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Paper Reference:	SECP_135_1712_07
Action:	For Decision
Acronyms and Defined Terms SEC Glossary	

Ofgem Consultation – DCC Price Control

1. Purpose

This paper provides the Panel with a draft response to the Ofgem consultation on DCC Price Control for the Regulatory Year (RY) 2023 – 2024. A copy of the consultation can be found using the following link [DCC price control consultation: regulatory year 2023 to 2024 | Ofgem](#)

The Panel is requested to approve the draft response contained in Annex 1 of this paper.

2. Background

Under the Ex-Post arrangements, the annual Ofgem Price Control review seeks to ensure DCC has delivered a quality service in an economic and efficient manner for all consumers for the preceding Regulatory Year. SECAS has worked with OPSG and SECCo Head of Strategy and Regulation in review of the minded to positions set out by Ofgem in its consultation. We have provided a draft response for the Panel in Annex 1, setting out proposed responses to the 21 questions in the review.

3. Recommendations

The Panel is requested to **AGREE** the draft response in Annex 1 may be submitted to Ofgem subject to any comments and final agreement with the Panel Chair.

Christopher Thompson / Tim Newton

SECAS Team

10 December 2024

Attachments

- Annex 1 – Draft Panel Response DCC Price Control RY 23-24

Annex 1 – Draft Panel Response DCC Price Control RY 23-24

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XX December 2024

Ofgem Consultation – DCC Price Control Regulatory Year 2023-2024

Dear Arno

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

We would be happy to engage further, to assist with any clarifications. Please do not hesitate to contact SECCo Head of Code and Regulatory Strategy, Alina Bakhareva at alina.bakhareva@seccoltd.com.

Yours Sincerely,

Angela Love
Chair – SEC Panel

DCC Price Control Regulatory Year 2023 – 2024

External Costs

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

We note that Ofgem are proposing to disallow all the costs associated with the ECoS monitoring solution and integration cyber security programme and that there was no engagement with the SEC Panel or Sub-Committees in this regard. If there had been engagement, there could have been advice to the DCC on the suitability of the changes and whether there would be any benefit to performance. In this regard, we agree with Ofgem that there should have been engagement with the SEC Security Sub-Committee (SSC).

The SEC Panel would like to have more engagement from the DCC on significant costs that they are going to incur. Our experience is that the DCC shared information on significant costs through the framework of the business cases required through its programme delivery (overseen by DESNZ) but this is less forthcoming where this framework is not being used.

We note that the Programme Assurance Policy (PAP) has been developed subsequent to most of the activities of the ECoS project and anticipate that the DCC will engage with the SEC Panel using the principles set out in the policy for all future projects. We are of the view that the procedures set out in the PAP provide the opportunity for insight into DCC costs and limit the development of solutions such as this where the Panel lacks the requisite oversight and consideration.

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

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

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

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

From the content of the consultation, it is apparent that the fault of some of these costs lies with DCC’s service providers. In the absence of any such evidence that the DCC is endeavouring to limit

the costs to Energy Suppliers and consumers (to which we are not privy), it is reasonable to disallow some of the costs and would expect that these should be absorbed by the DCC's Service Providers through contract management.

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

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

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

The consultation indicates that the DCC undertook work "...without the contractual change being signed by DCC and the service provider...." It appears that this is a risky approach as it is apparent that the DCC was undertaking work without an underlying agreement in place. This work was in turn funded by a Change Authorisation Note (CAN) at the risk of the DCC. As this was a regulatory obligation and the DCC caused additional costs due to their acceptance of the risks, we are of the view that these costs should not be passed on to DCC Users and consumers

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

We agree with the proposed disallowances in relation to increased charges for the SMETS1 interim DCO contract. It is concerning that there are additional charges above the base contract charges, without any reasonable justification that can be articulated for the increase. These costs are then merely passed on to DCC Users and ultimately consumers. The DCC should be using its contractual levers to ensure that its service providers deliver a service that complies with the obligations in the existing contract without any unjustified increases in costs. Without any such justification, we are of the view that it is right to disallow such costs.

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

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

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

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

We are of the view that as this is a defect, the DCC should not be incurring any additional costs as changes should be made by the service provider fixing an error.

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

We agree with Ofgem's proposal to disallow of £0.740m related to delays in the TAF programme. In the absence of any reasonable justification that would mitigate the additional expenditure that occurred as a result of the missed milestone, these costs should be disallowed.

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

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

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

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

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

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

Costs for Code Modifications

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

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

It is important to note further that TAG does not have sight of any regression testing costs associated with SEC Releases. This is an important consideration as regression testing is what has been presented as the cause for these increased release costs. We are of the view that these increased costs should be examined by Ofgem as part of this price control to ensure that the significant increase in costs are fully justified and are economically and efficiently incurred.

