E.ON Response to Ofgem's DCC Price Control Consultation: Regulatory Year 2017/2018

General Comments and Executive Summary

1. We would like to thank Ofgem for the opportunity to respond to this consultation and although we understand the restrictions faced by the Authority with regard to commercial sensitivity when sharing information pertinent to Price Control, we must note that the information available within the consultation and supplementary documents does not permit adequate assessment of value for money and consequently does not allow for accurate determinations of whether DCC costs have been economically and efficiently incurred.
2. As a consequence, the views provided within this consultation response are limited to the information available to DCC Users and our experience of DCC within the relevant Regulatory Year. Our response therefore largely comprises requests for the Authority to consider information which has not been explicitly referred to, and/or our concerns with the information presented.
3. Beyond the requests for information to be considered by the Authority, we are largely supportive of the views presented within the Price Control consultation.

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

4. Overall, it is difficult for any DCC User to provide an informed assessment of whether or not DCC's External Costs have been incurred economically and efficiently because the costs are simply not transparent, in either financial terms (e.g. a business case for the costs incurred) or in activities (i.e. what costs have been incurred in RY 17/18 under External Costs). In addition, we are unable to match the variations detailed within the Price Control consultation because the figures provided do not match either the forecasts supplied within the Price Control decision for RY 16/17, the values contained with the DCC's Charging Statements, or those contained with the Licence Application Business Plan (LABP). As such we would request some clarification from the Authority with regard to the values contained within the Tables and Figures of Section 2, with explicit reference to the inclusion or exclusion of costs for Communications Hubs (CH) in the values noted from the LABP.
5. We would like to make the following assertions with regard to some of the information presented within the consultation document around External Costs:
   - Clause 1.19 of the consultation document states that "All elements of the core nationwide smart metering communications infrastructure and accompanying services were put in place with the successful introduction of the final elements of functionality required in the Smart Energy Code (SEC) through Release 1.3 and subsequent releases." We feel that this is a little misleading: not only were the final elements of functionality within scope of a DCC Release introduced in the second iteration of Release 1.4, there are still elements of functionality required in the SEC that have not been introduced by the DCC. We would therefore ask that the Authority reflect on this when making a determination on the costs associated with this point.
   - Clause 1.19 of the consultation document further states that "Extensive End-to-End testing was carried out by energy suppliers to test the smart meters they have procured and their

back-office systems to ensure full integration". Again we feel that this is very misleading, especially considering that the vast majority of User testing involved in Releases 1.3 and 1.4 failed to 'ensure' that full integration was achievable, and that both Releases were deployed with hundreds of defects. For context, as at December 2018 there are still 14 open defects pertinent to R1.3 Code, and 155 open defects related to R1.4 Code. The reason that so many defects existed in R1.4 is we believe, because the majority of the R1.4 testing undertaken by the DCC focussed on testing their 'toggling' feature rather than the functionality being deployed in R1.4 Code. We do not therefore believe the testing activities related to R1.4 were economical or efficient, and note that the consequences of the remaining defects and required resolutions are both costly and disruptive to Users.

- Clause 1.9 of the consultation document states that "Considerable progress has been made towards the inclusion of first generation SMETS1 meters into the DCC system." This delivery plan is far behind its original delivery dates and is yet to achieve a green status across the board, with extensive work still required to provide DCC Users with the assurances required to permit enrolment. Therefore, we would request that any costs the Authority are considering for this work are reviewed with the understanding that the delays to this Programme have introduced significant burden on Users with regard to time, resource and costs. We would further ask that the Authority recognises that the DCC has a great deal of work to do within the SMETS1 Programme to ensure that it meets its obligations under clause 11.3 of the Smart Meter Communication (SMC) Licence. We have sympathy with the DCC to some extent here, noting that the poor and unrealistic planning afflicting this Programme and resulting in additional User costs is the result of their response to the demands and directions made by the Secretary of State as permissible within the SMC Licence. However, we note that DCC Users should not be continually funding these waste costs for DCC's organisation (e.g. contractor FTE that cannot provide value for money due to Programme delays, such as Architects) or for their own, and that this behaviour or approach should not yield a reward for the DCC which may allude to an endorsement.
- With regard to the "Project to Business" programme that DCC has commented upon in clause 1.19, we note that this has not been transparent at Industry in any regulatory year and that the activities listed in this clause have been provided to Industry as being performed under the Readiness to Scale project (now termed "Operating at Scale"). We would therefore request that the Authority confirms that any costs considered to have been economically and efficiently incurred for the "Project to Business" programme are not duplicated under the Readiness to Scale project. We would further ask that in assessing whether the costs incurred for the "Project to Business" programme have been done in an economic and efficient manner, and provided value for money, the Authority considers the following points:
    i. the governance and controls of the DCC's business does not appear to have improved in any way from a User perspective, if anything Users saw more governance failures in RY17/18 than in previous RYs (though we understand this may be the result of probability due to increased activity) and the Internal Control and Risk Management Strategy documents have not been updated since August 2015 and October 2016 respectively. This is particularly clear when considering basic processes such as the Nominated Contacts list and other methods of DCC communication: the nominated contacts list as a process is a relatively well-supported control however, the distinct and continued lack of embedding means that this 'control' is absent from the DCC's business and Users incur a lot of waste as a direct result of this;

