The voice of the energy industry

# Energy UK Response to Ofgem Consultation on DCC Price Control: Regulatory Year 2018/19

**20 December 2019**

**About Energy UK**

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering almost all (90%) of both the UK's power generation and energy supply for over 27 million UK homes as well as businesses.

The energy industry invests over £13.1bn annually, delivers around £85.6bn in economic activity through its supply chain and interaction with other sectors, and supports over 764,000 jobs in every corner of the country.

**Executive Summary**

Energy UK welcomes the opportunity to provide feedback on this consultation, and highlight a number of areas in which the Data Communications Company's (DCC) service and cost control should be improved.

Whilst Energy UK recognises the steps taken by the DCC to improve transparency around expenditure decisions through updates to its Quarterly Finance Forums, we note continued concerns about transparency of DCC external contractual costs and future projected costs in this consultation

In particular, Energy UK notes disappointment that the DCC's Quarterly Finance Forums themselves do not allow for a fully comprehensive, if confidential, overview of DCC business, and an opportunity to challenge, and as such there still remains limited confidence amongst DCC customers with regard to DCC business practices and decision-making processes.

Energy UK notes that this lack of transparency negatively impacts DCC's overall customer service approach. It is difficult for DCC customers to fully assess whether external costs and internal staff need are appropriate and deliver value for money with the level of information provided by DCC. Therefore, Energy UK has provided suggestions on how the DCC can improve the level of information provided to suppliers about incurred costs to support better insight and overall costs assurance.

While costs incurred within-year may be communicated to suppliers at the Quarterly Finance Forum, there is still uncertainty around how the DCC forecast long term cost expectations, and future business cases. The DCC must therefore address these future expectations accordingly.
Energy UK welcomes further engagement with Ofgem and the DCC on projected future business, and note that the DCC should provide further clarification on the nature of expected future cost fluctuations.

Energy UK also welcomes Ofgem's position to review the Operational Performance Regime (OPR). Energy UK notes that the current OPR is not sufficient to fully assess DCC customer service, particularly in light of localised issues with the DCC's external Communications Service Providers

(CSPs). As such, high-level suggestions of alternate incentive mechanisms have been suggested, and Energy UK looks forward to providing further detail in the upcoming consultation.

Finally, Energy UK notes with regard to the missed milestone identified in the OPR metrics in this consultation, improved engagement is requested from the DCC on any future missed milestones, in order for DCC customers to fully assess the impact of these taking place. It is important that DCC customers are kept informed and Energy UK suggests Ofgem directs the DCC to provide regular updates to industry on delivery of milestones.

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

Whilst Energy UK is relatively supportive of Ofgem's decision to allow these costs, it would welcome further clarity around the details of external costs included in the DCC's submission, in particular with regards to the new SMETS1 Service Provider contracts.

Energy UK notes with concern the mounting external costs for the DCC where DCC infrastructure is not currently delivering value for money for its customers. Energy UK notes this in particular with regard to the continuing issues and deterioration of service in the North CSP. The issues within this CSP are having significant material impacts on the smart meter rollout as detailed below:

1. Energy suppliers are constrained from installing SMETS2 meters at volume within the North CSP, due to ongoing issues with the stability of the network and performance of the Communications Hub.
2. There are significantly longer Install and Commission times for smart metering systems and installation failure rates in the North CSP, compared to those seen in the Central and South CSPs.
3. The firmware release for the North CSP Communication Hub has again been beset with problems deeming it not fit for purpose for deployment. This has severely hampered energy suppliers' rollout plans for the North CSP and more critically in relation to prepayment installations.

These all have a direct financial impact on electricity and gas suppliers; suppliers are currently having to bear the cost of failed installs and longer times for installations in the North CSP, whilst also remaining at risk of being financially penalised for being unable to comply with their rollout targets. Additionally, energy suppliers will carry the reputational risk with consumers given the impacts on the consumer experience. It is therefore disappointing that these factors are not included in the decision on whether or not to award the DCC funding for RY18/19 with respect to these costs. It is worth highlighting that Energy UK has as a result provided a paper on the above issues and suggested next steps to BEIS and DCC to support discussion at the BEIS SMDG meeting in December 2019.

