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Citizens Advice response to Ofgem's Call for Evidence: Review of the regulatory arrangements for the Data Communications Company

Dear Leigh,

Thank you for the opportunity to respond to this call for evidence.

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

Scope and objective of the review

We encourage Ofgem to work closely with BEIS to conduct a comprehensive review of the expectations for the DCC between 2025 and 2040. We anticipate forthcoming policy development relating to energy system design, system governance and achieving net zero may evolve the outcomes expected of the DCC and shape the necessary regulatory considerations.

We encourage Ofgem not to take a prescriptive approach to the precise outcomes that the DCC should contribute to in the period 2025-2040. This is because of the fast pace of planned development across the energy system to digitise, decarbonise and decentralise and the necessary corresponding energy system policy and regulatory change. The current

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regulatory model for the DCC has not always incentivised the right behaviour. As the energy market continues to rapidly evolve it will be crucial that the approach taken from 2025 is robust enough to ensure the DCC fulfils its core service obligations whilst also exploring opportunities to add value to the system.

What is clear, is that the DCC will have developed the majority of its core services by 2025. This activity should be treated as 'business as usual', and should deliver a high standard of service and cost efficiency¹. The regulatory approach should further incentivise stakeholder engagement, as well as minimising whole system costs passed on to end consumers.

One area we are keen to see DCC or others focus on is ensuring that smart metering coverage is as close to 100% as possible and provides the reliability required for prepay services at efficient cost.

Alongside continuing to regulate the DCC as a contract coordinator seeking to provide a resilient network economically and efficiently, it seems prudent that regulation proactively enables sustainable development of system functions. This should actively facilitate additional offers with technical support for change which includes the necessary testing environments and sandboxing. Citizens Advice is concerned that if the current approach to DCC system change continues it could lead to the DCC service being underutilised at the expense of end consumers.

To enable the DCC to be able to respond efficiently to the developing needs of its users and those of end consumers, there is a need for a practical, flexible and highly accountable process for system and service development. Given the DCC impacts the costs and service offers for its customers and end consumers, these stakeholders need to have an active role in approving change. If this is done well, then there is an efficiency opportunity in allowing greater flexibility for the DCC it manages delivery of service. Already an increasing number of services are being provided directly by the DCC which suggests there needs to be regulation which recognises and scrutinises the aspects of service delivery where DCC is taking on a greater responsibility.

At this early stage of the review process we encourage focus on planning the regulation of core competencies via an ex ante mechanism to enable closer industry scrutiny of the DCC. Planning at this stage should also look at defining the governance structure and the

¹ Citizens Advice (2020) [DCC Price Control: Regulatory Year 2019/20](#)

incentivised responsibilities that will ensure the DCC works collaboratively with industry, Ofgem and government. This should include licence conditions that require a process of co-creation with industry as well as obligations for taking the necessary steps to protect essential service outcomes for end consumers.

We think this requires a regulatory process that accommodates both the current core capabilities and the development of additional core or elective services. The DCC governance needs to be informed by consideration of further core and some elective services. There may also be some elective services for example in water or health sectors that are not within this scope and where the regulatory focus should be on DCC's role as a market competitor and reducing energy consumer costs.

How well the governance overall model functions should provide a basis for risk assessment for key decisions on the structure of the DCC licence. For example, if the DCC is highly accountable to stakeholders, then the timeframe of the licence could be more enduring. Similarly, better accountability would allow greater scope for flexibility in the way DCC manages contracts and delivery. However, given the change relative to the current licence we think it is important that there are one or more competitive tenders for the DCC contract given the potentially different DCC competencies required to deliver enduring value to consumers.

DCC performance issues

The DCC has had significant structural and delivery issues which appear to have caused issues aligning its activity with the needs of energy suppliers, its other customers and end consumers. These have been in part related to wider issues relating to the Smart Meter implementation Programme. However, it will be crucial for these issues to be resolved in order to effectively prioritise strategic service developments in future.

The Operational Performance Review is looking to improve the incentivisation of DCC activity, and should go some way to addressing these concerns. However, there have also been a broad range of contributing delivery issues around stakeholder engagement, transparency, service design and cost management.

As outlined in our responses to the DCC's previous price control² and OPR consultation³, there are a number of issues created by a lack of clarity about responsibility for service change and the limited DCC capability to manage change. This has limited the robustness and transparency of prioritisation and planning to meet future consumer needs. This review should seek to better incentivise alignment of DCC service provision with user and end consumer needs.

We outline several broad categories of issues which are likely to have contributed to suboptimal outcomes for consumers. We do this to highlight a number of contributing factors to service development that regulation needs to address.