ii. skills and capabilities of the DCC were not perceived to have improved in RY 17/18 and it is our view that this is demonstrated by continual failures experienced within DCC activities across this Regulatory Year (for example, failure to deliver to plan, failed deliveries in terms of 'no Incidents' caused following deployments etcetera). In addition, the skills and capabilities for certain services are believed to have deteriorated within this Regulatory Year, especially those required for the DCC's critical relationships with their Service Providers (SPs). This is particularly apparent when considering Incidents which are not getting to the correct Service Provider via the DCC, that the DCC are not capable of explaining SP feedback in the DCC's Incident Reports or Impact Assessment documents, etcetera.

6. Reviewing the External Costs outlined in the Price Control Consultation, we would recommend that the following points are considered in the Authority's determinations of External Costs incurred for activities undertaken in RY17/18:

- **Testing Activities:** we believe that the costs incurred as additional External Costs for testing activities (including environments) have not been incurred economically and efficiently because these activities have resulted from DCC's underestimation at bid stage and/or as a result of poor planning for release delivery. Testing activities are part of the DCC's Mandatory Business and at the time of the LABP there were 24 Suppliers, the majority of which would have qualified for the original DCC User Mandate and should therefore have been logically expected to require the use of testing facilities. It is therefore our contention that the LABP ought to have included suitable costs for testing facilities required by the expected volume of DCC Customers. We note here that regardless of the LABP, the number of Suppliers and thus anticipated DCC Users requiring testing facilities increased significantly by December 2015 but only nominally thereafter, therefore the DCC ought to have anticipated any costs associated with additional testing facilities well ahead of RY17/18.
- **Additional Testing Environment and Base Station:** Much of the congestion experienced within the testing environments, resulting in the requirement for a second environment and generating the additional costs associated with the second Arqiva base station, were the result of poor planning and poor delivery. But for the delays to R1.3 and R1.4 in conjunction with the continued progression (in spite of Industry feedback) to the then unrealistic timelines for the delivery of R2.0, these costs would unlikely have been accepted as necessary and quite despite their materialisation R2.0 was further delayed, which renders them without the value for money that could have been expected to be achieved. In addition to this lack of value for money however, was the introduction of inefficiency and waste cost for DCC Users in testing.

  The second testing environment was the same Code as deployed in R1.3 and R1.4, thus it was subject to R1.3 and R1.4 defects. Consequently, two testing environments need to be updated following each defect-fix for the base-code, making the results of tests conducted on the defective Code ahead of fix-deployment unreliable, thus warranting re-tests to ensure that the scenarios previously tested remain 'proven'. Such additional burden creates duplication in costs for Users and the DCC which are avoidable, especially where additional Firmware is required for defect-resolution following release deployment. This not only introduces further testing costs, generating additional congestion, and Incidents in Production where the Firmware quality is suboptimal (especially where site visits or metering system replacements are required), but is also disruptive to the operational activities of DCC Users and can result in consumer complaints for poor consumer experiences. We therefore view the consequences of such haste in DCC's release planning, readiness and delivery, detract significantly from the value for money that their activities generating additional External Costs provide. Again we note our sympathy with the DCC here, but we do not believe that arbitrary dates should result in insufficient deliveries that perpetuate the requirement for additional changes and burden Users and their consumers with avoidable costs. We would hope that going forward, costs associated with work undertaken in the absence of adequate Industry engagement and solid delivery plans are assessed in terms of economic efficiency.

