



DCC Price Control Consultation

Reporting Year 23-24

Smart DCC Response

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1. Executive Summary

We are pleased to submit our detailed response to Ofgem's proposals for RY23/24 and welcome the challenge and scrutiny of the annual Price Control as a means of ensuring that we deliver value for our customers.

We are also pleased that Ofgem has recognised that the majority of costs incurred by DCC in RY23/24 are justified as economic and efficient, along with acknowledgement of the improvements DCC has made this year, in particular the quality of reported cost data. However, we are concerned that, despite these acknowledged improvements, Ofgem is proposing significant cost disallowances that appear to be inconsistent with the regulatory regime.

Strategic and regulatory context for this review

DCC operates in a unique space within the GB Energy Market and sits at the intersection of government, technology and energy, managing different stakeholder demands to ultimately deliver benefits to consumers, customers and GB plc.

The smart metering system went live in 2016 and grew to one million connected meters by 2019. Since then, growth has accelerated and, by the end of RY23/24, there were over 30 million meters connected. Smart meters are now playing a critical role at the heart of a smarter, greener, and more secure energy system.

Since the Licence was granted in 2013, DCC's business model has evolved rapidly from a programme delivery body to a sustainable business operating at scale, supporting efforts from Government and National Energy System Operator (NESO) as we transition to a net zero energy system. The wider energy market context, and Ofgem's role within it, has also changed. The Energy Act was amended to add a specific mandate to Ofgem's purpose, requiring Ofgem to support the Government in meeting its legal obligation to get to net zero by 2050¹. We are concerned that the regulatory processes around DCC's price control have not evolved to keep pace with this change.

As with all *ex-post* price control regimes, it is important for the regulator to consider the factual and wider regulatory context in which DCC's decisions were made. DCC is concerned that, in some instances, Ofgem's reasoning in disallowing cost does not appear to consider the factual and regulatory context or relevant facts known at the time costs were incurred. A number of external constraints and fundamental directions were placed on DCC during the year, including by the Department for Energy Security and Net Zero ("DESNZ"), which limited our strategic choices and had a material impact on DCC's decision-making and governance processes. We have provided Ofgem with details of these constraints and directions, and they must be taken into account when assessing the associated costs incurred.

One example of this issue is in regards to the SMETS1 Device Swap Out, where DCC was acting on the instruction of DESNZ in order to satisfy a request from one of our major customers. Providing this service is a requirement of the Smart Energy Code (SEC), which DCC's Licence required us to comply with. In this case, DCC carried out a public consultation following which DESNZ not only instructed DCC to carry out the work, but DESNZ also confirmed that it was comfortable that full costs (beyond proof of concept) were justified by the benefits case. Furthermore, DCC engaged regularly with the customer throughout the design and delivery process. For the costs to now be proposed for disallowance sets an unhelpful precedent and materially increases risks for future activities.

¹ <https://bills.parliament.uk/bills/3311/stages/17669/amendments/10007595>

Regulatory approach to consultation proposals

Over recent years, we have put a strong focus on improving our data quality and forecasting accuracy and are now seeing the benefit of this improved capability. One example is that we have driven a step change improvement in our cash forecasting accuracy in our charging statement, with 96% accuracy in RY23/24 compared to 87% in RY22/23.¹

We welcome the fact that Ofgem has recognised the cost reductions DCC has secured for our customers and GB consumers. Ofgem has calculated that, between RY15/16 and RY23/24, DCC secured reductions of £277m relating to savings in the Fundamental Service Provider (FSP) contracts, Comms Hub financing and DCC's test labs, and brought benefits of £159m to our customers.

However, DCC has concerns regarding the approach Ofgem has followed in arriving at its consultation position:

- DCC's improved approach to calculating the Baseline Margin Adjustment (BMA), through more accurate resource cost allocations (underpinned by the new time sheeting process introduced in April 2023) has been misunderstood by Ofgem. If this had been raised as a potential issue through the Clarification Questions or Cost Visit process, we consider that it could have been resolved straightforwardly, rather than through this formal consultation. Through recent dialogue with Ofgem (and in section 6 of this submission) we have further clarified our BMA calculation and provided independent assurance of DCC's approach and would expect Ofgem to reassess the BMA application accordingly. A report providing an independent assurance of DCC's approach is provided alongside this submission.
- DCC welcomes that Ofgem has assessed a greater proportion of costs incurred against a counterfactual. However, in some cases, Ofgem has continued to propose to disallow 100% of cost items rather than the amount that it considers was not incurred economically and efficiently. That approach is clearly inappropriate, particularly in circumstances where the costs relate to mandated activity (e.g. the Enduring Change of Supplier (ECoS) Monitoring Solution and the costs of the Device Swap Out beyond proof of concept). More detail is provided in relation to the specific areas of disallowance in the relevant sections below.
- Ofgem has reduced the scores provided by the Independent Auditor for the Contract Management element of the Operational Performance Regime (OPR). This was done without any dialogue with DCC and seems to be based on documentation that DCC did not have access to. This undermines the purpose of using an Independent Auditor and the lack of transparency makes it difficult for DCC to identify any factual errors or provide a meaningful response.
- Finally, there were a number of delays to key deliverables from Ofgem in the RY23/24 price control process, which transferred unreasonable levels of risk to DCC. Whilst DCC understands the burden that the price control process also places on the regulator, we would be keen to work with Ofgem to agree a realistic timescale for future processes that shares this burden and delivers a process that works for all parties. Examples of these delays are as follows:
 - DCC received the final RY22/23 RIGs from Ofgem (which are required to determine the regulatory variances against which DCC must report) on 14 June 2024, well after the start of the RY23/24 reporting year, despite Ofgem having published the Final Determination on RY22/23 in February 2024.

¹ As set out in our charging statement, we forecast annual required revenue across costs, pass-through items and other areas to determine our cash requirement each year.

- DCC received the Independent Auditor's report on the Contract Management element of the OPR on 31st July 2024, the day of our price control submission, making it very difficult to provide any meaningful commentary on its findings.
- The Draft Determination on RY23/24 was published one week after it was due, reducing the time available to DCC (and other industry participants) to prepare a response, with the Christmas period reducing resource availability to input to this.
- Ofgem's analysis of its cost counterfactuals (which are critical for DCC to understand and respond to Ofgem's proposed cost disallowances) were received on 20th November 2024, two weeks into the consultation period, reducing the time available to assess these.

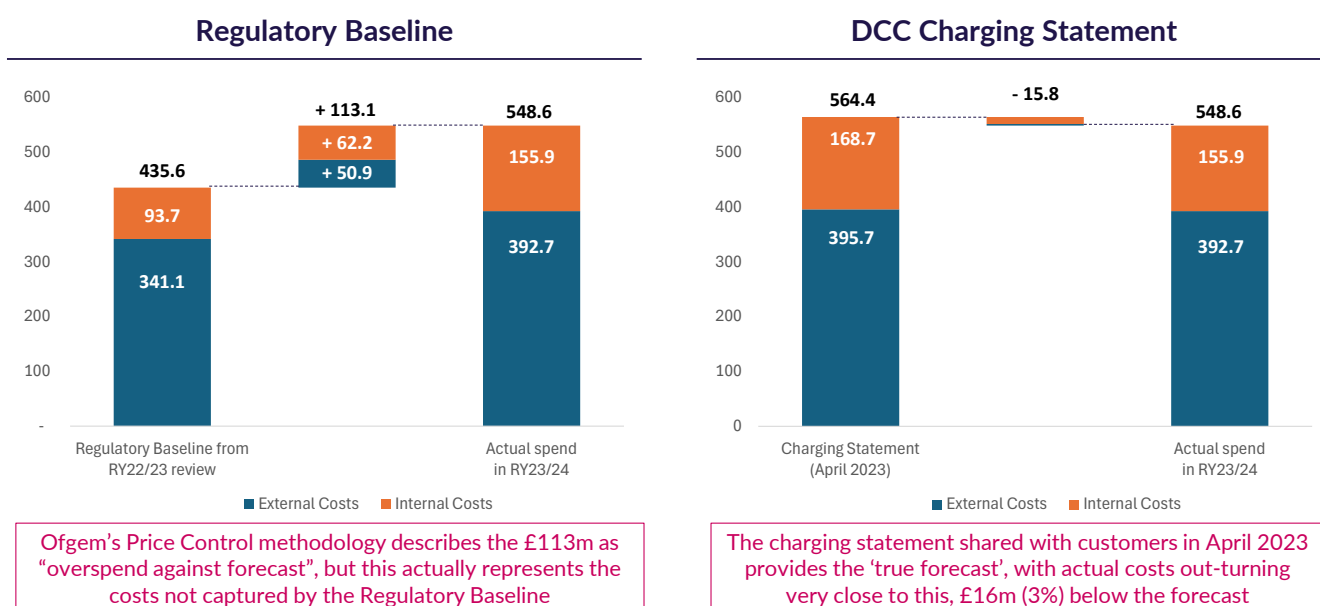
Cost assessment for Price Control purposes

It is important for all stakeholders to fully understand the costs and variances that are reported through the price control process. Without this context, the comparison of actual costs to "forecast costs", and the variance this generates, has the potential to be misleading.

The 'forecast' used in the price control process is a construct set out in Ofgem's Price Control Guidance. In an *ex-post* price control regime (where costs are assessed *after* being incurred), by definition, Ofgem inevitably sets a high bar for the allowance of any forecast costs *before* they have been incurred. As such, Ofgem's construct only allows for a subset of DCC's future costs to be included in the "price control forecast", specifically those with a high degree of certainty a year ahead of delivery. The forecast does not include or allow for all costs that DCC will legitimately incur. This approach is therefore bound to generate a lower baseline position (the 'regulatory baseline') against which to measure actual costs, meaning the variances derived are artificially high which may cause confusion with industry stakeholders.

The chart below illustrates this point for RY23/24 costs. It shows how DCC's actual incurred internal and external costs compared to:

- the 'regulatory baseline', which was well below what DCC would realistically spend in RY23/24 and generated a perceived c.£113m overspend against forecast; and
- the forecasts submitted by DCC in our charging statements, which provide the industry with a complete and accurate view of the total costs DCC expect to incur, and which demonstrated an underspend of c.£16m.



It is apparent from the Consultation that Ofgem proposes to disallow significant costs in future years for entire activities. However, these disallowances relate to activities which must be undertaken, which means a cost will inevitably be incurred. The zero (or very low) cost baseline created in some areas reflects the level of cost that Ofgem is able to “allow” (i.e. not disallow) a year ahead of delivery under an *ex-post* price control process. The ‘regulatory baseline’ is clearly not a useful basis for assessing business performance.

DCC covered this point at the Quarterly Finance Forum (QFF) on 24th October 2024. At this meeting, customers agreed that what they require from DCC is a complete forecast of the costs expected to be incurred in order for them to make planning and pricing decisions. They acknowledged that the charging statements provide these forecasts and that the ‘regulatory baseline’ derived through the price control process is not useful for them (and potentially misleading), only being relevant to the price control process.

Key Achievements in RY23/24

In RY23/24, our total costs¹ were slightly below RY22/23 in real terms² despite a significant growth in activity, reflecting our strong focus on cost management during the year. In addition to inflationary pressure, our costs were impacted by:

- Increased numbers of meters and communications hubs connected to our network, and
- Growth in our fundamental service capabilities. For example, we completed the design and build phases of the 4G Comms Hub and Network (CH&N) programme in RY23/24 and delivered changes to our SMETS2 and Switching systems to support the move to Market-wide Half Hourly Settlements (MHHS).

£m	DCC actual RY22/23	DCC actual RY23/24	Change		
			£m	% nominal	% real ²
Annual costs ¹	530.8	563.4	+32.6	+6.1%	-0.1%
SMETS Internal Costs ³	139.9	155.9	+16.0	+11.4%	+4.8%
SMETS External Costs ³	369.7	392.7	+23.0	+6.2%	-0.1%
Switching costs ⁴	21.1	14.8	-6.4	-30.2%	-34.3%

During RY23/24, DCC delivered a number of key achievements:

- Continuing strong levels of delivery and performance across the increasing scope and scale of our Mandatory Business.
 - 30.7m meters connected at the end of RY23/24 (compared to 3.1m in 2019), and 12.2m SMETS1 migrations completed, with over 99.5% of migrations ‘right first time’.
 - Network availability for this year was 99.93%, significantly outperforming benchmarks from both UK and EU comparators and ahead of our target of 99.5%.

¹ Excluding ‘Other’ costs and costs of Comms Hubs which are ordered by our customers and passed through to them at cost

² Average CPIH between October 2022 and September 2023, the mid-points of the regulatory years, was 6.3%

³ External Costs cover our Fundamental Service Providers (FSPs) across our key systems and services specified in our licence.

Internal Costs relate to payroll for DCC staff and other costs, such as IT, facilities or any external service providers that are not our FSPs

⁴ Switching costs include both Internal and External Costs

- Improving our business to support the scale and complexity of our ongoing operations more efficiently, while meeting the needs of our customers and stakeholders.
 - Our cost per meter continues to decrease as the scale of our network grows and the compound effect of our transformation initiatives takes effect (from £33.03/meter in RY20/21 to £12.52/meter in RY23/24).
 - We completed the build of a dedicated test lab facility and new testing solution to enable test automation at greater scale across a greater number of customer devices, driving savings for our customers.
 - We have also worked very closely with Ofgem to undertake the activities required to support the extension and renewal of the DCC License, preparation for business handover, and development of an *ex-ante* price control regime.
- Transforming our network to remain fit for the future, as first-generation technology reaches end of life and the demands on, threats to, and expectations of the network evolve. The changes we are making will provide the accessibility, flexibility and speed of change expected of a modern network and commensurate with the scale of the net zero challenge.
 - Following award of contracts for the 4G Communication Hubs & Networks (CH&N) programme in October 2022, throughout RY23/24, delivery of this programme was on track and on budget, with the first 4G meters subsequently being installed in December 2024.
 - Considerable progress on the highly complex Data Services Provider (DSP) programme to provide greater resilience and ability to cope with increased volumes of data, and self-service data access. This service is being disaggregated to drive even greater value for money.

Given our commitment to delivering these benefits while demonstrating the economic effectiveness of our services, we are disappointed with Ofgem's consultation proposals on cost disallowances which we do not feel reflect the underlying business performance. We summarise our key objections below.

Ofgem's approach to inefficient costs

DCC agree with the principle that if spend was not necessary, then it should be proposed for disallowance. However, spend will be necessary for a number of reasons, including to further DCC's Mandatory Business, to comply with the requirements of its Licence, and to support the Government in meeting its legal obligation to get to net zero. We believe there are very few situations where this was not the case.

Where an activity is necessary and delivers benefits, then there is an economic cost associated in respect of that activity, and it is not appropriate for 100% of the costs to be proposed for disallowance.

Where spend is economic, but there is deemed to be some inefficiency in delivery (e.g. through a suboptimal procurement or resourcing approach), then only the proportion of cost deemed to be inefficient should be subject to a disallowance.

Whilst in some cases Ofgem has sought to calculate the proportion of the spend that it considers was inefficient, in others it has proposed to disallow 100% of cost (e.g. on ECoS Monitoring Solution) or an arbitrary percentage (e.g. remedying operational incidents associated with GB Companion Specification (GBCS) 4.1)). As explained further in section 2, page 16, DCC has assessed the academic evidence and regulatory precedent from Ofwat and Ofgem on the level of disallowances that would be appropriate to account for process inefficiency, which is typically in the range of 5-15% at most.

External costs

Ofgem propose to disallow a total of £8.5m of external costs in RY23/24 relating to the implementation of the SMETS1 Device Swap Out (£2.5m), ECoS Monitoring Solution (£3.4m), CSP-C&S (£0.5m), Test Automation Framework (£0.7m), required stabilisation of SMETS1 FOC service (£0.6m), DCO (£0.4m) and DSMS (£0.3m). The detailed evidence in relation to these costs is provided in Section 3 of this document and summarised as follows:

Device Swap Out: The 'Device Swap Out' relates a mandatory obligation on DCC to replace SMETS1 meters to deliver full functionality when requested by customers. This service is a regulatory requirement of the SEC (H5.7) as a condition of DCC's Licence. DCC conducted a public consultation from May to August 2022 to determine: a) the demand from customers, and b) the charging methodology that would apply to it. DCC has written evidence from DESNZ (which it has provided to Ofgem) that demonstrates:

- DESNZ instructed DCC to provide the full service (beyond the proof-of-concept stage) to [REDACTED] and confirmed that the costs were justified by the benefits.
- DESNZ did not intend to intervene to change the charging methodology requiring costs of this nature to be smeared across all suppliers (which is relevant given this solution was requested by one customer).

DCC has provided evidence to Ofgem demonstrating engagement with customers at SEC sub-committees and industry governance groups, as well as several meetings with [REDACTED] on the development of the service. During this engagement, DCC collaboratively developed the system design and shared the prerequisites for customers to use from the service. A Joint Industry Plan (JIP) milestone was agreed with industry and the management of delivery was transferred to the Industry Managers Forum (IMF). Weekly progress meetings were held with [REDACTED] from early 2022 until it withdrew its demand for the service (in July 2023), five weeks after it had confirmed its intention to participate in User Integration Testing (UIT) of the full solution in September 2023. DCC was not involved in discussion on [REDACTED]' request to withdraw the service (as this took place between [REDACTED] and DESNZ), but we stopped incurring costs as soon as we were made aware (evidence of this has been provided to Ofgem).

We therefore strongly disagree with Ofgem's proposal to disallow any costs associated with this activity as we have clearly demonstrated it was subject to a clear direction from DESNZ, was developed with extensive involvement and regular engagement with [REDACTED], and costs were stopped as soon as [REDACTED] withdrew from the process.

ECoS Monitoring Solution: The ECoS Monitoring Solution provides new functionality to improve DCC's resilience to cybersecurity threats. We strongly disagree with Ofgem's view that this programme of work was unnecessary. This solution is important as it delivered enhanced near real-time monitoring, improving our ability to identify and respond to cybersecurity threats and equipment defects. This capability was developed in response to customer feedback, with the functionality of the ECoS Monitoring Solution discussed at SSC meetings, where no objections were raised. Furthermore, as the solution allowed us to substantially improve our ability to respond to equipment defects and cyber-security threats, it is intuitive that the solution provides value, given the need for DCC to operate to the same standards as Critical National Infrastructure (CNI). It should be noted that given the value added by this functionality, it is now included within contracts for current programmes e.g. DSP.

The contract for this Change Request was signed in June 2023, following c.18 months of development and learning after the main ECoS contracts were agreed in January 2022. Due to savings delivered elsewhere on the programme, even after incurring the £3.4m of spend on the Monitoring Solution, the overall ECoS programme was delivered very close to the original business case (c.£0.350m above).

While we accept that, ideally, the CR for this solution would have been included in the original contract, this argument is made with the benefit of hindsight. Furthermore, if it had been a part of the original contract scope we believe that we have demonstrated to Ofgem that the cost of those initial contracts would have been higher. The day rates used to deliver the CR were the lowest available (being the same as for the main contract where the lowest cost supplier was selected through a competitive procurement process). This solution could not have been delivered at zero cost regardless of the delivery route and we therefore strongly disagree with Ofgem's proposal to disallow 100% of the costs (particularly given that that DCC has shown that no alternative supplier could have provided this service at a lower cost, coupled with the fact that we negotiated [REDACTED]'s costs down from £9.6m to £3.4m).

CSP-C&S: Ofgem is proposing to disallow 50% of the costs related to a number of small defect fixes delivered as part of a bundle of larger changes within the SEC release 'GBCS 4.1'. These fixes were approved by the SEC Testing Advisory Group as being within the "defect mask" (i.e. the acceptable volume of defects for that release), meaning these were considered low impact, business as usual activity. Ofgem seems to have also misunderstood the components within the release, which we explain further in section 3.6 below. Delivering defect fixes through a wider release has two key benefits: i) customers have told us they do not want multiple releases during the year, preferring them to be grouped into the main SEC releases that occur twice a year, and ii) it is the most cost-effective approach, allowing software upgrades to be delivered at minimal incremental cost. As such, this approach is standard industry practice and has customer support. As explained further in section 3.6, Ofgem's proposal to disallow an arbitrary 50% of total costs of this change request is regardless very excessive and misinterprets the scope of work that was covered by these costs. The proportion of costs related to remedying operational issues within this wider release is likely to be a very small proportion of the total.

SMETS1 service stabilisation (FOC): Ofgem propose to disallow (i) 50% of the costs for three elements of FOC, arguing that the relevant suppliers should have covered these costs, and (ii) 100% of the costs for two elements due to unsuitability or unauthorized spending. We disagree with the proposed 50% disallowance for the first three elements because Ofgem effectively states that DCC should expose its suppliers to consequential damages, in addition to the direct costs of fixing any defects. However, DCC's contracts do not expose their suppliers to consequential damages because that would inherently and significantly increase bid prices across all contracts. Duplicated across the whole supplier base, such cost increases (which would be passed through to consumers) would outweigh the relatively small cost of service stabilisation. It would therefore not be economic to pass consequential damages to suppliers.

In respect of the two elements for which Ofgem proposes to disallow 100% of cost:

- For certificate rotation DCC incurred costs as part of a standard process to identify if a cheaper solution was available. This cost was therefore incurred in the pursuit of achieving the most economic and efficient outcome.
- For fixing the "opt-in/opt-out" defect, while we agree that paying to fix a defect is not optimal, it was the right way for us to resolve the issue for our customers, as explained further in section 3.2.

Test Assurance Framework (TAF): Ofgem has proposed to disallow the entirety of the costs associated with a delay to TAF. We explain in more detail at section 3.7 that the delay was due to factors that DCC could not have foreseen and were outside of our control, in that the robots that DCC's provider used were too heavy for the test lab. We performed a rigorous risk assessment as part of our Final Business Case (FBC) and had experienced no issues with previous robotic equipment in the lab. Therefore, the weight issue was an unprecedented and low probability event which cannot reasonably be expected to be foreseen. To the extent that Ofgem considers that the factors which led to the delay were not *entirely* outside of our control, we believe they were at least *largely* outside of our control, such that a reduction in the proposed disallowance from 100% to a lower proportion (such as 5-20%) would be appropriate.

SMETS Interim DCO Contract: Ofgem proposed to only allow costs associated with contract indexation and to disallow any further costs above indexation, as it believes that the needs case for any additional expenditure has not been identified. DCC explain at section 3.4 that: i) the contractual schedule was expected to grow from FY23/24 not just by indexation (which took effect from August) but also due to an increase in the general schedule of payments; ii) a number of important CRs were undertaken to address an unexpected increase in the need for additional servers and/or disk space. These costs above indexation were therefore necessarily incurred.

DSMS spend: Ofgem has proposed to disallow £0.300m of costs related to this procurement. DCC acknowledge that the work carried out under PR7707 was directly awarded to [REDACTED] and that this aspect of the programme did not deliver tangible outcomes before being stopped in favour of an alternative approach. DCC believe that the creation of the Service Management Working Group under DSMS did help to better scope the needs of the FSM procurement, but we acknowledge that this is not sufficient justification and accept Ofgem's position in relation to this cost.

Internal costs

Ofgem proposes to disallow a total of £15.7m of internal costs in RY23/24 (or £17.0m including the Shared Service Charge). This comprises costs relating to payroll (£5.0m), planning, scoping and resourcing (£6.1m), business transformation activity (£4.1m), and benchmarking (£0.5m). DCC's detailed evidence in relation to these costs is provided in Section 44 of this document and we have summarised below some of the key areas of concern.

Payroll: Ofgem has proposed to disallow payroll costs in three areas: 4G CH&N Programme (£3.3m), Service Delivery (£1.6m), and Future Connectivity Programme (£0.1m).

In relation to the 4G CH&N programme, Ofgem propose to disallow 50% of the variance between the RY23/24 incurred cost (£7.4m) and the committed cost forecast from the RY22/23 price control review (£0.8m). For the reasons outlined above, the £0.8m 'forecast' in the RY22/23 review only includes a subset of the costs expected to be incurred (those with a high degree of certainty) and is therefore not a relevant comparator against which to assess performance. RY23/24 was the peak delivery year for the CH&N programme, and it is clear that this could not be achieved with a budget of £0.8m. In reality, the £7.4m incurred was actually £1m below our Annual Business Plan (ABP), representing a significant saving for customers. Furthermore, the multi-year CH&N programme remained on time and within the overall budget approved through the Green Book business case.

In relation to the Service Delivery Professional Services Practice team, variances in sub-function costs are driven by changes in the cost allocation methodology (through implementing a new time recording system in RY23/24 which has improved the accuracy of cost allocations between the functions and programmes). This improvement in the methodology between RY22/23 and RY23/24 has led to some offsetting variances within the Service Delivery function. As shown in section 4.1.2, adjusting the RY23/24 actuals to account for resources deployed in other functions, creates a like-for-like cost in RY23/24 of £2.597m, which was only £0.494m above RY22/23 and close to the ABP. We disagree with Ofgem that there should be any disallowance of payroll costs for the Professional Services Practice sub-team as we consider that all these resources were required during RY23/24. However, if Ofgem applies the same methodology as in its consultation document it should disallow at most £0.494m, not £1.624m.

For the Future Connectivity Programme Ofgem has proposed to disallow £0.1m of cost related to exploratory work to prepare for a trial for fibre network connections. Ofgem deems this to relate to innovation activity out of the scope of DCC's permitted activity. DCC disagrees as the work was directed at investigating solutions to address issues with connectivity in the North. However, given this trial did not progress, DCC accepts Ofgem's position in relation to this cost.

Benchmarking: DCC's Price Control Benchmarking Report sets out an effective methodology for ensuring our remuneration levels are economic and efficient, and we welcome Ofgem's decision to allow the vast majority of DCC's internal cost resource spend, including all permanent staff costs. However, we are very disappointed that Ofgem is proposing to disallow £0.5m of contractor resource costs. As in previous years, Ofgem proposes to disallow costs deemed to fall materially above reasonable market rates. However, the vast majority of contractors hired in RY23/24 were below the benchmarked rate; with the overall net position showing a net saving of £3.3m when compared to the median benchmark. Proposing to disallow only those costs for individuals above the benchmark and ignoring those below does not take account of the realities of operating a business with individual recruitments being balanced across a portfolio of activities.

Planning, Scoping, and Resourcing: Ofgem has proposed to disallow the costs of a number of initiatives on the basis that Ofgem believe DCC has not justified why third-party resource was required instead of internal resource or contractors. We have explained, at section 4.3, why it is often more economic and efficient to use third-party resource than internal resource or contractors. The use of consultants to support these types of activities delivers a number of benefits, such as bringing onboard a cohesive team (rather than individual contractors) that is likely to work more efficiently together, having an organisation that can take responsibility and liability for delivery (which contractors cannot), and providing surge capacity for areas where DCC has skills but does not have a large enough team (and, in many cases, where it would be uneconomic to hire permanent staff just to address periods of surge capacity). The use of consultants in these areas is standard practice across all organisations within the public and private sectors, including regulators and, in some specific cases (e.g. Licence Renewal and preparing to operate under an ex-ante regime), these costs were driven by activity initiated by Ofgem.

In addition to the general point on the benefits of the use of consultancies, we provide specific reasons why, for certain projects, DCC internal resources or contractors would not have been appropriate.

We have also assessed Ofgem's counterfactual analysis and identified three changes that we believe should be made to ensure the analysis better reflects reality for these initiatives:

- Correcting the number of days that different resource grades work on projects, which reduces the disallowance by £0.489m;
- Correcting the mapping of certain grades to the appropriate benchmark roles. For example, Ofgem has mapped a 'Senior Consultant' to an 'Analyst' day rate in its counterfactual. Correcting for these, the disallowance is reduced by a further £0.252m;
- DCC has also reviewed Ofgem's assumptions around the split of permanent and contract resources:
 - Adjusting seven of the initiatives to assume a counterfactual based on 100% contractor mix (given the use of internal resource was not appropriate), would reduce the disallowance by a further £0.747m.
 - For 11 initiatives, where DCC strongly believe that neither internal or contract resource was appropriate and therefore the total cost should be returned, the argument against use of internal resource is sufficiently compelling that any counterfactual would need to be based on 100% contractors, which would reduce the disallowance by a further £2.206m - £3.727m.

The net effect of the above changes is to reduce the disallowance from £6.086m to between £0.871m to £2.392m.

Business transformation: The Business Accuracy Programme (BAP) delivered improvements across a number of specific initiatives within a defined scope. This programme ended in July 2023. However, Ofgem has chosen to group all business transformation activities (including those that did not form part of the BAP) under BAP and proposes to disallow £4.1m of cost.

Clearly improvement activities are an ongoing feature of all organisations and DCC will continue to make such changes as the business evolves. At section 4.4, DCC has shown that, whilst some of these activities (amounting to £1.5m of costs) are within the scope of BAP, the remainder (£2.6m of cost) are clearly not. Ofgem may choose to disallow items within BAP in line with the precedent it has set in previous years, although DCC continues to strongly believe that this programme delivered significant benefits (as evidenced in the closure report).

However, DCC has evidenced below that activities related to Commercial Management, e-procurement, implementation of the PRINCE2 methodology, and support to the OneData reporting processes, are not part of BAP and deliver material benefits to the business. As such, we do not believe it is appropriate for Ofgem to disallow these costs purely on the mistaken factual premise that they form part of BAP or otherwise. We therefore invite Ofgem to assess the individual benefits of each of these activities and make individual assessments as to the associated costs incurred.

