



## DCC Price Control: Regulatory Year 2018/19

### **Question 1**

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

1. Whilst we appreciate there are commercial reasons why Ofgem cannot share full details of the DCC's submission with stakeholders, it does mean that we cannot fully assess whether the DCC is offering value for money and whether costs have been economically and efficiently incurred. Further, the figures provided do not match either the forecasts supplied previously, the values contained within the DCC's charging statements or those contained within the Licence Application Business Plan (LABP).
2. In paragraph 2.7 of the consultation, Ofgem notes that External Costs are significantly higher than either last year's forecast or the LABP for External Costs, in particular CSP-N. We are concerned about these continued increases in costs, which demonstrate a greater need for transparency and for Ofgem to apply controls robustly.
3. We would point out that Change Requests raised during the year were not as a result of change of scope, but as a result of DCC's failure to understand what was required. The industry has done everything it can to explain the requirements; however, in many instances DCC failed to take a number of elements on board, which has resulted in changes having to be made.
4. We believe that DCC and its Service Providers must improve their forward forecasting.

### **Question 2**

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

5. Given the remuneration rates apparently being offered by the DCC, it is important that it secures suitably skilled and experienced resources which can support delivery or operational activities immediately after being on-boarded. If DCC has offered remuneration rates equating to the market average for permanent staff and higher than that for some contractors, we do not believe that the DCC has evidenced it is getting value for money. It is possible that this is due to lack of suitable resource outside of London, and higher costs within London.
6. We do not believe that the DCC has sufficiently outlined projected headcount and allocations to individual projects. The current cost centre detail does not provide the level of granularity that is required.
7. Additionally, the volume of work expected to be delivered by the DCC is projected to change significantly beyond 2021 as the Enrolment and Adoption process concludes. We are concerned that no projected headcount forecasts have been provided for the periods beyond RY19/20.



### **Question 3**

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

8. We wholeheartedly agree with Ofgem's proposal. This is an example of where DCC has failed to take on board feedback from the industry, despite it being escalated to executive level. The industry view was that the issue was the result of people and process issues and that a KPI Dashboard was unnecessary.

### **Question 4**

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

9. We agree with Ofgem's decision to disallow the forecasts of SMETS1 internal costs of £28.436m for 2021/22 onwards. The decision to restructure the SMETS1 programme was taken by the DCC themselves and only subsequently communicated to industry parties. Given that the DCC LC13 plan has subsequently been the subject of further re-planning exercises in RY19/20, we are unclear whether this restructuring has actually delivered the operational benefits expected.
10. We have concerns, however, that Ofgem may, on receipt of further information from DCC, decide to allow these costs. It is important that Ofgem consults before doing so and provides sufficient information to allow industry to consider whether such allowance is justifiable, and challenge where it is not believed to be so.

### **Question 5**

***What are your views on our proposed position on DCC's operational performance?***

11. We have significant concerns about DCC's operational performance and believe it is possible, even probable, that Ofgem should disallow more. Without full sight of DCC's submission, however, it is impossible for us to challenge in a meaningful way.
12. The continuing performance of the Communication Service Providers (CSP) continues to give cause for concern, particularly given the key stage that the smart meter rollout process has reached. We believe it is vital that the DCC considers the valuable lessons learnt inputs from the ramp-up in SMETS2 installations. Such a process is likely to help identify efficiencies and other opportunities ahead of the significant SMETS1 enrolment activities that are due to progress at scale from the beginning of 2020.
13. One particular concern we would like to raise is around DCC/CSP Change Implementation; this regularly impacts Live Service from 8pm, which we would consider core hours for PAYG customers vending. We would recommend a review to manage this better to provide a better service to customers.
14. There is a lack of transparency in DCC/CSP reporting, in particular results of incidents and problem management, which are not published in a timely manner.

15. We do not believe DCC is making the best use of its Technical Operations Centre, which could proactively improve performance of individual service users and improve the wider infrastructure for all.

