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Paper Reference:	**SECP_63_1412_16**
Action:	**For Decision**

Cost of DCC assessing and implementing modifications

1. Purpose

This paper outlines the activities being undertaken to reduce the DCC cost of assessing and implementing SEC Modification Proposals.

It requests that the Panel determine a critical question on how Release Overheads are to be accounted for. The answer will drive the direction of all ongoing and future work in this area. This paper sets out the areas to consider when making the decision and the next steps required for either eventuality.

2. Background

In August 2018, SECAS presented a paper to the Panel outlining concerns raised over DCC implementation costs for SEC Modification Proposals. A resulting action was for the DCC to provide a cost breakdown for the delivery of each modification; both as a “standalone cost” (i.e. delivered by itself) and as part of a SEC Release.

The intent was to provide transparency over what costs made up the delivery of change and where synergies could be exploited by delivering certain changes together. The Panel requested that the breakdown of implementation costs include:

- Costs to the end of Pre-Integration Testing (PIT);
- Costs for System Integration Testing (SIT);
- Costs for User Integration Testing (UIT) and pre-production; and
- Costs for deployment, go-live and any post-implementation reviews.

To help the DCC provide these costs, we put in place the Release Management Policy in December 2017 which intended to show how and when modification costs would be calculated. However, difficulties remained over how the DCC would calculate the implementation costs, and concerns surfaced over what DCC costs had or had not been included in Modification Reports. It became apparent that Modification Reports only contained implementation costs up to the end of PIT.

The Authority has noted that it would likely send back any Modification Reports that did not contain full costs of delivering a change. The concern was that the stated implementation costs could rise

exponentially once a change had been approved. This provided no certainty or control over the costs of delivering the change to the industry.

The Panel agreed that without certainty or proper oversight of implementation costs, the risk of escalating spend was too great. As such, Modification Reports would not be deemed complete without full implementation costs. In effect, this placed all SEC Modifications that impact the DCC on hold until the DCC provided a full cost breakdown for each modification.

2.1 DCC review

In June 2018, in lieu of a cost breakdown, the Panel requested an ad-hoc meeting to discuss why DCC implementation costs were unacceptably high, and to seek solutions to the ongoing issue. Before such a meeting could take place, the root cause of the high costs needed to be identified. As such, SECAS requested the DCC to review what they believed to be the underlying factors driving cost.

In September 2018, frustrated at the lack of cost breakdown and movement in resolving the issue, the SEC Panel issued a letter to the DCC reiterating the concerns and requesting an investigation into the causes of high costs to take place.

As a result, the DCC are undertaking an end-to-end review of their processes relating to delivering SEC modifications in an attempt to identify the issues and provide solutions. The DCC has noted that key outputs from this cost benchmarking study include evidence they can use to drive down Service Provider costs and to find optimal testing approaches. This review is expected to conclude in time for the March 2019 Panel meeting. The DCC's terms of reference and current plan-on-a-page[1] for this study is contained in Appendices B and C respectively.

As part of the review's initiation, we highlighted several areas believed to be driving high costs, and asked the DCC to confirm, to the best of their ability, if they are factors. The intent was to identify any areas we could begin to improve before the review is completed in March. The table below sets out the areas we considered could drive up costs, and the conclusions that have been reached so far:

Areas reviewed for cost impact	Conclusion
Testing approaches are overly complex and not proportional to risk of proposed changes.	The DCC review will conclude if the current testing approach could be improved and would reduce the cost of change. It is hoped the new Release Framework, which provides the DCC with greater control over their testing approach, will resolve any issues in this area and allow a more suitable testing approach to be discussed with the Testing Advisory Group (TAG).
There is an assumption that releases should be unconstrained, i.e. unlimited capacity with no cut off dates for scope.	Previous discussions had indicated that this may be an issue. However, the DCC confirmed this has not been an assumption and has not impacted the costs produced.
Modifications targeted at a time of significant change (such as Release 2.0) so aren't reflective of	The timing of modifications has not been a factor in the costs.

[1] The DCC highlights that this plan is subject to change depending on responses received from consultants to the request for quotation (RFQ).

Areas reviewed for cost impact	Conclusion
costs incurred in a more stable environment.	
Costs received include the full burden of release overheads in addition to the standalone costs for that modification.	There have been mixed messages in Working Groups over the last year and it still remains unclear if any proportion of costs received include elements of Release Overheads. This will need to be clarified to avoid duplicated costs.
Not all costs received have been through full commercial scrutiny.	The DCC are in the process of confirming that some of the costs received are accurate and have been through the proper process. It is anticipated the DCC review will address improvements required in this area should it be an issue.

