

**Citizens Advice
Response to
Ofgem's
Consultation on
DCC Price Control
for Regulatory
Year 2018/19**

The logo for Citizens Advice, featuring the words "citizens advice" in white lowercase text inside a dark blue speech bubble shape.

**citizens
advice**

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination. Since 1 April 2014, the Citizens Advice service took on the powers of Consumer Futures to become the statutory representative for energy consumers across Great Britain.

The service aims:

- To provide the advice people need for the problems they face
- To improve the policies and practices that affect people's lives.

The Citizens Advice service is a network of nearly 270 independent advice centres that provide free, impartial advice from more than 2,550 locations in England and Wales, including GPs' surgeries, hospitals, community centres, county courts and magistrates' courts, and mobile services both in rural areas and to serve particularly dispersed groups.

We give advice to people through our network of local Citizens Advice and through our national consumer service helpline. Between these 2 services, last year we advised over 130,000 people, solving 100,000 problems. Over 25,000 people saved money because of our advice. We also offer specialist support to the people who need our help most through the Extra Help Unit, where last year we helped over 9,000 people.

Since April 2012 we have also operated the Citizens Advice Consumer Service, formerly run as Consumer Direct by the Office for Fair Trading (OFT). This telephone helpline covers Great Britain and provides free, confidential and impartial advice on all consumer issues.

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Response

Background

Citizens Advice welcome the opportunity to respond to this consultation on the Data Communications Company (DCC) price control.

As the consumer representative on the Smart Energy Code (SEC) Panel, our response to this consultation reflects on the costs of the DCC but also encourages a 'no surprises approach' in relation to service level and cost from the DCC for both its service users and for domestic and microbusiness energy customers.

The DCC is the enforced service provider for energy suppliers, and Citizens Advice's priority is to see the provision of reliable and cost-efficient services that suppliers need to deliver their services for energy customers. We also look to support cost-efficient developments through the SEC that will improve energy customer engagement with their energy services and improve their relative position in the energy market.

Greater oversight of the DCC by stakeholders, particularly energy suppliers and other DCC users will support these outcomes. It should mean that efficiencies can be identified by the DCC, energy suppliers and their delivery chains to reduce energy costs for energy customers. We urge Ofgem to use the price control mechanism to support the SEC in developing a collaborative approach to reliable and cost-efficient DCC service delivery for users and the energy customer.

Introduction

Smart DCC (DCC) through the Data Service Provider (DSP) and Communication Service Providers (CSPs) and other service providers have delivered to date: over 3 million operational smart SMETS2 connected; a small number of SMETS2 prepayment meters connected; a small number of SMETS1 meters enrolled and an advanced strategy for the enrolment of the next meter cohorts. However, there have been delays to Release 2; delays to SMETS2 prepayment; poor service in the Northern Region and delays to the enrolment and adoption of SMETS1. This means that overall, the current structure of the DCC, monitored through the DCC price controls, is not providing the anticipated returns for DCC users and their domestic and microbusiness consumers.

The DCC is now fundamental to Great Britain's energy market for domestic and microbusiness consumers. It needs to develop in an economic and efficient way that provides good outcomes for energy customers. This requires a collaborative approach with users to define the internal cost priorities and strategy for the management of

external service providers. We note that Ofgem highlights the importance of better DCC user engagement in future and we fully support this approach.

Citizens Advice supports modifications to the current Operational Performance Regime (OPR) in order to prioritise mechanisms, including governance and incentives, that enable closer, structured collaboration. The changes should holistically consider governance through the SEC and the format of the price controls.

Price controls, transparency and stakeholder engagement

Citizens Advice does not think that DCC regulation (including the price control) and the OPR and Baseline Margin Project Performance Adjustment Scheme (BMPPAS), has effectively ensured early and detailed oversight from DCC stakeholders relating to internal and external costs. For example, the results of this consultation will continue to be significantly constrained by confidentiality restrictions. In our view, this is inappropriate in stakeholder oversight of a regulated monopoly.

Citizens Advice recommends the creation of a user group able to request any information from the DCC to come to a fully informed opinion. In order to properly understand and scrutinise decisions, it is vital that users can properly inform their own recommendations relating to the performance and development of the DCC. For example, this approach could address the lack of access to procurement assessments to determine the efficiency of service provider procurement. Within the SEC, there should be a mechanism for the DCC and users to overcome issues where they become constrained by the governance structures.

Citizens Advice is keen to see with greater clarity in future price controls that the DCC is developing its services based on the needs of its users. This should include a target to provide comprehensive ex-ante stakeholder oversight of planned activity with only minimal exceptions. Any exceptions to an ex-ante stakeholder review would need to be agreed by users, with detailed explanations in price control submissions. The KPI dashboard development in the past year shows how a failure to define the parameters for stakeholder engagement review or alternatively an exemption within an agreed scope leads to a lack of evidence for price control and unapproved spend.

