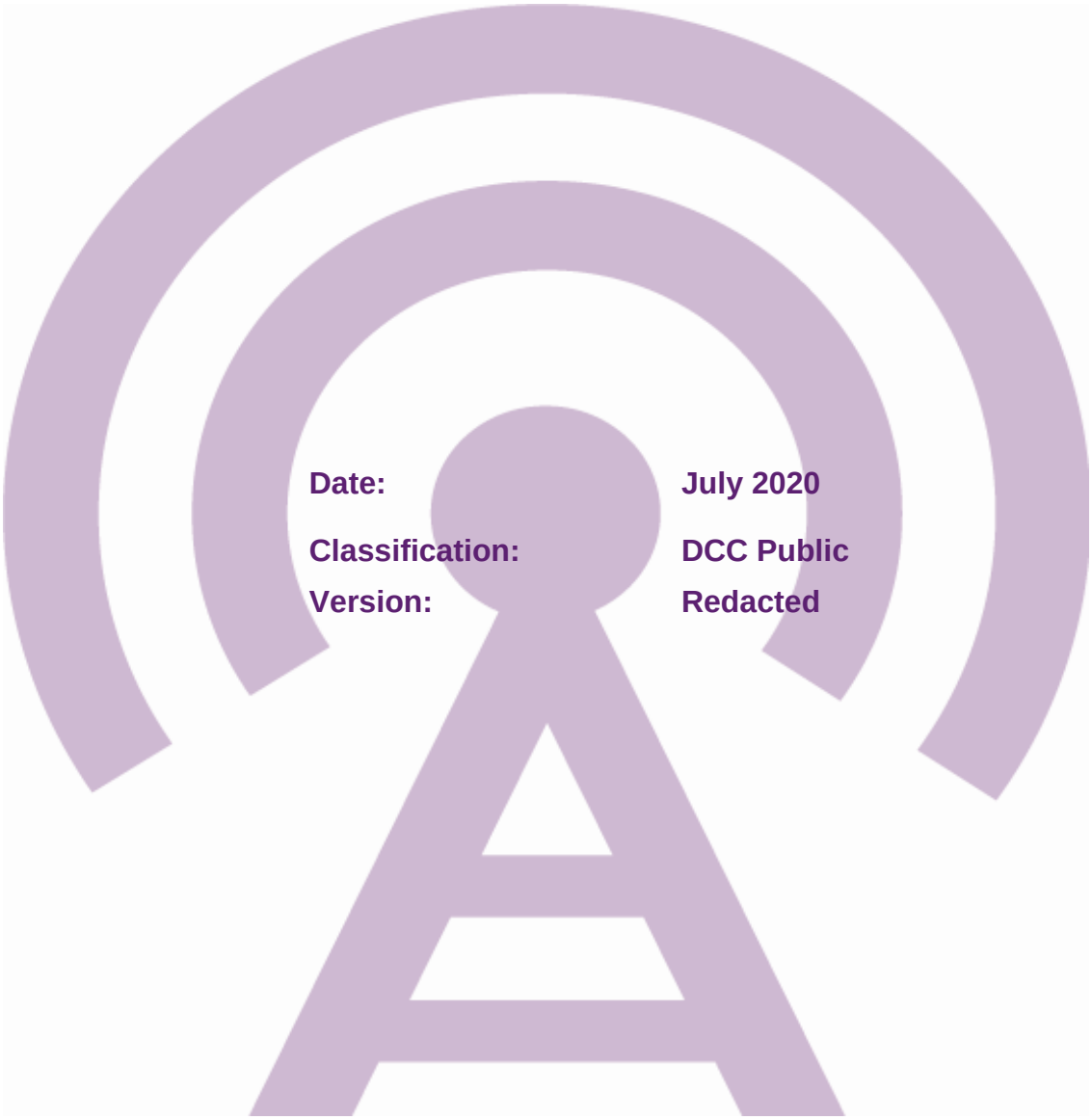
Data Communications Company

Performance

2019/20 Price Control supplementary document



Date: July 2020

Classification: DCC Public

Version: Redacted

Data Communications Company

Contents

1 Summary

As a monopoly, DCC is incentivised to ensure it manages its costs economically and efficiently whilst delivering an appropriate quality of service to its customers.

The primary incentive for DCC is the Operational Performance Regime (OPR). This is the second year in which DCC has been subject to this incentive scheme. A significant proportion of DCC's baseline margin is placed at risk and the amount retained is decided by our performance against this scheme.

There are five incentivised Quality of Service (QoS) Measures contained within OPR. These are made up of Service User Measures (SUM) and Service Delivery Measures (SDM) and are summarised in section 2.4. Ofgem has changed the RIGS template this year to include reporting on both SMETS1 and SMETS2, where they are both relevant to a measure.

There are also a further nine non-incentivised QoS Measures, which are reported upon within Annex 1 of the RIGs. These do not have margin at risk attached to them, rather they are used to understand how DCC is performing over time and may give an indication of how OPR may need to evolve in future years.

Table 1 below provides a summary of each measure, our reported performance against each and the total margin against each that we are applying to retain.