Performance incentives

On the System Performance element, we welcome Ofgem's recognition that DCC has met all system performance targets in RY23/24 and awarded 100% of the available margin.

On Customer Engagement, we are pleased that Ofgem and SEC parties have recognised our improvements in this area. We value our customers feedback and have been striving to improve our customer engagement efforts over recent years. However, despite Ofgem's final weighted score provided in the consultation being 2.11, we are surprised that Ofgem has proposed a reduction to 2.0 - we would encourage Ofgem to reassess its reasons for doing so.

On Contract Management, we disagree with Ofgem's proposal to downgrade the scores provided by the Independent Auditor appointed to review performance under the NAO framework and against agreed criteria. In our view, Ofgem should only reduce the scores provided by an expert third party if there is very strong reason to do so: we explain further at section 5.2 that Ofgem has not shared detailed reasoning of why it has reduced our scores, and that this appears to have been done on the basis of documentation that DCC did not have access to. The lack of transparency in the process and evidence for the reduction in score makes it difficult for us to comment, except to state that in our view this falls short of regulatory good practice. We would request that Ofgem does not make unilateral changes to the scoring provided by independent third parties, and certainly not without providing evidence of its factual analysis and reasoning, and that we have an open discussion on any concerns.

Baseline Margin Adjustment (BMA)

Ofgem has proposed to reject £29.5m of DCC's BMA application of £31.5m, with the majority of this disallowance related to one 'ground' (Facilitating Additional Relevant Service Capability), where Ofgem proposes to disallow 100% of the resource application (£21m).

DCC has been working hard to deliver improvements in the accuracy and robustness of our forecasting processes. As a consequence of these improvements (including the implementation of a new time recording tool in April 2023), we have been able to apply a more accurate cost allocation methodology to appropriate roles this year, something Ofgem has previously encouraged DCC to do. For the BMA application, only 11% of the roles within the Facilitating Additional Relevant Service Capability were based on the new methodology, with the remaining 89% of roles using a consistent methodology to previous years.

Whilst Ofgem's position seems to be the result of a genuine misunderstanding, the choice to disallow the entirety of our margin application for one ground is unjustified. DCC had engaged with Ofgem prior to our submission to explain the basis for the application and no significant concerns were raised. Had Ofgem

done so during the review period between August and October, this issue could have easily been resolved before this formal consultation process.

Further, within this aspect of the application, Ofgem has proposed to disallow all the positive line items (which result in an increase in margin) but allow all the negative line items (which result in a decrease in margin). This suggests that Ofgem does not disagree with the methodology *per se* but risks being selective in how it is applied, choosing to accept or reject items based on their effect rather than their basis. That is not a proper method of assessment, and we would urge Ofgem to reconsider its approach.

DCC has now provided additional analysis to Ofgem to support the BMA applications and met with Ofgem on several occasions to discuss our calculations. This analysis is provided as part of our consultation response, which supports the reinstatement of the £21m rejected in the Facilitating Additional Relevant Service Capability ground. We would request Ofgem reassess the application in line with our discussions.

Alongside this, DCC has commissioned an independent review of our BMA application. This has concluded that DCC's BMA application was compliant with Ofgem's Guidance, that an appropriate methodology was used, calculations were accurate, and that this was explained fully in our submission. The 'BMA Assurance' report from [REDACTED] is provided to Ofgem alongside our consultation response.

External Contract Gain Share (ECGS)

We note and accept Ofgem's position on External Contract Gain Share (ECGS).

Switching Programme

We acknowledge Ofgem's position that the forecast costs of delivering the Switching Programme do not yet meet Ofgem's certainty threshold, although it is important to recognise that costs will necessarily be incurred. Now that the programme is in-life, DCC believes it would be sensible for Ofgem to revisit its position on this proposed disallowance, both to enhance stakeholder certainty and reduce future regulatory burden. Assuming a zero-cost base for an activity that will be delivered, and must incur cost, will not assist transparency.

We welcome Ofgem's rating of DCC's customer engagement incentive scheme performance, but, as explained at section 7.2, we continue to have serious concerns about the operational performance element. Since the incentive regime came into effect on 1 April 2023, DCC has not retained any of its operational performance-related margin due to the regime being poorly designed, with unachievable targets rendering the regime ineffective with no real incentives. Despite recent attempts to improve it, the Switching Incentive Regime (SIR) is not fit for purpose and needs significant change.

Forecasts

DCC develops spend forecasts through a structured process called the Lock. Ofgem proposes to disallow £72 million in forecast Internal Costs and £31 million in forecast External Costs for RY2024/25 and RY2025/26, including £30 million in Switching costs, due to insufficient justification and uncertainty.

Due to the fact that only committed forecasts are supplied to Ofgem, the forecast spend that DCC submits is, by definition, lower than the true estimate of future spend – we ask that Ofgem bears this in mind when conducting its regulatory review. When Ofgem fully disallows a forecast, particularly when it relates to a mature spend area that is likely to continue largely as-is in the next regulatory year, they add substantial regulatory burden on DCC and Ofgem as the debate over the correct level of spend covers a much wider range. We recommend that Ofgem considers applying rules of thumb when reviewing forecasts, such as allowing next year's forecasts to generally equal the prior year, plus inflation but minus an efficiency factor.

Furthermore, Ofgem mandates that we must not only provide accurate forecasts but also improve the accuracy of these forecasts. While this requirement is understandable and aims to ensure efficient market operations, the current approach to disallowances creates a significant disincentive for improvement. This is because when we invest time, resources, and expertise into improving forecasting methods, only to have our forecasts proposed to be disallowed in an identical manner as prior to those improvements, Ofgem signals that our efforts are not a good use of our time or resource.

Conclusion

We fully recognise that the Price Control process is a necessary and important part of ensuring that DCC's expenditure is economic and efficient. However, we firmly believe that our actions have been in line with our Licence obligations and in the best interests of our customers, and ultimately end consumers. We welcome Ofgem's recognition of the improvements DCC has made in relation to data quality and reporting but continue to have serious concerns with Ofgem's overall approach in some areas.

In this response, we provide further detailed evidence to aid Ofgem in assessing the Price Control position, focussing on clarifying our rationale and enhancing our analysis to demonstrate economy and efficiency.

On the basis of the additional information set out in this response, we request that Ofgem reconsiders the proposed disallowances and margin award.

2. Ofgem's approach to inefficient cost disallowances

Summary

DCC agrees with the principle that a disallowance may be appropriate if spend was unnecessary. However, we believe there are very few situations where this is the case and, where an activity is deemed to be necessary and delivers benefits (i.e. there is an economic cost associated with that activity), then it is not appropriate for 100% of the costs to be disallowed.

Where spend is deemed to be economic, but there is some inefficiency in delivery (e.g. through a suboptimal procurement or resourcing approach), then only the proportion of cost deemed to be inefficient should be subject to a disallowance.

In some cases, such as on Planning, Scoping, and Resourcing, Ofgem has sought to calculate the proportion of the spend that was inefficient. However, in other cases, such as on ECoS Monitoring Solution, it has proposed to disallow 100% of cost, and in other cases (e.g. remedying operational incidents associated with GBCS 4.1), Ofgem proposes to disallow an arbitrary percentage.

This section provides academic evidence and regulatory precedent from Ofwat and Ofgem on the percentage disallowances that would be appropriate to account for process inefficiency. Typically, this suggests a range of 5-20%.

Our costs must be economic and efficient. While Ofgem has provided many different reasons for disallowing our expenditure, in general, it has done so because it has deemed it to either not be needed (uneconomic) or to have been inefficiently procured. If expenditure is unnecessary and we cannot justify any proportion of it, it is right that Ofgem disallows the entirety, though we consider this to be an exceptionally rare occurrence.

Where spend is deemed economic (i.e. required) but not deemed efficient (e.g. due to the procurement or resourcing approach), it is only the inefficient element that should be disallowed, allowing DCC to recover the proportion of costs deemed to be efficient. This is set out in our Licence - specifically, the revenue DCC has the right to recover will include costs defined as being "economically and efficiently" incurred. The ability to recover efficient costs incurred on activities within our remit and that deliver benefits is consistent with Ofgem's approach to electricity networks, gas networks, offshore transmission operators, interconnectors and other regulated assets, regardless of whether they are *ex-ante* or *ex-post* regulated.

We strongly consider that all of our spend is efficiently incurred. However, where Ofgem takes a different view, it should use the most robust methodology available to estimate the inefficiency to be disallowed. In the absence of a robust counterfactual or high-quality benchmarking, the exact percentage to which the spend is inefficient is unknown. However, we can draw on relevant precedents.

In some cases, Ofgem's approach has been to disallow 100% of our expenditure in areas it deems to be inefficient, or (arbitrarily) 50%. This includes portions of spend for maintenance releases, operational incidents, and device recovery charges within FOC. In other cases, Ofgem has attempted to estimate a proportion of inefficient spend. We agree with the intention to consider the proportion of cost that may be deemed inefficient, but disagree with the approach to estimating this, as we explain below.

For activities deemed to be required, it is clear that these could not have been delivered at no cost, so a 100% cost disallowance is inappropriate.

The list below describes the approach to disallowances we have seen in other regulatory regimes, as well as academic estimates of the extent to which non-competitive tendering exceeds the costs of competitive tendering. Where Ofgem does not have the means to calculate a robust counterfactual, we consider that drawing on broader regulatory precedent and academic evidence is more in-keeping with our Licence and Ofgem's broader regulatory approaches, than making an estimate.

- Where Ofwat lacked evidence at PR19 of the detail of whether some specific project costs were efficient, it applied an efficiency challenge of 5% - 10%.¹ Given these are monopoly companies who may or may not be using competitive procurement processes in their supply chains, this seems a plausible benchmark to apply.
- Ofwat then used a broadly similar methodology for PR24. For the Draft Determination it applied an efficiency 'haircut range' of 0% - 20% depending on the company.²
- A Government Impact Assessment on Procurement reform cites a US study which found that using far more competitive procurement processes attracting a full range of bidders reduced costs by around 12% - 14%.³

There are fewer comparable benchmarks from Ofgem because, outside of DCC, most if not all of the assessments Ofgem conducts are on large spend items rather than the review of individual projects. For example, the disallowances from RIIO (typically <10%) apply to the entirety of network spend. However, the reviews that Ofgem conducts on ex ante re-opener events may be considered to be similar to DCC, as it applies to individual projects. We have reviewed Ofgem's findings on ED1 re-openers and find that Ofgem typically disallows 1-7%, which is much lower than the 50-100% Ofgem has used when identifying inefficient spend for DCC. Examples from ED1 are outline below:

- In the Enhanced Physical Site Security re-opener, Ofgem disallowed 4% of Northern PowerGrid (Northeast) spend and 1% of Northern PowerGrid (Yorkshire) spend.⁴
- In the rail electrification re-opener, only Southern Electric Power Distribution's request was accepted, and the disallowance was 7%.⁵
- The final ED1 re-opener was for High Value Projects and Ofgem rejected all requests from DNOs, meaning that no information on a disallowance can be gleaned from this.⁶

Based on the above, if Ofgem finds our expenditure inefficient due to the procurement route used, then a cost disallowance in the range of 5-15% would better-capture what the efficient costs (that we are entitled to under our Licence) would have been. We draw on this disallowance range throughout the remainder of this document.

¹ Ofwat, "[PR19 Final Determination](#)", Table 12

² Ofwat, "[PR24 Draft Determinations Expenditure Allowances](#)", Table 12.

³ Cabinet Office, "[Procurement Reform Bill Impact Assessment](#)", p.30.

⁴ [RIIO-ED1 Reopener Decision – Enhanced Physical Site Security](#).

⁵ [RIIO-ED1 Reopener Decision – Rail Electrification Costs](#).

⁶ [RIIO-ED1 Reopener Decision – High Value Projects](#).

3. External Costs

Summary

ECoS Monitoring Solution: Ofgem proposes to disallow 100% of the costs due to concerns around whether the solution was necessary and that DCC had not engaged with customers. DCC has provided details of the benefits it delivers alongside evidence that this functionality was required by the SEC and discussed in SSC meetings. Moreover, it is intuitive that anything which materially improves our understanding of faults and enhances cyber-security is beneficial. It is true that, with the benefit of hindsight, the solution would probably have been included in the original contract. However, [REDACTED] were the lowest cost bidder for the ECoS contract, and had this additional requirement been included in the original scope, it would have had a cost associated with it. It is therefore unreasonable to disallow 100% of the costs. Where a cost is deemed necessary, but the procurement approach was suboptimal, DCC has shown in Section 2 that there is precedent for disallowance of c.5-15% of the costs.

Device Swap Out: Ofgem proposes to disallow costs for the Device Swap Out service. Providing this service is a requirement of the SEC and DCC conducted a public consultation to determine customer demand and the appropriate charging methodology. Following this, and a full impact assessment, DCC has evidence from DESNZ instructing us to deliver the full service (beyond proof of concept), stating that the costs are justified, and that the charging methodology would be unchanged (resulting in costs being smeared across all customers). DCC held a series of meetings with [REDACTED] through the design and delivery phases which made clear the costs involved, and the pre-requisites required to access the service. In July 2023, [REDACTED] withdrew its requirement and DCC immediately stopped work.

CSP-C&S: Ofgem is proposing to disallow 50% of the costs related to a number of small defect fixes delivered as part of a bundle of larger changes within the SEC release 'GBCS 4.1'. These fixes were approved by the SEC Testing Advisory Group as being within the "defect mask" (i.e. the acceptable volume of defects for that release), meaning these were considered low impact, business as usual activity. Ofgem has also misunderstood the components within the release, which we explain further in section 3.6 below. Delivering defect fixes through a wider release has two key benefits: i) customers have told us they do not want multiple releases during the year, preferring them to be grouped into the main SEC releases that occur twice a year, and ii) it is the most cost-effective approach, allowing software upgrades to be delivered at minimal incremental cost. As such, this approach is standard industry practice and has customer support. Ofgem's proposal to disallow an arbitrary 50% of total costs of this change request is excessive as the proportion of costs related to remedying operational issues within this wider release is likely to be a very small proportion of the total.

SMETS1 Service Stabilisation (FOC): Ofgem proposes to disallow 50% of the costs for three elements of FOC, arguing the relevant suppliers should cover them, and 100% of the costs for two elements due to unsuitability or unauthorized spending. We disagree with the first three because Ofgem effectively states that we should expose suppliers to consequential damages, which would increase bid prices across all contracts. In respect of the other two items: i) for certificate rotation DCC incurred costs as part of a standard process to identify if a cheaper solution was available, and ii) for fixing the "opt-in/opt-out" defect, while we agree that paying to fix a defect is not optimal, it was the right way for us to resolve the issue for our customers.

TAF Delay Payments: Ofgem has proposed to disallow the entirety of the costs associated with a delay to TAF. We explain that the delay was due to factors that DCC could not have foreseen and were outside of our control, in that the robots that DCC's provider used were too heavy for the lab. We performed a rigorous risk assessment as part of our FBC and had experienced no issues with previous robotic equipment in the lab. The weight issue was therefore a genuine low probability event which cannot reasonably be expected to be foreseen. To the extent that Ofgem is not convinced that the factors which led to the delay were

entirely outside of our control, we request the disallowance is reduced from 100% to a lower proportion (such as 25-30%), to reflect the fact that the factors were *largely* outside of our control.

SMETS Interim DCO contract: Ofgem has only allowed costs associated with contract indexation and propose to disallow any further costs, as it believes that the needs case for any additional expenditure has not been identified. DCC explain that: i) the contractual schedule was expected to grow from FY23/24 not just by indexation (which took effect from August) but also due to an increase in the general schedule of payments; ii) a number of important CRs were undertaken to address an unexpected increase in the need for additional servers and/or disk space.

DSMS spend: Ofgem has proposed to disallow £0.300m of costs related to this procurement. DCC acknowledge that the work was directly awarded to [REDACTED] and that this aspect of the programme did not deliver tangible outcomes before being stopped in favour of an alternative approach. DCC believe that the creation of the Service Management Working Group under DSMS did help to better scope the needs of the FSM procurement, but we acknowledge that this is not sufficient justification and accept Ofgem's position in relation to this cost.

3.1. ECoS Monitoring Solution

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?

This section 3.1 of our Consultation Response addresses Consultation Question 1 and responds to paragraphs 3.52 to 3.61 of the Consultation.

Question 1 relates to a £3.442m CR (CR4889) that DCC issued to a contractor for additional work on the ECoS monitoring solution. Ofgem has proposed to disallow the entirety of this cost on the basis that it is unclear "whether this programme of work was necessary".¹ More specifically, Ofgem has questioned the lack of explanation around what this expenditure would deliver, for example in terms of whether it met a regulatory requirement or filled a gap in the functionality of the ECoS monitoring solution.² This section is therefore structured around the following three issues:

- Why the ECoS monitoring solution, and in particular the CR proposed for disallowance was in fact necessary. This explains the benefits that the ECoS monitoring solution delivers, how these relate to DCC's regulatory requirements, and the role that the CR has played in allowing those benefits to be delivered.
- Why this was delivered through the use of a Contract Change Request (CR) – i.e., why we did not include the requirements of the CR in the original contract award.
- What the counterfactual cost of the CR was, and why we do not believe that a cheaper alternative was open to us, such that this cost was economic and efficient.

The need for the CR proposed to be disallowed in delivering the ECoS monitoring solution

The ECoS monitoring solution provides the ECoS process with enhanced cyber security and operational monitoring (i.e. ability to spot problems when customers change suppliers more quickly). The precise technical functionality that CR4889 provided to enable this was detailed in our submission.³ However we understand that details of this technical functionality may not have provided Ofgem with sufficient explanation of the benefits that ECoS monitoring brings, and therefore an understanding of why it was

¹ Consultation, para 3.58.

² Consultation, para 3.58.

³ ECOS Chapter, section 1.6.1.

necessary. At a high level, the ECoS monitoring solution integrates data-feeds from ECoS into the Security Operations Centre (SOC) and Technical Operations Centre (TOC). This allows DCC to achieve the following benefits:

- **Reduction in time taken to identify failures.** As a result of the ECoS monitoring solution, there is a reduction in time taken to identify component failures that could lead to the entire ECoS system failing from 40 minutes (under the old solution) to virtually real-time. This allows DCC to respond rapidly to incidents.
- **Improving our understanding of cyber-attacks that could be occurring across multiple environments.** As a result of bringing ECoS monitoring into the TOC and SOC, we can now perform “cross-correlation” analysis on potential cyber-attacks, which allows us to better identify the attack paths that are being taken and any risks arising from these.
- **More proactive threat hunting on raw data.** This is only possible with the integration of data feeds from ECoS to the SOC because we rely on pulling data out of the SOC in order to perform analysis on it. Therefore, proactive threat hunting can only be undertaken if all of our other systems feed into the SOC.
- **Detection of activity by bad actors on Private Key Transfer (PKT) activities.** Private key transfer is the process of securely sharing a private key with a party so that it can decrypt the data. This can only be done by having data from both the donor and recipient system, which requires integrating the data from both systems into a central location, the DCC SOC.

Failure to implement state-of-the-art security systems could leave the network open to failures and attacks. All of the functionality described above helps DCC to deliver a reliable, efficient, and secure ECoS system. DCC’s First Enduring General Objective in its the Licensee is to carry on the Mandatory Business in the manner that is “most likely” to ensure the development, operation, and maintenance of an efficient, economical, co-ordinated, and secure system for the provision of Mandatory Business Services. As such, procuring this functionality was entirely in line with DCC’s regulatory requirements.

As the network which DCC runs is operated to the same standards as Critical National Infrastructure (CNI), it is intuitive that any increases in cyber-security and operational monitoring provide benefits, and we hope the above explanation makes clear the specific and tangible benefits in this case. We would be happy to discuss this further with Ofgem following our submission, if it is still not clear.

In addition to the benefits offered, these changes were necessary in that they were:

1. required by changing industry standards on security monitoring – all CNI is implementing these sorts of measures;
2. were discussed at SSC meetings, where no objections to them were raised.

We explain the evidence behind points (1) and (2) below.

Historically, DCC was required to comply with the Communications Electronics Security Group (CESG) Good Practice Guides (GPG) 13 requirements on security monitoring. However, due to developments in cloud architecture these standards were updated and replaced in order to align with the National Cyber Security Centre (NCSC) cloud security principle. This was recognised in the Smart Metering Key Infrastructure (SMKI) Policy Management Authority (PMA) Guidance document that we have supplied alongside this submission. The document explains that that the SEC requires DCC to comply with various standards, guidelines, and procedures¹ and then goes on to outline that the requirements for Protective Monitoring had been increased.² While this document is dated March 2024 and was therefore written after

¹ SMKI PMA and SSC guidance document, p.1.

² SMKI PMA and SSC guidance document, p.23.

CR4889 was raised, it demonstrates that these additional capabilities were in the process of being codified in DCC's requirements at the time when the CR was raised.

While we cannot submit documentary evidence from SSC meetings, on account of them being TLP Red (i.e. the highest level of confidentiality), we have reviewed minutes of SSC meetings and found evidence of this functionality being discussed in the following instances:

- At SSC 131 0809 2021, held on the 8th September 2021, the initial risk assessment and security controls (including Anomaly Detection arrangements to address historic Transitional Change of Supplier (TCoS) risks) proposals were presented to the SSC. At this meeting we said that DCC "will provide anomaly detection and threat hunting on the Central Switching Service (CSS) provided data and logs as a control." In the meeting minutes (SSC_131_0809 – Confidential Final Minutes) two actions were raised:
 - to clarify the level of personnel screening for CSS;
 - to obtain clarification from DSP of the logic regarding how the interface and function of DSP will work with appropriate security controls, specifically controls regarding the validity of destination Certificates.
- At SSC 136 2411 2021, held on the 24th November 2021, there was an update on controls and architecture to ensure further alignment to expected controls - particularly in terms of cloud hosting of a Fundamental Service. The need for a data feed from ECoS Monitoring to SOC was identified here as the minutes show that we reported that "Interfaces for DCC TOC and SOC are TBC as the design needs the input from the Lot2/3 provider. All data in transit will be secure as per security controls. Requirements can be satisfied with a feed from the providers own SOC or TOC."
- At SSC 149 2206 2022, held on the 22nd June 2022, it was shown that in order to carry out Threat Hunting, the DCC would need to consume security event logs and process these within the DCC Security Information and Event Management (SIEM) platform. The SIEM is a tool used within the SOC, and therefore demonstrates why ECoS Monitoring (which fed data from ECoS to the SOC) was needed. In addition, the daily operation needs of the CoS providers level one responsibilities were to be managed within the Sentinel SIEM.¹ These were all accepted by SCC as being proportionate and adequate to address the known risk in TCoS and address the adoption of public cloud.

As the technical capabilities that the ECoS Monitoring Solution delivers were discussed at SSC meetings and no objections to them were raised, this indicates that they formed a necessary and uncontroversial improvement to our cyber security and monitoring capabilities.

It is also worth noting that this functionality has been added to other contracts, specifically CH&N and DSP. Both of these contracts were signed in RY22/23 or RY23/24 and the costs associated with these were not disallowed which indicates that Ofgem agree the ECoS monitoring functionality delivered by CR4889 is needed. This also demonstrates that the functionality delivered by this CR has been recognised, and therefore integrated, into the broader DCC business.

Why a CR was the only way to achieve the ECoS Monitoring Solution's functionality

DCC confirmed the full technical specification of the Monitoring Solution after the original contract with [REDACTED] for ECoS was signed. Typically, certain functionality can only be designed and implemented once a contractor is onboarded as the design needs to be co-developed. Given this, the only way to add

¹ The specific quote from the minutes is "Sentinel will be used to analyse logs and, identify potential incidents for further analysis which will be escalated to DCC. In order to process these, we will provide event investigation and triage services which will remove false positives before forwarding the incidents on to the DCC. Logs will also be forwarded so DCC can perform threat hunting if required on the raw data."

additional functionality was through a CR. As [REDACTED] had already been selected to provide the ECoS solution (through a competitive process) it was neither possible nor efficient for us to re-tender this element competitively. Doing so would have required two different suppliers to work together in integrating their systems, which would not have been possible due to lack of knowledge of each others' systems, and IP/confidentiality concerns, and would inevitably have driven higher costs and delivery risks in any event.

While we recognise that it may in some instances appear to be sub-optimal to implement a change post-contract signature, it is not uncommon for cooperative solution design to take place after this point. As we also explain elsewhere, enacting CRs as project requirements change is a standard business practice.¹

The counterfactual cost would not have been materially different

While the above two sections have demonstrated why the ECoS Monitoring Solution was needed and why it was necessary to be introduced as a CR, we understand that Ofgem may believe that if the requirement was included in the original contract, it would have been procured more cheaply. Our view is that the cost which we would have incurred, even if the CR was included in the original contract, would not have been materially different to what we did incur. This indicates that very little (if any) of the total cost could be considered as uneconomic or inefficient such that it should be proposed for disallowance, and certainly that disallowing 100% of the cost does not return DCC to the position we would have been in, had the solution been procured as part of the original contract. There are four key reasons for this:

First, [REDACTED]'s bid into the original ECoS tender was based on their understanding of the scope of the program. Given that this was a competitive tendering process, their bid should have reflected close to the minimum compensation they needed to deliver the scope of the project. Due to this, any additional requirements would have necessarily led them to increase their bids to reflect the greater scope. While it is not possible for us to precisely quantify how much this would have increased the bid, it is clear that the additional scope would not have been priced at zero and therefore a 100% disallowance does not reflect an assessment of an economic and efficient procurement.

Second, the evidence presented in section 2 of this response suggests that, where a cost is deemed to be necessary, but a portion may not have been efficiently procured (as Ofgem assert in this case), a more reasonable disallowance seen in regulatory precedent elsewhere is 5-20%. Whether a number closer to 5% or 20% is used is likely to be determined by Ofgem's view of how good our cost control measures were over the CR. As detailed in our submission and again below,² DCC undertook a rigorous attempt to minimise the spend through a strong commercial approach with the supplier.

Third, we worked collaboratively with [REDACTED] to reduce the cost to DCC from an initial price of £9.6m to the final agreed price of £3.4m. This was done by consolidating three CRs into a single CR, updating the volumetric assumptions for the system operation, and removing contractor support for three of the solution areas beyond 31st December 2024. Though this strong commercial approach, DCC reduced the costs by over £6m. We believe that this provides evidence of the fact that we reduced [REDACTED]'s spend as much as possible, and therefore received an economic and efficient service from them.

Fourth, no other supplier would have been able to deliver the entire cost of ECoS (including the Monitoring Solution) at a lower cost than [REDACTED]. This is evident from the internal Black Hat review submitted alongside this response. [REDACTED]

[REDACTED]

In conclusion, we have addressed Ofgem's concern by showing that ECoS Monitoring delivers substantial benefits to DCC's customers was "needed" and was in line with DCC's regulatory obligations. We have also

¹ [This](#) article from Law365 describes change requests as happening "often". Similarly, [this](#) article from Juro, a legal-tech startup, explains that project circumstances change over time, particularly with long-term projects like those which are ran by DCC.

² See the ECoS chapter of our submission, section 1.6.1.

demonstrated that the use of a CR in this case was necessary and, it is a standard part of all business activity that cannot be fully avoided. However, if Ofgem was to view the CR as avoidable, we have provided evidence that a 100% disallowance does not put the end-customer in the same position as they would have been if DCC had included the CR in the original contract as [REDACTED] would likely have increased their price by the same, or a similar, price to what they charged for CR4889. It is therefore unreasonable to disallow 100% of the costs. Where a cost is deemed necessary, but the procurement approach was suboptimal, DCC has shown in Section 2 that there is precedent for disallowance of c.5-15% of the costs.

For all these reasons, we invite Ofgem to reconsider its minded-to position and to allow (or at least substantially allow) the costs associated with this service.

3.2. Service Stabilisation (FOC)

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

This section 3.2 of our Consultation Response addresses Question 2 and responds to paragraphs 3.62 to 3.74 of the Consultation. Our spend on Service Stabilisation was split into five areas:

- Maintenance releases.
- Operational incidents.
- Device recovery changes.
- Certificate rotation.
- “Opt in / opt out”.

Ofgem proposes to disallow 50% of the spend associated with the first three areas because it did not agree with the balance of risks that we had struck with our suppliers in our contracts. Specifically, this disallowance referred to Ofgem’s view that, when a supplier defect has an impact on the DCC network, the supplier should not only fix the defect they caused (which our contracts did provide for) but should also cover any other costs that DCC incurs as a result of other users of DCC’s network being affected (known as consequential costs, which our contracts do not provide for).

Ofgem also proposes to disallow 100% of the spend associated with the last two items that, as we explained in last year’s submission,¹ were not actually related to FOC Stabilisation, but were incorrectly coded to it in our SAP system. These two areas were certificate rotation, which Ofgem proposed for disallowance on the basis that it thought the solution was not suitable, and “opt in / opt out”, which Ofgem proposed for disallowance because this spend had not been authorised by BEIS (now DESNZ).

