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Via email DCCregulation@ofgem.gov.uk

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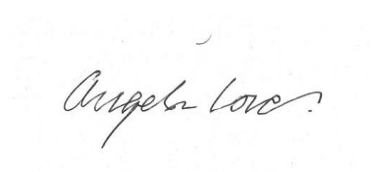
Ofgem Consultation – DCC Price Control Regulatory Year 2023-2024

Dear Arno

The Smart Energy Code (SEC) Panel is pleased to have the opportunity to respond to Ofgem's consultation on the Data Communications Company (DCC) Price Control for the Regulatory Year (RY) 2023 – 2024. We have set out our responses to the consultation questions below.

We would be happy to engage further, to assist with any clarifications. Please do not hesitate to contact SECCo Head of Industry Operations, Jason Jason.stevens@seccoltd.com.

Yours Sincerely,



Angela Love
Chair – SEC Panel

DCC Price Control Regulatory Year 2023 – 2024

Before responding to the specific questions posed in the consultation, we would like to draw your attention to the role that the SEC Panel and its Sub-Committees play in decisions relating to the DCC.

The SEC Panel and the Sub-Committees are generally asked to consider specific aspects of DCC programmes, these being operational, technical, security or testing elements. As SEC engagement is limited to these specific aspects there is no consideration of programmes or changes in their entirety. The information that is provided to the Panel and Sub-Committees by DCC does not include financial elements and accordingly, the SEC Panel and Sub-Committees do not provide any consideration of the costs or a costs benefits analysis. The SEC Panel and Sub-Committees therefore do not presently provide any views on whether the changes are value for money.

We would therefore suggest that the SEC Panel and Sub-Committees' lack of visibility of financial aspects should be kept in mind by Ofgem. It is also relevant to note that in terms of responding to Ofgem's assessments and decisions relating to the DCC Price Control regime, neither the SEC Panel, nor any of its sub-committees have any visibility of the evidence that the DCC provides to Ofgem to justify its costs or spend. As such, this makes it extremely difficult to assess whether or not we agree with any of Ofgem's proposed determinations.

The SEC Panel Programme Assurance Policy (PAP), which was developed by SECAS, should result in improved engagement by the DCC with the SEC Panel, as the DCC uses the principles set out in the policy for all future projects. The procedures set out in the PAP should provide the opportunity for insight into DCC costs and limit the development of solutions, where the Panel lacks the requisite oversight and consideration. Unfortunately, this is not applicable to the regulatory year under consideration but will be in future regulatory periods.

Under the ex-ante hybrid regime and in the future enduring governance envisaged by the Ofgem's Code Reform proposals we expect the SEC Panel will have additional knowledge and input into the price control assessment.

External Costs

Questions Question 1: What are your views on our proposals to disallow all of the costs associated with the ECoS monitoring solution and integration cyber security programme?

We note that Ofgem are proposing to disallow all the costs associated with the ECoS monitoring solution and integration cyber security programme as that there was no engagement with the SEC Panel or Sub-Committees in this regard. We can confirm that the DCC did not bring any formal changes that relate to providing audit data directly to the Security Operations Centre (SOC) and the Technical Operations Centre (TOC), to the TABASC. However, the Security Sub Committee was made aware of the improvements to the SOC and that the DCC would benefit from monthly DCC Threat Reports produced by the SOC as a consequence of the changes made by the Change Request (CR). The DCC also agreed to share the report with the SSC.

The actual costs and benefits analysis was not shared or discussed with the SSC or TABASC and we are therefore not in a position to determine whether these costs have been fairly incurred.

We are of the view that there should have been more engagement with SSC and TABASC on the proposals.

Question 2: What are your views on our proposed cost disallowance of up to £0.600m in relation to SMETS1 service stabilisation?

We agree with your consultation which indicates that issues around SMETS1 have been considered in a number of previous years, as follows: “...we are concerned about the costs of continued delivery, inconsistent service provider performance and DCC’s ability to drive value for money by holding its supply chain to account...” We believe that these issues should have been addressed by the DCC in the years since the go-live of the SMETS1 solutions, for the migration of the various cohorts. We are of the view that the SMETS1 stabilisation issues are yet to be resolved and are concerned that this will result in additional costs for future years.