- We would also request that the Authority consider the potential waste inherent in these costs if plans materialise to decommission these solutions in favour of alternatives. We are mindful that the determinations made within one Price Control cannot be overturned at a future point in time and would seek assurance that these determinations also consider value for money over time. Where these costs have been incurred as part of a short-term solution that is to be replaced at yet further cost, the duplication cannot be considered economic or efficient. **User Integration Testing (UIT) Charges:** the increase in UIT charges resulting from an extension to the 12-month term of the original contract, is something which we believe was foreseeable and should have been included in the forecasts for RY17/18 within the Price Control submission for RY16/17. It is our view that the DCC had the visibility required concerning the R1.3 and R1.4 delays, to both assess this risk and forecast the associated costs within their Price Control submission in July 2017.
- **Cloud Service Procurement: we believe that** External costs associated with the implementation of a Cloud Service warrant further examination. It appears very much as though the DCC incurred significant costs in RY17/18 pursuing a cloud-based solution as part of their 'Delivery Hub' to address their capacity issues, but to no avail. The reality is that DCC Users cannot be entirely sure how much cost was incurred with the progression of this activity, nor how much money has been wasted in the process since no cloud-based solution has materialised and RY18/19 has been fought with capacity enhancements following installation-impacting Incidents.
- **Readiness to Scale:** in October 2017 the DCC noted that an additional £50m was required for its Readiness to Scale project to support its operations to cope with mass roll-out. External Costs incurred within this £50m are unlikely to be either economic or efficient in our opinion, as we feel that these activities should have formed part of the LABP and are therefore the result of the DCC's underestimation of services and operations required to support mass roll-out. To date, there has not been a significant increase in the volumes of consumers or consequently smart metering systems that the DCC is obliged by its licence to provide communications services to, nor has there been any significant increase in the volumes or types of Service Requests that can be utilised in accordance with the Smart Energy Code since the licence award and we therefore feel that all such activities could have been reasonably anticipated at the time of the licence award.
- **Dual Band Communication Hubs:** the DCC has noted in its Price Control submission that material savings have been attained in the procurement of Dual-band Communications Hubs (DBCHs). To our knowledge Users have no visibility of such savings thus we must accept this to be true. However, in order for us to perceive that the contact costs are economic and efficient we would expect to see evidence that the DBCH contract is holistically better value

for money than an alternative contract would have been. To date we have not been privy to such evidence and note that alternative DBCHs providers may not have been subject to the same delays and thus may not have introduced the same level of consequential costs to Users. As such we would ask that the Authority considers whether the costs of the delays experienced as a result of this procurement choice would have likely been avoided had an alternative provider been procured.

- **Foreign Exchange Risk:** we would further ask that consideration is given to the point highlighted within the Price Control Consultation document concerning foreign exchange risks. We do not believe that this decision was made visible to Users and believe that the Authority ought to consider this decision in light of potential exchange rate risks posed by Brexit. We would also be grateful to the Authority if they would explain what will happen to costs allowed for this activity if the exchange rate changes and Users incur greater costs as a result; we understand that previous Price Control determinations cannot be reviewed at a later point and we would like to understand how the DCC are held to account for holistic, real-life, consequences of their cost decisions.
- **Costs Arising from R1.3/R1.4 Delays: i**t is our view that the delays and descoping activities that occurred with regard to R1.3 and R1.4 were the result of poor planning and were thus avoidable. We do not therefore believe that the costs associated with these delays were incurred economically and efficiently. Not only did these delays inflict additional, avoidable, waste costs on DCC Users and consequently their consumers by way of the time and effort of resource (including waste installer resource, testing etc.), but the sub-optimal delivery of R1.3 resulted in the procurement of an independent organisation simply to instruct the DCC in standard industry practice for System releases. The latter is not an economic nor an efficient cost in our view because this simply should not have been required; these activities are part of the DCC's Mandatory Business and thus should have been part of their core business. We therefore view this External Cost as waste cost that was the direct result of the DCC's underestimation at bid stage, rather than a valid 'new scope' activity that yielded value for money for DCC Users.

  We are not wholly supportive of the minded to position to accept External Costs for the delay to R1.3 and R1.4. It is our view that the CSPs could and should have used the time resulting from the delays, and the subsequent testing to ensure that their Systems and assets were interoperable with the DSP design. We do not believe that the activity undertaken by the CSPs during the delays and subsequent testing were economic and efficient because rather than providing value for money for DCC Users, they generated unnecessary costs and operational challenges for DCC Users in testing prior to, and in Production post R1.3 and R1.4 deployment. The shortcomings of the CSPs in this regard are evident not only in the many outages that occurred post these deployments for defect fixes for the CSPs' Systems and assets, but also in the volume of defects that are yet to be fixed.
- **Defect Resolution Change Requests:** we would also note that Change Requests are utilised by the DCC for defect resolution, as well as for activities that the DCC consider to be 'new scope'. We therefore seek assurance from the Authority that the Change Requests resulting in additional External Costs are validated by the Authority. We would not support the approval of additional costs incurred as the result of a defect as having been incurred economically and efficiently, and we would not expect that DCC Users or their consumers would be subject to such costs.

