



3rd Floor North
200 Aldersgate Street
London
EC1A 4HD
Tel: 03000 231 231

citizensadvice.org.uk

22 December 2020

Citizens Advice response to Ofgem’s consultation on increasing DCC’s revenue at risk against the Operational Performance Regime (OPR) and on DCC Price Control: Regulatory Year 2019/20

Dear Anna,

Thank you for the opportunity to respond to Ofgem’s consultation on increasing DCC’s revenue at risk against the Operational Performance Regime (OPR) and on the DCC’s Price Control: Regulatory Year 2019/20.

This submission was prepared by Citizens Advice. Citizens Advice has statutory responsibilities to represent the interests of energy consumers in Great Britain. This document is not confidential and may be published on your website. If you would like to discuss any matter raised in more detail, please do not hesitate to get in contact.

We provide a general response to the price control and then provide a short response on the revenue at risk consultation.

Patron HRH The Princess Royal Chief Executive Dame Gillian Guy

Citizens Advice is an operating name of the National Association of Citizens Advice Bureaux

Charity registration number 279057 VAT number 726 0202 76 Company limited by guarantee Registered number 1436945 England

Registered office: 3rd Floor North, 200 Aldersgate Street, London EC1A 4HD

DCC's Price Control: Regulatory Year 2019/20

The DCC is an essential service

The DCC provides an essential service that enables the operation of energy services for domestic and microbusiness consumers. It creates an interoperable platform for digital energy metering that consumers in Great Britain will progressively rely upon in their day to day lives as their energy choices support the transition to net zero.

Major energy sector reforms and behavioural shifts in the energy system will increasingly require developments of the DCC system and service. This includes the introduction of half-hourly settlement and faster switching. In future, the DCC may also be used as a communications platform for EV charging, embedded generation and other smart devices. Given its important role, it is vital that decisions about the DCC system and smart metering service development minimise cost and service risk to consumers.

SEC modifications are a well-used method for the DCC, industry and Government to request change and try to support a functioning and efficient system. Given the frequent use of this process in seeking to address issues and the potential future developments to DCC service, it is vital that it provides transparency about the development of DCC services. This increases our concern about the difficulties that DCC users and stakeholders have had in receiving detailed and clear cost-benefit analysis options for introducing modifications. We recognise there has already been significant some progress in this area.

There is also a developing need to ascertain DCC system suitability for future capabilities. Strategic investment in the smart meter system can be most effectively managed through a more coordinated approach across the smart metering platform to achieve long term service and capability improvements. A clearer and more holistic view of future development should support both the business as usual DCC change process and decisions about the evolution of DCC.

In this response, we highlight the need to protect consumers from inefficient expenditure over time by providing greater accountability of the smart meter system operation role that the DCC provides.

Concerns with core service

When the DCC fails to meet their licence defined and user anticipated standards, energy service providers dependent on smart meters and end consumers suffer detriment. We see price controls as an opportunity to raise performance issues and the impact of service failures for users and end consumers. We think this should inform the funding and governance model.

Since the 2019-20 price control, the COVID19 pandemic has left millions of people worse off. As people try to keep warm this winter, 24% of consumers - equivalent to almost 7 million households - expect to struggle to pay their energy bills¹. Lockdown has often led to more time being spent in homes and many people's income becoming less secure. This leads to an increased dependence on essential services and the easier budgeting that is possible through smart meters². Particularly for prepayment customers who need a reliable connection to top-up easily. The DCC's role should make possible efficient installation processes and create a secure service for top-ups and remote meter readings. Service problems cause installation delays or failures, vend issues and unreliable connections that can lead to additional challenges, time and costs for consumers. Either directly or via increased supplier costs for which they will share costs through their bills. As a result, Citizens Advice stress the need to address the increasing risk to the consumer of DCC service failure in forthcoming price controls.

Citizens Advice have presented evidence of performance failures and accountability weaknesses in previous DCC price control responses³. These issues, at a broad level, question the price control contention that the majority of DCC costs are incurred are economic and efficient for the smart metering system. We do acknowledge a number of costs are being viewed as inefficiently incurred - however, we are concerned that this is largely a piecemeal view of cost inefficiency. External costs make up the majority of DCC costs and service failures also cause suppliers significant cost. After many years, the transparency of the DCC's external costs efficiency and the impacts of service failure are

¹ Citizens Advice (2020) [Recovery or Ruin? The role of accessible support in helping energy consumers through the crisis](#)

² OBIE (2020) [Real demand for open banking as user numbers grow to more than two million](#)

³ Citizens Advice (2019) [Citizens Advice Response to Ofgem's Consultation on DCC Price Control for Regulatory Year 2018/19](#)

still an issue. This is likely to be exacerbated if the DCC is to be directed to provide services that may need complex capability development, such as in managing EV charging, integrating embedded generation or to communicate with an increasing number of smart devices in homes. We think this supports the case for smart metering system oversight that provides accountability of the DCC's attempts to anticipate system needs and then invest strategically to deliver on projects economically and efficiently.