We understand and agree with Ofgem’s minded-to position, to accept DCC’s justification in respect of costs required to deliver operational capacity improvements. These are costs that are reasonable to incur to ensure stability of the system and increase the capacity of the DCC Systems to meet current and future demands.

For the costs associated with defect fixes and DCO operational incidents, we are of the view that it is reasonable to disallow these costs where they have not been incurred economically and efficiently. As stated above, many of these issues derive from the solution that was implemented. We agree that the DCC should be using the contractual levers at its disposal, to ensure that its service providers bear these costs.

From the content of the consultation, it is apparent that the reason for some of these costs lies with DCC’s service providers. In the absence of any such evidence that the DCC is endeavouring to limit the costs to Energy Suppliers and consumers, we believe that it is reasonable to disallow some of the costs and would expect that these should be absorbed by the DCC’s Service Providers through contract management. Please note as above we are not privy to any information that would allow us to ascertain whether the DCC has provided valid evidence or not.

We agree that costs expended on enduring certificate rotation and payments for legacy work should be disallowed in full. Our reason for this view is that these are issues that arise from the DCC’s contract management and should not fall to Energy Suppliers and ultimately consumers to fund.

Question 3: What are your views on our proposal to disallow up to £2.481m of costs incurred on the device swap-out project?

We agree that the costs of Device Swap Out should be disallowed. The DCC seeks to use a regulatory obligation as a reason for these changes, however, it is important to note that the regulatory obligation to provide a Device Swap Out facility is not a new regulatory obligation, but a general obligation that exists for all Devices on the DCC System. The ability to provide for Device Swap Out should have been incorporated into the initial SMETS1 design. If this had been done, none of the additional expenditure would have been required.

The consultation indicates that the DCC undertook work “...without the contractual change being signed by DCC and the service provider....”. We would suggest that this is a risky approach, as it is apparent that the DCC was undertaking work without an underlying agreement in place. This work was undertaken via a Change Authorisation Note (CAN) for which the DCC bears the risk if something goes wrong. As this was a regulatory obligation which the DCC was not complying with, and they undertook this work without having signed contractual obligations in place, we are of the view that these costs should not be passed on to DCC Users and consumers.

Question 4: What are your views on the following proposed disallowances in relation to increased charges for the SMETS1 interim DCO contract: (a) £0.437m of operational costs incurred in RY23/24 above the indexation adjustment applied on the base contract, and (b) £9.029m in unjustified forecasts over the Licence term?

It is concerning that there are additional charges above the base contract charges, without DCC providing any reasonable justification for the increase. We are of the view that these are baseline costs that the DCC should have been aware of at the time of contract signature and the DCC should not merely pass on these costs to DCC Users and ultimately consumers. We believe that the DCC should be using its contractual levers to ensure that its service providers deliver a service that complies with the obligations in the existing contract without any unjustified increases in costs. Without any such justification, we are of the view that it is right to disallow such costs.

Question 5: What are your views on our proposal to disallow all costs of the procurement of a replacement DCC Service Management System (DSMS)?

We agree with the proposal to disallow all costs of the procurement of a replacement DCC Service Management System (DSMS). The DCC did not follow the process set out in the DCC Licence Condition 16 which resulted in the accumulation of unnecessary costs. DCC Users and consumers, should not be paying for costs incurred by the DCC where they did not comply with their licence obligations. We would encourage Ofgem to carefully consider whether there are any internal costs that are associated with this nugatory work that should also be disallowed.

Question 6: What are your views on our proposal to disallow £0.515m of costs associated with operational issues and defect fixes within the implementation of an updated version of Great Britain Companion Specifications (GBCS)?

We agree that costs associated with operational issues and defect fixes within the implementation of an updated version of Great Britain Companion Specifications (GBCS) should be disallowed unless the DCC can provide evidence that the costs were efficiently incurred.