Maintenance releases, operational incidents, and device recovery changes

We disagree with Ofgem’s position on maintenance releases, operational incidents, and device recovery changes (i.e. the first three items above) because there is no basis on which to believe that customers would have received better value for money if we struck a different balance of risks with our suppliers in the contracts. A change in the risk allocation within the contracts, to pass the risk of consequential costs to our suppliers, would have necessarily increased the costs that those suppliers charged us to deliver the services. We explain this in detail below.

Our approach to contracting has historically relied on a limited version of the “polluter pays” principle. Under this principle, a contractor that performed an error is liable to pay for it. However, the extent to which a contractor is exposed to the full implications of their error can vary. The limited version of the principle only exposes the contractor to the remedial work required, while a broader version requires them to pay for all downstream damages (e.g. if a user of DCC’s network suffers a loss as a result of the error

¹ DCC response RY22/23, section 4.2.3.

that the supplier made). The legal terminology for this relates to whether the supplier is or is not exposed to “consequential losses” and is an important aspect of risk allocation (and so price).

By proposing these disallowances, Ofgem’s view appears to be that all contracts should expose suppliers to consequential losses, as DCC would not then incur any costs at all when suppliers perform errors. As Ofgem has made this point to us in previous price controls, we have now adjusted our approach to contracting so that it includes a broader version of the “polluter pays” principle.¹

However, as we cannot adjust how the “polluter pays” principle is built into our older contracts. In respect of these historical contracts, DCC believe it was reasonable for us to adopt a narrower version of this principle for the following reasons.

First, DCC was employing normal commercial practice in having a narrower version of the principle. This is supported by the view of law firms, such as Harper James,² who discuss exclusion clauses as a means of suppliers protecting themselves from consequential damages, and a study of 647 software end-user Licence agreements which found that 90% **disclaimed** consequential damages.³

Second, it is intuitive that inclusion of consequential damages would increase the upfront cost of all contracts. If these broader provisions were adopted, while it is true that DCC would not have to pay out for costs associated with errors made by suppliers, we would have had to pay more for all of our contracts in the first place, as this risk would be priced in. The standard commercial practice, as set out in the prior paragraph, is for the supplier to not bear this risk, and so give a cheaper price to its customer – this is a market solution to allocating risk and cost. It is reasonable that we adopted this practice to deliver value for money, until Ofgem’s regulatory approach required us to adopt a difference approach.

In our view, it is clear that, due to differing risk appetites between buyers and sellers, different contracts will contain different levels of protection for consequential damages. As consequential damages are generally relatively infrequent, and can also be of high-impact, standard economic theory predicts that the seller will charge a risk-premium for taking liability for these losses. If the seller is risk-averse, this risk premium will be, by definition, higher than the expected value of the loss.⁴ The extent to which the risk premium exceeds the expected value will increase the less probable and higher impact the consequential damages could be. In many cases, it may therefore be more economical for the buyer to absorb the consequential damages themselves.

Ofgem explains that they propose to disallow 50% of our expenditure on items that were subject to the narrower version of the “polluter pays” principle. As this amount totalled £0.487m, this means they consider us to have incurred £0.974m of additional costs. We note that, if using the broader definition of the “polluter pays” principle was applied to our entire external costs contract base, suppliers would only need to increase their bids into our tenders by 0.2%⁵ for it to have been cheaper for us to use the narrow version of the “polluter pays” principle. While it is impossible for us to tell exactly how much more suppliers would have changed us if we exposed them to consequential damages, it seems likely that this would be more than 0.2% given that they would be exposing themselves to potentially substantial costs outside of their direct control. Due to this, we consider that our use of narrower versions of the polluter pays principle provided better value for money to the consumer than the wider version preferred by Ofgem and propose that the disallowance should be 0%.

¹ See email “FW ACTION Request for Info - please respond by COP 14 Feb” previously sent to Ofgem.

² [What is indirect or consequential loss?](#)

³ Zamir, Farkash, “Standard Form Contracts: Empirical Studies, Normative Implications, and the Fragmentation of Legal Scholarship”, p.3.

⁴ The theory outlined in this paragraph is standard economic theory on decision-making under uncertainty. See for example Varian (2017), “[Intermediate Microeconomics](#)”, section 12.5.

⁵ Calculated by dividing £0.974m by £483m, which is our total spend on external costs in RY23/24. [Ofgem Consultation](#), Table 1.1.

Certificate rotation

We disagree with Ofgem's view that the certificate rotation was unsuitable and therefore the spend should not be proposed for disallowance because:

- As Ofgem acknowledge on page 47 of the Consultation, certificate rotation is an important (indeed "mandatory") activity that DCC needs to perform.
- The costs we incurred on certificate rotation were on a Full Impact Assessment (FIA) that was necessary to identify whether a more economical solution was needed.

Whenever DCC is developing a solution and needs to make a technical change, we conduct a Full Impact Assessment (FIA) as per our standard procedure and consistent with standard industry practice. While such an assessment typically takes two weeks, in the case of complex changes such as this our standard procedure is to request full technical specifications from a service provider through a Preliminary Impact Assessment (PIA). We raised CR4819 with [REDACTED] to conduct this PIA, which cost £95,000. The PIA identified that a cheaper solution was possible, so we paused work on the CR and issued a new contract for work from [REDACTED] and [REDACTED].

The tables below show that, as a result of the PIA, DCC avoided paying for a contract with total costs of £2.6m. Switching from the original contract to an alternative option has reduced the cost to less than £0.7m, a substantial saving.

Original contract costs

Change	Supplier	Max CR FIA Costs	PIA	Total	Incurred	FY23-24
CR4819	[REDACTED]	£2,637,110	£94,759	£2,731,869	£94,759	£94,759

New (lower) contract costs

Change	Supplier	Cost	FY23-24	FY24-25
CR4819	[REDACTED]	£94,759	£94,759	
PR7909	[REDACTED]	£5,800		£5,800
PR7963	[REDACTED]	£548,000		£548,000
PR7963	[REDACTED]	£44,669		£44,669
Total		£693,228	£94,759	£598,469

Due to the fact that the expenditure on the PIA was the only way to identify a lower-cost solution, we believe that the disallowance should be 0%. The regulatory regime should encourage us to undertake (and be funded for) preliminary analysis to assess whether incurring a large cost is worthwhile – and if it is not, to not to ahead with the large cost.

Opt-in opt-out

“Opt-in opt-out” (OIOO) is a piece of work that has been applied to our systems in previous years.¹ Its role is to enable smart meters to opt in or opt out of the collection of half-hourly reads, and it was included in the overall requirement and spend envelope for the FOC programme, which was agreed between DCC and BEIS. Specifically, it was included as part of the R2.2 phase of the FOC programme and Ofgem has never disallowed spend on it previously.

Last year, an element of the OIOO solution developed a defect. We discussed this defect with [REDACTED], but their view was that there was no defect with the solution and that, instead, additional work that was not in the scope of the project was needed. After this discussion, we agreed to pay them to correct the defect. The disallowance referred to by Ofgem relates to this payment.

In our view, the crux of the issue for this disallowance is a question of whether or not it is reasonable for us to have incurred the costs of fixing the defect. Our view is that, given that it was not possible to prove contractual liability for this issue lay with [REDACTED], the only option we had was to pay them to fix the defect. Disagreements with suppliers on these sorts of issues are a normal part of business relations, although we understand that it is likely to be Ofgem’s view that we should have better-defined the scope of the project up-front. We therefore request that Ofgem places some weight on the fact that the item we incurred expenditure for was one which forms part of standard BAU operations. We therefore believe it would be reasonable to share this cost with customers and suggest a disallowance percentage below the 100% proposed.

3.3. Device Swap Out

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

This section 3.3 of our Consultation Response addresses Consultation Question 3 and responds to paragraphs 3.75 to 3.83 of the Consultation.

In the absence of a Device Swap Out service, where certain end consumers’ smart metering systems lose functionality, the usual option would be to replace the entire system. The Device Swap Out service allows for individual components to be swapped out where defined technical criteria allow this. Swapping out individual components rather than the entire infrastructure in consumers’ homes reduces the costs of reestablishing smart functionality. It is therefore significantly more cost-effective than alternative solutions.

When the SMETS1 programme was established, consideration was given to whether the Device Swap Out functionality should be provided by default across all cohorts for all customers. The decision was taken by government, with input from customers, that only a relatively small number of consumers’ systems were affected and therefore developing a universal solution that only a few suppliers would use would not be efficient. Instead, an obligation was inserted into the SEC (H5.7) that where there was a requirement from a SEC party for the service, it must be provided, assuming that there was a business case that government was willing to support.

Ofgem has proposed for disallowance all expenditure, beyond the proof of concept, to provide a Device Swap Out service in RY23/24 for [REDACTED]. It argued that DCC did not have approval from government to spend more than the costs of developing a proof of concept for the [REDACTED] cohort. On 25th November, 2024 DCC provided Ofgem with an email from DESNZ confirming that DCC should proceed to provide the full service. This email also confirms that DESNZ was aware of the estimated costs of £9.2m, and that the business case showed net positive benefits which justified this expenditure. In the

¹ The progress of OIOO was discussed in March 2022. See slide 2 of “FOC Stabilisation - Internal Programme Steering Group 15th March 2022”.

circumstances, we consider that Ofgem's primary reason for proposing to disallow these costs no longer applies.

Ofgem also questions why the costs of developing the solution for [REDACTED] (including the costs of unwinding the solution following its decision to withdraw interest) should be borne by customers. In May 2022, DCC conducted a formal public consultation¹ on providing the service. This consultation included the appropriate charging methodology to be applied. Without changes to the prevailing general charging arrangements, the costs of Device Swap Out would be smeared across industry as a core service. DCC already provides a swap out service for Prepayment Meter Interface Devices (PPMIDs) for certain suppliers – identical in concept to Device Swap Out where the costs are smeared across industry – so the expectation across SEC parties was that customers would collectively fund the service.

In August 2022, DCC published its conclusions document.² Customers' views on whether the costs should continue to be smeared, targeted, or amended in other ways were mixed. DCC recommended that any changes to the charging arrangements for Device Swap Out was a matter for DESNZ as the owner of the business case. DCC has provided Ofgem with a further email from DESNZ (from 16th November 2022), in which DESNZ wrote to DCC stating it would not intervene in the charging arrangements and that customers could raise a SEC modification if they had concerns. No SEC modification was raised.

Subsequently, DESNZ directed DCC to produce a Joint Industry Plan (JIP) for developing the Device Swap Out service for [REDACTED]. Governance of the plan to develop the service was fully visible to SECAS and SEC Parties, with a formal Joint Industry Plan (JIP) milestone (JM9077) being agreed for November 2023. On the path to agreeing the JM9077, DCC engaged with the SEC Panel, Technical and Business Design Group (TBDG), Industry Managers Forum (IMF), and Testing Advisory Group (TAG).

DCC engaged extensively with [REDACTED] to develop the requirements for the service. We have shared with Ofgem records of meeting them 18 times to discuss and develop the service, including detailed sessions on the design specification and the prerequisites that [REDACTED] would need to have in place in order to access the service. [REDACTED].

[REDACTED]

[REDACTED] Indeed, DCC has at all times acted in accordance with its mandatory obligation prescribed by the SEC. As such, DCC strongly believe that is not appropriate for these costs to be disallowed and request the full amount to be returned to DCC.

We have provided a large volume of supporting evidence in appendix EC06.

3.4. SMETS1 interim DCO contract

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?

This section 3.4 of our Consultation Response addresses Consultation Question 4 and responds to paragraphs 3.84 to 3.93 of the Consultation. Ofgem has proposed to disallow £0.437m of costs incurred in RY23/24 on the grounds that they exceeded the costs that the contract's inflation indexation would have allowed for. In Ofgem's view, this reflected the fact that we had not been able to effectively manage the costs of this interim contract.

¹ [DCC consultation on Device Swap Out | Smart DCC](#)

² Ibid.

We have not received any detailed calculations that explain how Ofgem calculated the £0.437m disallowance. Due to this, we cannot forensically investigate Ofgem's concern and provide a specific and detailed response. Instead, we provide an explanation of how the total costs of the DCOc contract evolved. The narrative below is supported by the "DCO Annual Contract Spend FY2324" spreadsheet that we have provided alongside this submission.

First, the increase above inflation is not an additional or surprising cost but rather reflects what was agreed as part of the service (which we explained in our submission was procured competitively). The contract specified that the base operational charges would increase month-on-month. They increased from £0.177m in January 2023 to £0.185m in February 2023, then £0.193 in April 2023 and £0.210 in August 23. These costs were agreed within the contract and the 8.7% indexation that Ofgem refers to explains the increase in August 2023 only.¹ This can be seen by reviewing the line items called "DCO primary hosting" and "DCO secondary hosting" in the underlying spreadsheet.

Second, after the DCO entered operation, we became aware that further operational requirements were needed to enhance and future-proof the service. This is standard practice following the launch of a service into operation when it becomes easier to observe how the service works in practice and so can be adapted as necessary. Specifically, our IT capacity forecasts increased relative to when we first procured the solution, so we realised that we needed additional servers and/or disk space. The trigger for realising that the capacity was insufficient was that the Managing Agent, [REDACTED], observed sub-optimal performance. The way [REDACTED] work is that, once they observe that a capacity threshold had been breached, or a performance deterioration is observed, these must be addressed to ensure that [REDACTED]'s operational SLAs were met. This type of adjustment can be classed as "tuning" of the service. This is no different than the work [REDACTED] would have undertaken when they were responsible for the management of the UK Cloud estate, however the mechanism for implementation was transformed post project Civet; formal engagement with Capita through Change Control was a necessity, given that [REDACTED] were no longer empowered to make these changes.

Without these additional capabilities, the service quality and availability would have been at risk. To achieve these operational requirements, several CRs were agreed and signed prior to the start of RY23/24, all of which were driven by a need to minimise the risk to DCC's service. The use of CRs in this way is standard industry practice² as circumstances change and upgrades or expansions of existing programs are needed.

As explained in our submission, the DCO allows us to detect if a SMETS1 Service Provider is compromised and to prevent a mass meter attack as a result: therefore, any risks to this service could leave SMETS1 meters open to cyber-security risks. Failing to do this would leave us non-compliant with our Licence and SEC obligation around Section G compliance.

As is typical for this kind of activity, a number of changes were delivered during RY23/24 through CRs. The full detail of these CRs is provided in the sheet "CR2324" of the workbook "DCO Annual Contract Spend FY2324" – however to assist Ofgem in understanding what these CRs provided, the three largest were as follows:

- CR4996 was required to provide the necessary volume of servers with the latest MySQL technology. MySQL is a relational database management system, allowing for DCO+CP Servers to be easily configured and managed. Failure to upgrade this would result in the software no longer being on a version which the supplier provides support against. Therefore, all transactions would be at risk should an issue arise. The costings of £174,628.64 covered the parallel run and build of the new servers, followed by the decommission of the old servers.

¹ As can be seen in the underlying spreadsheet, the spend in July was £387,821.55, while in August it was £421,562.02, which is exactly 8.7% higher.

² This article from Law365 describes change requests as happening "often". Similarly, this article from Juro, a legal-tech startup, explains that project circumstances change over time, particularly with long-term projects like those which are ran by DCC.

- CR4952 upgraded the Mirantis cloud-hosting software used in the CP environments; Mirantis is an open-source cloud software which the CP relies upon for the hosting of the Systems Integration Testing (SIT), User Integration Testing (UIT) and live Service (PROD). The version deployed (i.e. the pre-upgrade version) would have reached End of Life phasing and therefore DCC could not ensure the stability of the platform, nor could the latest security patches be introduced to any of the environments. This change incurred an ongoing charge of £154,162.00 for the required servers.
- CR5037 also provided a necessary update to the Service Infrastructure Red Hat Enterprise Linux (RHEL) is the Operating System which DCC uses for the DCO Service. If this change had not been progressed, DCC would have been in violation of its Licence Obligations. Condition 5 of the Smart Meter Communication Licence dictates that the Licensee is to operate in the manner that is most likely to ensure the maintenance of an efficient, economical, co-ordinated and secure system. RHEL v7.9 (which was being used prior to this Change Request (CR) being approved and signed) would have been at end-of-life stage in June 2024 and failure to upgrade this Operating System would have meant that Maintenance Support for the DCO application ceased. The value of this change was £356,724.83 and was realised over an 8-month period, this covered the rollout of the servers and decommissioning of those which were no longer required.

These CRs were not a part of the original contract as the need for these only became apparent after the DCO service started operating. Given that the Service was implemented on an emergency, interim basis, following the liquidation of UK Cloud (which was fully beyond our control), the enduring requirements were simply not known at the initial stage. DCC and the DCOc provider could not foresee capacity requirements, nor that numerous components of the Service Infrastructure would be entering end-of-life phasing during RY23/24.

We strongly consider that the entirety of this spend is well-justified, economic and efficient. However, if Ofgem does decide that some percentage of this spend does not meet these criteria, we believe that the disallowance should not be set arbitrarily at 100% and, instead, a lower percentage that reflects the value of the CRs should be used. Setting the disallowance at 100% does not take into account the fact that, as the DCOc contract was procured competitively, any increase to its up-front requirements would have necessarily attracted a higher winning bid. While it is hard to determine any specific percentage below 100% that Ofgem could use, we note that in other areas where Ofgem is unsure about the precise percentage of disallowance,¹ it has used 50%, and we have set out in section 2 a range of precedents that Ofgem could apply if it believed that a proportion of spend was inefficient (between 5-20% of cost).

3.5. DSMS Spend

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

This section 4.5 of our Consultation Response addresses Consultation Question and responds to paragraphs 3.94 to 3.99 of the Consultation. Ofgem propose to disallow the entirety of a £0.300m expenditure on work that we procured from [REDACTED] under PR7707 because they perceived that it had not been “procured on a competitive basis”.

Despite being listed under DCO spend in our submission, this item of expenditure was actually procured from [REDACTED] for work to be undertaken on the DSMS. As was explained in our submission, the purpose of DSMS is to provide the platform for the day-to-day interactions between DCC and its

¹ See for example para 3.71 where DCC disallows 50% of costs – we understand this 50% to reflect the fact that Ofgem does not have the means to identify the precise proportion of the costs that should have been shoulder by DCC versus its suppliers.

customers, allowing service-related incidents to be raised and tracked to resolution. It also enables DCC to surface data management information for customers to access from the Self-Service Interface (SSI).

As explained in our submission, DSMS is currently supported by software from Remedy. DCC is looking to replace this with a solution from ServiceNow, which we explained was the preferred option of both DCC and our customers, as shown in the Strategic Outline Case we prepared. The procurement of PR7707 formed part of this change, as evidenced from the below scope of work:

"[REDACTED] are requested to conduct a discovery/enabling activity for OMS/DSMS for the period of 19th June 2023 to 29th September 2023. The scope is –

1. *[REDACTED] to sign Statement of Work with Service Now for a value of £50,000 for ServiceNow Assurance services.*
2. *Delivery of the DSMS & OMS foundation design and build on the ServiceNow platform.*
3. *Documentation of the artifacts required for Product Integration Testing including Test plans and scripts.*
4. *Run & Manage design workshops for 4G OMS including low level designs and integration with CH&N core components"*

While Ofgem has not explained precisely why they believe that the procurement was not undertaken on a competitive basis, we understand that this is likely to be because PR7707 was awarded to [REDACTED] on the basis of a contract that they had signed for delivering DCO services. While it is true that the contract was not competitively awarded, we believe that a direct award was needed to perform a short piece of discovery work that, as the screenshot from our Contract Management System (CMS) below shows, was needed to prevent any delays to the integration of the DSMS Order Management System with the CH&N system in January 2024.

Reason for PR

This PR is required to provide Capgemini with commercial cover to complete discovery activities to support OMS entering into SIT in January 2024 and mitigate risk to CH&N core services.

Project Definition / Business Objectives

This activity is required to support the DSMS OMS business objectives.

Impact of Not Progressing PR

Non approval of this change will prevent Capgemini from starting discovery activities and signing the SOW with ServiceNow. This will delay the OMS solution being ready for CH&N Systems Integration Testing in January 2024 and potentially the delivery plan for the CH&N programme.

Following an exchange of letters with Ofgem and DESNZ, DCC halted the work. However, the £0.300m that was spent on this initial discovery work prompted DCC to set up the Service Management Working Group (SMWG), to actively engage and solicit user or practitioner input from a good representation from across industry, to ensure the requirements used in the competitive procurement exercise were aligned with the needs of industry users. As a result of this, the final procurement of the underlying services for DSMS was better-scoped than it otherwise would have been.

We accept that we are required by our Licence to competitively tender for our services. It is rare for us not to do so, and we have strengthened our internal processes and controls so that competitive tendering is always undertaken. Due to this, we understand why Ofgem has chosen to disallow this expenditure, although note that it still delivered some benefits, as specified in the above.

3.6. CSP-C&S (GBCS4.1)

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)?

This section 3.6 of our Consultation Response addresses Consultation Question 6 and responds to paragraphs 3.100 to 3.106 of the Consultation.

Ofgem has proposed for disallowance costs of £0.515m associated with CR4727. This CR was included within the costs of GBCS release 4.1. Ofgem proposes to disallow 50% of the costs of the CR on the grounds that it covers defect and incident fixes and remedying of operational issues.

First, DCC wishes to ensure the scope of this CR is clear as we believe Ofgem may have misunderstood what it includes. CR4727 covers the post-PIT exit costs of additional support on SIT, EOC, Pre UTS, UIT and Pilot to achieve a successful Operational Acceptance for Mass OTA and a successful decision to proceed with the Mass Manufacture Decision. VMO2 was required to ensure that the quality of the SIT, UIT and Pilot phases were within the agreed defect mask with the DCC Test Assurance Team for SIT and Operations for UIT and Pilot activities. All of these technical activities were required to maintain compliance with the SEC.

In the consultation document, Ofgem describes one of the activities it is disallowing as “Defect fixes and production incident fix for two parties within DCC’s supply chain”. This is a misreading of the scope of the CR as all of the costs relate to VMO2. The reference to others providing support in the description of the CR related to equipment provided by those companies to VMO2.

The scope of the CR is as follows:

1. SECMP0007 – Delivering mandated over the air firmware updates to PPMID.
2. CRP649 & CRP613 – Comms Hubs changes to address operational issues associated with re-joining Gas Smart Metering Equipment (GSME).
3. TOSH Defects – Silab stack 6.7.10 is to be used, 15 defect fixes along with 1 production incident fix.
4. WNC Defects – Silab stack 6.7.10 is to be used, 11 defect fixes along with 1 production incident fix.
5. EDM1 Defects – Sensus WAN SDK that improves Firmware download performance, 25 defects fixes.

We believe Ofgem may be under the misapprehension that some of these costs (at least for activity 3 and 4 above), relate to costs that VMO2 has paid to other service providers to fix defects – this is not the case. These costs were all incurred for work undertaken by VMO2, with items 3, 4 and 5 relating to equipment provided to VMO2 by manufacturers within the company’s supply chain.

As we have discussed with Ofgem previously, defect fixes and production incident fixes are a normal part of any software release, including SEC releases delivered by DCC. Bundling a number of smaller changes (including any required fixes) into a larger release, and testing these all together, is more cost effective than taking a piecemeal approach to individual changes. This allows those fixes and upgrades to be delivered at minimal incremental costs compared to the cost of the wider release package.

In this case, given that the activities listed above within the scope of this CR are not critical fixes, DCC was able to wait until there was a scheduled SEC release that these could be bundled into in order to minimise costs to customers. Customers have also told us they want DCC to minimise the number of firmware releases per year, which this also helps DCC to achieve. Whilst it is impossible to quantify the proportion

of costs related to individual elements within a wider release, the approach taken to bundling these changes into the GBCS 4.1 release, means it is likely to be a very small proportion of the total.

The defect mask (acceptable levels of defect fixes) for GBCS4.1 was approved by Testing Advisory Group (TAG), with none of the defect fixes being in the severity 1 or 2 category. Given this, it is not appropriate to disallow any of the costs for these fixes as it would undermine the authority of TAG to approve defect masks for releases. Similarly, the Comms Hub changes required under activity 2 above are not abnormal or critical in nature, they are simply part of delivering minor improvements in an economic and efficient manner.

We disagree with Ofgem's statement that DCC was unable to explain why it was necessary to include the costs associated with operational issues, defects and incident fixes. DCC has a well-defined process in which our service providers put forward suggested fixes and improvements for inclusion in forthcoming SEC releases as part of the usual process of maintaining compliance with the SEC. DCC scrutinises the suite of improvements and agrees which ones should be delivered in the relevant release. The number and type of defects are then approved by TAG. DCC then ask the service provider to submit an impact assessment so that we can scrutinise and challenge the costs. As Ofgem accepts in the consultation document, we negotiated the costs of CR7427 down by 29% during this process, underpinning DCC's argument that the costs were both economic and efficient.

Ofgem's disallowance of SEC Mod 007-related costs is based on an ongoing concern that it has proven significantly more expensive to deliver than the Change Board was led to believe. As we have previously demonstrated, the information provided to the Change Board on the costs of SEC Mod 007 excluded the post-PIT testing costs which are only known once the testing approach is agreed with TAG. This was made clear in the Impact Assessment for the modification, in discussions with the mod group and the Change Board and so was well understood by industry. TAG approved the testing approach for SEC Mod 007. However, TAG does not assess the costs of the testing approach, its role is purely to validate the technical release strategy.

If there are issues with the way the governance works between DCC, SECAS's Change Board, TAG and Ofgem this should be resolved in those forums, rather than penalising DCC under the price control process. As DCC has previously discussed with Ofgem, we have already started working on providing more transparency on post-PIT testing costs to the SEC Panel. However, this is not a new issue and there has been plenty of opportunity for SEC parties to raise a modification if they were concerned. We strongly argue this is an industry-wide issue and, as such the costs should be industry-funded rather than funded by DCC through a disallowance.

3.7. TAF Delay Payments

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

This section 3.7 of our Consultation Response addresses Consultation Question 7 and responds to paragraphs 3.107 to 3.113 of the Consultation. Ofgem propose to disallow the entirety of the £0.740m of expenditure that was related to the delays because they believe that we had provided insufficient evidence on the reasons for missing the project milestone.

The Test Automation Framework (TAF) was a solution that was approved by BEIS and which sought to improve the quality of DCC's testing. This was in response to the fact that DCC stakeholders identified that regression testing had not always picked up issues prior to User Integration Testing (UIT).¹

¹ TAF FBC, section 1.2.

The TAF delay payment occurred because DCC missed a key milestone to prepare the lab infrastructure for [REDACTED] delivery of robots, and so had to sign a CR for the delivery to take place at a different time. This is explained in the CR001 document provided alongside this response,¹ as well as the structural report.²

DCC went through a rigorous process to identify the best option. The table below, taken from the TAF Cost Impact presentation submitted as part of this response, shows that DCC was presented with four options: A, A', B, and B' for the installation of the cabinets for the robotic testing arms. Options A and B differed from each-other in the number of cabinets that the Operations test was conducted on, while the difference between A and A', or B and B' was in the fact that the latter had a slightly later go-live date.

Option	SIT 1	SIT 2	TTO during Milestone 8	Critical Dependency	Test Complete (M7)	Go Live (M8)	First Use (M9)
A	Usage of 1 cabinet in each phase i.e. total 2 cabinets* (8 Robotics)	Transition to Operations Test is done for 2 cabinets* (8 robotics)		Cabinet readiness 30-Sep-2023	29-Feb-24	15-Mar-24	29-Mar-24
A'				Cabinet readiness 15-Oct-2023	15-Mar-24	29-Mar-24	15-Apr-24
B		Transition to Operations Test is done for 35 cabinets (140 robotics)		Cabinet readiness 30-Sep-2023	29-Feb-24	15-Apr-24	15-May-24
B'				Cabinet readiness 15-Oct-2023	15-Mar-24	30-Apr-24	31-May-24

DCC selected option A', which we believed was appropriate because option A was cheaper than option B (see the TAF Cost Impact presentation), and A' provided us with more time to prepare the lab infrastructure than option A.

While it was necessary for us to sign the CR to allow for the contract to go ahead, it would of course have been preferable for us to have identified the issue with the lab infrastructure ahead of time. However, this assessment is made with the benefit of hindsight. We do not believe that it is reasonable for Ofgem to expect that we would have been able to foresee this because the issue with the robot weights was a low probability event. By their nature, not all low probability events can be foreseen, and the issue of robot weight falls into this category for the following four reasons:

- DCC had already conducted a rigorous risk assessment as part of its FBC that covered a large number of areas.³ The main risks that we identified were related to the inability of delivering the TAF solution and that the volume of testing outweighs the number of functioning robots that can deliver the testing.⁴ The FBC was approved by BEIS which indicates that they did not consider our approach insufficiently rigorous. This demonstrates that we performed our due diligence and that the issue which materialised, while a learning for the future, was not something that we **should** have identified.
- Not only did we conduct a risk assessment as part of the FBC – we also identified that a refurbishment of the lab was required.⁵ This led us to estimate a cost of £0.148m for [REDACTED], the contractor that we were planning to use at the time.⁶ This demonstrates that we considered issues that were specific to the lab as part of the FBC and risk assessment process.
- During the tendering process, DCC was presented with several different robotic solutions and, until the decision was made it was unclear which robotic solution we were installing in the labs.

¹ CR001 document.

² Structural Report.

³ Full details of risks can be found in TAF FBC, section 5.3, section 6.7, Appendix A, Appendix C.

⁴ TAF FBC, section 2.3.