Table 1: Summary of OPR Incentivised Measures, Performance and Proposed Margin Retention

OPR Measure	Description	Target	Actual Performance	Proposed Margin Retention
SUM1	***DCC Service Desk:*** Percentage of severity 1-5 incidents DCC is responsible for resolving which are raised and met within the DCC target resolution time	90.04%	93.18%	FULL RETENTION
SUM2	***Communication hubs:*** Percentage delivered on time and of sufficient quality	99.0% (SUM2a) 99.9% (SUM2b) 99.9% (SUM2c)	100.0% (SUM2a) 100.0% (SUM2b) 100.0% (SUM2c)	FULL RETENTION (SUM2a) FULL RETENTION (SUM2b) FULL RETENTION (SUM2c)
SDM1	***WAN connectivity:*** Percentage of first-time connections at install	All milestones need to have been met (SDM1a) 88.38% (SDM1b)	Milestone B15 missed (SDM1a) Milestone B16 Met (SDM1a) 98.68% (SDM1b)	50% margin retention
SDM2	***Service requests:*** Percentage of Service responses delivered within the target response times	99.00%	98.78%	97.78% RETENTION
SDM3	***Service availability:*** Percentage of time that services do not have unscheduled downtime	99.73%	99.97%	FULL RETENTION

2 Operational Performance Regime RY2019/20

2.1 Background and Context

As a monopoly, DCC is incentivised, through its annual ex-post Price Control, to ensure it manages its costs economically and efficiently. To balance the pursuit of low costs, DCC is subject to performance incentivisation, to deliver a high-quality service to customers – the OPR.

The OPR requires DCC to place a significant proportion of its baseline margin at risk each regulatory year with the amount retained being decided by its performance against the measures defined in the scheme.

Although the scheme was envisaged in the original version of the licence, it was not applicable until DCC started providing an operational service to its customers. As a result, Ofgem consulted on the principles of the OPR in 2016 and its subsequent implementation in 2017.

Ofgem published a document on 4 September 2017[1] which provided the final definition of how the scheme would operate, including detailed information on the metrics, as well as the relative weightings that would apply to each. When taken together, this allows DCC to calculate the amount of its baseline margin which should be retained.

2.2 OPR and DCC's Licence

Licence Condition 31 of the DCC Licence, requires DCC to collect and provide Ofgem with evidence of its performance against the OPR so that it can make a determination on DCC's performance. As currently defined, OPR is closely aligned with the performance criteria defined in the Smart Energy Code (SEC) and so DCC is required to use existing SEC performance reporting measures to assess its performance.

DCC's performance under the OPR is reflected within the "Baseline Margin Operational Performance Adjustment (BMOPA)". This is part of the Baseline Margin Performance (BMP) term in DCC's Allowed Revenue Formula. The formula for calculating the BMOPA is contained within Licence Condition 38.8.

2.3 Purpose of this document

The purpose of this document is to report on DCC's performance under the OPR for RY19/20. It sets out the narrative that supports DCC's submission data in the OPR RIGs as well as a clear and transparent explanation of the methods that have been used to assure this information.

The RIGs Annex 1 and the accompanying guidance[2] for Annex 1 requests evidence to support the OPR submission. For convenience, these supporting documents have been embedded within this submission - see Appendix 1. This document therefore also provides the evidence to support our submission.

2.4 What are the OPR Metrics?

There are five OPR metrics which DCC is financially incentivised to perform against. These are categorised as a Service User Measure (SUM) or a Service Delivery Measure (SDM). The Service User Measures centre on DCC's interactions with its customers. The Service Delivery Measures cover the reliability and dependability of DCC systems and DCC's management of its Service Providers.

[1] https://www.ofgem.gov.uk/publications-and-updates/decision-dcc-s-operational-performance-regime
[2] https://www.ofgem.gov.uk/publications-and-updates/data-communications-company-dcc-regulatory-instructions-and-guidance-2019

DCC Service Desk (SUM1)
The DCC Service Desk provides a single point of contact for Users and Customers for live operational matters. It triages incoming incidents and aims to fix them at the first point of contact wherever possible. Incidents are classified on a scale of one to five, with Severity 1 and 2 incidents being the most serious, compared to Severity 3, 4 and 5 incidents. For the purposes of the OPR, DCC has a target for resolving these incidents which is measured by the time taken to adequately resolve the incident from the point at which they were first reported by a DCC customer.

Communication Hubs (SUM2)
Communications hubs are devices that connect smart meters to the DCC Wide Area Network (WAN). DCC procures and distributes these communications hubs to customers. Customers install them as part of the smart meter installation. When they are installed and successfully connect the meter to the network, the meter is 'commissioned', and consumers can begin to enjoy the benefits of smart meters. For the purposes of the OPR, DCC is incentivised to ensure that these communication hubs are delivered on time and are of an appropriate quality. This is measured through the percentage of communication hubs that are: delivered on time, rejected on delivery or are faulty at installation.