When the Testing Advisory Group (TAG) considers the testing that has been done by the DCC, part of the consideration is of a defect mask which are thresholds that are applied as part of the exit criteria for the relevant test phases. The defects are considered per provider at the exit gate.

Where it is agreed by TAG that the DCC can exit the gate following consideration of the defect mask, it does not mean that TAG agrees that the defects should be rectified and paid for by Users. The agreement is purely that following consideration of the severity of the defects, the DCC should be allowed to exit the specific testing gate as the defects are not (in many cases) viewed as being critical.

Where the defect is due to a design error, it should be the DCC that covers the cost of any remediation and therefore should not be passed on to Users through charges. Where the defect is due to a DCC service provider incorrectly implementing the DCC design, it should be the DCC Service Provider who bears the costs of any rectification, which should not be passed on to Users through charges either.

To be clear, we are of the view that where there is a defect, DCC Users should not be incurring any additional costs, as changes should be made by the DCC or its Service Provider fixing its error. In the circumstances of defects related to GBCS, the costs should be covered by the DCC which, where appropriate they can recoup from their Service Providers.

Question 7: What are your views on our proposed cost disallowance of £0.740m related to delays in the TAF programme?

We agree with Ofgem's proposal to disallow £0.740m related to delays in the TAF programme.

At the SEC Panel Test Assurance Group (TAG), the DCC indicated that the reasons for the delays were due to overheating of the lab, overwhelming the lab's power supply, and the need to reconfigure the lab to allow more room. We are of the view that these impacts were all reasonably foreseeable and the TAG flagged these as potential issues to the Panel and the DCC early in the programme lifecycle. Provision for these activities should have been made earlier in the programme, which would have reduced the impact of the delay and costs.

Question 8: What are your views on our proposal to disallow £11.347m in forecast FSP External Costs?

The DCC needs to ensure that its forecasts are justified, economic and efficient as it sets the baseline for costs for future Price Control regimes.

We agree with Ofgem's decision to accept DCC's Fundamental Service Provider (FSP) forecasts and disallow £11.347m in forecast FSP External Costs.

Regarding the Ofgem position relating to the cloud solution, we believe it makes sense to allow future costs where the DCC is making some costs saving and allowing the DCC to improve its solution.

Question 9: Do you have any other views on External Costs?

Costs for Code Modifications

Modifications are approved by the SEC Change Board, based on the costs provided by the DCC in the Final Impact Assessment (FIA). This is an important aspect of consideration as to whether the costs of the modification justify the change that is being sought. We have seen evidence of repeated estimations of costs associated with modifications which are considerably lower than the final costs incurred, and this is impacting the SEC Change Board's ability to justify changes. We wish to highlight these for Ofgem's attention'. The table1 below sets out the initial cost of a release, compared to the final costs.

Table1 indicates a substantial difference between the anticipated costs and the final costs once the modification has been implemented. For the November 2023 release, the actual cost of the release is three times the forecast costs. For the June 2023 release, the difference is more than ten times – the justification provided for the significant increase is that there was increased scope.

It is important to note further that TAG does not have sight of any regression testing costs associated with SEC Releases. This is an important consideration, as regression testing is what has been presented as the cause for these increased release costs. We are of the view that these increased

costs should be examined by Ofgem as part of this price control to ensure that the significant increase in costs are fully justified and have been economically and efficiently incurred.

Releases from previous years are also included in Table1 to demonstrate that the increase in costs for both releases is not an unusual occurrence, but that the final costs of a release are always more than forecast. This is particularly impactful for change board decisions where costs form part of the careful consideration of whether a mod should be approved or not. As the costs provided by the DCC are not the full costs associated with a modification, it makes it very difficult for the change board to make a considered decision on the evidence that is presented.

This issue has led to the SEC Panel having to implement a Change Benefits Realisation Project which is investigating the costs relating to SEC Releases.

