsible in part for this.

Question 3: What are your views on our proposals on DCC's Internal Costs?

We support Ofgem's analysis that £1.167m should be disallowed for extra consultancy support for SIT function, recognising that CGI are currently contracted to deliver this function.

We also support the significant reduction in forecast payroll costs, however we recognise the need for adequate staffing to provide a quality and robust service. We accept higher payroll costs as the programme gets up and running but the DCC must ensure their enduring operational capacity is in line with their original proposals and efficient operation as consumers and suppliers should not bear the costs of DCC inefficiencies.

The reductions to future forecasts are welcome as said forecasts indicated a large departure from past agreed/forecast positions. Unless any increase in cost is critical for delivery, we do not support their inclusion in forecasts.

Question 4: What are your views on our assessment of DCC's performance against IM9 and 10?

We agree that the DCC have failed to reach IM9 and 10 and therefore should receive neither of the associated payments.

We would also like to note that we do not currently consider the DCC to be live. The number of devices that are currently installed and the significant issues these devices are exhibiting results in a lack of confidence in the DCC's delivered product, such that the service cannot be considered live at scale.

Utilita question whether delivery-date-based incentives are appropriate for the DCC – as a critical national infrastructure we consider the robustness and reliability of consumer services to significantly outweigh timeliness in terms of fundamental importance. Financially incentivising the DCC to deliver quality should (preferably on time) may be more effective.

Question 5: What are your views on our assessment of DCC's application to adjust their baseline margin?

We note that a 43% increase on baseline margin compared to last year's forecast position is significant.

We are relying on Ofgem's analysis of the DCC's submission. In line with this, we support Ofgem's decision to adjust the DCC's baseline margin. The year on year increases proposed by the DCC are

incredibly concerning, particularly when considering their poor historic performance against forecasts. Ultimately the customer will pick up the cost.

Question 6: What are you views on our assessment of DCC's application for External Cost Contract Gainshare?

Utilita are neutral on Ofgem's decision on External Cost Contract Gainshare. We support anything the DCC can do to bring down overall costs and agree that this should be financially rewarded however, we note that overall costs associated with FSPs are much higher than LABP and the DCC are being rewarded for a relatively minor adjustment.

Question 7: What are your views on DCC's reporting which explains its reasons for over-recovery of revenue in RY16/17?

We have experienced difficulty in commenting specifically on this question, for example, bullet number 1 in paragraph 5.6, it is unclear what the increase in actual meter numbers refers to.

We also note that bullet number 2 in paragraph 5.6 is referred to as simply a timing issue, we would therefore consider that it seems reasonable to ensure the costs are managed appropriately in the correct year. If this is best effected through discounting from the over-recovery, then we support that change.

Bullet 3 in paragraph 5.6 indicates that pass through costs are £2.8m higher than anticipated. Subject to confirmation that the DCC could not have improved this performance by any DCC actions, then we agree the increase should be permitted.

Bullet 4 in paragraph 5.6 appears to be the key reason for the breach. Given that is associated with savings elsewhere, we do not believe the DCC should be penalised and accept their reasoning.

Bullet 5 in paragraph 5.6 appears to be related to the DCC failing to meet milestones elsewhere. It does need seem justifiable given its failing to meet said target