Energy UK also notes that DCC is still facing delivery changes in respect of the Dual Band Communication Hub / 868MHz programme with more delays to the programme. This pushes various delivery milestones even further in 2020. This again impacts energy suppliers' rollout plans for this key functionality.

**Question 2: What are your views on our proposals on DCC's approach to benchmarking of staff remuneration?**

Energy UK agrees with Ofgem's position with regard to benchmarking staff remuneration. However, it also notes the need for DCC to provide further detail around future expectation of staff requirements as well, particularly when forecasting future Proposed Allowed Revenues.

Energy UK has significant concerns that the DCC is failing to appropriately forecast staff requirements. This is noted in the context of the projected future change in DCC staff requirements; The volume of work expected of the DCC is projected to change significantly beyond 2021 as the Enrolment and Adoption process concludes and DCC activity in this sector naturally scales down as a result.

It is therefore important for DCC customers to anticipate what the likely scale of DCC is activity is likely to be beyond 2020 and as such, the DCC should be more explicit in assigning projected headcounts and staff splits to specific projects, rather than the cost-centre information provided currently.

**Question 3: What are your views on our proposal to disallow all costs associated with the external service to develop a KPI Dashboard?**

Energy UK agrees with Ofgem's decision to disallow costs associated with the KPI Dashboard. Additionally, Energy UK notes that it welcomes further work around DCC cost control in order to avoid any unnecessary duplication of work, and welcomes further reform from the DCC to mitigate for this risk.

**Question 4: What is your view on our proposal to disallow variance in forecast internal costs?**

Energy UK agrees with Ofgem's decision to disallow the variance in forecasts and internal costs. Additionally, Energy UK notes the need for DCC to provide more detailed submissions on expected future spend, and provide detail beyond the cost-centre information currently provided. Further, the DCC should provide more explicit classification as to whether any forecasted work is intended to keep the DCC at a ''steady state' of base -level operations or whether there is anticipation of any future expansion of the DCC remit.

**Question 5: What are your views on our proposed position on DCC's operational performance?**

Energy UK is broadly supportive Ofgem's position as being in line with the current OPR framework. However, it also echoes concerns expressed elsewhere within the consultation that the OPR metrics are not reflective of the overall customer experience of the DCC, and its Communications Service Providers, particularly at critical junctures of the smart meter rollout process.

As such, whilst it is difficult to reflect within the scope of the OPR, Energy UK notes that the DCC have not performed well in RY2018/19, especially with regard to the North CSP (as captured in our response to Question 1). Energy UK therefore welcomes the proposal by Ofgem to review the OPR and would suggest consideration on how this may align with the work being undertaken by the SEC Panel's Operations Sub Group on the "Review of Operational Metrics" for DCC's services delivery.

**Question 6: What are your views regarding DCC's failure to ensure all CSPs met their contractual milestones and our proposed performance adjustments in response to this?**

Energy UK notes with regard to this specific issue, there is still a lack of clarity with regard to the specific milestone mentioned in the consultation. As Ofgem noted in the consultation, the DCC did not engage industry or the SEC Panel while this milestone was outstanding, nor were DCC customers informed appropriately when the milestone was missed and subsequently met. As such, and with regard to the ongoing issues within the North CSP as detailed in our response to Question 1 and below in relation to DCC contract management, DCC customers are unable to calculate the full impacts of the missed milestone and therefore cannot assume that the DCC were able to rectify the failure promptly.

Energy UK understands that this failure in reporting a missed milestone is in part, due to the failure of the North CSP (Arqiva), to inform the DCC of the missed milestone. Therefore, Energy UK is concerned on by what appears to be an issue in the reporting arrangements between the DCC and the North CSP – this additionally raises questions on whether the North CSP contract is being appropriately managed.

Further, regardless of whether the DCC were able to rectify the issue promptly, the milestone itself was still not met, and as such, the DCC should not benefit under the OPR in this category. Energy UK therefore welcomes further clarity from the DCC regarding this issue, and expect more thorough engagement from DCC with the SEC panel and affected stakeholder should further delays to milestones occur.