Cost Variance Analysis

DCC Controlled – SEC Parties

Release Date	Initial Scope	Initial Cost	Additional factors	Final Cost
November '20	Initial scope had SECMP0062	£4.8m	Scope change and identification of testing required	£12.3m
November '21	Initial scope had 4 SECMODs	£20.7m	After factoring in identification of testing required	£38.4m
June '22	Initial scope had 3 SECMODs	£1m	Scope change and identification of testing required	£5.7m
November '22	Initial scope had 6 SECMODs	£4.1m	Scope change and identification of testing required	£4.8m
June '23	Initial Scope had 2 SECMODs	£280,241	Scope change and identification of testing required	£4m
November '23	Initial scope had MP122B	£1.2m	Scope change and identification of testing required	£3.7m

Table1

Internal Costs

Question 10: What are your views on our proposal to disallow a 50% proportion of the RY23/24 resource costs associated with the Network Evolution programme?

We do not have any insight into the details as to why there are significant additional costs when the activities largely mirror what was reported by the DCC in its RY22/23 submission.

Question 11: What are your views on our proposals on DCC's approach to benchmarking of staff remuneration for both contractor and permanent staff?

We note the Ofgem proposal not to propose any disallowances because of DCC's decision to exempt some roles from the benchmarking process. However, we are concerned about the number of roles that the DCC is exempting and would like to understand the correlation between the number for this period to the number for the preceding periods. If there has been a significant increase in exemptions, we would ask that Ofgem revisits this question and consider whether a disallowance would be appropriate.

Question 12: What are your views on our proposal to disallow a proportion of the costs linked to the activities that we consider not to have been resourced in the most economic and efficient way?

As a monopoly service provider to industry, we are of the view that all of DCC's decisions on its activity should be founded on the General Obligations in the DCC Licence to deliver its business in an economic and efficient way. While we do not have access to the finer details of Ofgem's proposal to disallow a proportion of the costs linked to the activities that Ofgem considers not to have been resourced in the most economic and efficient way, we would encourage Ofgem to meticulously disallow any costs that are not economic and efficient. If SEC Parties or SECCo can assist Ofgem in this regard we would be happy to discuss how we might be able to help.

Question 13: What are your views on our proposal to disallow costs directly associated with the Business Accuracy Programme?

As stated in our consultation responses to 2022/2023 and 2021/2022, this is an example where a lack of oversight and governance through the current ex-post Price Control mechanism appears to have enabled this cost to be incurred without appropriate oversight from DCC Users. As we do not have the same detail that is available to Ofgem on these costs, we are unable to give a definitive view on these costs.

Question 14: What are your views on our proposal to disallow forecast cost variances in RY23/24 and 24/25; and all baseline forecast costs for RY24/25 onwards?

The DCC forecast for future regulatory years should be based on evidence and an understanding of future requirements. This would include justification for any such increases. As the DCC moves towards an ex-ante method for the price control it becomes even more vital for the DCC to be accurate and have good evidence for its future costs.