2.2 Providing full implementation costs

As noted above, all SEC modifications that impact the DCC are on hold until complete implementation costs can be provided. It had been anticipated that the DCC benchmarking review would need to be completed before this information could be provided.

However, in early December 2018, the DCC proposed to resolve the issue quicker whilst still addressing the underlying concerns. The following section of this paper outlines the suggested approach, and what the Panel should consider when making a decision.

3. Panel decision: separation of Release Overheads

3.1 Issues raised around DCC costs

Two main issues have been raised previously, which have been at the heart of the efforts to provide full implementation costs for modifications:

1. A clear understanding of the cost of implementing a change is needed in the Modification Reports, so an informed decision can be made. These costs should not then increase once the modification is approved; there must be transparency and oversight of implementation costs. However, this has not been the case for some modifications previously submitted for decision.

2. The DCC has highlighted that producing accurate implementation costs for modifications post-PIT is a difficult task, as all the detailed testing interactions need to be understood up front. To achieve this, the DCC would need to undertake a large portion of the work required to deliver a release during the modification's assessment, in order to produce more accurate estimates of costs and to provide detailed testing approaches. This can result in a substantial cost in time and effort for a modification that may subsequently be rejected. It is also extremely difficult to consider the impacts of multiple changes being delivered at the same time.

3.2 The DCC's proposal

To resolve these issues, the DCC are proposing that Release Overheads are removed from the costs provided for individual modifications and instead included as part of the annual DCC budget. This would create a central fund for change set on an annual basis.

This central fund would include the costs required to undertake a release as a project. These costs will exist regardless of the size and scope of a release and would cover standing costs such as a DCC Programme Office responsible for the delivery of the release and the costs of testing environments. It would also include costs for minimum change commitments with core Service Providers (the Data Service Provider (DSP) and Communication Service Providers (CSPs)) from which change commitments can be called off. This will allow such Service Providers to maintain a capability to deliver developments within agreed and understood estimates.

3.3 The impacts of this approach

If this approach is taken, Modification Reports would only include DCC costs up to the end of PIT. The rest of the implementation costs would already be accounted for as part of the annual DCC budget, so would not need to be broken down further under individual modifications. This approach would ensure that implementation costs do not increase post approval, since implementation costs post-PIT would already be “sunk” costs.

Where a modification may incur additional release costs (either because the change is so large and complex that it requires more funds than budgeted for, or because the implementation of the modification would overspend the agreed release budget), this information will be included in the Impact Assessment received during the Modification Process. A clear decision can then be made by the industry as to whether or not they want to incur this additional cost, wait until the next financial year to progress the change, or reject the change outright.

This approach would resolve the issue of dealing with complexities of SIT/UIT costs for individual changes and in costing the delivery of multiple changes. The approach would also put the cost of change under the oversight of Ofgem as part of their price control regime. Whilst we believe there should be some consideration as to how the transparency of this central cost works in practice (see below), it would resolve the issues identified of cost oversight and ensuring that there is clarity and certainty on the cost of delivering change.

3.4 Areas for further considerations

Whilst we believe there is merit in taking this approach forward, we also believe consideration needs to be given to the details of how such an approach works in practice. At this time, it may not be possible to provide the required level of detail. However, agreeing a set of principles on which a detailed solution can be based would be useful.

Consideration should be given to the following areas:

- **What is the release strategy?** It will need to be agreed how many DCC Systems releases there are per year, as this will greatly impact the Release Overheads (central cost for change). It is suggested this needs to be agreed soon in order to allow the development of the rest of the approach.

- **What is the figure for the Release Overheads and how is this calculated?** Whilst release costs will be separated out into an annual charge, details of what makes up this cost will still need to be provided to the Panel to aid transparency and give the industry clarity of what they are paying for, and certainty that they are getting value for money.

- **How quickly can this figure be produced?** If such a figure is produced after April 2019, can it be included in the DCC budget? If it cannot then how can change progress over the next year?

- **What is the Panel's input into determining this figure?** Ofgem do have oversight via the price control regime, but this is retrospective. We would suggest a principle that means the Panel have specific input into the setting of Release Overheads costs for the coming financial year. There may also be consideration as to whether or not such a central cost sits under Ofgem's price regime or if it is budgeted as part of the SECCo costs; this latter approach would give Panel greater control and oversight of the spend.

- **What will the central costs be used for?** Is it just for SEC modifications or would other projects also draw from this central cost of change? If it were purely for SEC modifications, then how is that cost ringfenced when other changes outside of the SEC modification process are delivered at the same time? The industry should not be double charged for change, nor should changes such as elective services be funded from a central pot.