- **ITCH:** it is our belief that the value of these assets was in their use within R2.0 testing. The delays experienced by the DCC's Service Providers in producing these assets meant that they were unavailable ahead of the R2.0 DSP Code deployment and as such the costs incurred in developing these assets yielded no value to DCC Users, who were unable to realise any benefits within R2.0 testing and will not be able to realise any in R3.0. In addition, Users incurred costs (travel, accommodation, expenses etc) as a result of this delay that would have been avoided had they been delivered to plan. Given that no benefits have materialised from these assets it is our view that costs incurred for their development, once it could have been reasonably foreseeable that Users were unable to benefit from them were not incurred economically and efficiently. For clarity we note that while ever the extortionate costs of DCC-impacting SEC releases are preventing SEC changes from being introduced, there will be no R4.0 and thus no benefit will be attainable.
- **Experian Contract:** the DCC has experienced many issues with the accuracy of recording Registration Data Providers' (RPDs) data within the DSP, and of matching this data to the data sets used by the CSPs. It was believed that the DCC had contracted with Experian in an attempt to resolve these issues, however it materialised that the DCC had utilised the contract to validate the accuracy of the CSPs' data sets rather than resolving the issues they have with processing RDP data accurately or matching the RDPs' data to the CSPs' data. The value of this contract to Users was three-fold: where RDP data is recorded accurately within the DSP systems the current failures the mismatching inflicts on Users would have ceased (e.g. CoS events, installations etc will no longer fail as the result of DSP holding inaccurate information); the alignment of RDP and CSP data would have permitted Users to match their data with the CSP data via an agreed matching algorithm that permitted compliance with SEC obligations around installations in accordance with the SM WAN Coverage Database, and DCC Users would have accurate and valid CHs charges. The outcome of the contract was unfortunately no more than a statement to the effect of the CSPs' data being valid, which means that the issues necessitating the procurement in the first instance remain unresolved and thus this activity failed to provide any value for money and may be considered waste cost in its entirety.

7. We welcome confirmation that the forecast costs for the Communication Service Provider North (CSPN) for the remainder of the licence term, do not include costs for any network enhancement resulting from the amendment made to the RF noise limit within the Intimate Communications Hub Interface Specification (ICHIS). We note here that we could not endorse any such forecast as being economic or efficient as alternative solutions were not explored despite industry requests. Additionally, the proposed solution implemented by the DCC was not proven as having no impact on the network or its performance via testing ahead of the amendment being made to the ICHIS (as per SEC Section H12.9 (a)). Although we understand the pressures that the DCC faced with regard to this matter, especially considering their obligations under clause 11.3 (a) of the SMC Licence, we do not believe that DCC Users and their consumers ought to be subject to uneconomic charges because due diligence and best practice were negated in haste.

Question 2: What are your views on our proposals on DCC's Internal Costs?

8. It is difficult for any DCC User to provide an informed assessment as to whether the DCC's Internal Costs have been incurred economically and efficiently because the costs are simply not

transparent, in either financial terms (e.g. a business case for the costs incurred) or in activities (i.e. what costs have been incurred in RY 17/18 under Internal Costs). In addition, we are unable to match the variations provided within the Price Control consultation because the figures provided do not match either the forecasts provided within the Price Control decision for RY 16/17, the values contained with the DCC's Charging Statements, or those contained within the LABP. As such we would request some clarification from the Authority with regard to the values contained within the Tables and Figures of Section 3, with explicit reference to the inclusion or exclusion of costs for CHs in the values noted from the LABP.

9. Users do not have full visibility of the justification that DCC provide to the Authority for forecast costs, and are rarely provided with a cost-benefit case for any spend-decisions made the by the DCC so it is difficult to provide an informed view on costs to be disallowed due to lack of justification. That said we are supportive of the approach that the Authority takes with regard to information requirements, as set out in the Regulatory Instructions and Guidance (RIGs). Consequently, we support the proposals to disallow forecast costs from RY20/21 to the end of the licence term on the grounds of lack of justification. Further, where such disallowance pertains to the costs of FTE we are fully supportive of the proposal; the LABP gave that the DCC would have 109.6 FTE at 'go-live' and 95.4 FTE at 'service stabilisation'. Whilst we appreciate that some additional FTE are required for activities introduced post-LABP (e.g. CRS) we do not believe that forecast costs ought to be permitted for FTE that cannot be justified, when we too would expect to see increased efficiencies in future forecasts.