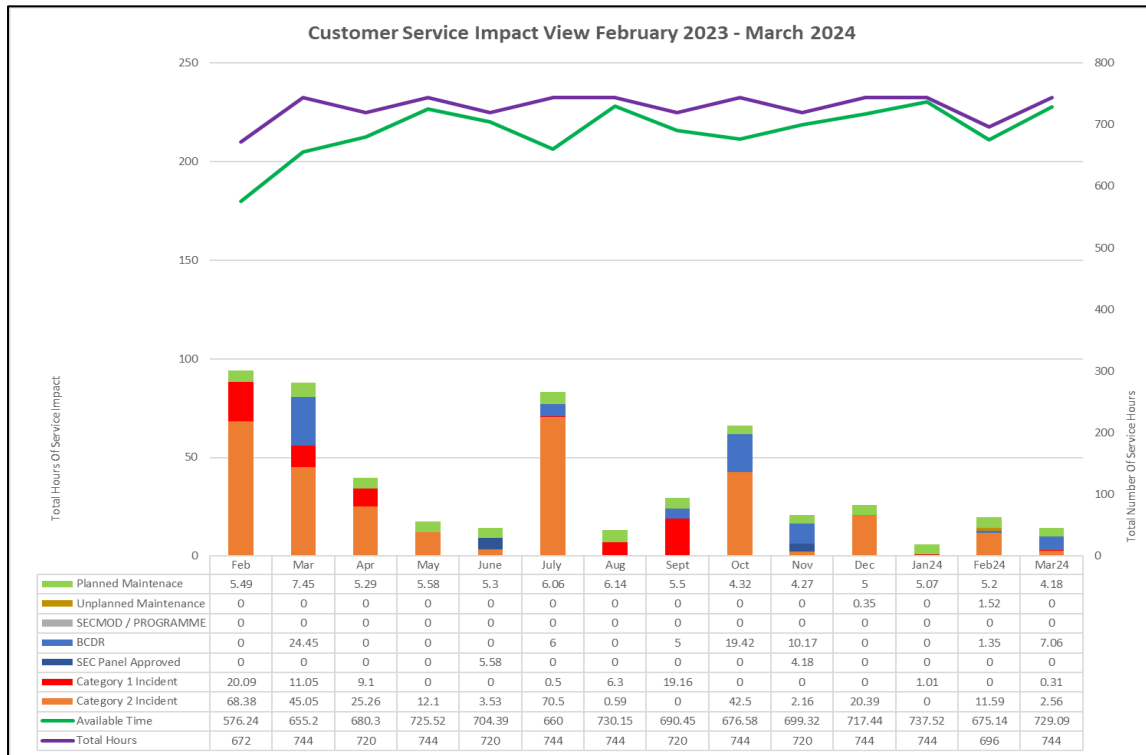
Performance Incentives

Question 15: What are your views on our proposed position on DCC's System Performance?

Whilst we understand the position reached by Ofgem, SEC Parties have noted issues with the SEC Performance Measures not reflecting the experience of DCC Users, which have been well documented and subject to Modifications since DCC operations commenced. With the implementation of Modification MP242 [change to operational metrics to measure on success](#), we believe that in future there will be a set of reports that will be relatable to the services that are experienced by Users. However, it is also historically documented, that the required changes to the performance reporting to include more accurate monitoring of User and Energy Consumer experience have not been made due to the high costs associated with Service Provider contract updates.

We also note that the current DCC Performance Measurement arrangements include the ability for the DCC and its Service Providers to declare 'exclusions' that mean the overall performance being reported in the Performance Measurement Report is unclear. The DCC started planning a review of the Performance Measurement Exclusion List (PMEL) in early 2024, noting that this document had not been reviewed since 2017, as a result, recent exceptions applied (or any removed) at this point in time are not formally recorded, which has therefore meant that the methodology used to calculate the individual performance measurements does not give industry assurance and therefore has not been endorsed by industry.

Based on the operational reports presented by the DCC to the OPSG, it is clear that the DCC System Performance has not run as smoothly or reliably as the formal Performance Measurement Reports (PMR) suggest. There were multiple service interruptions throughout RY 2023 / 2024 that have had direct impacts to DCC Users and Consumers, particularly those consumers paying for their energy using the smart Pre-Payment functionality. Whilst the level of Planned Maintenance events has reduced in RY2023 - 2024, the overall volume of Major Incidents and time lost, as a result of system changes and Planned Maintenance activity, continues to be a concern for DCC Users. The graphic below highlights the hours lost to Maintenance and Major Incident events. Major Incidents across Category 1 & 2 resulted in approximately 231 system availability hours lost in RY 2023 - 2024.