⁵ TAF FBC, section 6.1, quote "Configuration of Brabazon House test labs to support TAF solution".

⁶ TAF FBC, Appendix D.

Therefore, performing the work on the labs earlier (i.e. so that no delay could have occurred) was not a realistic option for us, because if the robots had been lighter, this would not have been needed.

- DCC already had multiple cabinets containing device combinations including Communication Hubs, ESMEs and GSMEs mounted on the walls within the Brabazon House labs. As there had been no weight issues with these installations, considerations of potential weight impact from additional robotic arms were not believed to be an issue.

Furthermore, the TAF delay payments were increased because of the emerging requirement to competitively tender the additional work that was needed to reinforce the labs. The smaller refurbishment that was going to be performed by [REDACTED] was below a spend limit that justifies competitive tendering but, with the increase in construction need, we identified that there was a risk of disallowance at price control.¹ The competitive tendering process subsequently undertaken increased the delay by 3 months.²

We understand that, even if Ofgem agrees (as a result of the above explanation) that we could not have reasonably predicted the issue with the robot weights, it may still question whether we acted as quickly and efficiently as we could once the issue was identified. However, we would dispute this as, as soon as we first became aware of the weight issue in March 2023, we immediately instructed a structural survey to be carried out to understand the impact and any required works. Following this, we engaged in a competitive tendering process to perform the additional construction work and engaged with [REDACTED] to identify how they could adjust their delivery of robots (as explained at the start of this section). We believe we acted as quickly and prudently as possible once the relevant information came to light.

Due to the above, we believe that it was reasonable for us, as a non-robotics company, not to have foreseen that the site could not hold the combined weight of the robots. Once we became aware of the issue, we acted as quickly as possible to resolve the issue. To the extent that Ofgem considers it reasonable to hold us partially responsible for the issue, we request that the disallowance is reduced from 100% to, for example, 25-50%.

¹ Test Automation Framework Deep Dive, slide 6.

² Test Automation Framework Deep Dive, slide 6.

4. Internal Costs

Summary

Payroll costs: Ofgem has proposed to disallow £5m of payroll costs from the 4G CH&N programme, Service Delivery Professional Services Practice, and Future Connectivity programme.

In relation to the 4G CH&N programme, Ofgem propose to disallow 50% of the variance between the RY23/24 incurred cost (£7.4m) and the committed cost forecast derived in the RY22/23 price control review (£0.8m). DCC has demonstrated that the £0.8m 'forecast' from the RY22/23 review is not a relevant comparator and does not provide a useful basis for assessing performance. The £7.4m incurred was actually £1m below our Annual Business Plan, representing a significant saving for customers. RY23/24 was the peak delivery year for the CH&N programme during which critical activities were delivered, and the programme remained on time and within the overall budget approved through the Green Book business case.

In relation to the Service Delivery Professional Service team, Ofgem propose to disallow 100% of the variance between the RY23/24 incurred cost and the RY22/23 incurred cost. DCC has demonstrated that variances in sub-function costs are driven by changes in the cost allocation methodology (through implementing a new time recording system in RY23/24 which has improved the accuracy of cost allocations between functions and programmes). Adjusting the RY23/24 actuals to account for resources deployed in other functions, creates a like-for-like cost in RY23/24 of £2.597m, which was only £0.494m above RY22/23 and close to the ABP. We disagree with Ofgem that there should be any disallowance as we consider that all these resources were required during RY23/24. However, if Ofgem applies the same methodology as in its consultation document it should disallow at most £0.494m, not £1.624m.

Benchmarking: Ofgem's proposed disallowance of £0.5m does not reflect the £3.3m of net savings made relative to our benchmarks. We believe that disallowing the £0.5m related to roles over benchmark and ignoring the £3.8m of roles under benchmark is not good regulatory practices and does not reflect the realities of operating a business across a portfolio of activities.

Planning, Scoping and Resourcing: Ofgem propose to disallow £6.09m expenditure associated with Planning, Scoping and Resourcing projects where DCC has used consultancy resource. DCC explains that the use of consultants has more value/benefits that Ofgem assumes and is standard practice across all organisations. Ofgem has provided its assessment of the counterfactual costs should DCC have resourced these initiatives using permanent or contract resource. DCC welcomes this approach but has identified flaws in Ofgem's assumptions and calculations. Correcting the analysis to reflect the correct profile of resources across the assignments and ensuring the correct mapping of roles to benchmarks, reduces the disallowance by £0.74m. DCC has also reviewed Ofgem's assumption around the split of permanent and contract resources for each assignment. Adjusting for a more realistic mix would reduce the disallowance by a further £3.0m, taking the total down from £6.1m to £2.3m.

Business Transformation: The Business Accuracy Programme (BAP) delivered improvements across a number of specific initiatives with a defined scope. This programme ended in July 2023. Clearly improvement activities are an ongoing feature of all organisations and DCC will continue to make these kinds of changes as the business evolves. Ofgem has chosen to group all business transformation activities under BAP and propose to disallow £4.1m of cost. DCC has shown that, whilst some of these activities (amounting to £1.5m of costs) are within the scope of BAP, the remainder (£2.6m of cost) were not. We understand that Ofgem may choose to disallow items within BAP due to historical precedent, although DCC continues to believe that this programme delivered significant benefits (as evidenced in the closure report). DCC has evidenced below that activities related to Commercial Management and e-procurement, implementation of the PRINCE2 methodology within DCC, support to the OneData reporting processes, are not part of BAP and deliver material benefits to the business.

4.1. Payroll Costs

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

This section 4.1 of our Consultation Response addresses Consultation Question 10 and responds to paragraphs 4.10 to 4.30 of the Consultation.

Question 10 relates to Ofgem's proposed disallowance of £5.031m of DCC resource costs associated with the following DCC Cost Centres:

- Network Evolution Programme
- Service Delivery
- Operations

In the following paragraphs, DCC will address the proposed disallowance in each of these three Cost Centres in turn, explaining the nature of the resource costs incurred, how that resource supported DCC in its provision of the Mandatory Business required by the Licence, and why it was economic and efficient to incur those costs in the circumstances.

4.1.1. Network Evolution Programme – 4G Comms Hub & Network programme

Ofgem has proposed to disallow 50% of the difference between the RY23/24 forecast for the 4G Communications Hub & Network (4G CH&N) programme payroll costs contained in the RY22/23 submission and the RY23/24 spend (a variance of £6.583m, 50% of which is £3.296m) due to a lack of justification for why the spend was needed. Ofgem found that the activities in RY23/24 largely mirror those DCC forecasted in its RY22/23 submission.

Below we provide evidence on why the spend was needed and why it has increased from the price control forecasts for RY22/23. We consider there are three key areas:

- The CH&N programme is subject to robust governance and is on track and on budget
- Price control forecasting approach has changed between RY22/23 and RY23/24
- RY23/24 was the critical year of activities for the CH&N programme lifecycle

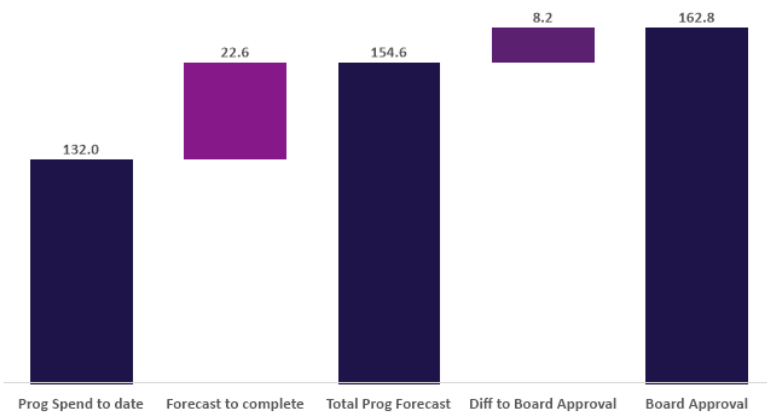
The 4G CH&N programme is subject to robust governance and is on track and on budget

As the programme was forecast to cost significantly more than £10m, the LC16A-C provisions in DCC's Licence were triggered. This means that DCC must produce a Green Book business case and gain governmental approval at each stage of the process to move from Strategic Outline Business Case (SOBC) to Outline Business Case (OBC) and finally Full Business Case (FBC). The obligation to produce these HM Treasury-style business cases supersedes production of a standard DCC sourcing strategy. We therefore expect that the detailed level of scrutiny that DCC's business cases are subjected to provides confidence to government and the regulator that the activities are value for money within the definition of DCC's licence obligations.

We provide monthly updates to our Programme Governance Board (PGB), where we track our resource and non-resource costs against budget and our delivery against our schedule. The figure below shows that in our latest quarterly update we are progressing under budget, compared to the FBC.

September 2024 4G CH&N programme update

Total DBT spend forecast within Board approval



Note: our budget information only includes known or expected Change Requests and may exclude processing of some payments. Therefore we sometimes see variance in costs between quarterly reporting. Each quarter will use the most complete information, and variations are not typically large in quantum.

Our 'PGB Slide Oct 24' update is attached to our submission.

The 4G CH&N programme is a multi-year project and, given that the overall programme is on time and on budget, we propose that Ofgem should not disallow any RY23/24 payroll costs for this programme. The resourcing levels were expected by the business to deliver on our scope for 4G CH&N and are necessary to ensure that the project delivers on its milestones. We have efficiency at the forefront of our delivery and have carefully managed costs to ensure we come under budget where possible, along with the capacity to absorb any unforeseen costs beyond the FBC. In a large, multi-year programme such as this, there will inevitably be variances in the timing of spend, but it is critical to note that the programme overall is being delivered within the FBC budget envelope and looking at an individual year does not provide the full picture.

We understand that Ofgem has concerns with our RY22/23 forecast for RY23/24 and the level of activity required by the programme. We provide explanations on these in the next two sections.

Price control forecasting approach has changed between RY22/23 and RY23/24

We acknowledge that our data quality in previous price control submissions has not been to Ofgem's satisfaction and have worked hard to make improvements in this. For example, we have replaced the manual approach to allocating staff to programmes with a new timesheet solution introduced in April 2023.

As shown below, there is a significant difference between data included for the RY22/23 price submission and our internal forecasts of the resourcing required for delivering 4G CH&N in RY23/24. As explained elsewhere in the submission, the 'forecasts' used for price control purposes only include a sub-set of the total costs as they reflect costs with a high degree of certainty one year ahead of delivery. The £0.844m shown as the 'forecast' for RY23/24 in our RY22/23 submission was informed by a subset of the Network Evolution team that was identifiable at the time of RY22/23 price submission. However, having improved our internal processes, for our RY23/24 submission we have split the submission across individual programmes rather than aggregate these under Network Evolution. This will improve transparency and reconciliations in future reporting periods but does lead to some issues with year-on-year comparisons from RY22/23 to RY23/24.

It is clear that the forecast of £0.844m for RY23/24 is not a suitable comparator, either to assess business performance or as a baseline for price control purposes – it is just a subset of the relevant cost base and, in this case is materially less than the total costs expected to be incurred. Basing a disallowance off a variance to this number does not reflect the reality of the activity undertaken. With RY23/24 being the peak year of delivery for the 4G CH&N programme, it should be intuitive that the critical activities required

during this year could not be delivered with a resource budget of less than £1m and that the forecast from the RY22/23 process is not a true forecast of our intended expenditure.

As we explained at the Cost Visit, DCC's Annual Business Plan (ABP) is a better representation of the resourcing required for 4G CH&N and a better comparator to assess performance.

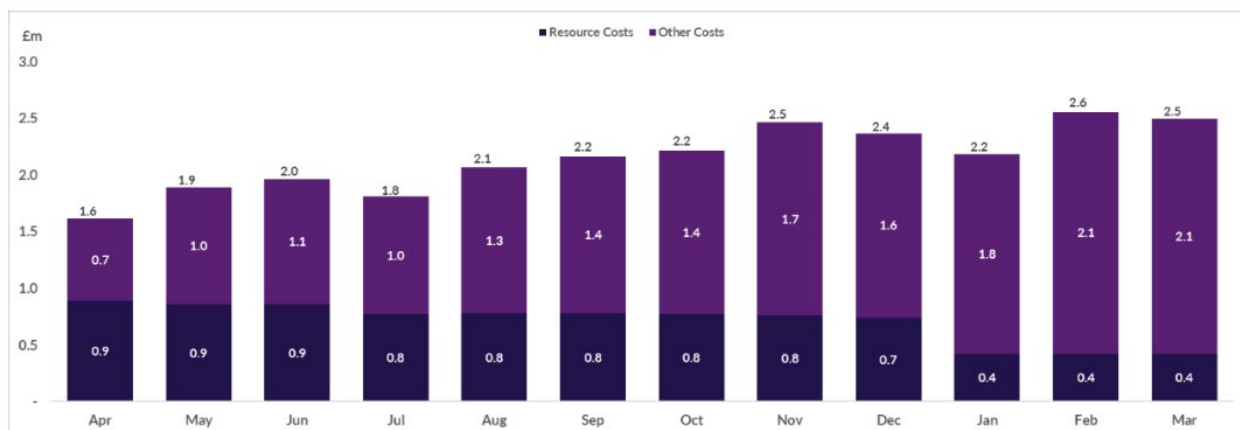
Difference between price control and ABP

CH&N		Price control RY23/24	DCC ABP RY23/24
Prior Year			
Forecast	<i>(before disallowance)</i>	0.844	8.467
Actuals	<i>(PC24 submission)</i>	7.427	7.427
Variance		6.583	(1.040)

In the evidence folder, we have provided the full RY23/24 ABP Summary Pack that was approved by DCC's internal governance. It includes the slide below which shows the approved resource cost for 4G CH&N was £8.5m for RY23/24, materially above the £0.8m price control 'forecast'. We trust that this provides the primary evidence Ofgem has requested.

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FY23/24 – Monthly Phasing



£m	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Resource Costs	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.7	0.4	0.4	0.4	8.5
Other Costs	0.7	1.0	1.1	1.0	1.3	1.4	1.4	1.7	1.6	1.8	2.1	2.1	17.3
TOTAL	1.6	1.9	2.0	1.8	2.1	2.2	2.2	2.5	2.4	2.2	2.6	2.5	25.8

We would emphasise to Ofgem that far from a £7.6m overspend relative to our forecast, we have actually incurred £1m less in RY23/24 than forecast in the ABP. This represents a saving to our customers and should be viewed as a positive outcome by Ofgem.

2023/24 was the critical year of activities for the 4G CH&N programme lifecycle

Our workload and activities for the 4G CH&N programme in RY23/24 mark the peak of programme activity (see figure below) and the resource costs incurred have delivered these critical phases of activity. This year has required DCC and its service providers to complete the design and build of the new solution, and progress through the first few testing phases.

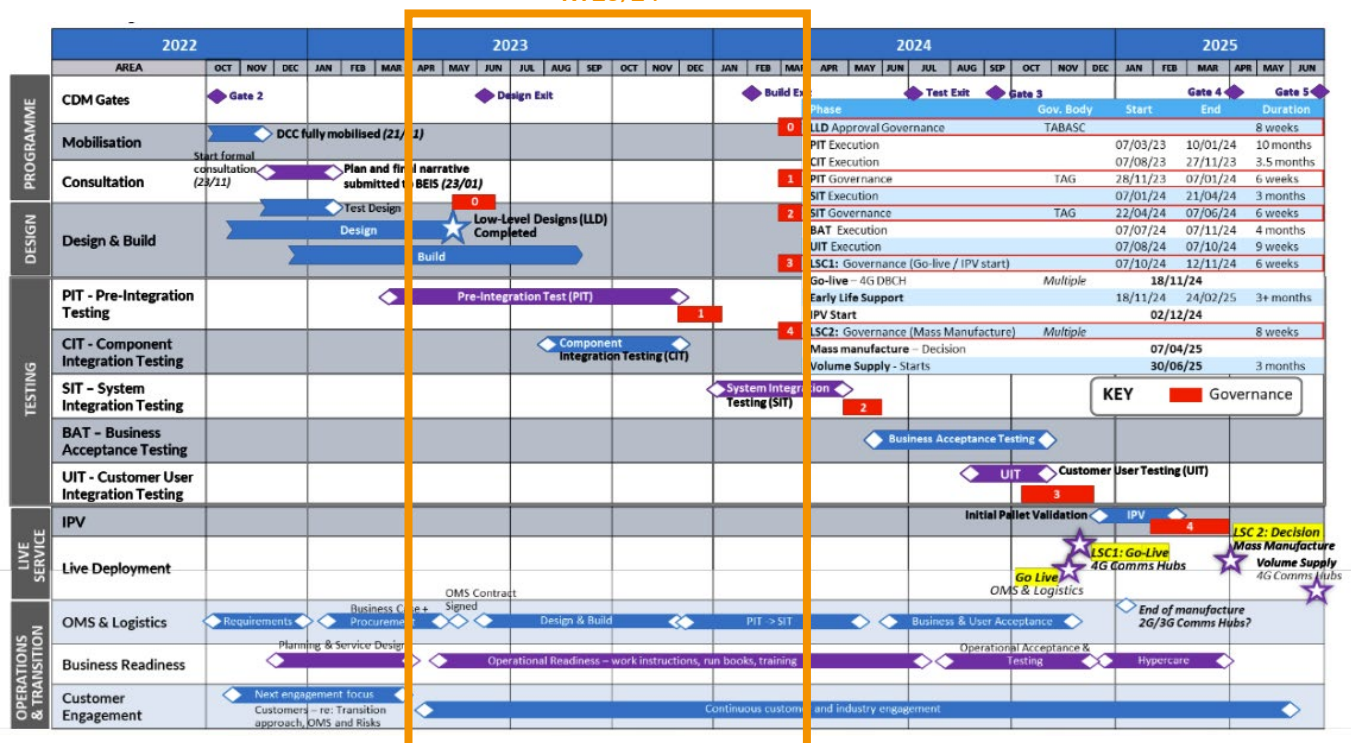
Our programme is progressing through:

- Business case development across procurement options – completed June 2022
- Selection of 4G CH&N solution, including Full Business Case options issued to BEIS, DCC's receipt of non-objection letter and contract award – July to September 2022
- Design, Build and Testing (DBT) of solution – October 2022 to November 2024
- Solution Go-live and small-scale test of Comms Hub solution – 9th December 2024
- Volume rollout decision – March/April 2025

We set out our programme plan-on-a-page for the 4G CH&N solution delivery, following DESNZ's (then BEIS) letter of non-objection.

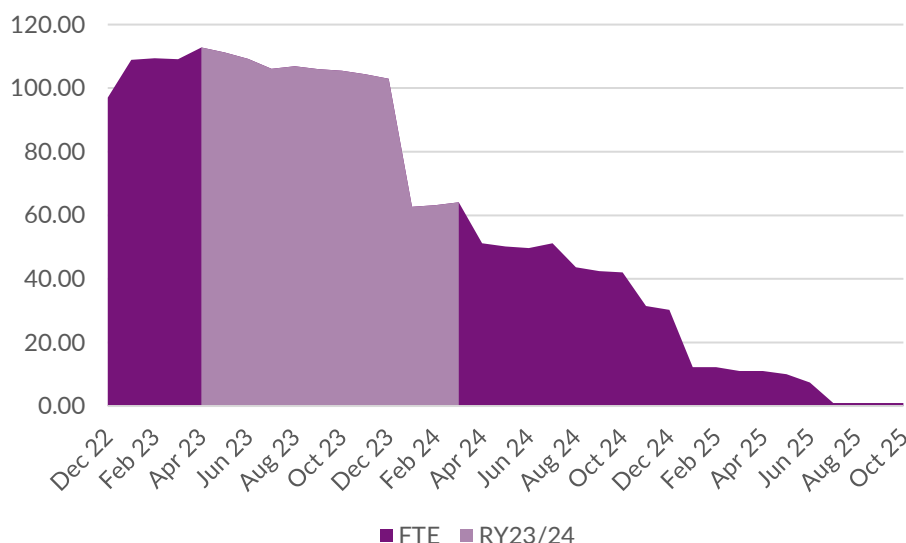
4G CH&N programme plan-on-a-page

RY23/24



RY23/24 marks the core delivery phase of our 4G CH&N programme and reflects a typical bell curve of resourcing we see for these types of implementation programmes. Each programme moves through mobilisation and solution development to final stage testing, go-live and demobilisation. In our business planning, we always anticipated that our resourcing need for 4G CH&N would be greatest in RY23/24.

Our forecast FTE profile for the 4G CH&N programme as per our ABP RY23/24



Note: Refer to appendix IC03 for supporting data from our resourcing system for our ABP Summary Pack.

Our 4G CH&N costs within the Network Evolution programme in RY22/23 predominantly reflect days spent on the DBT phase and Operations & Transformation (O&T) activities for part of the year. Time spent on preparing business cases for DESNZ approval is a much lower time effort that precedes the formal opening of a programme. These same DBT and O&T activities extend across the 12 months of RY23/24, therefore you would expect an increase in overall resource costs.

As we have shown in past submissions, DCC need a range of skills at each programme phase, but it is in Delivery that we need greater numbers of resources to work with our service providers so that the final product meets our scope and assurance requirements. In Figure 3 of our RY23/24 submission, we showed that the DBT team and DBT project coordinators are an integral part of our core team for this year.

We agree that the types of activities flagged in our RY22/23 submission are consistent with those shown above in the plan-on-a-page. However, the level of resourcing effort is not consistent with the forecast £0.844m from our RY22/23 submission. As outlined in the previous section, this value is not a suitable reference point given our previous methodology for allocating payroll costs.

We have summarised the key changes in our clarifications for activities from our RY22/23 submission:

RY22/23 submission for RY23/24 activities	Comments for RY23/24
Commercial & Regulation Design, Build, & Test (DBT): As the service moves into the build and test phase, resources will be arranged around 3 key workstreams. Resource requirements are expected to be higher in RY23/24 and RY24/25 after which they will fall. The service is due to handover into operations in Q1 2025. The 3 workstreams can be found below: 1. Design, build and test of core capability 2. Business Readiness and Service Transition 3. Supporting Systems (OMS and Logistics) The workstreams are comprised of multi-functional teams from both DCC and delivery partners who will work	We confirm these activities took place for the duration of RY23/24, as shown in above in our plan-on-a-page. Commercial and Regulation resources supported across all workstreams as required and further detail on activities is in our RY23/24 submission. For Commercial, a key area was further contracting and vendor management, as well as the transition from award to the management of key contracts for the programme. Figure 1 in our RY23/24 submission shows all the service providers. In addition to ensuring DCC's compliance with Licence Conditions, our Regulation resources worked across several consultations:

<p>together, with programme support, to create and deliver against detailed plans.</p>	<ul style="list-style-type: none"> • Consultation on the transitional and enduring SEC changes for CH&N • Consultation on CH dimensions • Consultation on updates to the CH&N EC Variation Testing Approach Document (SVTAD) • Consultation on SEC changes for 4G forecasting, ordering and delivery • Initial work on consultation on 'phase 2' changes to Network Evolution Transition and Migration Approach Document (NETMAD) and some SEC Appendices (which carried on into 2024/25).
<p>Design & Assurance (CTO)</p> <p>Resources for the CH&N service will peak in RY23/24 as the programme moves into the build and test phases of delivery. This will require resources from all functional areas of DCC. Resource requirements will begin to fall in the second half of RY24/25 once hyper care activities cease and the service is handed over to BAU.</p>	<p>These resources supported across the DBT activities and formed part of the core DBT team.</p> <p>As explained in our RY23/24 submission, these resources are critical for the DBT phase, to ensure all designs and the resulting solutions meet industry requirements.</p>
<p>Operations</p> <p>Operations resource requirements are likely to increase in RY23/24 and RY24/25 as the service develops more detailed plans for service design. In addition, business acceptance testing will need to be planned, developed, and delivered. Service demands on operations will fall from RY25/26 as the service moves into delivery and migrates into BAU.</p>	<p>We provide more detail in our RY23/24 submission how our Operations function needs to revise and develop operating models to manage the existing 2G/3G service and migrate to the new 4G solution.</p>
<p>Security</p> <p>The service will continue to work with the Security team to ensure that all security requirements are sufficiently embedded in into the low-level designs. It will also support the testing process to assure the security elements of the 4G solution.</p>	<p>We confirm that security alignment remained part of RY23/24, and details of the activities are in our RY23/24 submission.</p>
<p>Service Delivery</p> <p>No content.</p>	<p>More detail outlined in our RY23/24 submission.</p> <p>This team worked across all service providers, delivery workstreams and governance. We needed to increase resources through RY22/23 into RY23/24 to fulfil the roles of DBT project coordinators. A key area was managing the different delivery partners through each of the programme milestones.</p> <p>Our team supports across all workstreams, their engagements with SEC forums as well as broader internal and external project governance. All internal and external governance mentioned in our RY23/24 submission was in place for RY23/24.</p>

Across all the teams and roles described in the table we have required more effort than seen for RY22/23. Therefore, Ofgem should not provide funding at c.50% of our actual spend - we could not feasibly have delivered a full year of DBT within that budget. Ofgem may recall that DCC provided a breakdown of the roles working on CH&N during the clarification question process. We have added a spreadsheet showing this breakdown to the evidence folder. Each role listed supports the activities outlined in the table above

and described in our RY23/24 submission. We have included IC04 as an appendix that also covers this information.

For completeness, we also set out how the project will transition from peak resources in RY23/24 to RY24/25 DBT finalisation and transition to operations. Consistent with our RY23/24 price control forecasts and our ABP, we expect resourcing requirements for the project to reduce following RY23/24. Our programme FTE numbers peaked at the start of RY23/24 due to the concurrent DBT steps, reducing in January 2024 as the solution passes early testing and the build phase is complete. Resourcing continues to reduce but not as significantly while DCC manages all the testing phases.

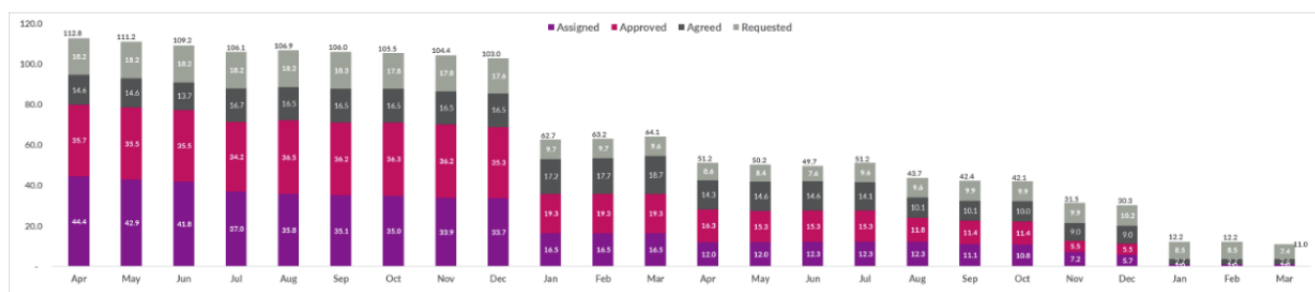
Our ABP forecast view of resourcing profile to RY24/25 at the time of our RY22/23 submission

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Note: Resource Allocations are calculated using Assigned and Approved demand in Clarity only.

Resources – Clarity cut 17/01/23

The amount of resource allocated to generate the forecast is adjusted to be proportional to the total resource supply available.



	FY23/24												FY24/25											
Month	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Requested	182	182	182	182	182	183	178	178	176	97	97	96	86	84	76	96	96	99	99	99	102	85	85	74
Agreed	146	146	137	167	165	165	165	165	165	172	177	187	143	146	146	141	101	101	100	90	27	27	26	
Approved	35.7	35.5	35.5	34.2	36.5	36.2	36.3	36.2	35.3	19.3	19.3	19.3	16.3	15.3	15.3	15.3	11.8	11.4	11.4	5.5	5.5	0.0	0.0	0.0
Assigned	44.4	42.9	41.8	37.0	35.8	35.1	35.0	33.9	33.7	16.5	16.5	16.5	12.0	12.0	12.3	12.3	12.3	11.1	10.8	7.2	5.7	1.0	1.0	1.0
Total	112.8	111.2	109.2	106.1	106.9	106.0	105.5	104.4	103.0	62.7	63.2	64.1	51.2	50.2	49.7	51.2	43.7	42.4	42.1	31.5	30.3	12.2	12.2	11.0

4.1.2. Service Delivery – Professional Services Practice

Ofgem has proposed to disallow £1.624m of expenditure in the Professional Services Practice (PSP) functional sub-team within Service Delivery. The disallowance is based on the costs remaining in the sub-team after those assigned to programmes have been removed. In other words, if 100% of the sub-team is allocated to programmes (which they largely should be), the cost of the functional team would be zero. Ofgem explained that they had not seen justification for the £1.624m increase in expenditure on the sub-team relative to the prior year, and therefore propose to disallow the entirety of the variance to the incurred cost in RY22/23.¹ Note, however, that Ofgem's figure is a calculation error as the difference between the RY22/23 costs of £2.103m and the RY23/24 costs of £3.717m is **£1.614m**.

As we explained in our submission, a key reason for the apparent variance in the functional team costs is the result of the change in the cost allocation process. DCC has implemented a new time-sheeting tool in April 2023 which means the RY23/24 costs are allocated on a different basis to RY22/23. The new methodology has improved the granularity and accuracy of resource allocation to the programmes and therefore margin to be put at risk against our multiple incentive schemes. It has also provided a wealth of information on DCC's resource demands so we can plan more effectively.