#### **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?***

16. We have continually raised concerns with DCC about the failure of some CSPs to deliver their contractual obligations. Despite these continual failings there has been no enforcement activity to incentivise DCC to act. Some examples are provided below.
- Unstable Arqiva/EDMI comms hubs used in early SMETS2 rollout pilots were unstable and likely to drop off the HAN/WAN after seven days. E.ON queried, chased and escalated with no progress, therefore requested collection of the hubs from E.ON in September 2018. Apart from being quoted the SEC stated costs for these assets, which are unacceptable, we are still no further forward.
  - E.ON has raised (via industry fora, predominantly Top/Common Issues), two major challenges impacting credit and prepay customers; the impact for prepay is materially different than for credit. These issues create customer issues, including disconnection of supply as top ups cannot be processed. Some progress has been made, but it has taken significant effort and taken too long. A further issue impacting prepay customers in particular is the frequency of SEV1/2 incidents, where there are delays in issuing incident resolution comms and misleading information to industry fora on the time that install activity was impacted by outages. Prepayment customers must have a reliable service.
  - There are multiple examples of costs being passed on to Users which we would have expected DCC to have successfully challenged with CSPs, e.g. being charged for testing comms hubs to replace faulty hubs and return of faulty hubs. We need to see evidence of such costs being challenged with CSPs.

#### **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?***

17. We agree there is a need to review the Operational Performance Regime. We have seen missed KPIs month on month, but these appear to lead to no remedial action. Without actual enforcement, there is little incentive for DCC to act.
18. We believe that the current incentives are primarily focussed on the timely delivery of large-scale programmes and initiatives. While such incentives are applicable, they must be balanced by comparable incentives to ensure the operation and maintenance of enduring services relied upon by DCC Users.

19. The continuing issues with the CSP-North service provider indicate that the current incentives regime may not be structured in a way that drives appropriate focus on the enduring service. Updates provided to industry forums suggest that the CSP-North provider has only reacted once senior level escalations have been initiated by DCC Users. Reviewing Table 4.1, neither measure SDM1a or SDM1b would appear to encourage the appropriate level of focus on the stability of the enduring DCC WAN service. Fundamentally, E.ON believes it is reasonable for DCC Users to expect the DCC and its Service Providers to be proactively identifying issues and instigating remedial steps, before such issues become visible or impact services delivered to energy consumers.
20. As DCC Users are directly impacted by the performance of the DCC and its Service Providers, it seems reasonable for the awarding of performance incentives to take account of the views DCC customers. Involving DCC customers in this process would allow for practical operational observations and insights to be considered alongside the evidence presented by the DCC.
21. This is an important issue, and one which we believe deserves discussion between Ofgem and the industry. We strongly recommend that Ofgem sets up a meeting for this purpose.

#### **Question 8**

##### ***What are your views on our proposed position on DCC's project performance?***

22. We have no concerns with Ofgem's proposal. We agree with Ofgem's statement that DCC has performed poorly in meeting the milestones.

#### **Question 9**

##### ***What are your views on our proposed position on DCC's switching performance?***

23. We agree with Ofgem's proposed position.
24. We have concerns about the level of competency within DCC to deliver the switching programme. We believe the DCC has insufficient awareness of the industry. Focus to date has been on the 'happy path', i.e. where things occur in an orderly and text-book fashion; the programme must take into account exceptions that can occur in order to ensure the programme delivers what is required.
25. We continue to believe that the DCC must take opportunities to adopt lessons learnt from other larger programmes that are already well advanced. The SMETS1 Enrolment and Adoption programme is likely to offer valuable learnings, including factors associated with the programme plan, programme structure and likely resourcing levels required.

#### **Question 10**

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

26. We agree with Ofgem's assessment to disallow the range of requested increases as outlined in the consultation, and in particular:



- With regard to Increase in Demand for Customer and Stakeholder Engagement; we agree with the assessment that DCC has only just begun to meet the demand appropriately, where previously there was an engagement deficit.
- With regard to Investing in Business Process Volume Management; we agree with the assessment that it does not meet the conditions for a Relevant Adjustment given in the supply licence.

#### **Question 11**

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

27. We recognise the need to balance incentives to deliver efficiencies with ensuring appropriate cost pass-through. It is our view that under the relevant licence condition it should be incumbent on DCC to deliver as efficiently as possible, and therefore the priority should always be to maximise effective delivery of the national infrastructure and minimise unnecessary costs for end consumers.
28. We agree with the decision to reduce the Baseline Margin adjustment by an amount proportionate to the decreases in costs identified by Ofgem.
29. We believe that any additional consideration should be made only where it can be clearly evidenced that the margin is associated with actual costs incurred and that those costs were incurred in an economic and efficient way.

#### **Question 12**

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

30. Whilst we recognise Ofgem's judgement that DCC's application is (in the main) duly made within the terms of ECGS, we believe that, particularly in the current market, under the relevant licence condition, it should be incumbent on DCC to deliver as efficiently as possible, and therefore the priority should always be to maximise effective delivery of the national infrastructure and minimise unnecessary costs for end consumers. This is best done by ensuring that all cost savings and efficiencies are passed back to end consumers through the charges to suppliers.