10. We additionally note that we would not accept costs that are the result of the DCC's underestimations at LABP as economic and efficient; the LABP is what the DCC committed themselves to as a condition of being granted the SMC Licence. It is for this reason that we believe that the comparison to the LABP is more relevant and important than the comparison to the forecasts contained within previous Price Control submissions. We further feel that the comparison to the LABP is more reliable because the figures are clear and transparent, whereas we struggle to match forecast costs from one Price Control document to the next (i.e. consultation to consultation decision concerning same RY, consultation decision to consultation of next RY), or to the DCC's Charging Statements. The deviation between these forecasts and the Prudent Estimate further makes such forecasts meaningless for Users, especially because the Prudent Estimate is more indicative of the Regulated Revenue at next Price Control than are the previous forecast costs.

11. We would seek assurance from the Authority that the costs associated with both the SMETS1 Programme and the 'Project to Business' Programme are being reviewed holistically in terms of their value for money. It is our view that continual delays and non-materialisation of changes that significant costs have been invested in, diminish the value for money such programmes may achieve. It would be interesting to understand how the benefits noted against the 'Project to Business' programme in 3.53 and 3.58 of the consultation document have materialised as these are not aligned with our experience in RY17/18.

12. With regard to Operations, Design Assurance, Service Management and Contract Management, we would ask that the Authority consider the following points in relation to the value for money achieved for the costs incurred in these costs types and any potential undertaking for any such costs that may have been disallowed:

- The DCC had to procure an external organisation to detail standard release activities/approaches. We feel that this is likely to detract from the value for money associated with some of these costs types, so it is important to confirm that the costs of this procurement have not been duplicated. There is still a lack of architectural knowledge of the systems that the smart metering infrastructure is reliant upon within the DCC and this is detrimental to the service that Users receive (e.g. delays to SEC modifications, and elongation to incident resolution and communication).

- As alluded to in the points relevant to R1.3 and R1.4 above, the early life support and transition to operations introduced additional costs to Users rather than providing value to them.
- A lot of potentially unnecessary costs appear to have been introduced to Users in RY17/18 with regard to DCC resource and delay resulting from the management of the FSP contracts (e.g. R1.2 CH disposal negotiations, CR184 etcetera).
- The DCC have not embedded some of the processes that it created for itself and this hinders the value of the service that Users receive (e.g. nominated contacts and impacts to User's ability to respond to outages).

13. With regard to costs incurred for procurement, we would ask that the Authority confirm that its considerations concerning economic and efficient spend includes the requirement for the contract in the first instance. We are not minded to concede that costs for procurement activities have been incurred economically and efficiently where the requirement for the procurement was driven through 'false-need' e.g. arbitrary dates that generated further costs rather than achieving value for money (such as with the Emulator procurement).
14. We would seek assurance that in its determinations concerning forecast costs, the Authority has considered the lack of SEC releases likely to materialise in RY18/19 and in RY19/20 as a result of DCC costs.
15. We support Ofgem's proposal to disallow the costs associated with the Technical Operations team for RY17/18. Not only is there limited demand due to limited value for the proposals that have been shared to date, the DCC has not communicated a business-case that justifies the cost of this team in terms of intended deliverables and benefits. For RY19/20 we would request that the Authority considers that the Technical Operations team has the potential to provide insights into the operation of DCC services on an end-to-end basis. These insights should support the identification of emerging issues and their early resolution, as well as industry-level and User-specific decisions.
16. We would request that the Authority also review any costs associated with Production Proving in RY17/18 and those forecast for the remainder of the licence Term. We note here that it is our understanding that a lot of money was invested in an interim (tactical) solution that was not subject to consultation, and did not materialise. Any costs incurred therefore have provided no value for money. In addition, the consultation providing the necessary SEC changes to grant 'permissions' for a Production Proving solution failed to provide a cost-benefit case and one has not been provided since.
17. We also support Ofgem's proposals to disallow all costs associated with the systems Integration work and note that not only is this part of the DSP contract as per OJEU 2011/S 165 273114, but that it is part of the milestone that ought to have been completed in RY16/17.
18. We were of the view that Shared Service Charges are excluded from Internal Costs in the Price Control consultation, therefore we would ask the Authority to clarify whether the Operations

cost centre (Appendix 3 of the consultation document) includes costs for the DCC's Service Desk, and if so whether these are a duplication of the costs incurred via Shared Service Charges.