¹ Consultation, para 4.14-4.15.

However, the increased granularity of cost information makes comparisons with prior years more difficult and creates offsetting variances across the impacted cost centres. Changes to the allocation process will inevitably lead to some favourable and some adverse variances, but these are largely offset once aggregated together. This issue is most relevant in the Service Delivery function where most staff are assigned to programmes, and consequently time-sheeting has the greatest impact.

In order to assess whether there has been a material increase in costs in Service Delivery in RY23/24 relative to the prior year's forecast, it is necessary to remove the allocations to programmes and assess the full costs of the Service Delivery cost centre. Having undertaken this analysis, we can show that a key reason for the apparent increase in the PSP function is due to the inclusion of Portfolio and PMO Transformation staff who were assigned to the Finance function in RY22/23.

Having identified the main driver of the year-on-year increase in PSP costs was the inclusion of most of the PMO and Portfolio Transformation sub-team, we have updated the RY23/24 incurred costs using the same methodology that generated the £3.7m in the July 24 Price Control submission. The RY23/24 costs included £1.1m of costs associated with the PMO and Portfolio Transformation sub-team (after allocations to programmes are removed). Removing these costs allows us to produce a revised RY23/24 incurred cost for the functional Professional Services Practice sub-team of £2.6m as per the table below. The adjusted incurred costs in the table are below DCC's ABP forecast and just £0.494m above the RY22/23 incurred costs.

We disagree with Ofgem that there should be any disallowance of payroll costs for the PSP team given the vital work they were delivering, particularly on the Comms Hub and Network programme. However, if Ofgem applies the same methodology as per the consultation document it should disallow at most £0.494m, not £1.614m (noting that the proposed disallowance of £1.624m was incorrect).

RIGS Cost Centre	Sub-team	Cost Centre	RY23/24 Incurred Costs as Reported £m	RY23/24 Incurred Costs Minus PMO & Portfolio Transformation £m
6. Programme	Professional Services Practice	SDAS	0.145	-0.027
6. Programme	Professional Services Practice	SDBA	0.213	0.179
6. Programme	Professional Services Practice	SDFC	0.011	0.006
6. Programme	Professional Services Practice	SDPM	3.029	2.454
6. Programme	Professional Services Practice	SDPP	0.150	-0.034
6. Programme	Professional Services Practice	SDPS	0.133	-0.011
6. Programme	Professional Services Practice	SDTO	0.028	0.023

6. Programme	Professional Services Practice	SDTS	0.008	0.007
Total			3.717	2.597

We have provided the supporting data in appendix IC18.

4.1.3. Operations – Future Connectivity

Ofgem has proposed to disallow £0.1m incurred on project work to assess the costs and benefits of an FTTP-based connectivity option for remote customers.

Ofgem will be aware that DCC has been instructed by DESNZ to conduct exploratory work on the options to improve connectivity for remote premises in the north. Trialling the viability of a fibre technology solution was one of a range of options DCC developed. Given the low cost and important learnings from this work that showed that it was technically possible to use fibre technology to connect remote premises into DCC's network, it would be inappropriate to consider all expenditure as inefficient. DCC must be able to conduct investigatory activities without all expenditure associated with it being proposed for disallowance. However, given we are not planning any further work following the trial, DCC accepts Ofgem's position in relation to this cost.

4.2. Benchmarking

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

This section 4.2 of our Consultation Response addresses Consultation Question 11 and responds to paragraphs 4.41 to 4.66 of the Consultation. Question 11 relates to DCC's salary benchmarking for recruitment of permanent and contractor staff. DCC welcomes Ofgem's proposal not to disallow any permanent staff costs. The proposed disallowance arises from the remuneration of contractors that fall above market rates deemed reasonable by Ofgem.

Consistent with prior years, we have continued to apply a benchmarking methodology that compares the day rates we have paid contractors to the weighted-average benchmark provided by three recruitment companies. A margin of 10% above the median is applied to allow a small degree of flexibility in recruitment.

Ofgem applies the principle that overpayments up to 10% above benchmark are within the range of being economic and efficient and anything above is not. Ofgem only considers the overpayments and not the net spend relative to the benchmarks. We do not believe this is reasonable as it does not reflect the realities of operating a business with individual recruitments being balanced across a portfolio of activities.

On a net basis, DCC has underpaid contractors relative to the benchmarks by £3.3m. Taking the £0.5m of roles over benchmark and ignoring the £3.8m of roles under benchmark inevitably drives a skewed outcome.

We have also observed a widening in the benchmarks between the three companies this year, with there being a particular disparity with the agency [REDACTED] across a number of roles. On average, our analysis found that their benchmarks had the highest delta from the final benchmark rate used in the analysis for RY23/24, in comparison to the other recruitment specialists. This resulted in a disproportionate depressionary effect on the final 'weighted average' value used to determine the role's benchmark rate. If a mechanistic and inflexible approach to reviewing costs against benchmarks is to be applied, it will be important to ensure that the methodology is reviewed regulatory to ensure it remains fit for purpose.

Given our concerns with the accuracy of some [REDACTED] benchmarks, we are considering changing the weightings for future submissions. This would account for potential data outliers from [REDACTED] and make the final benchmark comparator more representative. Further analysis shows that adjusting the weightings in this respect would have resulted in the margin overpayment being significantly lower at £0.368m. We will continue to investigate the best way forward on this and may propose changes to the methodology in the RY24/25 Price Control submission which we will discuss with Ofgem.

4.3. Planning, Scoping and Resourcing

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?

This section 4.3 of our Consultation Response addresses Question 12 and responds to paragraphs 4.76 to 4.87 of the Consultation.

Ofgem has proposed to disallow any spend on consultants (or advisors) that is in excess of their estimates of an alternative counterfactual. Specifically, Ofgem has identified several outsourced projects and compared our spend on those against an efficient cost that is estimated by:¹

- first deciding whether the project is likely to form part of BAU activity, or non-BAU activity;
- if it forms part of BAU activity, assuming that it could be staffed with 70% internals and 30% contractors. If it does not, assuming that it could be staffed with 30% internals and 70% contractors;
- estimating how much it would cost to deliver that project based on benchmarked compensation for internals and contractors.

In total, this approach has led Ofgem to disallow £6.09m of expenditure. Ofgem has explained that the reason behind the above approach is because DCC has insufficiently explained why these projects could not be delivered by internals or contractors.

A breakdown of this £6.09m of cost has not been provided as part of the consultation process (and as such is not visible to industry in order for them to respond) but was provided separately to DCC.

In this section, we make three counterpoints to Ofgem:

- First, Ofgem has implicitly taken too narrow a view of when consultants are useful for a business – we explain to Ofgem how an expanded view of the value of consultants would justify our approach to outsourcing and is consistent with how all organisations operate – section 4.3.1.
- Second, we explain a number of adjustments that we have made to Ofgem’s modelling of the counterfactuals to correct the assumptions made. We believe that these changes allow a more accurate assessment of the efficient costs of a project – section 4.3.2.
- Third, and in addition to the general arguments made about our approach to use of consultants, we provide specific evidence as to why internal staff and contractors could not be used to deliver the individual projects identified – section 4.3.3.

4.3.1. The case for external support

DCC’s view is that Ofgem has implicitly taken too narrow a view of when consultants represent good value for money for a business.

¹ See the “Summary and Assumptions” sheet of Ofgem’s internal cost benchmarking model.

Ofgem's view, implicit in its approach, is that anything that represents a routine or BAU activity should be done by internal staff (specifically 70% internals), while anything that is not should still have a material contribution from internal staff (30%), with the remaining 70% coming from contractors. Ofgem's view of these projects therefore leaves zero space for consultancy support, which seems inappropriate.

Spend on consultants is a normal part of business activity for all organisations (including regulators) that is required for the following reasons:

- If new capability is being created that requires a team to be in place, consultants are already a team, whereas contractors are not. Using consultants brings a cohesive set of resources to a task, rather than onboarding several independent contractors who all may have a different view of how to complete the work. The use of contractors can therefore make project work where there is a need for multiple individuals less efficient.
- Contractors can give notice, whereas consultants have a contract backed by a large resource pool, with the consulting organisation managing the risk on your behalf. If a consultant needs to move off the project, take leave or becomes sick, the consultancy will replace that individual.
- Consultants can provide surge support on a targeted basis. Indeed, this type of approach is also taken by Ofgem who (we understand) have the skills internally to, for example, conduct financial and econometric analysis on network price controls but consistently hire consultants [REDACTED] to provide additional support during peak periods.
- Consultants provide specialist advice and thought leadership in tandem with carrying out work, whereas contractors generally work within the remit of a given contract only.
- Resourcing contractors is more time consuming, with more administrative burden than requesting assistance from consultancies, especially where there is a framework to call upon. Using consultancies where there is a time sensitive need can be more efficient, for example by removing the need for line managing the contractor.
- Often consultancies have previous experience of working with DCC, meaning they can bring insight, knowledge and understanding of our business to maximise positive outcomes. Contractors are less likely to have previous experience of working with DCC, therefore there is more likelihood that there would be downtime during the initial onboarding / mobilisation phase where contractors would have to learn elements of the business.

Due to the above, we think that Ofgem should reconsider and expand the range of reasons why it might be reasonable for DCC to use consultants to deliver projects. While it may be difficult to do this in response to the present consultation, we would welcome Ofgem's comments on the above so that we know what evidence to provide to Ofgem when justifying our spend in future price controls.

4.3.2. Adjustments to Ofgem's counterfactual assessments

We believe we had good reason to outsource the activities in our RY23/24 submission. However, we accept that Ofgem needs to independently assess this. To assist with future price controls, we ask that Ofgem explains what evidence is needed for us to demonstrate that outsourcing was necessary.

We also welcome the fact that Ofgem has transparently shared with DCC the counterfactual analysis that Ofgem conducted to assess the spend. We have reviewed this analysis and propose three changes to improve the accuracy of the modelling.

First, the model being used by Ofgem to calculate the costs proposed for disallowance uses a flat profile of resource days used across each project for each resource, regardless of grade. In practice, this is not the case. More senior resources across projects (e.g. Partners) will work fewer days than more junior resources. Not adjusting for this will skew the benchmarked costs. DCC has corrected the model using the information

within each contract award document, so that it reflects the days actually worked by each resource. This correction results in the disallowance being reduced by £0.489m.

Second, we have assessed the grading mapping on the spreadsheet, and believe there are some errors, as follows:

- The role of Senior Consultant has been mapped as Analyst for the [REDACTED]. This role should be mapped to Manager as, at [REDACTED], the grade Senior Consultant is closer to a Manager than Analyst. Specifically, the grades at [REDACTED] progress as follows: Analyst, Consultant, Senior Consultant, Principal Consultant, Managing Consultant. Principal Consultant is the typical project manager grade, so Senior Consultant is closer to this than to Analyst.¹
- Similar to the above, the role of Senior Consultant has been mapped as Analyst for the “Integrated Activity Planning” project that was conducted by [REDACTED]. This role should be mapped to Manager. The grade progression at [REDACTED] is that progression works as follows: Analyst, Consultant, Senior Consultant, Manager. Therefore, as with the above, the grade Senior Consultant is closer to Manager than to Analyst.
- The role of Senior Manager has been mapped as Manager on Project Blue. This appears to be an error and should have been mapped to Senior Manager.

Making these corrections results in a further reduction to the disallowance of £0.252m.

Third, we believe the mix of resourcing that Ofgem has assumed in its counterfactuals does not reflect a realistic alternative to the use of consultants. Whilst we continue to maintain our position that using consultants was appropriate for the reasons given above, in Table 1 below we summarise the projects for which we have a particularly strong case for why internal resources or contractors were not suitable.

Based on this analysis, we suggest that, for seven of the initiatives the split between permanent and contract staff used in the counterfactual is not appropriate (given internal resource could not be used), and for a further 11, we do not believe there was a realistic counterfactual versus the use of consultants. In relation to the other four initiatives, the evidence we have been able to provide in to why consultants were required is less strong and we accept Ofgem’s position. The reasons for this position in relation to each of the individual initiatives and the impact on the disallowances is provided in section 4.3.3 below.

- For seven initiatives (highlighted in the first column of table 1), there is a very strong case as to why internal staff could not have been used, but it may have been possible to consider the use of contractors. In general, we do not operate a model where staff are underutilised and, therefore, when surge capacity is needed for a particular project, we need to procure external resource (either contractor or consultant). This is because many of our projects only have a temporary staffing requirement, and we do not want to be left with surplus staff at the end of them. For these seven projects, we assess that the counterfactual should be based on 100% use of contractors. This reduces the disallowance by £0.747m.
- For 11 projects (highlighted in the second column of table 1), we strongly believe that neither contractors nor internal staff could realistically have been used. In this case, our position is that successful delivery required engaging consultants and that this amount should be returned in full. However, to the extent Ofgem is unconvinced by this, we believe that the argument against use of internal resource is sufficiently compelling that any counterfactual would need to be based on 100% contractors, which reduces the disallowance by a further £2.206m.

¹ We note that Ofgem may consider it inappropriate to round up a grade because this may risk over-stating the efficient cost. We agree that this is a risk and therefore have chosen not to adjust the mapping of “Consultant”. This is also a grade that is above Analyst but, because it is closer to Analyst than the next position (Manager) we have kept it unchanged. The opposite is true for Senior Consultant.

Table 1 – Summary of evidence for whether internal and contractor resources were possible

Project	Internal resource not possible, but potential to use contractors	Neither internal resource of contractors possible	Evidence for use of consultants less strong
[REDACTED] - Centre of Excellence		✓	
[REDACTED] - Test Assurance		✓	
DSMS Resource Support	✓		
[REDACTED] - Licence Renewal		✓	
DSP Commercial Partner – [REDACTED]		✓	
[REDACTED] - Architecture Service		✓	
Integrated Activity Planning	✓		
DSP Design Partner – [REDACTED]		✓	
DSP Legal Advice		✓	
DCC Commercial Support			✓
Project Sky			✓
[REDACTED] – MEAP	✓		
DCC Commercial Transformation	✓		
[REDACTED] - Consultant Resource			✓
[REDACTED] – MEAP	✓		

CH&N Legal Advice		✓	
[REDACTED] - Customer Onboarding Support	✓		
Legal Advice - Price Control		✓	
Project Blue		✓	
Commercial Advisory Support	✓		
[REDACTED] Consultant Resource			✓
[REDACTED] - Address Matching		✓	

A table to summarise the above adjustments is provided below and summary of this analysis is provided alongside the submission.

Table 2 – Summary of disallowances for Planning, Scoping and Resourcing after the above adjustments have been applied

	Disallowance (£m)
Ofgem Draft Determination	6.086
Correction of assumed resource profile	(0.489)
Correction of role mapping for benchmarks	(0.252)
Adjustment to use of 100% consultant counterfactual for the seven initiatives where internal resource could not be used	(0.747)
Adjustment to the assumed resource split for the ten initiatives where neither internal nor contractor resource could be used	(2.206) – (3.727)
DCC proposed disallowance	0.871 – 2.392

4.3.3. Detail of individual spend items

When deciding whether or not to outsource a particular project, we always consider the reasons listed in section 4.3.1. As part of this consultation response, we have reviewed the logic for engaging a consultant and we provide a summary of this in the individual sections below. In future, we would be happy to provide

whatever evidence Ofgem deems most helpful, and request that Ofgem provides us with a clear understanding of what they would like to see in future price controls to evidence the rationale for using consultants over in house staff given Ofgem is not convinced by the rationale outlined in section 4.3.1 above.

As explained in section 4.3.2 above, we believe we provide convincing narrative and/or evidence on why seven projects could not be conducted by internals (but potentially could have considered contractors), and for a further ten on why they could not be conducted by internals or contractors. For each of the projects below, we therefore signpost this argumentation as clearly as we can.

[REDACTED] - Centre of Excellence

Ofgem propose to disallow £1.662m of expenditure related to this project.

The following information sets out our request for this to be re-evaluated.

Following the implementation of Licence Condition 16 (LC16), DCC faced challenges in producing HM Treasury Green Book (TGB)-compliant business cases, resulting in repeated rejections due to a lack of internal expertise. The sum total of spend under these business cases had been in excess of £10m. Despite substantial internal efforts, repeated rejections of submitted cases revealed a gap in the necessary expertise required to meet TGB standards. To address this, DCC evaluated several options that have been summarised in the table below.

Options Evaluation

	Option	Coherence and Accountability	Onboarding and Coordination	Knowledge Sharing and Legacy Building	Scalability and Resilience
	Recruit a Permanent Team	✓	✗	✓	✓
	Onboard a Team of Contractors	✗	✗	✓	✗
	Redistribute Work Internally	✗	✓	✗	✗
	Consultancy Support Model	✓ ✓	✓ ✓	✓ ✓	✓ ✓

While the long-term goal was to build in house capability, we did not have the expertise at the time, and this had to be built quickly given the pipeline of upcoming business cases. DCC determined that a consulting provider, procured through a competitive process, offered the best value for money through recognising the consultancy provider's proven expertise, immediate capacity, and commitment to building DCC's internal capabilities.

This engagement delivered high-quality business cases with an 85% first-pass approval rate, facilitated the development of an internal Centre of Excellence, and safeguarded critical milestones and benefits under the Smart Metering Implementation Programme (SMIP).

Exploring resource options

DCC explored the following options to provide the experience and capability required to satisfy the new Licence Condition. Many of these relate to the points made in section 4.3.1 above.

1. Recruiting Permanent Staff: The scarcity of qualified professionals in the market and the lead time required for recruitment and onboarding made this option untenable within the project's critical timeframe.

2. **Engaging Multiple Contractors:** We considered using multiple individual contractors but rejected this due to the following:
 - **Lack of Coherence and Accountability:** A disparate team of independent contractors would lack the centralised leadership necessary to ensure consistent quality and adherence to TGB standards. The absence of TGB expertise in DCC at this time meant that it would be impractical to manage and coordinate.
 - **Onboarding and Coordination Costs:** With a team of contractors unlikely to all be available at the same time, this would involve significant management time and costs to integrate individual contractors into DCC's workflows and ensure alignment with Green Book methodology. This would also have impacted the delivery timelines of critical business cases.
 - **Knowledge Sharing and Legacy Building:** Contractors typically operate independently, without an inherent mandate to transfer skills or establish enduring capabilities. This model would not have supported DCC's strategic objective of building an in-house Centre of Excellence (CoE).
 - **Scalability and Resilience:** The volume and complexity of business cases in DCC's pipeline required a flexible, scalable solution. Contractors often lack the ability to provide additional capacity or support during peak periods, whereas a consultancy could dynamically allocate resources as needed.
3. **Redistributing Work Internally:** DCC evaluated the possibility of absorbing the workload into existing teams. However, the specialised nature of Green Book compliance and the capability limitations previously demonstrated by internal staff made this option impractical and high-risk.
4. **Consultancy Engagement.** The decision to engage a consultancy provider was based on the following considerations:
 - **Proven Expertise and Structured Delivery:** Consultancy firms offered demonstrated expertise in TGB compliance, with structured teams that ensure seamless project management, quality assurance, and timely delivery of outputs.
 - **Immediate Capacity and Flexibility:** The consultancy model allowed DCC to access an established, cohesive team that could begin delivering immediately and scale resources up or down as needed.
 - **Strategic Knowledge Transfer:** The chosen provider committed to not only delivering high-quality business cases but also building DCC's internal capability by embedding best practices, templates, and training.
 - **Value-for-Money Assurance:** The competitive procurement process ensured that DCC selected a partner offering the best combination of expertise, scalability, and cost-efficiency.

Procurement and Implementation

In October 2022, an open Request for Proposal (RFP) attracted responses from five bidders. Following a rigorous evaluation process, [REDACTED] was selected for their demonstrated expertise and alignment with DCC's requirements. The consultancy began work in January 2023, rapidly addressing immediate business case needs while laying the groundwork for a sustainable internal Centre of Excellence (CoE).

The consultancy arrangement has delivered the following benefits:

- **High-Quality Deliverables:** Business cases developed by [REDACTED] have met TGB standards, achieving an 85% first pass approval rate, significantly reducing the risk caused by rejections and earning positive feedback from DESNZ.

- Building Internal Capability: [REDACTED] worked closely with DCC to facilitate the knowledge transfer and onboarding of internal staff, ensuring a smooth transition to a fully operational in-house CoE by July 2024.
- Operational and Financial Benefits: By ensuring timely approval of business cases, DCC has safeguarded the financial and operational benefits outlined in the SMIP.

Summary and suggested re-calculation of the expenditure allowance

The decision to engage a consultancy rather than relying on contractors or other models is clearly demonstrated both in DCC's thought process and by the outcomes achieved. The structured and accountable approach of a consultancy team has ensured that the immediate and long-term objectives have been met efficiently and effectively, representing clear value for money and aligning with our customer's priorities.

Our primary position on this item is that we strongly believe that the use of consultancy was appropriate and therefore the disallowance should be zero. However, if Ofgem disagrees with this we believe that we have demonstrated that this could not have been delivered with in house staff and, as such, any counterfactual would be to use contractors and not in house staff. In this case, amending the resource split to 100% contractor results in the disallowance decreasing from £1.662m to £0.875m.

[REDACTED] - Test Assurance

Ofgem propose to disallow £0.523m on DCC's procurement of testing services from [REDACTED]. As we explained in the submission, delivering DCC's programmes and releases requires flexible resources to join DCC for relatively short periods of time and DCC did not have the appropriate resources with the required skillset to carry this out at the time.

DCC's Test Assurance Practice has piloted a cost-effective consultancy resourcing framework which allows us to cope with the current spike in demand for testing and assurance resource. Crucially, we do not anticipate that we will have an enduring requirement to sustain the current demand and therefore do not intend to increase our permanent headcount significantly to meet this demand – in fact, [REDACTED] has been exited during RY24/25 as this requirement has reduced. Due to this, it would have been inappropriate for us to rely on internal staff, as after the temporary surge in staffing need expires, we would be left with surplus staff.

DCC has also demonstrated that using [REDACTED] is, on average, ~25% less expensive to onboard resource via our consultancy resourcing framework, than to utilise contractors. The table below shows that the "consultant rates" paid to [REDACTED] are below DCC's benchmarked contractor day rates.

[REDACTED]

Our primary position on this item remains that we strongly believe the use of consultancy was appropriate and therefore the disallowance should be zero. However, in the event that Ofgem disagree with this, we believe that we have demonstrated that this could not have been delivered with in house staff and, as such, any counterfactual would be to use contractors, using the rates provided in the table above, rather than Ofgem's benchmark rates. To the extent that Ofgem agrees with these benchmarked contractor rates, this would reduce the disallowance to zero.

DSMS Resource Support

Ofgem proposes to disallow £0.505m of expenditure related to this project.

DCC's Service Management System (DSMS) is a critical system platform used by DCC's customers to manage service requests. The DSMS platform technology is a highly customised IT Service Management ticketing system with several bespoke solutions and is provided by the Data Service Provider (DSP) and

supported by an application called Remedy. At the time of the procurement, the DSP contract and subsidiary services were set to expire in October 2024. This would also have seen the Remedy application going out of technical support. DCC's agreed commercial strategy is to disaggregate the current DSP contract and procure certain services separately and directly, including the DSMS.

As explained in our submission, DCC was cognisant that any replacement for DSMS (latterly renamed the "FSM" programme) should deliver both value for money and ensure that it delivered a viable and suitable service for customers.

It was therefore critical for us to properly identify customer requirements by ensuring that stakeholders (customers, service providers, and DCC Users) were engaged in the definition of the DSMS, and appropriate pain points identified to help redefine the customer journey. A Value framework was needed to identify and prioritise customer pain points so that we could then define the Change model and Engagement approach.

This was something that DCC could not do internally because we lacked the required specific skills and experience, namely in the evaluation of on-going delivery trends and successful delivery mechanisms, as well as bringing wider experience to the programme to ensure DCC adopted a tailored best practice approach for assessing Customer needs and assessing potential SEC modifications. This type of work requires a specialist skillset in defining a set of customer-led business requirements, which can be a complex process but is imperative to get right at the outset of any technology project. The work involves several activities, including but not limited to: process workshops, stakeholder interviews, and benchmarking to ensure any current usability issues would be addressed in the set of requirements.

As the work focused on delivering the design of the FSM program, it would not have been appropriate to perform any long-term hiring, as after the end of the program design we would have been left with surplus staff.

With support from [REDACTED], the framework for the FSM programme was put together and we were able to deliver:

- Definition and deliver of SMWG (A Customer DSMS Practitioner Working Group (Service Management Working Group));
- Service Management Working Group assessment against the Value framework for circa 50 system Customisations;
- Next Step: final ratification through Sec Sub-Committees on the SMWG outcomes.

Some of the work provided by [REDACTED] as part of this workplan has been submitted alongside this response.¹

Due to the tailored Value framework provided by [REDACTED], DCC is now in a position to represent the real needs of customers and ensure delivery of the Future Service Management Programme against Customer needs. It also allows us to be very specific in the next phase of procurement. This specificity has enabled us to identify, early in the process, any SEC modifications that may be required, and ensure that the contract is well-scoped (reducing the risk of scope growth and Change Requests). The next phase of the programme utilises the Business Change methodology provided by [REDACTED] to deliver the engagement plans and ensuring the programme delivers meaningful change through the Future Service Management Programme.

¹ See End State Recommendations Report, FSM Programme Industry Engagement Journey, and FSM Programme Stakeholder Engagement Approach & Plan.

As explained earlier, we believe that we only select consultancy resources where it is appropriate to do so. However, we consider that in the case of this project, the evidence we have is stronger for why the use of internals was not appropriate, and therefore suggest the disallowance is based on a 100% contractor scenario (because of the above-described specialist skillset requirements which we did not possess). This results in the disallowance decreasing from £0.505m to £0.247m.

[REDACTED] - Licence Renewal

Ofgem propose to disallow £0.480m on consultancy services from [REDACTED] to support the vital activities on Licence Renewal.

DCC negotiated extremely good value support from [REDACTED] at around one third below framework rates. It is standard practice for regulated companies to seek expert consultancy support on significant changes to the regulatory regime, particularly where we have no prior internal experience of alternative regulatory regimes.

Ofgem knew DCC was conducting the work, having been in multiple meetings with DCC and [REDACTED] to discuss priorities. Much of the activity was in response to regulatory developments driven by Ofgem and DESNZ. Aspects of this engagement involved short-term peaks of work responding to regulatory requirements – this would not justify the expense of hiring full-time permanent staff members who may have been inefficiently used outside of these periods. Policy skills are also very hard to acquire in the contractor market in practice.

Our position on this item is that we strongly believe the use of consultancy was appropriate and therefore the disallowance should be zero.

DSP Commercial Partner - [REDACTED]

Ofgem propose to disallow £0.475m on services provided by [REDACTED] to design and run two go to market exercises for the DSP re-procurement.

Ofgem has previously disallowed expenditure because it considered DCC has not been able to secure sufficient interest from bidders to deliver our programmes. The driver for the procurement of [REDACTED] was to maximise interest and ensure a competitive bidding process. The costs of utilising [REDACTED] will be far offset by the benefits that will be created through a diverse pool of bidders. It would therefore be perverse for Ofgem to tell DCC it needed to do more to attract bidders for major contracts and to subsequently disallow expenditure in doing so.

The skills [REDACTED] brought to bear were specialist in nature and not available to DCC internally. They were able to advise on best practice from a range of different sectors not just telecoms, providing extremely useful advice on how to optimise bidder interest through well-designed go to market exercises.

Our primary position on this item is that the use of consultancy was appropriate and therefore the disallowance should be zero. However, if Ofgem disagrees with this we believe that we have shown that the use of internals was inappropriate. In this case, we propose to amend the resourcing split to 100% contractor resources. This results in the disallowance decreasing from £0.475 to £0.060m.

[REDACTED] - Architecture Service

Ofgem proposes to disallow £0.355m of expenditure related to this project.

As previously stated in our submission document, we were unable to meet the increased demand from the programme activity by using our internal resources. Technical resources were required across several change programmes to provide technical expertise, design, assurance and stakeholder engagement services to avoid programme delays. Without the use of additional technical resources, DCC would have been

unable to provide the necessary guidance to third parties to develop the products required, nor provide appropriate assurance on value for money. In addition, without these resources, the programmes would not have been able to carry out necessary stakeholder management and change management activities, which would put the project success in jeopardy.

Contractors were considered and had the necessary skills for this work. However, following an assessment, there were several reasons why DCC did not resource this activity using contractors:

1. The benchmark rates were similar across consultancies and contractors, therefore there was not financial benefit either way.
2. It was quicker, with less managerial overhead to use consultants. This was due to the procurement timescales being much less for use of a consultancy versus contractors. In addition, there was less managerial time required to carry out interviews with consultants. To bring in five resource members would have resulted in a manager, and a colleague, conducting at least ten, one-hour long interviews. In addition, we considered the additional overhead of the recruitment company, and our own internal people team in sourcing and onboarding contractors, whereas when using a consultancy, we were able to call on our existing frameworks.
3. If DCC had used contractors, the onboarding process takes at least 3 months after an offer is made. This is because of the required checks carried out by Capita, which include: background checks, reference requests and basic security checks. The consultancy onboards their own staff so this delay is mitigated, and the resources can start straight away once a contract is signed.