We support the efforts of the Operational Performance Review (OPR) reform to better incentivise the DCC performance on key metrics. The OPR metrics and the supporting guidance should support future price controls to actively consider the steps the DCC is taking to provide accountability for all significant system operation and system development decisions. We think Ofgem guidance on the OPR should require transparent evidence from the DCC of management, system forecasting, planning and collaboration.

The need for better and more transparent cost forecasting

The costs of the DCC's original and added competencies have hugely expanded the costs in the delivery of the smart metering system. It has developed from an anticipated total cost of £1.2bn to now over £4bn for the course of the DCC contract. As the price control process began in 2014, we would expect that the way cost increases are realised should be increasingly based on clear breakdowns of costs into categories of certainty. There should be allowances in prediction accuracy for areas of uncertain costs. But as more core costs become predictable, forecasting justification and accuracy should be improving. The DCC's initial forecasts and allowed forecasts have continued year on year to significantly differ from actual realised costs. We think more needs to be done to provide the industry with clarity about the degree of uncertainty and the risks of increased costs.

We encourage Ofgem to consider if steps can be taken to ensure core costs are more clearly defined and separated, with a more detailed breakdown of forecasting.

Coordination and accountability of system operation

Currently, BEIS, DCC, Ofgem and Smart Energy Code share a collaborative smart meter system operator role. Each actor has different responsibilities that guide the smart system operation, development and the modification process. Broadly, the evaluation of DCC's work in this area is considered as stakeholder engagement, which sits within the DCC's

obligation as a discreet service provider. However, the DCC also has a system operator role that appears to require a broad and complex assessment of added value to the smart metering system. As seen with the Performance Advisory Board (PAB) for the ESO, a stakeholder role is required to provide good accountability to the assessment of the system value provided.

Currently, energy code governance bodies' and their industry members are having to anticipate the impact of the decarbonisation agenda and how to facilitate the innovation required to meet net zero. This includes modifications on issues including network load management controls and for split and sub-metering. Code bodies, including the SEC and BSC have produced strategic plans that outlines how they view the development of metering and settlement with potential implications for networks and energy retail. This helps provide transparency. However, there is little clarity on the expectations of code governance role in being anticipatory of user and consumer needs to shape the DCC system requirements. Currently, Ofgem takes a view on a case by case basis for modification proposals and we think more systematic guidance would be appropriate.

SEC modification requests from industry continue to be met with proposed costs from the DCC that don't suggest service development is being planned and managed in such a way to incur costs efficiently. We welcome the work Ofgem and SECAS have taken to seek to address this complex issue. With a legacy of continual development to the DCC's remit and a strong likelihood of further change through ongoing energy system reforms, the net zero transition and the network evolution programme, we strongly urge Ofgem to view the OPR reform as an opportunity to improve the accountability of the DCC's strategic contribution to system operation. This will also help guide the Smart Energy Code on what role and focus it needs to have in guiding and facilitating DCC system and service development.

Further clarity and guidance will help guide where DCC is expected to take action directly and through the management of external providers proportionate to the delivery of value to the smart metering system. Decisions on the economic and efficient operation and development of the smart meter system require transparent evaluation of the DCC costs alongside those of energy service suppliers and the impact on energy consumers.

As argued in last years price control⁴, transparent submissions from the DCC should be scrutinised by an appropriate consumer and stakeholder group with the formal capacity to challenge decision making. An enhanced stakeholder engagement process. Regulated networks that provide essential services normally have their business and performance fully scrutinised by specialist customer engagement groups, performance advisory boards or industry challenge groups. This means that a network's plan and service performance are scrutinised and evaluated independently. This provides active consideration of alternative views and evidence, which supports wider stakeholder evaluation during price controls.

The development of the 'Network Evolution workstream starts to provide greater insight into how the DCC are planning for the future. However, it has not yet created a clear way of working that we believe should represent business as usual for system operation. There is also no mechanism for all strategic requirements of the DCC service to be formally challenged.

Given the shared role in shaping system operation, we appreciate the roles are complex and that the SEC process is well-positioned to support through the OPR. We encourage Ofgem to work with BEIS to provide guidance on the system and the governance competencies needed to meet consumers needs in the net zero transition. BEIS has announced it is revising the Smart Systems Plan and is seeking to reform code governance, which we hope will translate to clear direction to the DCC and to the SEC.