Question 3: What are your views on our proposals on DCC's approach to benchmarking of staff remuneration?

19. If the Authority believes that this constitutes a fair and reasonable charge that permits the FTE costs incurred by the DCC to be considered economic and efficient (subject to them being value for money), then we accept this decision. We would however ask, whether or not this proposal has been ratified with the practices of organisations within Industry that have a large contractor-employee base e.g. Code Administrator Boards?

20. It would also be beneficial for our understanding of the value for money secured by these costs, where the benchmarking included a sufficient set of performance criteria/value for money metrics.

Question 4: What are your views on our proposals for Shared Services?

21. We are glad to see Ofgem's focus on this topic; it is something that has caused concern throughout RY17/18 (e.g. additional HR tools, multiple iterations of training for Service Desk, and the new audit function). We would however ask, that the Authority considers whether the service subject to Shared Service Charges (e.g. by Capita) yield more or less value than those provided by the DCC or its external service provider. We would ask that consequential changes to the SMC Licence form part of these considerations where the services provided by Capita are not of greater value; to our mind this would be the best way to secure economic and efficient costs without duplication.

22. We would have preferred to see a greater level of costs disallowed from the for the emulators contract; however we are supportive of Ofgem's proposal to disallow £0.151m across RYs 17/18 and 18/19. It is our view that similarly to T3 aerials, the costs incurred for emulators are waste costs. It was made abundantly clear to the DCC by multiple Users across industry fora and in consultation responses, that the use of emulators was insufficient. Ultimately, the choice to progress with emulators forced the known risks to materialise in R1.x releases. Hence not only did emulators fail to provide any value for Users, they actually generated additional costs for Users and DCC (the latter of which are of course passed back, duplicating the additional costs imposed on Users and their consumers).

23. We further support Ofgem's proposals pertaining to the Shared Service Charge disallowance for Switching.

Question 5: What are your views on our proposal to expect more robust evidence from DCC on how it has taken customer views into account in future price control submissions?

24. We are grateful to the Authority for permitting Users to address their concerns on this point within the Price Control consultation. This has been a long-standing concern for Users, one which is increasing in significance exponentially. It is our belief that the requirement needs to extend beyond the provision of evidence of how DCC have taken User views into account, to a requirement for DCC to ascertain and accord with those views. Time has demonstrated

continually that User feedback via Industry fora and consultation is not attended to by the DCC, even where improvements, efficiencies, and cost-savings could have resulted from such feedback. Furthermore we have seen increasing misuse of fora wherein DCC seeks approval for financially-impacting proposals from groups that have no vires to grant such an approval (e.g. SEC Operations Group and non-standard CH delivery process; SMDG and defect-benchmarking procurement), and worse we have seen multiple misrepresentations of apparent approvals based on the feedback provided in certain fora for such proposals (e.g. SEC Operations Group and the 'Transitional to Operations' proposals; TDEG and the Centralised Test Lab proposals etcetera).

25. We would welcome an intervention by the Authority with regard to the above, but would ask for this to be extended to address concerns:

that Users have with DCC costs overall, which as you are aware are now preventing Industry change under the SEC,

that the PMRs are not capturing all of the information that the SEC requires, and that Users believe is relevant to the performance of the DCC with regard to the future Operational Performance Regime (OPR), and

that the Performance Measurement Methodology (PMM) utilised by the DCC in populating the PMR does not fulfil the requirements of the PMR as contained within the SEC.

Question 6: What are your views on the processes that DCC should establish to enable meaningful customer input to decision-making?

26. Over the course of the last twelve months, we have observed the DCC initiating a series of activities to improve engagement with its DCC User customers. These DCC Board sponsored initiatives are driving a greater customer focus at different levels through the organisation, including Business as Usual service operations and major DCC-led programmes (e.g. SMETS1 Enrolment and Adoption). E.ON welcomes these initiatives, and we have actively participated in a range of different workshops and bilateral meetings with the DCC where this has been requested.