Many of these reasons are consistent with section 4.3.1 above which summarises our case for outsourcing.

Through increased demand from programme activity that could not be met through in-house resource, and the assessment of the use of contractor resource as explained above, DCC decided to conduct a competitive tender process through which several consultancies responded: [REDACTED]. Following a successful procurement exercise, [REDACTED] were appointed. [REDACTED] had the lowest costs, and as explained in our submission the rates charged by [REDACTED] were below benchmark rates in DCC consultancy framework.

As indicated in our submission, [REDACTED] were used to provide burst cover for this critical activity, while DCC recruited permanent internal positions to carry out this type of work in the future. These new permanent roles have now been onboarded and, as such, [REDACTED] rolled off in September 2024.

Our primary position on this item is that we strongly believe that the use of consultancy was appropriate given the nature of work being undertaken and therefore the disallowance should be zero. However, if Ofgem disagrees with this we believe that the use of internals was inappropriate. In this case, we propose to amend resourcing split to 100% contractor resources. This results in the disallowance decreasing from £0.355m to £0.045m.

Integrated Activity Planning

Ofgem proposes to disallow £0.355m of expenditure related to this project.

Following significant growth in DCC activity combined with several critical projects to deliver, DCC identified a critical need to have a more in-depth understanding of how work is prioritised, sequenced and planned. Effective integrated planning takes significant experience and expertise. DCC assessed that, at the time, we did not have the sufficient resources to complete this work, but that the longer-term strategy was to recruit resource to do this moving forward.

Following careful assessment, [REDACTED] were chosen to assist with this work on a temporary basis. [REDACTED] had been heavily involved in supporting DCC on our Business Planning processes previously and hence could provide resources that understand our requirements much more quickly and with less time

needed for onboarding and context setting. As explained in our submission, [REDACTED] have a deep understanding of DCC and have been heavily involved in designing and implementing our current Annual Business Plan and quarterly Lock process, which this work complements. Appointing a different consultancy to support us in this activity would have resulted in a longer time for onboarding and understanding of the issues, increasing costs and requiring more time from internal DCC staff.

Using [REDACTED] therefore presented a more efficient model to get the work completed. As explained earlier, we believe that we only select consultancy resources where it is appropriate to do so. However, we consider that in the case of this project, the evidence we have is stronger for why the use of internals was not appropriate, and therefore suggest the disallowance is based on a 100% contractor scenario (because of the above-described specialist skillset requirements which we did not possess). This results in the disallowance decreasing from £0.355m to £0.128m.

DSP Design Partner - [REDACTED]

Ofgem proposes to disallow £0.269m of expenditure related to the engagement of [REDACTED] to support critical procurement activities for DSP.

As detailed in our original submission, we explain that there were specific skill set gaps that could not be plugged by internal resources to carry out the design work for DSP. Critically, DCC required Cloud Application Architecture & Design skillset and experience of DSP itself. As DCC had limited Cloud experience internally and this assignment also required specific knowledge of DSP, the skillset required was unique. This meant there was only a small pool of providers DCC could use, and we were not aware of any contractors that could do the job without material upskilling required.

When DSP started, DCC did not have the internal expertise that could be transferred from other projects with cloud skills and DSP knowledge. This would have created another problem for the use of contractor staff, as there would not have been anyone at DCC with sufficient knowledge to manage them. [REDACTED] were able to provide us with a stop-gap that upskilled our internal resources, and we have since been able to recruit a cloud team that has taken on some of [REDACTED]'s responsibilities.

Cloud skills have been very hard to recruit as they are in high demand: recruitment is typically taking 12 months from advert to arrival. This means that it would not have been possible to recruit internal staff in the time we had available. Similarly, recruitment of contractors was deemed to be challenging as the specific skills required were difficult to source and the management overhead and time to perform the recruitment activity did not justify the effort as the resources were only needed until July 2024. DCC therefore needed to engage some consultants to kickstart this work - a contractor typically lacks the wider strategic skills for this.

[REDACTED] were the chosen partner as one of the highest scoring bidders. They have the specialist knowledge required of DSP and delivered value for money. The detailed rationale for selection is covered in the document "DCCT0385 - DSP Design Partner ARR v1.0 (part 1) – signed". DCC have now acquired some cloud expertise in this space and intend on using this internal resource to develop DSP in the future.

Many of these reasons are consistent with section 4.3.1 above which summarises our case for outsourcing.

Our primary position on this item is that the use of consultancy was appropriate and therefore the disallowance should be zero. However, if Ofgem disagrees with this we believe that the use of internals was inappropriate. In this case, we propose to amend resourcing split to 100% contractor resources. This results in the disallowance decreasing from £0.269m to £0.021m.

DSP Legal Advice

Ofgem proposes to disallow £0.256m of expenditure on external legal advice on the DSP.

As indicated in our submission, DSP is fundamentally the “brains” of the DCC network. The DSP procurement was one of the largest, most complex, and the most important procurements for DCC’s business. The DSP procurement involved four Lots, entailing multiple moving parts that require multiple legal resources. For the DSP procurement, legal resource was required to consider, review and draft four different Master Service Agreements (MSAs) (each with a different bidder) and ten separate Statement of Works (SOWs). Further, before the final down-select for the DSP procurement, we ran negotiations (collaborative solutioning) with between 2 to 3 bidders per Lot, resulting in 11 sets of negotiations.

The DSP procurement process was envisaged to be resource heavy and lengthy. The need for legal resource has fluctuated: often heavy, but also sometimes light, depending on the stage of the procurement. Consequently, when the re-tender work commenced, we identified a high level of legal advice was required to support the delivery of the procurement.

DCC uses a model of a small internal legal team supported by expert external lawyers from our Legal Panel. We believe this is best practice for an organisation with our responsibilities. Large organisations should always consider whether they have the legal capacity and expertise to deliver such activities in house, and it is our responsibility to seek support externally if we assess that we do not.

We did not consider it feasible, practical or prudent to resource this project with internal DCC legal team members, or hire a series of individual contractors to provide this legal support, for the following reasons:

Issue	Reason for not using in-house legal resource	Reason for not using contractor legal resource
Volume of resource	Attempting to resource these projects using the internal DCC legal team members would have taken those team members away from front line “business as usual” tasks and several other projects DCC had running at the relevant time	It would not have been possible to hire multiple individual contractors with the requisite deep and trusted expertise
Flexibility of consumption	Permanent internal staff wouldn’t be able to provide the fluidity of resourcing needed. Hiring internal resource would either result in overload during heavy periods or overstaffing in lower periods.	It is only possible to hire contractors on a dedicated basis. The required speed of on-boarding / off-boarding is not possible with individual contractors.
Knowledge of current market trends.	It wasn’t suitable to hire specialists on a long-term basis for the complex and novel features of this procurement	We required specialists who are negotiating transactions in the relevant space on a regular basis, generating knowledge of current market terms
Senior resource management	The amount of senior level resource required to lead, direct and manage a pool of individual contractors was simply not available within DCC’s legal team. DCC has a small legal team and its General Counsel – its most senior lawyer – is responsible for a number of strategic matters	
Quality assurance	A team of individual contractors would not have provided the level of quality assurance required.	

It is not uncommon to seek external legal advice for such high value activities, particularly where this involves existing systems. Re-tendering for existing systems requires several activities, such as setting up contracts, reviewing intellectual property and reviewing legal compliance and risks. Using an external law firm provided many benefits, including:

- Deep trusted specialist expertise in high value, strategic technology procurements (both from a procurement regulatory and transactional perspective).

- Fully flexible resource from which we can buy, and indeed pay for, only what we need, when we need it. When we've been faced with an unexpected spike in resource need, our law firm has been able to on-board additional resource at short notice. This speed of on-boarding / off-boarding is not possible with individual contractors.
- Knowledge of current market terms is only available from specialists who are negotiating transactions in the relevant space on a regular basis, who are only available from specialised law firms.
- Outsourcing the work to our chosen law firm meant we could have specialist partner resource managing a team of legal resources, all of whom work together regularly.
- Our chosen law firm has provided the additional meeting room space we've needed, at no additional cost – this has included for the large bidder presentation meetings, as well as the many one-on-one bidder meetings. By contrast, had we hired a series of individual contractors, we would have had to hire, at additional cost to DCC, additional meeting room space for the many streams of bidder engagement during the procurement.
- Outsourcing these legal activities transfers the risk away from DCC and its customers to the law firm with which we have engaged.
- A fresh perspective on existing systems.

As stated within our July Submission, we conducted a competitive process with all five firms on the DCC Legal Framework. DCC has demonstrated that the cost for these services is in line with or better than the market. Specifically, [REDACTED] agreed an 11% discount in comparison to the current agreed Legal Framework rates, as well as a 2% rebate for spend >£0.5m. [REDACTED] provided a 15% discount against the current agreed Framework rates.

Due to the reasons identified above, in particular regarding the peakiness of the support that we needed and the consequent need to roll on and roll off resource, it would not have been economic to hire permanent staff or contractors. This is particularly the case as, in the legal sector, contractors are rarer than in other sectors. Due to this, we consider that Ofgem should allow the entirety of our spend on this item. However, if Ofgem do not accept this, we believe we have demonstrated that this could not have been delivered by internal resource. In this case, we request that Ofgem allow the spend associated with a 100% contractor approach, in which case the disallowance would reduce from £0.256m to £0.032m.

DCC Commercial Support

Ofgem proposes to disallow £0.180m of expenditure related to this project.

The submission set out DCC's fundamental restructuring of the Commercial function, and particularly the Procurement team. The move to a more modern system of organising our procurement activities around category management is already delivering significant benefits. However, the move towards a more efficient long-term structure needed interim support to provide ongoing cover for the various procurements in our pipeline as we transitioned away from existing resources. DCC initiated a full, competitive procurement process to ensure an economic and efficient outcome.

While we still believe that followed a rigorous process in choosing to outsource this project, we understand the evidence we have provided is unlikely to meet Ofgem's standards.

Project Sky

Ofgem proposes to disallow £0.174m of expenditure related to this project.

As explained in last year's submission this activity was competed and awarded to the most economic and efficient bidder. Project Sky was a forensic evidence review using bespoke software that DCC has no

expertise in, as well as dedicated resources to interpret and parse the analysis generated by the software. Finally, the analysis was summarised in a detailed report for DCC management.

Despite the above, we accept that the quality of evidence that we have for why we did not perform this in-house or use contractors is not at the same level as for some other outsourced projects. We therefore understand that this is unlikely to convince Ofgem that we were correct to use a consultancy.

[REDACTED] - MEAP

Ofgem proposes to disallow £0.142m of expenditure related to this project.

DCC's submission explains how we supplemented the team with external advisors with experience of working on *ex ante* Price Controls. DCC had no internal capability in this area given it has operated on an *ex-post* basis up to this point. It was not considered appropriate to recruit permanent resource to support this until it became clearer what the requirement would be once Ofgem set out its proposed design of this regime.

The submission also explains that we changed our approach and reduced consultancy expenditure from more than £4m to £2.7m for the entire MEAP programme. We also agreed a significant discount with [REDACTED] against their framework rates of 18.2%, documented proof for which is included in the evidence folder.

Due to the reasons identified above, in particular regarding the peakiness of the support that we needed and the consequent need to roll on and roll off resource, it would not have been economic to hire permanent staff to conduct this work. We therefore firmly believe that the disallowance should be zero.

DCC Commercial Transformation

Ofgem proposes to disallow £0.134m of expenditure related to this project.

As explained in our submission, DCC needed to gain additional resource to support with a very specific type of procurement exercise: Competitive Dialogue. This is a procurement tendering procedure used for complex and high-risk solutions where there are gaps in requirements, outcomes, contract, or commercials. The procedure involves entering into dialogue with suppliers to find a solution that meets the needs of an organisation. Due to its complexity, it is seldom used. Moreover, the Cabinet Office activity discourages its use in the public sector, as it is often incorrectly applied.¹ This demonstrates that the skills needed to run it effectively are very rare, and therefore our internal procurement teams did not possess them.

Ofgem instructed DCC to pivot to brownfield procurement, meaning we had to accelerate procurements. Our previous approach for the OBC was to procure new services through incumbent provider, with subsequent disaggregation to the market. Ofgem informed us this was inconsistent with our Licence conditions on 11 April 2023 so Competitive Dialogue was chosen as the approach.

We engaged with over 15 suppliers for the DSP competitive dialogue procurement tender to support the OBC for DSP Core, support the SOC for DSP SI and SOC for DSP extension. Through aiding suppliers to better understand the specific requirements of a contract, they were able to offer a solution that was tailor-made to the business requirement. Through competitive dialogue, DCC could obtain a suitable solution at a competitive rate. We did not have the skills or experience to carry this out in house, as we had focused internal resources on commercial business partners, not procurement specialists.

In tandem, we were reforming our Commercial function more widely and did not want to prematurely recruit for the wrong skills or in a manner inconsistent with our long-term set-up (e.g. insourcing something our strategy then wanted to outsource). As a result, DCC contracted with temporary resources, in order for

¹ [Government guidance seeks to limit the use of the competitive dialogue procedure – Anthony Collins Solicitors](#)

us to have the right and most cost-efficient longer-term solution for RY24/25 and beyond. We consider this is in the interests of our stakeholders and consumers.

Many of these reasons are consistent with section 4.3.1 above which summarises our case for outsourcing.

Due to the reasons identified above, we believe that we only select consultancy resources where it is appropriate to do so. However, we consider that in the case of this project, the evidence we have is stronger for why the use of internals was not appropriate, and therefore suggest the disallowance is based on a 100% contractor scenario (because of the above-described specialist skillset requirements which we did not possess). This results in the disallowance decreasing from £0.134m to £0.028m.

[REDACTED] - Consultant Resource

Ofgem proposes to disallow £0.110m of expenditure related to this project.

Our submission documents our decision process relating to [REDACTED] as a Managed Service Provider (MSP). [REDACTED] was procured for a short period of time to provide surge resource capacity. To onboard contractors would not have been efficient, as the expediency would not have aligned with the need for surge capacity. Further detail is provided below, but many of these reasons are consistent with section 4.3.1 above which summarises our case for outsourcing.

Following a competitive procurement process, [REDACTED] was selected as the best in task provider for this piece of work, initially run as a trial. In March 2023, DCC concluded the [REDACTED] (NH) managed service trial to prevent additional costs and ensure value for money. Post-trial, all [REDACTED] staff were replaced by DCC contractors by April 2023, except for two Subject Matter Experts (SMEs). The two retained SMEs were:

- Business Analyst: Retained due to their pivotal role in the DSP programme, particularly for leading the re-procurement exercise and ensuring tight deadlines. Their expertise was crucial for maintaining continuity and accuracy in requirements.
- Programme Manager: Retained for their unique skills and track record in managing complex projects, including SEC releases and GBCS firmware upgrades. Their continued involvement was vital for the successful delivery of critical programmes. This Programme Manager has since transitioned to a permanent role within DCC.

Their retention was essential to maintain momentum and continuity in these key areas, given that immediate replacement by contractors would have been costly and disruptive.

Despite the above, we accept that the quality of evidence that we have for why we did not perform this in-house or use contractors is not at the same level as for some other outsourced projects. We therefore understand that this is unlikely to convince Ofgem that we were correct to use a consultancy.

[REDACTED] - MEAP

Ofgem proposes to disallow £0.101m for procuring the support of a consultant to lead DCC's move to *ex ante* programme.

DCC needed a senior advisor with experience of operating at Board level, familiar with the corporate structures of private companies in the telecoms/technology sector to lead DCC's strategy on preparing the organisation for *ex ante*. It was not considered appropriate to recruit permanent resource to support this until it became clearer what the requirement would be once Ofgem set out its proposed design of the *ex ante* regime.

As with the Licence Renewal expenditure with [REDACTED], Ofgem was well aware of DCC's use of consultancy to provide leadership for MEAP. Activities worked on by the consultant were often the direct requirement of Ofgem.

It is disappointing that Ofgem is proposing to disallow expenditure on a regulatory change that it has initiated and would have hoped to have had more transparency from Ofgem on its concerns. Whilst we believe the activity was best delivered by consultancy with experience of leading policy development within a regulated sector, we strongly believe that it was not possible to resource this through internal resource and therefore suggest any disallowance is based on a 100% contractor scenario (because of the above-described specialist skillset requirements which we did not possess). This results in the disallowance decreasing from £0.101m, to £0.014m.

CH&N Legal Advice

Ofgem proposes to disallow £0.097m for utilising external legal advisors on the Comms Hub and Network programme. In the first year of using [REDACTED] to support the CH&N programme, Ofgem allowed all the expenditure. Each year since, Ofgem has proposed a different methodology to generate a disallowance, suggesting that there is no clear view on the correct level of efficient and economic expenditure.

The CH&N procurement was one of the largest, most complex, and the most important procurements for DCC's business. The CH&N procurement involved 5 Lots. Ultimately, this meant 4 Agreements, with 35-37 Schedules each of which entails multiple moving parts that require multiple legal resources. In many respects, the rationale for legal advice on CH&N mirrors the rationale for legal advice on DSP (discussed above). Specifically, the CH&N procurement process, like the DSP procurement process was very "peaky" – as DCC's internal model is to use a small internal legal team, we need to secure external advice whenever our workload is expected to increase. The logic for this is the same as that which we provided for DSP, so we do not repeat it here.

As stated within our July Submission, [REDACTED] was instructed on CH&N following a competitive procurement exercise. They provided the following discounts on their standard (in-line with market) rates:

Fees	Total discount	Additional discount
£0-0.5m of additional fees from April 21	17.5%	
£0.5m-£1m	20.0%	2.5%
£1m – 1.5m	22.5%	5%
£1.5m+	25%	7.5%

Due to the reasons identified above, in particular regarding the peakiness of the support that we needed and the consequent need to roll on and roll off resource, it would not have been economic to hire permanent staff or contractors. This is particularly the case as, in the legal sector, contractors are rarer than in other sectors. Due to this, we consider that Ofgem should allow the entirety of our spend on this item. However, if Ofgem do not accept this, we believe we have demonstrated that this could not have been delivered by internal resource. In this case, we request that Ofgem allow the spend associated with a 100% contractor approach, in which case the disallowance would reduce from £0.097m to £0.012m.

[REDACTED] - Customer Onboarding Support

Ofgem propose to disallow £0.091m of expenditure related to this project.

Our submission details the need to simplify, automate and digitise the DCCs on/off boarding journeys for new users across the DCC network. In short, the increased number of potential users highlighted that there were no processes to effectively identify, manage and on-board these customers which was leading to poor customer experience and poor retention of digital users.

DCC has c.80 queries per year from organisations looking to onboard, but DCC has failed to convert many of these into DCC users. Customer insight obtained by DCC revealed that the current onboarding journey is resource intensive, lengthy, costly, and complex, creating high barriers to entry for accessing smart meter services.

DESNZ has also worked with DCC to better understand why onboarding is a challenge for potential DCC users. A report prepared by DESNZ¹, which included interviews with market participants, revealed there were significant concerns about the complexity of the onboarding process. We have continued to brief DESNZ and Ofgem at regular intervals about the steps being taken to improve the onboarding process. Additionally, a [REDACTED] report² commissioned by DCC in 2022, also notes the challenges associated with the user experience of the onboarding process.

Smart meter data is extremely powerful when used by the customer. If the customer cannot effectively access this information because of poor onboarding processes within DCC, it undermines the entire point of having a smart meter.

While the DCC has digital and technical expertise to implement “a” solution, we did not believe that it would be at the standards that are required of our customers. This is because this would be the first time DCC developed such a solution, and so without external support, it was very unlikely DCC would have developed a solution that meets and draws from industry best practice. DCC required a cohesive team of resources who have delivered similar projects like this before. Such experience is generally only held by consultancies, because they perform this sort of work for multiple businesses, and so recruitment of new internal resources would not have met our need. Building a cohesive project team to support on this work was key and, as such, contractors would not have been suitable. Many of these reasons are consistent with section 4.3.1 above which summarises our case for outsourcing.

DCC carried out a competitive procurement process, where five suppliers submitted a response under the consultancy framework, and as such are all current suppliers to DCC.

We remain committed to ensuring all our projects deliver a value for money and will constantly challenge ourselves on cost in these types of projects. In fact, for this project specifically, [REDACTED] also showed interest in implementing the solution they designed, however our cost-assessment indicated that this would not deliver a value for money, therefore DCC implemented it using internal resources.

As explained earlier, we believe that we only select consultancy resources where it is appropriate to do so. However, we consider that in the case of this project, the evidence we have is stronger for why the use of internals was not appropriate, and therefore suggest the disallowance is based on a 100% contractor scenario. This results in the disallowance decreasing from £0.091m to £0.018m.

Legal Advice - Price Control

Ofgem propose to disallow £0.070m of expenditure related to this project.

As indicated within other legal advice sections, it is not uncommon to seek external legal advice for such activities. Large organisations should always consider whether they have the legal capacity and expertise

¹ DESNZ Other User Role Development Report

² DCC Other User Role Review

to deliver such activities in house, and it is our responsibility to seek support externally if we assess that we do not.

[REDACTED] is our main expert on complex energy regulatory matters such as this. The discounted panel rates we have agreed with [REDACTED] apply to this work. These panel rates are discounted 35-40% from standard. We have market-tested these rates as part of our law firm panel refresh and confirm these represent good value to DCC.

As with DSP legal advice, we think that Ofgem has not sufficiently considered the peakiness of the legal support that we need and receive, and the implications that this has on our needs to quickly secure high-quality advice and roll that support on and off a project. Due to this, it would not have been economic to hire permanent staff or contractors. This is particularly the case as, in the legal sector, contractors are rarer than in other sectors. Due to this, we consider that Ofgem should allow the entirety of our spend on this item. However, if Ofgem do not accept this, we believe we have demonstrated that this could not have been delivered by internal resource. In this case, we request that Ofgem allow the spend associated with a 100% contractor approach, in which case the disallowance would reduce from £0.070m to £0.009m.

Project Blue

Ofgem propose to disallow £0.063m of expenditure related to this project.

As explained in our submission, the activity was not included in our business plan for RY22/23, and the original budget was included within the Service Delivery function for Phase 1 costs. Operations took ownership of these costs and the Phase 2 budgets after the handover of work and resource in November 2023.

Prior to taking the decision to competitively tender for external consultancies to undertake this activity, DCC conducted a detailed review of its options, including using internal and contractor resources. The project is complex and required a comprehensive skill set across a number of capability areas. This included the implementation of a new target operating model and embedding new process and governance designs. DCC assessed that there was not the sufficient capability or availability in house at that time.

DCC also assessed that using contractors would not be efficient as it required a team to work together to deliver a complex project, meaning it would likely have required more contract resources than it did through engaging a consultancy with a large pool of resources. Many of these reasons are consistent with our case in 4.3.1.

Engagement occurred with SECAS and SEC Panel during the procurement process, who had previously provided feedback on the need to strengthen DCC's in-life change process.

Given the above, we believe that sourcing expert support on how to improve in-life change was most appropriate through the consultancy route. However, if Ofgem disagrees it should at least consider a 100% contractor weighting. This would reduce the disallowance from £0.063m to £0.019m.

Commercial Advisory Support

Ofgem propose to disallow £0.059m of expenditure related to this project.

As detailed in our submission this expenditure relates to specialist Commercial advisory work for specific, time-bound, procurement and transformation activity, where targeted expertise was required to provide in-depth market knowledge, access to specialist industry insight and expertise in similarly complex procurements. DCC did not possess this expertise internally, and it would be uneconomic for us to possess these skills internally given we only needed them for a finite period and specific projects.

Furthermore, permanent recruitment for vacancies into the Procurement team was proving difficult due to a significant shortage of qualified procurement professionals who met the calibre and specific qualifications we needed. As a result, it was determined that these roles could not have been filled recruiting permanent staff or contractors, were that our preferred option.

Many of these reasons are consistent with section 4.3.1 above which summarises our case for outsourcing.

While we believe we chose the right sourcing option for this work, we acknowledge that there is some limited potential that this could have been undertaken by contractors. In this case the use of contractors at the benchmark rates would have resulted in a higher cost. Given this we propose that disallowances reduce from £60k to zero (to reflect the counterfactual being higher than the incurred cost).

[REDACTED] Consultant Resource

Ofgem propose to disallow £0.048m of expenditure related to this project.

It became apparent that there was a significant gap in the capability across the planning, process and insights team to identify and track the actions required to meet DCC's new 3-year strategic goals. DCC onboarded a consultant for a vacancy as the interim Head of Business Insights in the Planning, Process, and Insights Team, working alongside Enterprise Planning and Process Improvement. This key leadership role was essential for significantly improving DCC's efficiency and effectiveness.

This resource was hired through contract SSP177. This consultant had significant skills, experience and knowledge in the required domain to help DCC achieve its new three-year strategic goals.

The competitive rate offered by [REDACTED] justified the direct procurement without an RFP, avoiding potential delays and lost opportunities. Benchmarking was undertaken across five consultancies, including [REDACTED] and it was found [REDACTED] was significantly cheaper, making it economically efficient to procure directly.

The individual provided by [REDACTED] had executed this role in other organisations and was able to bring to DCC a wealth of proven relevant experience and knowledge that could be applied quickly to have the required impact. The consultant was available to join DCC immediately following completion of a similar assignment for a utility company. Going through an RFP would mean that the position would not be filled for a longer period of time, and DCC would undoubtedly have lost the opportunity to utilise this consultant.

Despite the above, we accept that the quality of evidence that we have for why we did not perform this in-house or use contractors is not at the same level as for some other outsourced projects. We therefore understand that this is unlikely to convince Ofgem that we were correct to use a consultancy.

[REDACTED] - Address Matching

Ofgem proposes to disallow £0.026m of expenditure related to this project.

DCC have been working with [REDACTED] for a number of years. This expenditure relating to this project was the second contract extension with [REDACTED] on Address Management. [REDACTED] had significant experience, knowledge and skills of working within the switching and address management space. [REDACTED] were involved in launching Switching within DCC and were also the custodians of Address Management when it was moved into Operations. Within DCC, there were no internal resources with such specialist skillset that could carry out the required activities.

Additionally, in line with section 4.3.1 above, it was felt contractor resources would not have delivered effectively or efficiently, given there was a need to retain specialist knowledge and experience, have a cohesive team and provide consistency of service. At the time, DCC had limited knowledge of address

matching and were keen to build this, in order to bring this capability in house. To do this, DCC felt [REDACTED] remaining onboard would give them the best opportunity to transition successfully.

Throughout the year, [REDACTED] worked closely with DCC and [REDACTED] to transition their activities and knowledge into internal resources. As a result:

- All reporting and dashboards have been built in house with [REDACTED]'s support
- DCC now has access to a data repository, which [REDACTED] led the project on. Previously, DCC did not have the knowledge on the intricacies of this data
- An annual address quality plan is now being delivered by internal resource, saving circa £100,000 per annum
- All customer bilaterals are now managed internally. DCC have streamlined the engagement process and put more accountability on industry, which resulted in the requirement for internal resource to be halved from two FTE to one. Without [REDACTED]'s support and sharing of best practice, this would not have been possible.

[REDACTED] spent a significant amount of time with the DCC and [REDACTED]'s technical teams sharing best practice. Examples of the specialist skills and knowledge that [REDACTED] shared included: understanding the intricacies of address matching, the end-to-end process of address matching, Switching industry and regulatory experience. This helped us get to a position where internal resources and [REDACTED] colleagues were upskilled to remove the need for [REDACTED] going forwards. This year, post transition from [REDACTED] to in-house, DCC have saved circa £0.600m.

Our primary position on this item is that the use of consultancy was appropriate and therefore the disallowance should be zero. However, if Ofgem disagrees with this we believe that we have demonstrated that the use of internals was inappropriate. In this case, we propose to amend the resourcing split to 100% contractor resources. Given that the consultancy rates achieved in this assignment were actually below the contractor rate benchmarks, this results in the disallowance decreasing from £0.026m to zero.

4.4. Business transformation and the Business Accuracy Programme

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

This section 4.4 of our Consultation Response addresses consultation question 13 and responds to paragraphs 4.88 to 4.106.

Question 13 relates to the proposed disallowance of material spend on activities that are deemed by Ofgem to fall within the scope of the wider Business Accuracy Programme (BAP). Ofgem has proposed to disallow 100% of these costs (£4.124m) because, in their view, insufficient evidence on the benefits of the program, such as a Cost-Benefit Analysis (CBA), was provided. Specifically, in paragraph 4.102 of the Consultation Document, Ofgem states that *"we did not receive any further evidence nor any robust cost benefit analysis that precisely sets out how and when the programme's savings and efficiencies would be realised."*

We also note Ofgem's further concern, at paragraph 4.90, regarding potential overlap between the scope of the BAP and *"various projects (similar in nature)"*. Ofgem does not state specifically which workstreams it is referring to.

In response to the above two observations from Ofgem, this section:

- Explains which items of spend are part of BAP, and which items are part of ongoing business transformation which all organisations undertake – section “Defining the Business Accuracy Programme”;
- Provides additional evidence on why BAP provided benefits to customers, and therefore why the elements of spend that are part of BAP should have the expenditure associated with them allowed – section “The benefits of the Business Accuracy Programme”;
- Provides evidence on the benefits that items of spend which were part of Business Transformation (and outside of BAP) provided – section “Benefits of business transformation activities (separate from BAP)”.