Performance issues

The DCC performance issues are covered in the SEC Panel response which we fully support. We also highlight the performance failures of CSP North on service stability failures, usability limitations and reporting failures. However we are aware there are other service issues with implications for consumers, such as communication hub readiness and distribution, HAN stability and delays to SMETS1 migration.

CSP North

⁴ Citizens Advice (2019) [Citizens Advice Response to Ofgem's Consultation on DCC Price Control for Regulatory Year 2018/19](#)

Energy suppliers report that comms hub firmware and firmware download issues in the north have persisted through 2020. They only received prepayment compatible comms hub firmware in October 2020 (version 2.02.6) after a lengthy delay. While energy suppliers last had new comms hub firmware in June 2018 (version 1.38.6). Issues were found with the intervening firmware for these devices. Either DCC Operational Acceptance wasn't passed or the firmware was pulled. This has meant systems fixes have not been delivered as required.

There is also still significant progress required from Arqiva to meet the service level agreement to respond to 99% of service issues in 5 days. Similarly, a failure has also occurred in firmware downloads to meters and Arqiva recently found a reporting issue which meant their performance was worse in 2019/20 than originally published. These issues have caused a major delay in realising the benefits of the smart meter rollout.

For consumers, these issues mean that fewer SMETS2 meters have been installed in the north region. In particular, SMETS2 meters in prepayment mode are scarce. It is also likely to mean more SMETS1 meters were installed. These meters can constrain consumers' capacity to switch suppliers. Of those SMETS2 meters that are installed, the install and commission period has been longer and less reliable, taking up more installer and consumer time. This is particularly problematic for the reliable operation of prepayment. There is also a higher install failure rate which wastes supplier and consumer time and ultimately adds additional costs to consumer bills.

The "CSP North Improvement Plan" and the Smart Meter Operations Group's (OPSG) ongoing work have attempted to address these issues. However, we are concerned about the speed of progress. We hope the regional and meter generation OPR targets will help address this issue.

Where issues, such as those in the North region persist, we would encourage a systems view on the increased cost issues to be transparently presented and made accountable to a key stakeholder group to aid consideration of the mechanisms that need to be taken to address the issue. Given the shared attribution of total smart metering system costs between DCC, distribution networks, suppliers and other DCC users, the total impact on the consumer should be clear priority in decision making. The BEIS 2019 Smart Meter Impact

Assessment⁵ goes to great lengths to quantify the benefits of consumer time saved via smart meters and we are keen to see also, where possible, evidence from service failures being quantified and informing system operation and development decisions.

What are your views on our minded-to position to increase the revenue at risk against the OPR to be equal to the sum of the BM and ECGS?

The price control must appropriately incentivise the DCC. Increasing the DCC revenue at risk under the OPR will help hone the DCC's ongoing commitment to its core services that need to meet the needs of users and end consumers. In line with our encouragement in the May 2020 OPR to increase the incentive on the DCC to perform, we support Ofgem's consultation and the minded-to position to use the External Contract Gain Share (ECGS) on increasing the revenue at risk against the OPR.

This change will support the implementation of the revised OPR model, particularly if it strengthens the incentive for DCC to perform well with incentive reflecting the OPR weighting: 70% system performance, 15% customer engagement, and 15% contract management. This is proposed under Ofgem's minded-to position to adopt 'Option 1'. We agree with Ofgem that this approach helps avoid a risk that performance incentives might be weakened by breaking down incentives by meter generation and region.

Given the recent stakeholder consultation collecting views on setting the weightings between the incentives, we think Ofgem should see this as the default allocation of additional OPR incentive.

We are comfortable that increasing the revenue at risk against the OPR may reduce the revenue that DCC expects to retain from cost-saving activity. There appears to be sufficient incentive for the DCC to seek cost savings on its external contracts. We are of the view that the OPR review will deliver a more accountable and transparent DCC service by having more appropriately sensitive performance metrics and encouraging better stakeholder engagement. As a result, DCC performance will be appropriately incentivised by upweighting customer engagement and fragmented performance incentives.

⁵ BEIS (2019) [Smart meter roll-out: cost-benefit analysis 2019](#)

We support the proposal of expanding the ECGS incentive beyond the original External Service Provider Contracts to DCC's contracts with its additional service providers. We think this is likely to be entirely appropriate for significant contracts that were not envisaged originally for the DCC. It would seem sensible that incentives have a base level of reward and scale as a percentage of service provider contract to be sufficient and also proportionate.

Please do get in contact if you have any queries about this response.

Kind regards

Ed Rees

Senior Policy Researcher