- **What reporting is required?** Reporting needs to be clear. In order to make informed decisions about when change should be implemented, the Panel will need to understand how much of the budget has been spent or earmarked to be spent. We would suggest regular reports to the Panel on what costs have been spent on and what is remaining in the budget.

- **What happens if there was no change in a given year or if there is a surplus of budget?** We appreciate that costs to stand up personnel etc. are truly sunk, but consideration is needed of the costs assumed for activities such as testing. It would seem sensible that there is a mechanism introduced to recover appropriate costs that have not been spent.

- **What are the 'sunk' costs for 2019?** The DCC have indicated that a November 2019 SEC Systems Release could be implemented as the 'sunk' release costs already exist in the budget. The Panel should understand, if the funds to deliver change are already in the budget, whether modifications targeted for delivery in the 2019 financial year included costs for SIT/UIT.

- **How will this impact on progression timelines?** It would be beneficial to clarify if change would progress through DCC Impact Assessments quicker if time and effort did not have to be spent on trying to provide detail around the SIT and UIT approach (amongst other things).

- **How will the high up-to-PIT costs be resolved?** Separating out Release Overheads does resolve the issue of certainty of release costs and removing the complexity of calculating SIT/UIT approaches and effort for individual modifications. However, it does not address the issue that costs for modifications up to PIT are still extremely high. It is hoped that the DCC review will help reduce costs, but we should not lose sight that this is a driving factor of the work we have been undertaking.

3.5 A decision from the Panel on taking this approach

The concept of separating out Release Overheads had been suggested to the DCC at the beginning of this review, however there was no detail of the split between individual modification costs and a central release. We had assumed that the benchmarking review would have to be completed first, in order to gain more detail on how this would work in practice.

It is therefore welcome news that there is potential to progress such an approach sooner. However, details of how this is to be carried out will need to be agreed by the Panel. The DCC are presenting their approach at the December 2018 meeting, where greater understanding on the practicalities of the approach can be sought.

To help the Panel make an informed decision, we have set out below the consequences of accepting or rejecting the approach set forward by the DCC. This is not intended to sway the Panel in either direction, however it does feed into the next steps that will need to be taken, and so seems sensible to be set out in this paper.

If the Panel **accepts** the proposal:

- Modifications that impact DCC Systems would be able to progress through the change process, as we would have enough information on costs to finalise the necessary Modification Reports; and

- Releases could begin to be formed. The first SEC Systems Release would likely be in November 2019, as the DCC have indicated that they could deliver modifications that impact DCC Systems within the necessary timelines to make this release a reality. Currently, there is one approved modification[2] and two other potential modifications[3] that the DCC have indicated could be implemented in November 2019.

If the Panel **rejects** the proposal:

- Modifications impacting DCC Systems would remain on hold in the change process until the DCC can provide the required cost information. On the assumption that the DCC benchmarking review must be complete before these costs can be finalised, we have estimated it will likely be June 2019 before such modifications can begin to progress again.

- Based on lead times, and assumptions on when the DCC can produce cost information, we anticipate there would be no DCC Systems impacting releases until November 2020 at the earliest.

4. Next steps

We are currently preparing a summary plan detailing the activities and timescales associated with this work, which will be provided as Appendix A to this paper. This will reflect the timing of potential steps, which will be dependent on the outcome of the Panel's decision, and so will cover both scenarios. We intend to issue this plan early in the week commencing 10 December, prior to the Panel meeting.

We were also intending to provide an update on the timetables of all open modifications at this meeting. However, as the timetables for open modifications impacting on DCC Systems will be dependent on the approach taken to DCC costs, we will provide this update in January 2019 once greater certainty on the way forward for these is known. The discussions will also provide clarity on whether or not a November 2019 Release is feasible. If the Panel wishes to proceed with a November 2019 SEC Systems Release, we will verbally update the Panel on the next steps it will then need to take for this at the meeting.

[2] SECMP0023 'Correct Units of Measure for Uncontrolled Gas Flow Rate'

[3] SECMP0039 'Communication Hub returns notification mechanism for Other SEC Parties' and SECMP0042 'Amendment to SMKI Services to provide DCC Users and/or SMKI Participants with Authorised Responsible Officer (ARO) Statistics and Information'

5. Recommendations

The Panel is requested to:

- **AGREE** whether or not to follow the DCC's suggested approach;
- **AGREE** the next steps; and
- **NOTE** the high-level plan of activities required to deliver either approach.

David Kemp

SECAS Team

7 December 2018

Attachments:

- Appendix A: Workstream plan
- Appendix B: DCC cost benchmarking study terms of reference
- Appendix C: DCC cost benchmarking study plan-on-a-page[4]

[4] The DCC highlights that this plan is subject to change depending on responses received from consultants to the request for quotation (RFQ).