Specification, performance and change issues

The original definition of DCC service and key contracts appear to have had numerous issues. A prescriptive definition of service requirements may have reduced initial contract costs, but this has changed significantly over the years. This appears to have contributed to approximately a 5 year delay and costs that escalated from £1.2bn to nearly £3.8bn⁴. Along with the additional direct costs, the DCC delay contributed to supplier provision of 10 million more SMETS1 meters than anticipated. This created significant consumer detriment and further additional costs for DCC users and ultimately end consumers.

It appears the governance framework has struggled to deliver change that would address limitations in the initial scope of DCC activity. This is particularly problematic for a monopoly network with contracted service providers as competition is unavailable to improve efficiency. The anticipated mechanisms that the DCC could use to ensure its service contracts deliver efficient costs often appear to have been defined and/or used ineffectively.

The process to make change to DCC services has been particularly slow, piecemeal and without a clear long term assessment of how consumer long term needs can be met efficiently. BEIS has taken a centralised approach to managing change on some issues (for example, potentially using the DCC to support EV charging) and as such, they are not being considered openly and transparently alongside the other system requirements by the DCC's Smart Energy Code governance. We encourage there to be clear visibility of emerging DCC system requirements wherever possible, in order to provide a governance framework that considers long term service needs.

² Citizens Advice (2020) [DCC Price Control: Regulatory Year 2019/20](#)

³ Citizens Advice (2020) [Citizens Advice response to DCC Operational Performance Regime \(OPR\) Review](#)

⁴ Ofgem (2020) [DCC Price Control Decision Regulatory Year 2019/20](#)

There are a number of recent examples that demonstrate the DCC's specification issues, and how it has struggled to deliver change and to prioritise end consumer needs:

- **SECMP0007 Firmware updates to IHDs and PPMIDs** - it took over 4 years to agree the industry needs and acceptable costs, and this important service is still yet to be implemented. This delay increases supplier costs and worsens the end consumer experience of their PPMID/IHD through difficulties in accessing updates.
- **SECMP0062 and SECMP0067 North and Southbound traffic management:** These are short term urgent modifications raised by the DCC to ensure it would be able to cope with spikes in service traffic. These modifications suggest that there was not a strategy to effectively anticipate the network capacity requirement in collaboration with industry to best address key system requirements.
- **MP096 DNO Power Outage Alerts** - the DCC are obliged under the Smart Energy Code (SEC) to provide Power Outage Alerts (POA) to DNOs within 60 seconds after the initial three minutes of the outage. The DCC is currently unable to meet this SEC obligation and a compromise is being proposed by Distribution Network operators (DNOs) through the SEC to provide functionality closer to this original requirement. This is a failure for consumers on one of the key smart meter benefits. Consumers via industry will also have to pay for a system change to complete something that should have already been provided.
- **MP092 New Planned Maintenance methodology** - the DCC outage management has not been optimised to minimise delay to critical service requests such as prepay top ups. This shows a lack of focus on the end consumer experience.

What is needed:

- **A single assessment of what the energy system needs from the DCC** including policy, industry and consumer expectations and requirements
- **A co-created DCC business plan** - other energy networks need to get approval of their business plan by a customer engagement group⁵. A DCC licensee should be similarly obligated via a SEC group to gain approval for short and long term strategies to drive forward planning and coordinated industry action. We would also encourage a performance advisory board (PAB) within the SEC, similar to the Electricity System Operator (ESO) that provides an industry assessment of progress alongside performance assessments by Ofgem⁶.

⁵ Ofgem (2019) [RIIO-2 Enhanced Stakeholder Engagement Guidance – Version 2](#)

⁶ Ofgem (2020) [ESO Performance Panel End of Year Review 2019-20](#)

- **Net zero and consumer focused outcomes** - The DCC approach to system operation needs to be consistent with the rest of energy system operation and well integrated with wider industry code governance. The transition to net zero may benefit from more active use of consumer data to inform network efficiency, carbon reduction and innovation. Many of the ways DCC might be well positioned to deliver are outlined in its business plan⁷. The suitability of DCC to provide these services needs to be based on a transparent assessment of alternative models of energy system operation by a competent body with a whole system view of system operation. Also, further work can also be done to improve visibility of DCC processes across industry to protect the IHD functionality from changes in retail, balancing and settlement that is important to the consumer experience.
- **A more balanced approach to additional cost risks** - there needs to be a fairer balance of risk between consumer service, supplier costs that are passed on to consumers and the DCC. Setting out how to avoid situations where end consumers pay unnecessarily high costs or even pay twice for the same services.
- **Introduce a licence requirement for fairness and a condition to take all reasonable steps on maintaining an essential service** - network management that prioritises service requests is subjective as are decisions about the development of network competencies. Consumers should be protected by a responsibility for DCC decisions to be consistent with a principle of fairness - as is the case for regulated entities with enduring licences⁸. This should include a requirement to take all reasonable steps to protect essential energy service outcomes for consumers.