27. We welcome and agree with the Authority's proposals set out in Clauses 5.8 / 5.9 of the consultation document, and propose that the Authority considers the following :

- DCC to test and validate the benefits of any new innovation or enhancement proposal with its customers ahead of incurring any costs (without prejudice to the Elective Service process). Such an approach will help the DCC to forecast likely levels of demand for new services and solutions.
- DCC to consult with its customers directly, for any change to the DCC that would result in additional costs to its customers that exceed a reasonable threshold. We propose that this threshold be £500,000 to align with the threshold set-out in clause 6.8 (b) of the SMC Licence. We would further request that such a direction to the DCC require that the consultation decision published by the DCC includes consultation responses received in full, without amendment (except where confidentiality is indicated by the respondent), and that each consultation response receives a direct address from the DCC.
- DCC to engage with the Finance Sub-Committee currently being formulated by the SEC Panel for any change to the DCC that would result in additional costs to its customers that do not exceed the aforementioned threshold. We note that the current engagements made by DCC in Industry fora are not adequate and have been misused. As such we would request that

the DCC be directed to ensure that the Finance Sub-Committee be provided with the **full** costs of the proposed change, together with a clearly demonstrable/defined set of benefits to DCC Users, and any risks and mitigations that are relevant to permit the Finance Sub-Committee to accurately determine a view as to the cost-benefit case of the proposed change. We further believe that these requirements should be in place for the consultations that DCC issue to Users for changes above the cost-threshold.

- We would also ask that the Authority considers the potential that this group will have for future Price Controls. To our mind, it would seem logical and beneficial to have DCC Users able to submit information to this group that they believe in good-faith will be relevant to the Price Control for the relevant Regulatory Year, and for this group to retain logs of such information that may be made available to all DCC Users ahead of the Price Control consultation for the relevant Regulatory Year. We believe that this will address some of the issues that Users face with regard to information-loss due to the ex-post nature of Price Control. We further believe that this will enable the Authority to understand User views with regard to both DCC costs incurred in the relevant Regulatory Year, and of DCC Performance where the Finance Sub-Committee liaise with either the SEC Operations Group or the SEC Panel over the accuracy of Performance Measurement Reports[1]. We additionally request that the Authority liaises with the SEC Panel to ensure that the Terms of Reference for this group reflect its ability to approve to DCC changes; that the relevant Non-Disclosure Agreements are in-place for this group, and that the envisaged purpose of this group is consulted upon to ensure Industry agreement for the vires this group will possess.
- May we also ask that in order to achieve the 'timely' and 'informed' criteria any direction to the DCC requires that they be mindful of congestion within Industry: of the 15 consultations, QFI, and RFI documents received within the last fortnight, nine are from the DCC. This level of additional work is, in our experience, prohibitive to adequate User-analysis and therefore hinders any meaningful input that may have been acquired at a different point in time.

28. We have included a diagram of our proposals as laid out above in Annex 1 for ease, and we note that our proposal envisages that the path of 'consultation' applies to all changes over £500,000 such that for a DCC-impacting SEC Release, the individual Modifications of said Release would have been consulted upon by Users individually as part of the SEC's Modification process, but that the requirement to consult with Users on the overall Release Implementation remains in place.
29. We would like to take this opportunity to clarify that there are a handful of individuals within the following areas that we feel are making efforts to acquire a User view, and so are unimpeded by the systemic/cultural issues within the DCC with regard to the points noted above: Regulation; SMETS1 Enrolment and Adoption; SSI improvements, and Testing. Consequently, we feel it necessary to note that our comments concerning the failings of DCC as a whole with regarding to User-engagement, do not undermine our appreciation of the efforts

---

[1] During a recent SEC Operations Group meeting, a request was raised for the SEC Panel to consider the potential for an audit of the DCC's Performance Measurement Reports (PMR). This audit is under consideration due to the majority of PMRs submitted by the DCC this calendar year having been found to be inaccurate in terms of the performance of the DCC and its contracted Service Providers. These PMR inaccuracies pose risks to delivery of Service Credits to DCC Users, and could cause difficulties for the accurate determination of Baseline Margin Adjustments by the Authority.

being made by these few individuals. It is important to us that these individuals understand that their efforts are recognised, and that we are grateful for them. It is a shame that this is not the standard practice of the DCC, especially considering that it is a monopoly provider whose current level of service is not something that we would accept from contracted service providers.

Question 7: What are your views on our assessment of DCC's application to adjust its Baseline Margin?