The above approach has been taken because Ofgem has explained that all the items that they consider to be part of BAP have been proposed for disallowance due to insufficient evidence as to the benefits, savings, or efficiencies of the programmes.

DCC believe that, should benefits be demonstrated for any of these items (irrespective of whether they are part of BAP or not), at least some of the expenditure incurred in respect of these (in principle, the amount in proportion to the benefit delivered) should be allowed.

Defining the Business Accuracy Programme

In the table below, we clarify which items were within the scope of BAP and which are ongoing business transformation, and not part of the BAP programme.

Item	Business transformation or BAP
1. Jeopardy Management and Commercial Pipeline	Business transformation
2. [REDACTED] - PRINCE2	Business transformation
3. Business Accuracy Transformation	BAP
4. Enterprise Planning – [REDACTED]	BAP
5. [REDACTED] OneData Support	Business transformation
6. Enterprise Planning – [REDACTED]	BAP
7. Enterprise Change Management	BAP
8. e-Procurement tool – [REDACTED]	Business transformation

The Business Accuracy Programme (BAP) was an exercise to improve economy and efficiency within DCC. It focused on delivering improvements into the Commercial, Finance, and Portfolio business areas. It supported DCC’s transition as it grows in size, scale, and complexity. In our submission, we provided detail of the delivery milestones and benefits of BAP.

The programme has delivered outputs across four main themes:

- **Process and Governance** – Establishing efficient, repeatable processes and governance structures that provide control and assurance over activities and portfolios.

- **Systems and Data** - Creating a data architecture that provides the business with timely, reliable, and aligned datasets for governance, reporting, and forecasting.
- **Reporting** – Building a reporting framework and culture of accountability and transparency, enabling internal and external parties to understand expected and actual performance.
- **People** – Promoting a more sustainable, process-driven culture at DCC.

BAP formally closed in July 2023, as evidenced by the July 2023 closure report. Once BAP was completed, workstreams were required to embed the enduring solutions and inevitable new improvement activities have been initiated. While we understand that Ofgem's concerns around BAP are likely to arise from a perception that we are incurring costs on the same items twice, this is not the case. In reality, the issues that BAP addressed and improvements that it delivered did not, and were not intended to, bring our internal processes and systems to a level where no further improvements were possible – this would not reflect the reality of operating a business in a fast paced and dynamic environment. As with all organisations, DCC will be continually look for improvement opportunities to drive cost efficiency or other benefits.

As the business continues to develop, further activities will be required to change the way in which we work, for example, manage contracts across their lifecycle, or improve our Purchase Order process. The fact that BAP has already delivered some improvements in those areas does not mean that no further improvements will ever be identified, or all such future improvements are part of that programme.

Despite this disagreement on definition, we agree with Ofgem's view that our expenditures should all deliver net benefits to end-customers. Therefore, through the remainder of this section, we explain:

- The evidence on the benefits of the spend items that fit into the BAP.
- The evidence on the benefits of the spend items that are not part of BAP. We urge that Ofgem considers the evidence presented on these items on its own merits, rather than (incorrectly) allocating them to BAP and applying a 'blanket' disallowance.

The benefits of the Business Accuracy Programme

In our BAP closure report (July 2023), the Cost-Benefit Analysis (CBA) shows that, overall, across all 16 milestones, the achieved BCR is 1.8. It is therefore not correct for Ofgem to say there were no benefits.

We have previously Ofgem with specific evidence of how elements of the BAP delivered the intended outcomes. To evidence tracking of the benefits provided by BAP, we provide a variety of documentation, some of which we have previously submitted.

- The original business case demonstrated a cost-benefit analysis (CBA) on pages 5, 6, and 7. The full options appraisal is on pages 25-33.¹
- The BAP Benefit Mapping Tracking v0.2 file states that, for each workstream, there was a named owner tracking benefits with measurable KPIs.
- The BAP Outcomes and Benefits Actions Tracking v0.3 document shows a variety of Observed Benefits and Evidence.
- The BAP Closure Report contained an updated CBA with actual costs and a detailed benefits realisation plan. The CBA has monetised both direct and indirect (enabled) benefits and estimates the programme will deliver a benefit-cost-ratio of 1.8. This means there is an estimated £1.80 of

¹ Smart DCC Business Case_Business Accuracy_5.0.

benefits for every £1 of costs. Such a BCR is generally considered to be on the upper end of “medium” value for money, and therefore represents a material benefit to consumers.¹

- The benefits realisation plan that we cited as part of our submission contains a comprehensive approach for monitoring and tracking the direct benefits of the programme. The plan identifies the metrics which will be tracked and the internal processes that will be used and links them with specific benefits that need to be measured. While the indirect benefits and enabled cost-efficiencies cannot be directly measured and completely attributed to BAP, the benefits realisation plan details how the Cost Benchmarking Project will be used to provide a baseline against which future cost-efficiencies can be measured.
- The Internal Audit (IA) report reviewed DCC progress against its strategic objective called “cost of operating and maintaining the network” and validated £9.6m of savings.² While many initiatives would have contributed to these savings, BAP was one of them.

Given the benefits that DCC has and continues to evidence as arising from the BAP, DCC continued to believe that the cost in developing the programme was economically and efficiently incurred and should not be proposed for disallowance.

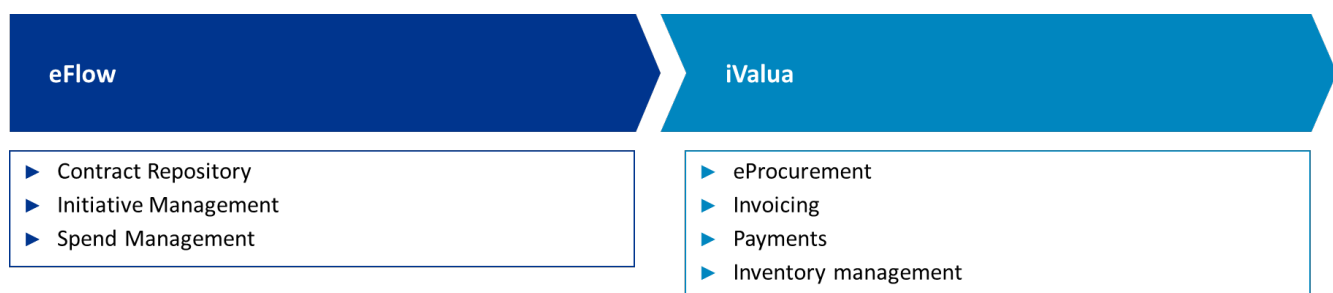
Benefits of ongoing business transformation activities

As explained in the section above, Jeopardy Management and Commercial Pipeline, PRINCE2, OneData Support, and the e-Procurement tool ([REDACTED]) are not, and have never been, part of BAP. Consequently, we disagree with Ofgem’s allocation of the cost but understand that Ofgem wants to understand the benefits the solution has delivered. We detail that under each of the subheadings below.

Jeopardy Management and Commercial Pipeline

DCC identified issues arising from having multiple different systems for managing sourcing and contract change activity. As an example, risk management and the Commercial Pipeline were managed in Microsoft Excel.

To resolve these issues, the Jeopardy Management programme was put in place to assess risks and [REDACTED] and [REDACTED] (see the section “e-Procurement tool – [REDACTED]”) were procured to manage separate parts of the commercial pipeline, as shown in the diagram below.³



For provision of these solutions, as mentioned in our submission, an in-house solution was not possible. Consultants were sourced from [REDACTED] as they could provide thought leadership, insights, previous learning, and collateral. Contractors would not have been able to provide the unified expertise and necessary vision setting.

¹ See for example DfT guidance on Value for Money [Value for Money Framework](#).

² Internal Audit report

³ Commercial Pipeline and Jeopardy Management DCC proposal v7 page 5

We will now explain the Jeopardy Management programme, the functionality of [REDACTED], and their respective benefits.

The Jeopardy programme centralised our reporting and collaboration for all contracts, with the aim of incorporating the information within our future Commercial Toolset, comprised of [REDACTED] and [REDACTED]. The Programme collated critical contract information, designed end to end processes and a governance framework, and implemented a best practice pipeline approach for documentation and identifying, structuring, and creating workstreams.

[REDACTED] improved upon the Excel tool by providing a robust and secure software replacement. [REDACTED] is used to manage the commercial pipeline such as business cases and board cases. Any actions taken from it, such as contract extension decisions or needs for a new supplier, serve as a pre-requisite for [REDACTED], which provides a forward view for planning of prospective commercial activities.

[REDACTED] provides the following benefits to DCC:

- We can make improved commercial decisions in a timely manner as the business has visibility of upcoming initiatives and can allocate the appropriate resources to develop commercial strategies and optimise commercial outcomes (e.g. by assessing existing contractual performance). This reduces DCCs commercial risk exposure
- It reduces the risk of last-minute contract extensions or renewals by providing management with better governance and pipeline controls. This is reflected in our improved OPR audit score
 - Barkers state that “Coupled with the introduction of tools such as [REDACTED], Pipeline & Tracker and processes and procedures to increase visibility of requirements, ensures that future business needs are managed more effectively” page 29¹
 - Barkers also praise on page 48 that “Robust systems and processes are in place to ensure traceability of service delivery back to the contract. These mechanisms provide clear and well-documented links between contractual obligations and actual performance, enabling effective monitoring and control.”
- It creates greater accountability regarding our 3 to 5-year forward plan and directly feeds into our quarterly pipeline reports to DESNZ and Ofgem. These were not possible before the adoption of [REDACTED]. We include our September 2024 report to DESNZ as evidence²
- Monitoring and efficiency tracking is improved, with Price Control reviews inbuilt within the Pipeline. We refer to the previous quote from [REDACTED] on page 48 of the Audit report³

[REDACTED] - PRINCE2

The activities undertaken by [REDACTED] on PRINCE2 were not within scope of the Business Accuracy Programme. We provided Ofgem with the BAP Closure Report which has no mention of PRINCE2. The report states that DCC would be opting for smaller scale changes to DCC’s Change Delivery Methodology rather than undertaking a full refresh. The applicable part of the closure report is as below:

“A decision was made to make some smaller, continuous improvements (enhancements) to the current CDM instead. This decision was made when the Lifecycle Management (LCM) work kicked off as it was decided that this work would define the change management processes moving forwards and that the CDM refresh we were working on would essentially be superseded. This is discussed in more detail below.*

¹ Audit Final Report 2024

² DESNZ September 2024 report FINAL.xlsx

³ Audit Final Report 2024

PRINCE2 (Projects IN Controlled Environments) is a widely used project management methodology that offers several benefits, outlined in the table below.¹

Benefit	Description
Improved Project Success Rates	According to a study by the UK Office of Government Commerce (OGC), organisations that implemented PRINCE2 reported a 20% increase in project success rates.
Cost Savings	A survey by Axelos, the organization behind PRINCE2, found that organisations using PRINCE2 experienced a 15% reduction in project costs due to better resource management and risk mitigation
Time Efficiency	PRINCE2's structured approach helps in reducing project timelines. A report by the Project Management Institute (PMI) indicated that projects managed with PRINCE2 were completed 10% faster on average compared to those without a formal methodology.
Enhanced Risk Management	PRINCE2's focus on risk management leads to a 30% reduction in project risks, as reported by a study conducted by the Association for Project Management (APM).
Improved Stakeholder Satisfaction:	Organisations using PRINCE2 reported a 25% increase in stakeholder satisfaction due to clear communication and defined roles and responsibilities.
Better Resource Utilisation:	PRINCE2 helps in optimizing resource allocation, leading to a 20% improvement in resource utilization efficiency, as per a survey by the International Project Management Association (IPMA).
Scalability and Flexibility:	PRINCE2's scalable nature allows it to be tailored to projects of any size, leading to a 15% increase in the adaptability of project management practices across different types of projects.
Global Recognition	Recognized and used internationally, enabling DCC to access talent who understand DCC's processes

These benefits make PRINCE2 a popular choice for organizations looking to improve their project management practices and achieve successful project outcomes.

e-Procurement tool – [REDACTED]

[REDACTED] was procured to serve as DCC's commercial sourcing tool, managing procurements. Its capabilities include Supplier Risk & Performance Management, Sourcing, Contract Lifecycle Management and eProcurement, which digitalise key procurement, commercial, risk, and contract-based processes. [REDACTED] Phase 1 went live in February 2024 and focused on sourcing activity.

¹ [PRINCE2 Certification | Qualifications and Exams | Axelos](#), [Project Management Institute](#), [APM | Chartered Membership Organisation](#), [International Project Management Association \(IPMA\)](#),

Through the implementation of [REDACTED], DCC has made considerable progress in improving its sourcing capabilities, such as a reduction in manual steps and simplification of procurement processes. We have selected some benefits of [REDACTED], with more in the submitted evidence:

- £0.140m was spent in RY23/24 on implementation, which is expected to yield net savings of £10.6m over a 5-year period, predominantly driven by greater spend under management.¹
- System costs have been reduced by £10,000 per annum.² As a result of [REDACTED], we also hope to decommission another system [REDACTED], saving a further £30,000 per annum.
- [REDACTED] has enabled the DCC to be more efficient with its resources, which is forecast to require 7 fewer employees by the end of FY24/25 than was forecast at the Lock (i.e. during the undertaking of the Lock process) 12 months prior. This will release in-house employees to work on other, value-adding, activities.³

[REDACTED] improvements are reflected in our enhanced OPR scores for RY23/24 compared to RY22/23. Barkers praised our [REDACTED] improvements over the previous situation, stating “[REDACTED] is a central and commercial contract database rolled out in February that acts as a “one stop shop” for all contracts, procurement information and links to payments/SAP/Risk Management a process that was manual previously.”⁴ Barkers also state “As a collection of tools, documents and contract management processes, we consider these to be of good quality and sufficient to provide support to the DCC’s contract management professionals.”⁵ We will continue to monitor [REDACTED] benefits, as provided in our [REDACTED] Roadmap.

[REDACTED] OneData Support

OneData Hub is a strategic integration and reporting platform for DCC enterprise data.⁶ The overall aim of the One Data Hub project was to provide Executive Committee and the Board of Directors with reporting across a range of different KPIs and Metrics to measure performance. By creating this centralised hub with data from numerous DCC core systems, we gained better, more comprehensive statistics and reporting which, in turn, helped increase the business accuracy by facilitating improved decision-making and forecasting.

[REDACTED] were procured, via competitive tender, to provide ongoing development and build-out support for OneData, including the build-out of PowerBI dashboards. Their support started in March 2023, and has continued since then.⁷

The work that [REDACTED] has done on OneData has enabled DCC to:

1. utilise pre-existing Microsoft tools available through our enterprise license;
2. avoid additional spend on procuring further third parties to integrate our datasets;
3. employ a commonly used technology stack upon which new data sources & integrations can be easily built on, rather than relying on customised solutions;
4. avoid future work to integrate new software applications with all those that will persist.

¹ [REDACTED] Benefits & Opportunities_V3.pptx

² [REDACTED] Benefits & Opportunities_V3.pptx

³ [REDACTED] Benefits & Opportunities_V3.pptx

⁴ Audit Final Report 2024

⁵ Audit Final Report 2024

⁶ See Section 1.7.6 of the “Finance and People” chapter of our original submission for more information.

⁷ Please see page 8 of DCC_DCC0119_(CR4788) for the full OneData work conducted in BAP

As explained in (2) above, without the integration provided by [REDACTED]'s OneData support, DCC would have had to use system integrators to deliver integrations between core DCC applications. This would have been substantially more expensive, because the day rates below are higher than [REDACTED]'s.

Software	Specified System Integrator ¹	Day Rate (£)
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]		

Prior to the procurement of [REDACTED], we used [REDACTED] to provide the reporting functionality that is now performed independently through the PowerBI integration that [REDACTED] build to OneData. This means that the integration being performed by [REDACTED] between all source data systems has allowed (and will allow) DCC to migrate away from [REDACTED]-delivered applications in a more streamlined manner. Despite source data coming from [REDACTED] systems, DCC can now store it in [REDACTED] systems, allowing data access to be maintained post separation.

We have detailed the benefits attained so far from the [REDACTED] OneData work in the "[REDACTED] OneData Support evidence" document. Highlights include:

- A saving of 108 FTE days annually from the integration of the Financial Planning Tool
- A saving of 52 FTE days annually from automation of the People report for Board papers
- A saving of 26 FTE days annually from the unified management of people resources across permanent, contractor and consulting staff

¹ The system integrator company is specified by the software provider

5. Performance Incentives

Summary

- **System Performance** – We welcome Ofgem's recognition that DCC has met all system performance targets in RY23/24.
- **Contract Management** – We disagree with Ofgem's proposal to reduce the Independent Auditor's scores from 2.33 to 2.14. DCC believe that Ofgem should only amend the Independent Auditor's scores with very strong and quantified reasons, and we have not seen any such evidence. We are proud to continually improve on previous year's scores and do not believe the downgrading of scores for four of the audit questions to be justified. We have provided detailed evidence below as to why we believe each of the scores provided by the Auditor was justified.
- **Customer Engagement** – We disagree with Ofgem's minded-to position to score DCC 2 out of 3. Ofgem's final weighted score is 2.11, and we consider that this score is more appropriate since it reflects the "small, incremental aspects of our performance which provide incentives to make granular improvements" which the Guidance allows for. We would encourage Ofgem to reassess its decision to reduce its score from 2.11 to 2.0.
- **SMETS1 Baseline Margin Project Performance Adjustment Scheme** – We acknowledge Ofgem's minded-to position to reduce DCC's baseline margin by £1.385m following last year's assessment of the scheme.

The Operational Performance Regime (OPR) is designed to incentivise DCC to run a high-quality service for its customers by placing Baseline Margin at risk. In RY23/24, £8.938m was placed at risk against the OPR. The OPR incentivises DCC based on the DCC system performance, contract management, and customer engagement. There are currently five active performance measures under which DCC is financially incentivised:

- System: service availability.
- System: install and commission.
- System: prepayment (interim response times).
- Customer engagement.
- Contract management.

In RY23/24, the three system measures carried an equal weighting of 23.3% each reflecting the importance of the operational performance of the DCC. The customer engagement and contract management measures carried a weighting of 15% each. A portion of DCC's margin is put at risk against each of these measures.

5.1. System Performance

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

This section 5.1 of our Consultation Response addresses Question 15 and responds to paragraphs 5.1 to 5.8 of the Consultation. Question 15 relates to the three system measures of the OPR.

We reported system performance of 100% for RY23/24 and submitted our position on why the SRV8.11 metric should be zero weighted. We welcome Ofgem's acknowledgement that SRV8.11 is outside of DCC's full control and as such, should not be included within the OPR.

We welcome Ofgem's recognition that DCC has met all system performance targets and is therefore minded-to award DCC the full margin associated with system performance for RY23/24.

5.2. Contract Management

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

This section 5.2 of our Consultation Response addresses Question 16 and responds to paragraphs 5.9 to 5.28 of the Consultation. Question 16 relates to the Contract Management measure of the OPR.

For the third year an Independent Auditor has assessed DCC's Contract Management performance using the National Audit Office (NAO) Framework. The Independent Auditor determined a performance score of 2.33 out of 3 (i.e. 78%). Ofgem proposes to reduce the Auditor's score to 2.14 out of 3 (i.e. 71%), equating to a reduction of £0.383m from DCC's margin.

DCC is concerned that Ofgem has disregarded the scores provided by the Independent Auditor and unilaterally downgraded these. DCC believe that Ofgem should also do this with robust and quantified evidence. We have not seen such evidence, which makes it very difficult to provide a meaningful response to this position through this consultation response.

Despite the reduction in the score by Ofgem, DCC is showing a year-on-year improvement that we are proud to report on. However, we do not consider the reduction in the auditor's scores to be appropriate and we have laid out our rationale below.

Ofgem's proposed reduction

NAO Framework question 3.1¹ and question 3.3²

We believe the scores for question 3.1 and 3.3 should remain at a 2 and a 3, respectively (as per the Independent Auditor's assessment). In paragraph 5.25 Ofgem says that:

"Given DCC's lack of improvement to use market engagement to drive value for money and ensure 'optimum use of competitive pressure', we are proposing to reduce the scores for questions 3.1 and 3.3".

In response to question 3.1 the Auditor's report states that:

"In conclusion DCC demonstrates effective supplier market management and meets the majority of its requirements. By expanding market management practices and addressing any unmet needs, DCC can further optimise its operations and achieve greater alignment with strategic goals".

We believe the Auditors findings validate the score of a 2 out of 3 for question 3.1. There is room for DCC to improve however, we have demonstrated a good level of supplier market management which has been recognised and highlighted by the Auditor.

In response to question 3.3 the Auditor's report states that:

"DCC benefits from an active supplier market and demonstrates transparency and justification in its supply arrangements. By maintaining open communication and regularly evaluating supply criteria, DCC

¹ Question 3.1 'Has market management driven long term value for money?'

² Question 3.3 'Was there optimum use of competitive pressure?'

can continue to optimise its procurement practices and support strategic objectives. During this audit review there was no evidence to suggest any direct awards have been granted and as such do not form part of this review”.

The audit report also stated that during the 4G CH&N logistics procurement DCC:

“Demonstrated a thorough, comprehensive and structured approach to conducting procurement...and DCC approached 10 logistics providers”.

This scale of market engagement was to allow for competitive pressure and to ensure value for money. We therefore do not believe the score for question 3.3 should be reduced.

NAO Framework question 4.1¹

We believe the score for question 4.1 should remain as a 3 (as per the Independent Auditor's assessment). In paragraph 5.26, Ofgem say that:

“Based on the fact that, at present, the ASR (Annual Service Report) is still showing that some suppliers need improvement, along with the findings of the auditor's report and our own internal assessment, we are proposing to reduce the scores for question 4.1 from 3 to 2”.

Ofgem's internal assessment hasn't been shared with DCC so it is unclear what it involved. However, we would appreciate the chance to review this and identify any learnings. We also believe that sharing such information with DCC is an important part of maintaining transparency during price control. In any case, we are concerned that one of the two suppliers Ofgem might be referring to as requiring improvement in RY23/24 was not within the scope of the RY23/24 audit and therefore should be excluded from this assessment. As per the Terms of Reference for contract management², the Auditor will only assess DCC's contract management of the three SMETS1 service providers that incurred the highest costs over the Regulatory Year – we believe that one of the suppliers Ofgem has assessed is [REDACTED]. However, [REDACTED] is not one of the top three suppliers. Additionally, the ASR for RY23/24 was not published until September 2024 and so was not considered by the Independent Auditor for the RY23/24 submission in July 2024.

NAO Framework question 5.2³

We believe the score for question 5.2 should remain as a 2 (as per the independent auditor's assessment). As was the case in response to question 4.1, in paragraph 5.27, Ofgem say that:

“...DCC has taken steps to improve supplier performance, however, based on the fact that two of the suppliers have been performing poorly for the past two years and are continuing to show poor performance, we are proposing to reduce the score for question 5.2 from 2 to 1”.

Question 5.2 asks whether the suppliers are delivering in accordance with the contracts and are they actively managed by DCC to meet or exceed requirements. Only one of the suppliers in scope of the assessment was failing to meet expectations, meaning the other suppliers were meeting expectations. We believe this warrants a score of 2 out of 3, as per the Auditor's assessment, for question 5.2. DCC manages supplier poor performance using a “Go to Green plan” which captures clearly defined actions that will drive improvement, and each action has an associated timeframe for resolution, with target and actual completed

¹ Question 4.1 'Is there an appropriate allocation of risk between DCC and supplier?'

² Terms of Reference for assessment of DCC's Contract Management and Procurement activities under the Operational Performance Regime: [Revised OPR Guidance decision March 2024 | Ofgem](#)

³ Question 5.2 'Are the suppliers delivering in accordance with the contracts and are they actively managed by DCC to meet or exceed requirements (including delivering accurate, timely Impact Assessment)?'

dates. A RAG status is also assigned for review and reporting purposes and a Category Manager and Senior Category Manager Owner are both clearly identified and assigned per action.

5.3. Customer Engagement

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

This section 5.3 of our Consultation Response addresses Question 17 and responds to paragraphs 5.29 to 5.66 of the Consultation. Question 17 relates to the Customer Engagement measure of the OPR.

DCC's performance is assessed in respect of timing and frequency of engagement, quality of information provided by DCC, and accountability of customer views. DCC and the SEC Panel make submissions as to DCC's performance against set criteria.

DCC reported a performance score of 2.42 out of 3 (i.e. 81%) for RY23/24.¹ The SEC Administrator and Secretariat ("SECAS") proposed a score of 2 out of 3 (i.e. 67%). We understand that Ofgem's minded-to position is to also award a score of 2 out of 3 (i.e. 67% which is a margin reduction of £0.448m). However, as set out in Table 5.4 of Ofgem's consultation, Ofgem's final weighted score for the nine questions was 2.11. The Revised OPR Guidance for 2024², paragraph 4.47 states Ofgem can use the DCC and SEC Panel scores to determine a final score...up to two decimal places. We consider that using a final weighted score to two decimal places ensures that the score is representative of the detailed assessment against each area and allows for marginal areas of performance to be suitably reflected in the final assessment. This is consistent with the rationale in paragraph 4.49 of Ofgem's OPR guidance which states that scores that are a decimal value from 0-3 ensure "that even small, incremental changes to performance will pass through to the final score, ensuring that DCC is incentivised to make granular improvements." Given that Ofgem has assessed our score as 2.11 out of 3, it is disappointing that it has chosen to reduce this to 2.0 and we would encourage Ofgem to reassess this position.

DCC is committed to continuing to make improvements in this area. This has been reflected in the DESNZ minded-to-score of 95.8% for the 4G CH&N BMPPA scheme for Project Activity 1 (customer engagement). We understand how important it is to work with our customers, and it is rewarding that these efforts have been recognised by Ofgem and SEC parties.

¹ We note that the Consultation Response has stated DCC submitted a final weighted score of 2.47 which is incorrect, but we understand this is likely a typo.

² Revised OPR Guidance – 2024: [Revised OPR Guidance decision March 2024 | Ofgem](#)

6. Baseline Margin Adjustment and External Contract Gainshare

Summary

BMA

- Ofgem has proposed to reject £29.5m of DCC's BMA application of £31.5m, with the majority of this disallowance related to one 'ground' (Facilitating Additional Relevant Service Capability), where Ofgem propose to disallow 100% of the application (£21m), on the basis of a new cost allocation methodology being used. In reality, only 11% of the roles within that ground were based on the new methodology, with the remaining 89% of roles using a consistent methodology to previous years.
- DCC has provided additional analysis to Ofgem to support the BMA applications and met with Ofgem on several occasions to discuss our calculations. This analysis is also provided as part of our consultation response, which supports the reinstatement of the £21m rejected in the Facilitating Additional Relevant Service Capability ground. We would request Ofgem reassess the application in line with our discussions.
- Within this aspect of the application, Ofgem has proposed to disallow all the positive line items (which result in an increase in margin) but allow and all the negative line items (which result in a decrease in margin). This suggests that Ofgem does not disagree with the methodology per se, but wishes to be selective in how it is applied, choosing to accept or reject items based on its effect rather than the basis for the application.
- Ofgem has proposed to disallow a wide range of business-as-usual costs such as building rent and other accommodation costs, and a significant proportion of expenditure on External Services, with no explanation, and without any evidence of having assessed whether they are economic and efficient. We again reiterate that the application process is extremely onerous and is no longer fit for purpose given the fundamental changes in DCC structure and operating model since the Licence was awarded.

External Contract Gain Share (ECGS) - We note and accept Ofgem's position.

6.1. Baseline Margin Adjustment

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

This section 6.1 of our Consultation Response addresses Question 18 and responds to paragraphs 6.1 to 6.51 of the Consultation. Question 18 relates to the Baseline Margin Adjustment ("BMA") mechanism which allows DCC to apply for a Relevant Adjustment to the Baseline Margin values stipulated in the Licence.

As Ofgem notes at paragraph 6.2 of the Consultation, the BMA mechanism is intended to ensure that DCC is compensated for material changes in its Mandatory Business – including the volume, characteristics, risks and timescales of these activities. Ofgem acknowledges, at paragraph 6.27, that DCC has met the conditions for a Relevant Adjustment but suggests that DCC has not provided sufficient evidence to support the full amount applied for.

Ofgem's proposed disallowances

Ofgem's BMA reductions are set out in the table below.

Resource / Non-Resource	Rationale	23/24 (£m)	24/25 (£m)	25/26 (£m)	Total (£m)
Non-resource	Activities rejected last year	0.081	0.063	0.177	0.322
Non-resource	Activities under <£0.150m with no related IC justification	1.009	0.432	0.411	1.851
Non-resource	Reductions due to Internal Cost disallowances	1.755	1.077	0.087	2.919
Resource	Resource costs applied for under 'Activities Facilitating Additional Relevant Service Capability' ground (rejecting all resource margin under this ground)	4.860	5.790	10.466	21.115
Resource	Margin reduction as a result of benchmarking disallowances	0.005	0	0	0.005
Resource & Non-resource	Ground: 'Licence Renewal' (rejecting all margin)	0.286	0.138	0.000	0.424
Non-resource	Sub-ground: 'Other Activities Facilitating Additional Relevant Service Capability' (partial rejection of non-resource application under this sub-ground)	1.634	0.738	0.535	2.907
Total proposed reduction		9.629	8.239	11.675	29.543

Ofgem argues it has proposed for disallowance around £21.1m of DCC's BMA application associated with one ground "Certainty – Facilitating Additional Relevant Service Capability". Ofgem has misunderstood the BMA model and has also applied its reductions inconsistently.