DCC contractor relationships and oversight

There has been poor execution of controls on DCC service providers. The change process in the DCC has been delayed by mixed performance of service providers in engagement with industry needs. Whether due to limitations of the controls available or through poor utilisation of the controls available.

Citizens Advice has highlighted issues that appear to relate to contract management challenges in previous responses⁹. These include:

- operational and firmware issues;
- service delays
- poor cost management

⁷ DCC (2020) [Business & Development Plan 2020/21 - 2024/25](#)

⁸ [Energy supplier license conditions](#) set out an obligation for fairness. While RII02 sets out [Fair Treatment Guidance](#) for gas distribution companies

⁹ Citizens Advice (2020) [DCC Price Control: Regulatory Year 2019/20](#)

- gaps in accountability and transparency

The structure of separate DCC contracts to avoid conflicts of interest or entrenchment places barriers between DCC and its service providers. This approach should be replaced by a more nuanced industry and regulatory check to the objectivity of key technology choices and judge whether the incentives align with positive user and end consumer outcomes.

What is needed post-2025:

- Incentives for the DCC to effectively procure services that will meet the requirements and approval of stakeholders, Ofgem and government
- Allow strategic agreements endorsed by stakeholders and the regulator that don't create prohibitive risk exposure and enable economic and efficient provision of services.

Regulatory accountability for strategic decisions

The way in which the DCC and major contracts were set up defined the parameters of activity, however, the ongoing delay of instituting a mechanism for efficient change is a regulatory issue. SECAS has made progress working with DCC and Ofgem to address issues with the change process.

It appears the transitional governance approach, in which the policy requirements of DCC have continually developed, has meant that regulation and change has focused on narrow and short term approaches to system change. We think this will be increasingly unsustainable as more substantive changes to systems are needed, such as for the Network Evolution programme. There are also numerous risk register challenges such as quantum computing that could require system change.

To address this post 2025 we encourage:

- **Reward based on deliverables** - What the DCC and service providers deliver should be the basis for funding. Return on investment should be strongly linked to delivery performance.
- **Incentives for strategic network investment** - As outlined above, an ex ante price control and business plan that has stakeholder approval will provide better accountability of DCC activity. It will encourage forecasting and predictability of costs over an increasingly stable service. As with other ex ante network price controls, uncertainty mechanisms and ex post adjustments can be added to address areas of uncertainty. By providing strategic incentives dependent on long term strategic asset performance it incentivises long term consumer value. By

separating strategic and uncertain costs it should decrease the costs of finance for certain or highly likely core costs.

- **Prioritise additional system capabilities that add value for the energy system** - To encourage innovation in energy services a roadmap of anticipated service needs will support the wider provision of energy services. Industry governance should work with BEIS and Ofgem to indicate what additional capabilities are likely to be necessary. The Strategic Working Group of the SEC Panel with BEIS and Ofgem is already progressing this work.

Examples of issues related to service transparency

It took a number of years for the DCC to develop a user interface for suppliers that provided adequate service visibility to suppliers. Initially supplier interfaces to the DCC needed significant development in approach due to an overly prescriptive approach taken previously (addressed by SECMP0058).

Meanwhile, consumers are not able to easily access information to understand and control how their data is being used or shared. There is also a lack of transparency to consumers about coverage of DCC networks, despite the existence of a 'coverage checker' for suppliers which could be made available.

Since its creation the DCC has argued for having zero consumer facing role and awareness of it among consumers is - by design - low. We think more can be done between the DCC and energy suppliers to ensure consumer messages about DCC service issues (or DCC data access issues) enable consumers to raise issues or concerns effectively and ensure they have a clear route for accountability when things go wrong.

As outlined by Delta EE on behalf of SEGB:

"Data access needs to be examined. Currently the options for accessing customer meter data are limited to becoming an energy supplier, partnering with a supplier or registering as another user with the DCC. All these options have costs and limitations. Broader and easier access to customer data would significantly improve the ability for data led offerings. It may also clarify the data being used by different parties, thus increasing transparency and ultimately improving customer trust. Given the success of MiData in banking, the dormant energy MiData workstream could be a solution, alongside implementation of the detailed recommendations provided by the Energy Data Taskforce"¹⁰

Citizens Advice and the DCC

¹⁰ Delta EE for SEGB (2020) [Smart future data and its uses](#)

Citizens Advice has worked with the DCC to develop the interoperability checker service for SMETS1 meters. Through the direction of BEIS on this project we are working to support the transparency of the DCC service.

For consumers to navigate the transition to net zero and for the energy industry to target support to consumers in vulnerable situations there needs to be much more proactive data openness to deliver better energy consumer outcomes. We want the DCC to facilitate the consumer journey by ensuring their data is protected but also works harder for them to deliver better energy service outcomes in the period 2025-2040.

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

Kind regards

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