**Question 7: What are your views on how the Operational Performance Regime could be modified to better incentivise DCC to provide a good service to its customers and deliver upon its objectives?**

Energy UK welcomes Ofgem's position to review OPR. Energy UK notes that the metrics used in OPR are not necessarily reflective of the full responsibilities DCC have in order to provide acceptable service to suppliers and as such, that the DCC are not currently appropriately incentivised to ensure a good level of service is provided and maintained in a fast-developing industry landscape.

Linked to this, Energy UK notes with concern the continuing issues with regard to the North CSP, as highlighted in Question 1. It is disappointing that these specific regional failures are not able to be taken into account in the current OPR; the above issues are a significant barrier to energy suppliers complying with their statutory requirements to rollout Smart Meters, and as such represent a significant financial impact and risk to reputation for suppliers and the wider smart programme. It also highlights a key deficiency within the framework, whereby suppliers are financially penalised for issues that are beyond their control and that lie with the DCC and its external partners.

Energy UK believes that for OPR to be an incentive mechanism truly reflective of the DCC's remit, more dynamic and consultative metrics must be introduced into the incentive Framework. Similar metrics have been introduced into other incentive frameworks in the industry, and as such similar metrics would be appropriate within the DCC performance assessment.

Whilst the DCC have taken some steps to increase transparency in the governance structure, the implementation of the Quarterly Finance Forums (QFF) are not sufficient to allow appropriate consumer oversight and engagement in cost control. Several Energy UK members have noted that, in their opinion, the level of engagement present within the QFFs does not go above or beyond current DCC engagement with its customers. It has been noted that due to the lack of any Terms of Reference, formal decision-making process or level of information provided (in spite of QFF participants being party to non-disclosure agreements), little value or trust has been provided by the creation of the QFFs.

Energy UK would therefore welcome the inclusion of DCC's customers in the process of deciding to award Performance Incentives to the DCC; this would allow for a more reflective assessment of DCC performance over the year, and therefore reduce the reliance of Ofgem on evidence provided solely by the DCC when deciding on the level of Incentive awarded.

**Question 8: What are your views on our proposed position on DCC's project performance?**

Energy UK agrees with Ofgem's position with regard to DCC's project performance.

**Question 9: What are your views on our proposed position on DCC's switching performance?**

Energy UK agrees with Ofgem's position with regard to DCC switching performance. Energy UK highlights that there is concern that there is not appropriate ringfencing of costs associated with the switching programme and costs associated with the smart metering programme. Energy UK therefore welcomes steps by the DCC to ensure that costs are appropriately allocated within the price control process.

**Question 10: What are your views on our assessment of DCC's application to adjust its Baseline Margin?**

Energy UK agrees with Ofgem's decision to make relevant adjustments to the DCC's Baseline Margin as detailed.

**Question 11: What are your views on cost uncertainty in relation to Baseline Margin applications and the process for dealing with this issue?**

Energy UK reiterates the above point made that DCC must be more explicit in providing detail about costs incurred. Whilst Energy UK welcomes the steps DCC have taken to provide further transparency around the arrangements for incurring costs going forward, the DCC must go further in providing detail as to why costs beyond those needed to maintain base-case business are needed. This is further evidenced by the fact that Ofgem has already identified that the DCC have not provided sufficient information explain fluctuations in Baseline Margin drivers.

In particular, it has been noted that with regard to the adjustments for operational resilience, little has been delivered in real terms, and especially for the Enrolment and Adoption programme. In fact, the volume of devices being enrolled onto the DCC systems has remained static throughout RY18/19 due to the delays to that programme. Energy UK is therefore unsure from the evidence provided by the DCC in its submission, why an adjustment was made on this basis.

Material changes such as these must be adequately communicated to DCC customers, and Energy UK request ensuring further clarification from the DCC to understand why these costs are fluctuating.

**Question 12: What are your views on our assessment of DCC's application to adjust its ECGS?**

Energy UK agrees with Ofgem's interpretation of the ECGS guidelines. However as discussed in its answer to Questions 1 and 6, further information is requested regarding the contractual arrangements for external DCC contracts.

Yours Sincerely

Edmund Frondigoun
Energy UK