We welcome the reduced volume of planned and unplanned maintenance events, and the overall downward trend of service interruptions compared to previous Regulatory years, (43 Category 1 & 2 Major Incidents RY 2022/2023 versus 27 Category 1 & 2 Major Incidents RY 2023/2024). However, having been fully operational for several years, we expect that the DCC Service would be operating in such a way that service interruptions would be very much an exceptional event. We are very mindful of this, given the level of change in the coming year(s) through programmes such as the 4G Communication Hubs and Network programme, and transition to a new Data Service Provider. Whilst accepting not every eventuality can be foreseen, historically a large proportion of Major Incidents have arisen following the implementation of new systems and processes or maintenance activities with human error confirmed as the root cause. Whilst the DCC has undertaken several Change Management process improvement reviews (in an attempt to reduce service interruptions occurring during or following the delivery of system changes) the overall volume of Major Incidents and system outages has changed little, which is clearly unacceptable for a system as critical as the DCC network. DCC Users have expressed concern that the DCC has failed to put in place relevant controls across its entire Change Management function to mitigate the risk of disruption to existing services.

Operational Service Quality & Stability

The OPSG reviews the SEC, Code Performance Measures (CPM) every month, and whilst the majority of CPM were met in the RY 2023 / 2024. It should be noted that some areas of performance were consistently below Minimum and Target Service Levels during the period. Whilst these do not directly relate to the OPR measures, views are provided here for wider context of the operational performance status during the RY 2023 / 2024.

SEC Performance Measures

The DCC did not meet the Minimum Service Level for CPM 3A for Communication Service Provider (CSP) Central and South (C&S) for the whole RY 2023 / 2024 and CPM3A minimum service level was not met for the months of August and November 2023 for Communication Service Provider (CSP) North. CPM3A measures the percentage of Power Outage Alerts delivered within the applicable Target Response Time.

Performance Measures 1.1 and 1.5 were consistently below Target and for RY 2023 / 2024 for SMETS1 Service Provider (S1SP) DXC.

Throughout RY 2023 / 2024 Performance Measure PM2.1 was consistently below Target in CSP North. PM2.1 measures the percentage of Firmware updates completed within Target Response Times.

During the months April, July, August, September and October 2023, the DCC failed to achieve the Minimum Service Level for CPM 4. CPM 4 measures the percentage of Incidents (Category 1 and 2) resolved in accordance with the Incident Management Policy within the Target Resolution Time. The extended resolution time is concerning as the overall number of Category 1 & 2 Major Incidents saw a reduction, (43 Category 1 & 2 Major Incidents RY 2022/2023 versus 27 Category 1 & 2 Major Incidents RY 2023/2024).

Whilst these specific measures may not relate directly to OPR calculations, it is worth noting that DCC System Performance is not 100%, and as such the service provided is not without issue.

Quarterly Price Change Events

SEC and DCC have been working together on the Price Change Events to provide guidance to ensure that Price Change Events are undertaken without incident. Compared to the previous RY the Price Change events across RY 2023 – 2024 achieved improved results. Learnings from the prior year was applied, resulting in improvement in the delivery of Price Change events, with the January 2024 Price Change event noted as the most successful, with no Major Incidents reported.

Applying learning from prior events led to the improvements made, and ensuring Parties followed DCC guidance was noted as a critical factor. SEC Modification ([MP 253 - traffic-management for price cap update events user actions required](#)) proposed by the DCC in November 2023, to formalise obligations was subsequently implemented in November 2024.

Annual Outage Planning

An Annual Outage plan was agreed on 14 March 2023, and updates provided to the OPSG throughout the year. Visibility and awareness of the Annual Outage plan as far in advance as is possible, is essential for parties, for their own internal planning purposes, as it confirms when the DCC services are fully or partially unavailable. The DCC provided updates to the OPSG throughout the RY as and when DCC proposed changes to the agreed outage timings. These updates were presented and discussed by the OPSG and potential issues highlighted with the proposed changes. An Outage Plan was also presented, discussed, and agreed for the current RY 2024 – 2025 on 29 January 2024.

Communication Service Provider North (CSPN)

During the RY 2023 / 2024, the OPSG regularly raised concerns with the DCC over the level of service provided by the CSPN, for example at OPSG_97_2606, OPSG_101_2908, and OPSG_107_2711 where issues pertaining to performance in the CSPN were highlighted as below standard. These issues were CSPN PM2 *Percentage of Category 1 Firmware Payloads completed within the relevant Target Response Time*, Communication Hub Whitelist issues, and issues of the Communication Hubs losing connectivity post successful installation and Commissioning.