Improved stakeholder oversight will be vital for DCC's process of renegotiating core service provider contracts in 2023 and 2028. Improving the way in which the DCC can procure and develop services will enable it to better meet its user needs. There are huge upcoming challenges, such as the move to 4G communications hubs, for which energy suppliers and the DCC need to agree on an approach that means the energy customer will not face service issues or excessive costs.

The limits in the current mechanisms for collaborative delivery of important DCC functions is apparent in the modification process to the SEC. There are modifications necessary for the ongoing functioning of smart metering and DCC services that are not being delivered in a way that will minimise costs to energy customers and which risk

energy customer detriment through service failures. Delays to Modification SECMP007 risk the ongoing functioning of IHDs without firmware updates for suppliers, while SECMP0062 and SECMP0067 risk the overload of DCC services due to a lack of intelligent traffic management. Modification SECMP007 was raised in 2016 and has still not been delivered.

The DCC should enable stakeholders to make detailed cost-benefit analysis decisions that allow stakeholders to develop and support the necessary modifications. In our experience, the SEC has struggled to understand how costs relate to the modifications proposed, which means it cannot develop a clear response based on requisite service information. Improved mechanisms for increased transparency can address escalating risks where a lack of alignment between users and the DCC could lead to additional costs for the energy customer.

Towards better stakeholder engagement

Citizens Advice recognises that the DCC governance processes have developed significantly and that there are further planned improvement initiatives. However, given that the DCC is a regulated monopoly we want to see clear criteria for consideration and response to stakeholder input. The RIIO2 enhanced engagement guidance¹ provides a template for stakeholder engagement criteria that the DCC should be measured against.

Ofgem explains that through RIIO2 they want: *"... companies to respond to changes in how their networks are used, and this requires an understanding of stakeholder needs to be at the heart of the way companies run their business."*² Alongside this direction from Ofgem, there are also structural processes required to facilitate this approach and overcome key challenges. The regulator could set out a similar direction to support the improvement of DCC engagement.

Citizens Advice recommends a form of Customer Engagement Group or Challenge Group to fully scrutinise the delivery of a monopoly service like the DCC. This group should review business plans ex-ante with access to confidential information. Such a group could help improve DCC stakeholders ability to assess value for money, understand issues with external contractors and provide early input into strategic planning. It could provide valuable input into the nature of DCC decisions such as the key considerations for modification delivery. Users best understand their needs and how the development of DCC capabilities can meet them. We think this group should be set up through the Smart Energy Code and have a role in the OPR to continually monitor the quality of service provision. As with the RIIO2 enhanced engagement process, our view is that this challenge group would benefit greatly by being led by an independent chair.

¹ https://www.ofgem.gov.uk/system/files/docs/2019/11/enhanced_engagement_guidance_final.pdf

² *ibid*

For the DCC to move out of its initial phase and to deliver greater confidence in its projected costs appears to require a strategy for moving to an ex-ante approach for costs. Where highly uncertain costs exist the ex-post approach is reasonable. However, there should be a strategy to move beyond the ex-post approach and attempt to define clear and predictable costs ahead of delivery. As deliverables become more routine the DCC should be seeking to predict and deliver year on year efficiencies. This approach would bring the DCC inline with other monopoly funding in the energy sector.

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

The majority of the external costs appear to have been explained. However, Citizens Advice is not in a position to judge whether all costs have been incurred economically or efficiently. The National Audit Office's 2018 report³ on the smart meter rollout, highlights that suppliers and stakeholders are prevented from scrutinising the DCC service providers' costs because details are redacted on grounds of commercial confidentiality.

In line with the improved financial scrutiny provided by a Challenge Group in the enhanced stakeholder engagement component of the RII02 price control, we strongly encourage Ofgem to set up an equivalent process for scrutinising DCC's costs. This would permit third-party scrutiny of all DCC's costs, allowing for a view to be taken on whether their external costs are economic and efficient.

One area we are concerned about is the lack of transparency surrounding contract procurement assessments available to users to establish value for money. It is also difficult to establish whether costs are economic and efficient without understanding the planned development of DCC services in future and how well they are positioned to avoid future costs. The proposed DCC Core Evolution strategy may help enable stakeholders to gain this view.

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

We are pleased to see evidence of external benchmarks but do not accept that keeping a certain percentage of hires below a high threshold provides the necessary transparency to make an informed judgement. Providing detailed staff remuneration information would more effectively enable stakeholders to understand the extent to which the DCC has a workforce that can limit the urgent skill gaps that prove costly.