First, DCC applied for margin under multiple grounds, of which "Certainty – Facilitating Additional Relevant Service Capability" was one of thirteen. In the model, we have applied the same grounds used in RY22/23 to the same roles in RY23/24. We believe this was clearly marked in the model. However, in reviewing DCC's BMA model, Ofgem mistook some of DCC's workings as being part of the application and concluded that DCC had only applied one ground to all of its core activities. DCC applied its usual process to assign grounds to expenditure, and following prior requests from Ofgem to better report the split in margin between core activities and programmes, we made a number of amendments to the model to improve the allocation. [REDACTED]

Second, Ofgem proposed to disallow only the positive elements of the BMA Core application. The effect of Ofgem's approach is to disallow more margin than DCC had actually applied for (£21.2m versus £14.3m). If Ofgem had not understood DCC's methodology we think it is unreasonable and inconsistent to use that methodology to disallow expenditure but not to award it. The fact that Ofgem has chosen to disallow all the positive line items (resulting in an increase in margin) but to allow all the negative line items (which result in a decrease in margin) suggests that Ofgem does not disagree with the methodology *per se*, but wishes to be selective in how it is applied. Had Ofgem rejected all of the margin and requested further explanation of the application this would have been more understandable. Instead Ofgem appears to accept some line items and not accept others based on its effect rather than its basis.

On 19th November 2024, following several meetings with Ofgem to demonstrate that DCC's application is fundamentally no different from prior years, we provided analysis to show that our application was reasonable and robust. This information is contained in annex BM01. We also commissioned external assurance of the model which states that:

- *"The methodology used by DCC in its BMA application is consistent with the published Ofgem Guidance and the calculations within DCC modelling are accurate,*
- *The revised methodology used by DCC to allocate resource costs applies to only 11% of the job roles and appears to improve the accuracy of the overall approach. For the other 89% of job roles, we conclude that DCC applied the same methodology as RY22/23.*
- *The calculations within the complementary workbook submitted by DCC on 19th November sufficiently address Ofgem's queries on the apparent significant increase on BMA application under the "facilitating additional relevant service capability" ground", demonstrating that the initial submission was accurate.*
- *We have seen evidence that shows DCC discussed with Ofgem its methodological approach prior to submission. We note DCC presented to Ofgem to its new methodology on the new resource allocation process."*

We therefore expect Ofgem to fully assess all the information available to it and adopt the same process it has in prior years to award BMA. We anticipate this will result in a significant increase.

A significant amount of the rejected BMA in RY23/24 is accounted for by Ofgem's Internal Cost disallowances. We challenge these disallowances in Section 4 of this Response and do not repeat our arguments here. However, there are significant reductions of individual activities as well as a rejection of a Driver/Ground with which we disagree:

- **BM Activities Rejected** – as was the case in RY22/23, Ofgem has extensively rejected applications across a wide range of Accommodation, External Services, IT services and Office Sundry. In the vast majority of cases, Ofgem has not provided any specific rationale for rejecting them. All of the activities are legitimate business activities where the costs have exceeded Ofgem's artificially low Price Control baseline. Similarly, given Ofgem has not proposed for disallowance any of the costs associated with these activities, the rationale for Ofgem's proposal to disallow the margin on those costs is unclear.
- **Drivers/Grounds Rejected** – we are disappointed that Ofgem has rejected the increase in Customer Service Expectations ground. It is indisputable that DCC's customer base is more complex than envisaged in the LABP, and for which DCC was originally funded. Rejecting costs associated with accommodating the demands of the more numerous and complex customer base is akin to asking DCC to run the service at cost. This is not the basis on which the LABP was tendered. We are also surprised and disappointed that despite Ofgem being fully aware of DCC's use of consultancy to support the Licence Renewal work, it has rejected the entire ground in this year's BMA application. Combined with its extensive disallowances of the costs, there is little to no incentive for DCC and Capita to provide support to Ofgem's process beyond the bare minimum in the licence. It also damages the goodwill between the two organisations given how transparent we have been on our proposed approach to using consultancy (at heavily discounted rates) while we procure a permanent team.

Ofgem has also proposed to disallow the vast majority of forecast costs on the basis that DCC can reapply in future years. While we acknowledge this is the case, we do not understand why Ofgem cannot award margin for stable costs such as Accommodation. In addition, as any margin earned that is not economically and efficiently incurred is subsequently returned to customers in the following year's application, we do not understand the need for a punitive approach to BMA reductions.

BMA application process

As in previous years, we would again reiterate that the BMA application process is not fit for purpose, with DCC expected to justify all expenditure relative to Ofgem's baseline. As outlined elsewhere in this document (including in the Executive Summary), this baseline is usually significantly below our business plan forecast, meaning DCC must justify ongoing spend on hundreds of members of staff and dozens of procurements.

More than 80% of DCC's margin is now created through the BMA and is entirely subject to Ofgem's decision-making process after the money has been spent. This is not the original assumption in the LABP as it was expected that the BMA would be an adjustment mechanism rather than the main mechanism through which margin is awarded. This significantly changes the risk profile to which DCC is exposed.

In addition, because of the way the BMA works, DCC must be able to provide an extremely granular reconciliation of costs and margin to prior years, which creates a powerful disincentive to make any improvements to our cost data as it makes reconciliation extremely onerous. Ofgem's proposal to disallow all positive BMA for Baseline Margin Core due to a misunderstanding of how DCC performed the reconciliation provides a signal to DCC not to make further data improvements.

6.2. External Contract Gainshare

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

This section 8.2 of our Consultation Response addresses Question 19 and responds to paragraphs 6.52 to 6.61 of the Consultation.

We note and accept Ofgem's position on the award of gainshare.

7. Switching Programme

Summary

- **Costs** - We believe it would be sensible for Ofgem to revisit its proposed forecast cost disallowances to promote stakeholder certainty and reduce regulatory burden.
- **Switching Incentives** - We disagree with Ofgem's decision to disallow all the operational performance element of DCC's margin under the Switching Incentive Regime (SIR). We continue to believe the original regime was not fit for purpose and includes measures that are not within DCC's full control. We agree with Ofgem's minded-to position to award a score of 2.25 out of 3 for the customer engagement element of the SIR.

7.1. Switching Costs

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

This section 7.1 of our Consultation Response addresses Question 20 and responds to paragraphs 7.1 to 7.12 of the Consultation. Question 20 relates to DCC's costs in respect of the Switching Programme, intended to improve consumers' experience of switching between energy suppliers.

We provide a copy of our RY24/25 Retail Energy Code (REC) approved budget and request an allowance of £11.4m¹ for Internal Costs and £4.7m for External Costs.

We acknowledge the forecast costs for RY25/26 remain more uncertain as the REC budget has not yet been agreed. We consider Ofgem should allow costs consistent with RY24/25 in the interim, which is then adjusted once we have the REC approved budget for that reporting year.

7.2. Switching performance

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

This section 7.2 of our Consultation Response addresses Question 21 and responds to paragraphs 7.13 to 7.66 of the Consultation. Question 21 concerns DCC's performance under the Switching Incentive Regime (SIR).

Switching operational performance

We disagree with Ofgem's minded-to position to disallow all margin associated with the operational performance element of Switching under the SIR. Since the SIR came into effect from 1st April 2023, DCC has not retained any of its operational performance related margin due to the regime being poorly designed, with unachievable targets rendering the regime ineffective with no real incentives. Extensive attempts were made by DCC to review and amend the regime to ensure it was fit for purpose and clear. However, the changes made under R0092A 'DCC Service Level Agreements for the Switching Incentive Regime (Alternative)'², which came into effect on 8th November 2024, with reporting commencing from 1st October 2024, did not result in the changes DCC initially raised. One of the key points DCC remains concerned with

¹ Excluding margin of £0.3m.

² [DCC Service Level Agreements for the Switching Incentive Regime \(Alternative\) - REC Portal](#)

is the gate closure measure. Successful delivery of this measure is not fully within DCC's control and should therefore be removed from the scope of the SIR, as was the case for SRV8.11 under the OPR.

DCC has worked closely with the Code Manager on REC change proposal R0210 'Evolution of the CRS Performance Charge'¹ which will amend the methodology behind the regime. These changes which will aid in incentivising DCC's performance appropriately but also proves that the regime in place from 1 April 2023 was not working nor appropriately designed. We are supportive of the changes under R0210 to come into effect from 1st January 2025 i.e. the start of Q4 RY24/25, rather than mid-way through the quarter, which will avoid the use of two different methodologies in one reporting quarter. We have worked closely with our Code Manager colleagues to ensure these changes can take effect as soon as possible, not only for simpler reporting purposes but also to ensure DCC is incentivised appropriately for the remainder of this regulatory year. We also believe it is important to ensure lessons are learned from the development of the SIR, and the subsequent changes that have been required, to ensure any future regimes provide the right level of incentivisation.

Switching customer engagement

We agree with Ofgem's minded-to position to award an overall score of 2.25 for the customer engagement aspect of the SIR. Despite our systems performance margin being zero, we are pleased that the Retail Energy Code Company (RECCo) and Ofgem have both acknowledged DCC's efforts in relation to customer engagement. DCC and RECCo worked together in compiling the submissions and associated evidence to ensure they were comparable. We believe both to be a fair representation of our switching related customer engagement in RY23/24.

¹ [Evolution of the CRS Performance Charge - REC Portal](#)

8. Forecast disallowances

Summary

In section 8.1, we describe how we develop forecasts for future spend through a structured and detailed Business Planning process. Section 8.2 then explains that Ofgem proposes to disallow £72 million in forecast Internal Costs and £31 million in forecast External Costs across RY2024/25 and RY2025/26, including £30 million in switching costs, due to insufficient justification and uncertainty.

The remaining sections then explain why we disagree with Ofgem's approach.

In Section 8.3, we categorise forecasts as either 'committed' or 'discretionary', including only 'committed' forecasts in the price control submission due to their higher certainty. We consider that Ofgem should acknowledge the inherent uncertainty in future resource costs, especially for evolving programmes. For more mature programmes, we would expect our costs to broadly track historic spend levels, plus inflation and minus a level of cost efficiency, akin to the RPI-X previously used widely in utilities revenue setting by Ofgem and other regulators. The large fluctuations in forecast costs seen through Ofgem's process are not a fair reflection of reality.

In Section 8.4, regarding internal forecast disallowances, we are particularly concerned about the disallowance of £6.647m for planning, scoping, and resourcing projects, and consider Ofgem should use its RY23/24 methodology rather than setting a zero-cost baseline. Disallowing all forecast costs for critical teams and programmes is implausible for financial planning and we strongly encourage Ofgem to consider less extreme assumptions.

For Section 8.5, regarding Switching cost forecast, we appreciate Ofgem's recognition of our incurred costs as economic and efficient, but disallowing all future forecasts misleads stakeholders, and we suggest using the current spend of £14.815m as a baseline annual spend given the programme's stable operation.

In Section 8.6, regarding other forecast external costs, Ofgem proposes to disallow £9.430 million from other programmes such as ECoS and SMETS1. DCC is confident that the evidence submitted justifies our forecast costs for RY24/25 and RY25/26. We have provided additional evidence, highlighted the inherent uncertainty in forecasts, and demonstrated improvements in our procurement process. We request Ofgem reconsiders its position.

Finally, in Section 8.7, we underline how counter-productive it is for Ofgem to mandate DCC to provide and improve accurate forecasts, but then repeatedly disallow improved forecasts. This approach undermines efforts to enhance forecasting methods that have improved accuracy, such as our investments in OneData. Disallowances lead to uncertainty around cost recovery and decreased employee morale. Ofgem should adopt a balanced approach to incentivise improvements, following precedents set by itself and other regulators.

In this section, we will outline:

- how we create our forecasts (8.1);
- what Ofgem proposes and why (8.2);
- how the DCC determines forecast likelihood (8.3);
- our response to Ofgem's disallowance of our Internal resource cost forecast (8.4);
- our response to Ofgem's disallowance of our Switching spend (8.5);
- our response to Ofgem's disallowance regarding other forecast external costs (8.6); and
- our stance on the incentivisation of quality forecasts (8.7).

8.1. DCC's forecasting procedure

We develop forecasts for future spend through a structured and detailed process. The process consists of five phases: Initiate, Plan, Challenge, Approve, and Deliver. In the Initiate phase, assumptions are confirmed, baselines understood, and stakeholders briefed; the Plan phase involves conducting planning activities, validating changes, and updating templates through collaboration. The Challenge phase includes reviewing and finalizing resource and financial forecasts, while the Approve phase focuses on obtaining necessary approvals from Exco and the Board. Finally, the Deliver phase involves executing the plan, updating reporting systems, and engaging in continuous improvement activities. For a diagrammatic explanation of this process, please see the "High Level Summary of Lock Process for Price Control" document.

The RIGs forecast is part of the business planning process, which focusses on forecasts for the next five years. During Quarter 3 of each year, we undertake a detailed business planning review for each cost centre and activity to assess we have the required roles and activities within DCC. This is an exercise to test the validity of all interim roles and activities that are undertaken by each cost centre. The cost centre managers are asked to take a strategic view on future direction of their departments and how they are working to deliver on DCC's main objectives. This is an exercise to challenge the assumptions and agree on a credible and realistic budget position for each area in DCC.

8.2. Ofgem proposals from its consultation

Ofgem asserts that "forecast costs should only contain economic and efficient costs and meet the threshold of being significantly more likely than not to occur. If DCC fails to justify any forecast costs as being economic and efficient we may remove them from the forecasts as part of the determination".¹

Ofgem proposed to disallow £72m in forecast Internal Costs and £31m in forecast External Costs across RY24/25 and RY25/26. This includes forecast switching costs, and Ofgem has asked for stakeholder views on this in the following questions:

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

In general, Ofgem provides limited explanation for specific disallowances of forecast costs. Ofgem typically has disallowed costs where it considers we have provided insufficient evidence or justification for forecast cost increases, or for delays in certain programmes being completed. For Switching, Ofgem disallows all forecast costs (£30m), due to uncertainty and insufficient justification, stating sufficient certainty is only available when the REC approves the budget shortly before the start of a financial year.

8.3. Determining forecast likelihood

DCC operates at the centre of a complex and varied stakeholder landscape, each with competing tactical demands and expectations, each evolving and progressing at a different pace, and often with a different strategic view on the potential of the smart metering network to support a smarter, greener energy system.

When determining forecasts during our Lock process (outlined in 8.1), we allocate all forecasts to one of two categories: 'committed' or 'discretionary'. The forecasts included in the price control are only those deemed 'committed' as these meet the certainty threshold required for price control. The requirement for including costs in our forecasts for price control submissions is they are "significantly more likely than not to occur". This means there are many potential costs which do not meet this high threshold but taken

¹ DCC_Price_Control_Consultation_Regulatory_year_23_24 3.115

together at least some of these will be incurred in practice. This is analogous to a homeowner forecasting future costs. Whilst the monthly mortgage payment meets the certainty threshold, it is not possible to predict specific individual maintenance costs in advance, e.g. whether the boiler will need replacing. However, taken in the round, it is prudent for the homeowner to forecast some maintenance spend, as even if the specific items needing replacement or repair cannot be predicted, they can be confident that some items will fall into this category. This means our forecasts to Ofgem routinely underestimated a true view of forecast costs, which we include in our charging statements and are proving increasingly accurate.

For this reason, the RIGs forecast will **always be lower than the forecasts included in the quarterly charging statements and budgets. They will also be below our best estimate of future spend.** Factors used to determine which category to assign costs are:

- Committed – this includes all costs subject to signed agreement with a supplier. Where the cost is a change request, only those that have an associated Change Authorisation Note (CAN) are included.
- Discretionary – expected but not yet contracted e.g. Change Requests (CRs) raised but not yet contracted for, any contingency that may be required, etc

In our view, it would be prudent for Ofgem to accept that there will always be a level of inherent uncertainty regarding future resource costs and in some cases, such as in our programme teams, the degree of uncertainty will be higher due to the evolving nature of the programme itself.

For less mature programmes of activity, DCC decisions are subject to intense scrutiny and in many instances firm direction from DESNZ, which will impact forecast accuracy. We would expect our forecast costs for mature programmes of activity to broadly track historic spend levels, plus inflation and minus a level of cost efficiency, akin to the RPI-X previously used widely in utilities revenue setting by Ofgem and other regulators. Due to this, we think that in general it will often be appropriate to at least allow a forecast equal to the previous year's spend: this will prevent the situations that we now face from arising, when DCC has many spend areas proposed for disallowance to 0 in a way that clearly does not reflect business reality (see section 8.6 for more information).

8.4. Internal resource cost forecast

Regarding internal resource costs, DCC is satisfied that the evidence we have submitted to Ofgem, as part of our Price Control Submission, justifies our forecast resource costs for RY24/25 and RY25/26. We are disappointed that Ofgem has deemed some of these forecast costs not to have been sufficiently justified. We would ask that Ofgem reconsiders its position.

Additionally, there are two specific areas we are particularly concerned about:

- Disallowing the full forecast cost (£6.647m) of planning, scoping and resourcing of projects. We set out in section 4.3 our position on the disallowances for RY23/24, which also apply to our forecast costs. In keeping with Ofgem's methodology for RY23/24, it follows that Ofgem should use this methodology to calculate a forecast for RY24/25 and RY25/26. It does not follow that Ofgem should disallow the forecast costs entirely and set a baseline of zero.
- Ofgem proposes disallowing the entirety of the proposed forecast costs for some teams, such as the work on the Licence extension, the transition to an ex-ante price control as well as the design and appointment of the successor Licensee. This is despite noting the importance of this work, and that costs are broadly in line with RY23/24 spend. It also proposes disallowing the entirety of SMETS1, Network Evolution, and MHHS programmes forecast costs. We remain of the view that these forecasts are well-justified and follow the applicable business case spend profile. However, even if Ofgem disagrees with our position, it is clear that assuming zero costs will be incurred is an implausible assumption that no commercial organisation could use for financial planning, and that

our stakeholders would not recognise as a prudent approach to budget forecasting. We encourage Ofgem to consider alternative ways of recognising the uncertainty with less extreme assumptions than 100% disallowance.

8.5. Switching cost forecast

Regarding Switching, we are pleased that Ofgem has allowed all of our incurred costs as economic and efficient in RY22/23 and this year. We understand Ofgem's position that there is future cost uncertainty. However, it is clear there will be *some* costs incurred relating to Switching as a live enduring programme. Disallowing the entirety of the forecasts creates a misleading impression for stakeholders seeking to understand our future costs. We suggest that, if Ofgem cannot accept our forecasts, it uses current spend of £14.815m as a sensible starting point, now the programme (as Ofgem notes) has been in live operation for over a year and there is no clear reason for very large deviations from this run rate.

8.6. Other forecast external costs

Regarding forecast external costs other than Switching, DCC is confident that the evidence submitted to Ofgem as part of our Price Control Submission justifies our forecast costs for RY24/25 and RY25/26. However, Ofgem proposes to disallow £9.430 million from other programmes, including SMETS1, SMETS2, and other service areas. We are disappointed that Ofgem has deemed some of these forecast costs insufficiently justified due to a lack of evidence, forecast risks, and procurement and management issues. In response, we raise the following points:

1. In response to Ofgem's view that there is insufficient evidence on the value of / need for the ECoS programme, and the costs of the SMETS1 interim contract, we have provided more evidence on this in section 3.1 and section 3.4.
2. In response to Ofgem's view that there is insufficient certainty over DCC's forecasts, we note that: (i) the nature of some of our expenditures is such that there is an inherent level of uncertainty; (ii) for other expenditures, Ofgem can apply rules of thumb such as that spend will be equal to that which was incurred in the prior year plus inflation minus an efficiency factor (section 8.3).
3. Addressing Ofgem's criticism that DCC has insufficiently robust procurement and management processes, that lead to additional costs, we firstly disagree with Ofgem's view. Secondly, we note that we have been actively improving our procurement process through the implementation of [REDACTED] and [REDACTED], with demonstrated improvements (please see section 4.4).

In light of these points, we believe that our forecasts are robust, economic, and efficient, delivering value for consumers. We request that Ofgem reconsiders its position.

8.7. Incentivisation of quality forecasts

Ofgem mandates DCC must not only provide accurate forecasts but also improve the accuracy of these forecasts. While this requirement is understandable and aims to ensure efficient market operations, the current approach to disallowances creates a significant disincentive for improvement.

Repeated disallowances to zero by Ofgem, where forecasted costs are not recognized or reimbursed, create a perverse incentive structure. When we invest time, resources, and expertise into improving their forecasting methods, only to have our forecasts proposed for disallowance, Ofgem signals that our efforts are not a good use of our time. This is counterproductive to Ofgem's goal of enhancing market efficiency and reliability.

Despite investments in OneData which have greatly improved our forecasting capability and accuracy, as shown in Sections "Defining the Business Accuracy Programme" and "[REDACTED] OneData Support", our forecasted costs were proposed for disallowance, leading to uncertainty around future cost recovery.

As mentioned in Section 8.3, Ofgem should adopt a more balanced approach to incentivising forecasting improvements. We expect Ofgem to follow precedents set by itself and other regulators when assessing our forecast costs for mature programmes. As a starting point, cost activity would be fairly expected to broadly track historical spend levels, plus inflation and minus a level of cost efficiency, akin to RPI-X. Deviations from this can then arise e.g. due to changing requirements, volumes, underlying real price effects or other cost drivers.

Consequently, we ask Ofgem to note that, if Ofgem disallows either the entirety or the variance of a forecast cost, and in the following Regulatory Year seeks to criticise DCC for failing to comply with what will inevitably be an unrealistic forecast, Ofgem runs the risk of significantly misdirecting itself in its Price Control procedure.

Annex 1 – Consultation Questions

External Costs

Consultation question	DCC Response
<p>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?</p>	<p>We do not agree with this proposed disallowance as we have demonstrated that this functionality was required and delivers benefits to customers. Disallowance of 100% of costs is therefore inappropriate and any disallowance should be limited to the proportion of spend deemed 'inefficient' which will be small, if any.</p> <p>Our detailed response is set out in section 3.1 of this document.</p>
<p>2 What are your views on our proposed cost disallowance of up to £0.600m in relation to SMETS1 service stabilisation?</p>	<p>We do not agree with this proposed disallowance as we believe we have demonstrated that the inclusion of consequential costs within our contracts would not be in the customers' interest as it would increase the overall cost base. We have also provided evidence in relation to two other specific proposed disallowances. Ofgem's approach to disallowing an arbitrary 50% of costs is excessive and does not reflect an assessment of what is economic and efficient.</p> <p>Our detailed response is set out in section 3.2 of this document.</p>
<p>3 What are your views on our proposal to disallow up to £2.481m of costs incurred on the device swap-out project?</p>	<p>We do not agree with this proposed disallowance as this service is a SEC requirement, we have written instruction from DESNZ to provide the full service (beyond proof of concept) and that costs will be smeared across industry. We have provided evidence of significant and regular reengagement with [REDACTED] throughout the process and ceased incurring cost as soon as we were made aware of their withdrawal.</p> <p>Our detailed response is set out in section 3.3 of this document.</p>
<p>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?</p>	<p>We do not agree with this proposed disallowance as we have provided evidence of the drivers of cost above the assumed indexation level. Specific cost increases were included in the contract and the scope was increased through necessary and unforeseen CRs.</p> <p>Our detailed response is set out in section 3.4 of this document.</p>
<p>5 What are your views on our proposal to disallow all costs of the procurement of a replacement DCC Service Management System (DSMS)?</p>	<p>We accept Ofgem's position in relation to this cost as the procurement was not competed. However, we do believe some benefits were derived from the activity.</p> <p>Our detailed response is set out in section 3.5 of this document.</p>

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)?	<p>We do not agree with this proposed disallowance as we believe we have evidenced that DCC's approach to delivering defect fixes through bundling them into a wider release is the most cost-effective approach and standard practice. Ofgem's approach to disallowing an arbitrary 50% of costs is excessive and does not reflect an assessment of what is economic and efficient.</p> <p>Our detailed response is set out in section 3.6 of this document.</p>
7	What are your views on our proposed cost disallowance of £0.740m related to delays in the TAF programme?	<p>We do not agree with this proposed disallowance as the delay which triggered the payment was outside of DCC's control as DCC is not an expert in robotics and could not have foreseen issues with the weight of equipment. Ofgem's approach to disallowing an 100% of costs is excessive and does not reflect an assessment of what is economic and efficient.</p> <p>Our detailed response is set out in section 3.7 of this document.</p>
8	What are your views on our proposal to disallow £11.347m in forecast FSP External Costs?	<p>We do not agree with this proposed disallowance. In general, Ofgem provides limited explanation of specific disallowances in relation to forecast costs and DCC has explained its process for deriving the 'committed' element of spend ahead of delivery.</p> <p>Our detailed response is set out in section 8 of this document.</p>
9	Do you have any other views on External Costs?	DCC's comments on the External Costs are captured in section 3 of this document.

Internal Costs

Consultation question		DCC Response
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?	<p>We do not agree with this proposed disallowance as the baseline used to derive the variance (being the committed forecast from RY22.23) does not reflect a realistic position against which to measure performance. DCC's actual ABP was £8.4m, with the £7.4m incurred reflecting a £1m saving for our customers.</p> <p>We also disagree with the proposal to disallow £1.6m of payroll costs related to Service Delivery as this variance is largely derived from a change in the allocation methodology as DCC improved its cost recording through a timesheet system. Through adjusting for resources actually working within another function, the methodology applied by Ofgem would result in a disallowance of £0.494m at most, not £1.624m.</p> <p>Our detailed response is set out in section 4.1 of this document.</p>
11	What are your views on our proposals on DCC's approach to benchmarking of staff remuneration for both	We do not agree with this proposed disallowance as Ofgem's approach only accounts for those roles above benchmark. Applying the same methodology to all roles shows £3.8m of savings for roles below benchmark, a net saving of £3.3m.

	contractor and permanent staff?	Our detailed response is set out in section 4.2 of this document
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?	<p>We do not agree with this proposed disallowance as we have demonstrated why the use of consultants and advisors to support these activities is justified. We have also demonstrated areas where the counterfactual analysis conducted by Ofgem to support its proposed disallowances required correction, which would materially reduce the level of cost deemed to be not economic and efficient.</p> <p>Our detailed response is set out in section 4.3 of this document</p>
13	What are your views on our proposal to disallow costs directly associated with the Business Accuracy Programme?	<p>We do not agree with this proposed disallowance as we have demonstrated not all of these costs related to the Business Accuracy Programme. All business will continue to drive improvements thought business change and these are not all within the scope of BAP. DCC have evidenced that these initiatives delivered benefits for our customers.</p> <p>Our detailed response is set out in section 4.4 of this document</p>
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?	<p>We do not agree with this proposed disallowance. In general, Ofgem provides limited explanation of specific disallowances in relation to forecast costs and DCC has explained its process for deriving the 'committed' element of spend ahead of delivery.</p> <p>Our detailed response is set out in section 8 of this document.</p>

Performance Incentives

	Consultation question	DCC Response
15	What are your views on our proposed position on DCC's System Performance?	<p>We agree with Ofgem's position on the OPR System Performance incentive.</p> <p>Our detailed response is set out in section 5.1 of this document</p>
16	What are your views on our proposed position on DCC's Customer Engagement? Sic	<p>We believe question 16 actually pertains to DCC's contract management and is a typo in Ofgem's consultation. We disagree with Ofgem's unilateral reduction in the Auditor's score. If the regulator overrules the Independent Auditor, it begs the question why there is one involved in the process.</p> <p>Our detailed response is set out in section 5.2 of this document</p>
17	What are your views on our proposed position on DCC's Customer Engagement?	<p>Ofgem has assessed DCC's score as 2.11 out of 3 but has proposed to round this down to 2. We disagree with this approach and consider Ofgem is not complying with the guidance that states that it can award a score to two decimal places. We request Ofgem reinstates the correct score of 2.11.</p> <p>Our detailed response is set out in section 5.3 of this document</p>

Baseline Margin Adjustment and External Contract Gainshare

Consultation question		DCC Response
18	What are your views on our assessment of DCC's application to adjust its Baseline Margin?	<p>We disagree with Ofgem's draft position and have provided additional evidence for consideration.</p> <p>Our detailed response is set out in section 6.2 of this document</p>
19	What are your views on our assessment of DCC's application to adjust its ECGS?	<p>We agree with Ofgem's proposals.</p> <p>Our detailed response is set out in section 6.2 of this document</p>

Switching Programme

Consultation question		DCC Response
20	What are your views on our proposed position on DCC's costs associated with Switching?	<p>We do not believe there is strong rationale to continue to disallow all forecast expenditure for the Switching programme, not least because there is now an agreed budget with RECCo.</p> <p>Our detailed response is set out in section 7.1 of this document.</p>
21	What are your views on our assessment of DCC's performance under the Switching Incentive Regime?	<p>The systems performance element of the SIR is fundamentally flawed and impossible to achieve, thereby negating any incentive properties. The customer engagement incentive is more effective and achievable than the systems performance element, and we agree with Ofgem's rating.</p> <p>Our detailed response is set out in section 7.2 of this document.</p>