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

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

DCC Controlled – SEC Parties

Cost Variance Analysis

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

Table1

Internal Costs

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

We do not have any insight into the details as to why there are significant additional costs where the activities largely mirror what was reported by the DCC in its RY22/23 submission. We are therefore supportive of the Ofgem position that at least 50% of the additional costs should be disallowed unless there is valid justification from the DCC as to why there is a significant increase in costs.

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

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

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

As a monopoly service provider to industry, we are of the view that all of DCC's decisions on its activity should be founded on the General Obligations in the DCC Licence to deliver its business in an economic and efficient way. While we do not have access to the finer details of Ofgem's proposal to disallow a proportion of the costs linked to the activities that Ofgem considers not to have been resourced in the most economic and efficient way, we would encourage Ofgem to meticulously disallow any costs that are not economic and efficient. We therefore support any such disallowances that save Users and consumers money. Such actions should also have a positive impact in encouraging the DCC to carefully consider being economic and efficient in any actions it takes.

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

As stated in our consultation responses to 2022/2023 and 2021/2022, this is an example where a lack of oversight and governance through the current ex-post Price Control mechanism appears to have enabled this cost to be incurred without appropriate oversight from DCC Users. We therefore agree that all of these costs should be disallowed.

We are of the view that the DCC should provide sufficient and relevant evidence to support assertions made by them in support of Price Control. Generally, business accuracy should achieve informed decision making, operation efficiency, and financial integrity. We do not believe that a specific programme is required to achieve these outcomes but should naturally occur as part of business as usual. We are concerned that the DCC's formulation and execution of their BAP is not meeting the desired outcomes for business accuracy. We agree with Ofgem's view to disagree with the DCC standpoint "...that enterprise and resource planning specific activities did not form part of the BAP as the BAP's focus was function based rather than enterprise based...", as we believe that this approach would defeat the purpose of Business Accuracy.

We agree with the Ofgem view that "claims from DCC that the costs for these additional projects do not form part of the original scope of BAP, raises concerns around the transparency of the reported

costs” and that “...We expect both Ofgem and customers to have full visibility of the total spend and scope of a large investment, such as BAP, including where changes to scope are being made...” In the above paragraph, we state our views on the purpose of Business Accuracy, and it is apparent from the DCC approach and Ofgem’s comments set out in the consultation that the DCC has not fully committed to a transparent approach to Business Accuracy.

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

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

We agree with Ofgem that where the DCC is unable to provide sufficient justification for costs that these costs should be disallowed.

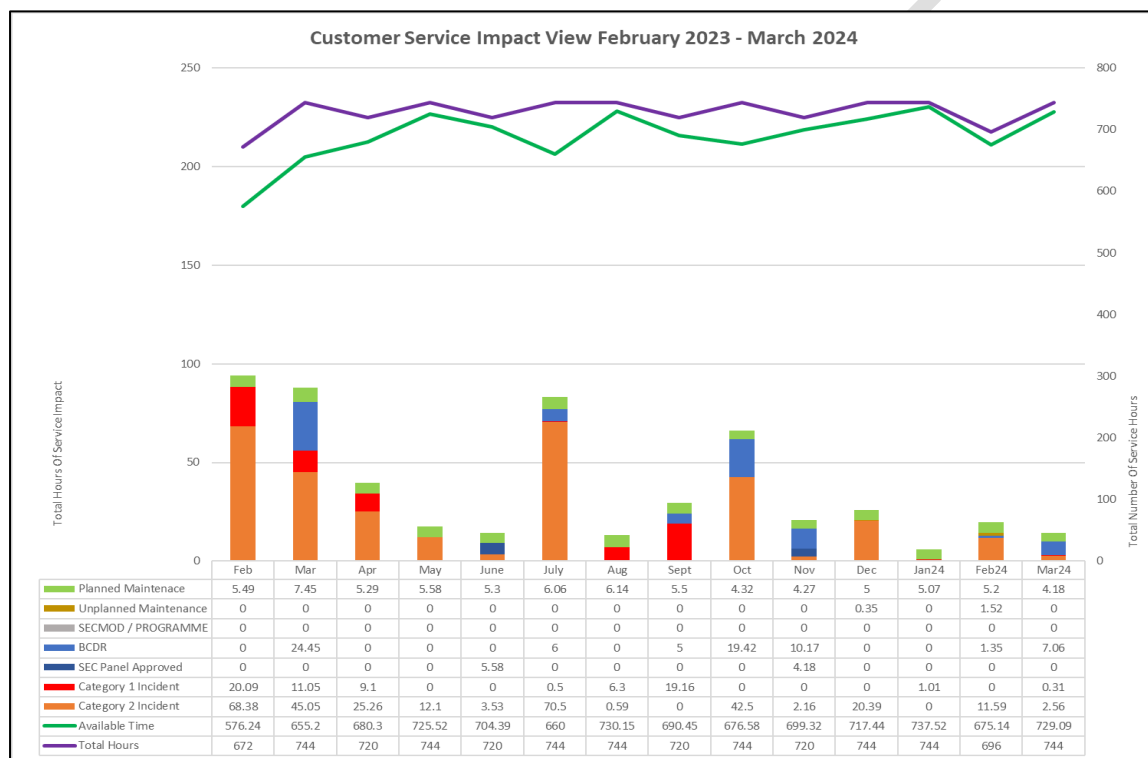
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Performance Incentives