We think that the greater balance of internal staff provides better value to consumers given the premium paid for external contractors. The new headquarters near

³ <https://www.nao.org.uk/report/rolling-out-smart-meters/>

Manchester suggests long term planning for internal staff retention that should help support the sustainable development of the organisation.

The DCC should be able to hire to an appropriate level and transparency and benchmarking should not restrict this activity. However, there is a lack of transparency that must be addressed.

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

Citizens Advice supports this action by Ofgem because the cost should not be allowed unless the DCC can explain the cost and implementation method. The implementation method seems to have delivered a valuable outcome for users but the lack of evidence for engagement in the decision-making process is an example of the weakness in DCC's stakeholder engagement approach.

We are keen that the DCC enables users to review the majority of DCC projects ahead of development. Where there are exceptions there should be a clear scope defined by users. The KPI dashboard appears to be a well-received innovation for information provision and scope for these projects should be possible, but they must be fully accountable.

Question 4: What are your views on our proposal to disallow variance in forecast internal costs?

Citizens Advice is concerned that this is the second year in a row the DCC has sought agreement for unjustified future costs. There do not appear to be appropriate incentives in place to discourage the DCC from making under evidenced claims. As requested in past years, we hope that Ofgem will consider disincentives to discourage applications that are not fully evidenced.

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

Given the criteria in the OPR, Citizens Advice supports Ofgem's analysis of DCC's achievements in relation to operational performance. However, as outlined previously this is not incentivising the provision of the DCC service in the way we would expect. We strongly support a holistic review of the OPR.

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?

We are concerned by the DCC relationship with CSPs in ensuring their performance. Arqiva's performance in the North is causing detriment to a large number of consumers who are experiencing a high number of failed installations and a lack of smart meter

services. We are hearing from suppliers that as little as 1 in 4 attempted installations are being completed successfully. In these instances, DCC contracts with CSPs are not delivering reliable provision of service. There are also examples of DCC users not receiving sufficient recompense for service failure when networks go down. This ultimately means energy customers are taking on too much risk. The DCC's service providers' costs are being covered and the end-users' are paying for any disruptions.

We would like to see, where possible, the DCC take greater ownership of service quality delivered by its contracted service providers. Particularly where they are responsible for the agreed contract. Where the DCC role is limited to the delivery of good contract management, users and consumers have little recourse.

Going forward it will be important that contracts provide suitable protections for users and consumers. The ways of working to provide transparency through external service providers also need to improve so that the DCC provides an accountable proposition for stakeholder engagement. There should also be continued provision for engagement with the components of the DCC network including service providers. For this to happen, the DCC needs commitments to ensure service providers can explain their decisions to stakeholders and are accountable for failures in service provision.

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?

As discussed earlier in this response, it is our view that the OPR should encourage a more collaborative approach to service delivery that doesn't view stakeholder engagement as simply a post-decision making process of information sharing. Performance metrics need to be user and energy customer facing, and have service level outcomes with greater accountability through improved transparency.

We agree with Ofgem that it is important that DCC ensures that the CSPs meet their contractual commitments. Citizens Advice would welcome evidence that failures in this area did not cause detriment that justify the Baseline Margin reduction.

The quality of service impacts that need to be monitored includes the business impacts of failures of service due to DCC systems. They should also be monitored through energy customer-impacting metrics including meter enrolment time during the installation process; prepayment vend time, and vend success rate. Each of which are energy customer deliverables that we think are vital to ensuring good energy customer smart meter experience. There are also significant risks to the rollout if there are not service levels in these areas to protect energy customers.

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

No comment

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

No comment

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

Citizens Advice recognises the importance of a mechanism for adjusting DCC's Baseline Margin to account for material changes required to DCC's service.

We support Ofgem's reasoning in paragraphs 5.18 and 5.20 to reject requests for adjustments. In these instances, DCC failures to deliver on the quantity of SMETS2 installations and failing to meet consumer engagement objectives previously is now creating additional costs.

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

The material decreases in costs associated with drivers previously awarded Baseline Margin suggests that cost uncertainties are decreasing. This should be a continuing trend as DCC business planning becomes less uncertain. This supports the rationale of moving from an ex-post price control to an ex-ante business planning approach to securing funding.

The recovery of costs that have not been incurred due to work not having been done, or because DCC has overestimated the cost associated with the work, would be highly problematic. It would create problematic incentives to not deliver work promptly. However, we recognise that Ofgem will need to deal with cost uncertainty and any other cost in a way that incentivises DCC to achieve efficiencies. However, the onus must be on DCC to both better anticipate and justify decreases in costs associated with Baseline Margin.

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

No comment