In response to a notable deterioration in the performance in the CSPN region experienced by DCC Users the OPSG commenced a significant piece of work to investigate and resolve issues in the last quarter of the RY 2023 / 2024. This included a review of the loss of communications post installation, and failures in the Install & Commission process. The DCC acknowledged its customers were experiencing difficulties in ensuring service delivery met expectations and committed to seeking improvements. At the end of the final quarter of RY 2023 / 2024, the OPSG escalated the issues to the Panel which then led to a formal escalation to the DCC in April 2024, to ensure suitable resourcing was made available to investigate thoroughly and engage with the CSPN. This work has expanded and continued in the current Regulatory Year and has been a priority for OPSG activities, with resolution to the issues ongoing. The issues relating to the CSPN potentially point to a lack of proactive contract management by the DCC. DCC Users expect the DCC to be carrying out ongoing checks and challenge with all of its Service Providers to ensure their performance is meeting contractual requirements, and the levels of service expected by DCC Users and Consumers alike.

Question 16: What are your views on our proposed position on DCC's Contract Management?

We agree with the conclusions reached for Contract Management and agree that the SEC audit report provides a comprehensive overview and insight into the ongoing management of the DCC service providers. We are pleased to see that progress continues to be made. The improvements on contract management are particularly welcome, as this has been a major concern of SEC Parties. Whilst welcoming the improvement it should be noted that the report does reference several new roles within the new Commercial Directorate and Contract Management teams following restructure and re organisation, which will contribute to overall internal costs for the DCC. It is unclear from the Audit report how the benefits versus cost for this large increase of FTE has been agreed and signed off. It would be helpful for the DCC to provide clarification.

We welcome the recommendations from the Auditor to address issues associated with the delivery of Preliminary Impact Assessment (PIA) and Final Impact Assessment (FIA), to the SEC timeframes for the SEC Modification process. SECAS and the DCC have been discussing ways in which improvements may be made including better informed business requirements for assessment, to reduce the number of clarifications, and instigating an initial "T-Shirt sizing" approach for PIA and FIA assessments. In recent months (outside the RY 2023 / 2024) improvements have been made, which we expect to continue for the remainder of the current Regulatory Year. We would note however that close attention needs to remain on this area such that the improvements are not lost with the transition to a new DCC Data Service Provider.

Question 17: What are your views on our proposed position on DCC's Customer Engagement?

As noted in the Panel assessment to Ofgem of the DCC Performance, the RY 2023/2024 there was a mixed view of Customer Engagement performance. The Panel is pleased with improvements in some areas, where the DCC has demonstrated that it is providing useful information, listening to, and acting on feedback. We look forward to seeing this approach extend to all areas of the DCC engagement with a more consistent approach for the current RY. The Panel therefore agrees with the proposed position Ofgem is recommending for Customer Engagement.

Baseline Margin and External Gain Share

Question 18: What are your views on our assessment of DCC's application to adjust its Baseline Margin?

It is incumbent upon the DCC to provide suitable evidence to Ofgem to enable the application to be properly assessed. In review of the details provided in the consultation, there appears to be a process failure by the DCC in relation to its application for the RY 2023/2024, resulting in aspects being rejected, that do not meet the requirements for an application under the Baseline Margin Adjustment. For example, activities to establish the new Licensee, including the Business Hand Over Plan.

Question 19: What are your views on our assessment of DCC's application to adjust its ECGS?

We do not have further insight to comment fully on the assessment for External Contract Gain Share (ECGS).

Switching Programme

Question 20: What are your views on our proposed position on DCC's costs associated with Switching?

Question 21: What are your views on our assessment of DCC's performance under the Switching Incentive Regime?

We note the proposed position but as the Switching Programme is outside SEC governance, we believe that it is not appropriate to comment on this area of DCC activity.