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

We understand the position reached, the issues with the SEC Performance Measures not reflecting the experience of DCC Users has been well documented and subject to Modifications. With the implementation of Modification MP224 [change to operational metrics to measure on success](#), we believe that in future there will be a set of reports that will be relatable to the services that are experienced by Users.

The DCC System Performance has not run smoothly. There were service interruptions throughout RY 2023 / 2024. Whilst compared to previous years, the level of Planned Maintenance events has reduced, the overall volume of Major Incidents and time lost continues to be a concern for DCC Users. The graphic below highlights the hours lost to Maintenance and Major Incident events. Major Incidents across Category 1 & 2 incurred 231 hours lost.



We welcome the reduced volume of planned and unplanned maintenance events, and the overall downward trend of service interruptions compared to previous Regulatory years, (43 Category 1 & 2 Major Incidents RY 2022/2023 versus 27 Category 1 & 2 Major Incidents RY 2023/2024). However, having been fully operational for several years, we expect that the DCC Service would be operating in such a way that service interruptions would be very much an exceptional event. We are very mindful of this, given the level of change in the coming year(s) through programmes such as 4G Communication Hubs, and transition to a new Data Service Provider. Whilst accepting not every eventuality can be foreseen, historically Major Incidents have arisen following the implementation of new systems and processes or maintenance activities. We trust that all the operational lessons learned by DCC will be applied to mitigate the risk to existing services.

Operational Service Quality & Stability

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

SEC Performance Measures

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

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

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

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

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

Quarterly Price Change Events

Compared to the previous RY the Price Change events across RY 2023 – 2024 achieved improved results. Learning from the prior year was applied, resulting in improvement in the delivery of Price Change events with the January 2024 Price Change event noted as the most successful, with no Major Incidents reported.

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

Annual Outage Planning

An Annual Outage plan was agreed and updates provided to the OPSG throughout the year. The Annual Outage plan is useful for parties to ensure awareness as far in advance as possible, when the DCC services are fully or partially unavailable. The DCC provided updates to the OPSG throughout the RY as and when DCC proposed changes to the agreed timings. These updates were presented and discussed by the OPSG and potential issues highlighted with the proposed changes. An Outage Plan was also presented, discussed, and agreed for the current RY 2024 – 2025.

Communication Service Provider North (CSPN)

In the last quarter of the RY 2023 / 2024 the OPSG commenced a significant piece of work to investigate and resolve issues pertaining to the services provided by the CSPN. This included a

review of the loss of communications post installation, and installation failures of Communication Hubs (CH) in the CSPN region. The DCC acknowledged its customers were experiencing difficulties in ensuring service delivery met expectations and committed to seeking improvements. At the end of the final quarter of RY 2023 / 2024, the OPSG escalated the issues to the Panel to ensure suitable resourcing was made available to investigate thoroughly and engage with the CSPN. This work has expanded and continued in the current Regulatory Year and has been a priority for OPSG activities, with resolution to the issues ongoing.

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

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

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

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

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

Baseline Margin and External Gain Share

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

We agree with the position proposed for the Baseline Margin Adjustment. It is incumbent upon the DCC to provide suitable evidence to Ofgem to enable the applications to be properly assessed. In review of the details provided in the consultation, there appears to be a process failure by the DCC in relation to its application for the RY 2023/2024, resulting in aspects being rejected, that do not meet

the requirements for an application under the Baseline Margin Adjustment. For example, activities to establish the new Licensee, including the Business Hand Over Plan. We agree with the position taken by Ofgem.

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

We agree with the proposed position for External Contract Gain Share (ECGS).

Switching Programme

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

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

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