30. It is not clear to us from the information provided within the consultation document what changes have occurred within each of the cost sub-drivers, how they are materially different from those of the last RY, or which could not be reasonably foreseen at the point of the licence award and thus qualify for a margin adjustment. We are however generally supportive of Ofgem's position, and note that our views concerning the following sub-drivers have been provided within questions 1-8; we would again ask that these are considered by the Authority within its determinations:

    Multi-release (5, 6);
    Scope of Support (6, 11);
    Service Standard Expectations (11, 12, 35, 36);
    Resource Planning and Management (5, 6, 7);
    Support (6, 11, 12);
    Increase in Customers (6);
    Increase in Test Participants (6);
    Tech Transformation Programme (4, 5, 15);
    Increase in Devices (6), and
    Increase in Key Suppliers (6)

31. Whilst we are sympathetic to the changes highlighted under the driver 'Regulatory Change', we note that we do not believe that these could have caused material difference. Users are subject to the same increased work-load to accommodate these regulatory changes and we have not applied any consequential charge increases because these changes have not been significant enough to warrant any such increase. Consequently we fully support the view of the Authority on these proposals.

32. We also note that we fully support the Authority view with regard to the 'Compliance Volume Increase' sub-driver; the 'Strategic Procurement' sub-driver; the 'Moving from the Government-Let Transition Phase' driver, and the 'Operational Change' driver. A specific concern we have with the latter is the supposition that there has been a significant, unanticipated change in customer expectations and we comment further on this below.

33. We would ask that the Authority ensure that there is no duplication in costs requested for External Contract Gain Share and the 'Finance roles' for which an Adjustment has been requested, where the DCC respond to the Price Control consultation with additional information pertaining to the Adjustment requested.

Question 8: In its submission, in support of its application for an adjustment to its Baseline Margin, DCC states that there has been a significant unanticipated change in customer expectations, and in customer and service provider demands. What are your views?

34. With regard to RY17/18 we cannot support the view that the DCC has provided to the Authority. It has been our contention throughout the various Releases that DCC has underestimated the service that Users require, and that Users are expecting nothing more at this stage than standard practices that ought to have been accommodated within the LABP or the business plans for additional mandatory business (e.g. CRS).

35. The services received from DCC within RY17/18 have been sub-optimal, even in meeting the standard requirements that Users could logically have expected to receive with regard to Mandatory Business. The only known changes in User expectations have materialised in the SEC Modification process, and as aforementioned these are yet to materialise.

36. We would be happy to provide more detailed feedback to the Authority if it can share the detail behind the claims made by the DCC with regard to unanticipated changes in customer expectations and demands.

37. With regard to the demands of the Service Providers, we note that the DCC is required by its licence to manage these contracts to ensure that the costs incurred for its services are economic and efficient. E.ON believes only the Authority can determine whether this has been met as part of Price Control. Unfortunately, DCC Users have no visibility of the demands of Service Providers and cannot therefore provide any detailed insight on this matter.

Question 9: What are your views on our assessment of DCC's application for External Contract Gain Share?

38. We are happy to accept Ofgem's position with regard to the External Contract Gain Share requested by the DCC, though we would ask that the Authority confirms that it is satisfied that the portion of the £13.204m to be saved by Users is not exceeded by the costs incurred by Users for DCC to achieve this saving. In addition, we would request confirmation that the 'efficiency gains' pertinent to the Fixed Operational Charges of the Data Service Provider (DPS), are not responsible for the high volumes of outages caused by the DSP throughout RY17/18 or RY18/19.

Question 10: What are your views on our proposal on DCC's over-recovery of revenue?

39. We agree with the view of the Authority with regard to DCC's ability to reasonably predict the increase of meters being connected (e.g. 'Project to Business' and 'Readiness to Scale'), and its ability to undertake accurate forecasting of interest income (in accordance with the Authority's feedback in the Price Control decision for RY16/18).

40. In January 2018 the DCC had to make reductions to charges incurred until March 2018 as a result of its previous over-recovery; the meter volumes in the Charging Statement published in March 2018 however were the same as those contained within the Charging Statement

released in December 2016. It is therefore our view that the DCC additionally had ample opportunity to amend its March 2018 Charging Statement to accommodate for the foreseeable increase in meter volumes. We further feel that the DCC had the time and opportunity to adjust their March 2018 Charging Statement to accommodate the decrease in Allowed Revenue that was communicated as a minded-to position in December 2017 and a final determination in February 2018.

41. We also agree with the approach taken to pass-through costs which are outside of the control of the DCC, though we would be interested to understand why there is no mechanism in place to return this money to source such that this does not perpetuate the issue of interest income received.

42. We are surprised by the Authority's minded-to position in respect of the over-recovery in RY17/18, especially considering the recurrence of points that afflicted RY16/17. Where the Authority is confident that such a determination would not set an uncomfortable precedence, we are supportive of its position.