Wireless Area Network (WAN) Coverage (SDM1)
For SMETS2 meters to communicate successfully with the wider DCC network, there must be an appropriate level of WAN coverage within all regions to ensure customers can access the benefits of smart metering. For the purposes of the OPR, DCC is incentivised to manage its communication service providers (CSPs) to ensure that coverage levels are achieved in time to support the roll out of smart meters. This is measured as the percentage coverage of all postcodes within the North, Central and South regions. DCC performance is also measured by the percentage of successful first-time connections to the DCC network on installation of a new SMETS2 meter.

Core Service Requests (SDM2)
DCC Users communicate with the DCC via the DCC User Interface Specification (DUIS). DUIS allows Users to send and receive messages from smart metering systems and the DCC service. These messages, also called service requests, are categorised according to how sensitive the request is. Messages that Users receive from smart meters or DCC are called service responses. Some Users, such as suppliers and network operators, can also expect to receive alerts. An alert is a message sent to Users to provide additional information relating to either meter processing or DCC service processing. For the purposes of the OPR, DCC is incentivised to ensure that such communications are reliable and that Users and ultimately consumers receive an efficient service. This is measured by the percentage of service responses delivered within the applicable Target Response Times (TRTs).

Service / System Availability (SDM3)
DCC provides a number of key services and systems to Users to ensure the smooth functioning of its Smart Metering network. These include the Data Service, User Gateway, Service Management System, and Self-Service Interface (SSI). For the purposes of the OPR, DCC is incentivised to ensure that these systems are reliable for Users and therefore its customers. This is measured by the percentage of time that these services do not have unscheduled downtime.

2.5 Review of OPR

In its October 2019 *DCC Price Control: Regulatory Year 18/19* consultation document[3], Ofgem noted it would review the OPR regime because it may not be providing the best incentives to DCC. We agree that the regime has not kept pace with the development of the services that are important to our customers.

In its decision[4] on the RY18/19 price control, Ofgem disallowed the full margin associated with DCC's performance on SDM1. We provided evidence to show that despite the coverage milestone being missed, very

[3] Please see: https://www.ofgem.gov.uk/system/files/docs/2019/10/dcc_price_control_consultation_-_regulatory_year_2018-19.pdf
[4] Please see: https://www.ofgem.gov.uk/system/files/docs/2020/02/2020.01_price_control_decision_document_ry1819_0.pdf

few installations were prevented from going ahead, but we were not able to convince Ofgem that the disallowance was disproportionate.

In this year's submission, we are providing further evidence to explain the impacts of our performance on our customers so that it may be considered by Ofgem in its decision-making. We would request that Ofgem continues to bear in mind the issues with OPR when assessing our 19/20 performance, given it has recognised that changes are needed, and at times the incentives conflict with providing the best service to our customers.

We welcome Ofgem's review of OPR, but note that without retrospective changes, we will be subject to the current measures not just for RY19/20, but also RY20/21. Given the flaws in OPR will continue to cause us issues the longer it remains unamended, we ask Ofgem to look favourably on the evidence we are providing to support our requests for margin retention.

3 Tools and Processes

3.1 How we populate the QoS RIGS

DCC maintains a dedicated model for monitoring progress against the OPR. This model has been designed to meet the reporting requirements outlined in Ofgem's OPR decision document. It also ensures that DCC is actively monitoring its performance throughout the year and responding urgently to any decline in performance.

The data from this model has been used to populate the RIGs. A copy of the model can be provided on request.

This year, Ofgem made a number of changes to the Quality of Service RIGS. The principal effect is that a number of the measures reported in this section are now weighted according to the number of SMETS1 and SMETS2 meters enrolled.

3.2 Quality assurance

Each OPR metric has a dedicated senior owner within DCC who is responsible for ensuring the information provided within the RIGs is correct. An Operational Performance Manager, together with a member of the Price Control team, has reviewed and quality assured the information to ensure it is consistent with the information provided to DCC's Executive Committee over RY19/20.

Additionally, members of DCC's ExCo continue to review the model outputs through a regular review of performance on a monthly basis.

Finally, DCC's process for reporting and calculating performance against the OPR metrics has been externally audited by [REDACTED] and found to be accurate and fit for purpose.

3.3 Issue identified in the QoS RIGS

In the course of populating the RIGS, we have identified one minor issue for Ofgem to be aware of:

- Tab *v. Incentive Calculations*
  - Cells D13 and V13 require BM_t from row 18 of sheet 6 of the Main RIGS reporting template to be used. Row 18 is not BM_t, it is BM_t minus margin at risk on Release 2.0 and SMETS1. The row reference is correct, and we have used the core margin numbers, but the term is not BM_t.

4 Performance against the OPR metrics

In the following sections DCC outlines its performance against each of the incentivised OPR measures, as well as the margin it is proposing should be retained in light of that reported performance. Each measure includes a narrative describing performance, as well as any key arguments Ofgem may want to consider in making its assessment.

References are also provided as to how DCC is required to calculate and report performance against each measure - the "Reporting Obligations". These are made up of a combination of SEC Code Performance Measures and other measures defined in DCC's Performance Measurement Methodology (PMM).

4.1 Service User Measure 1: DCC Service Desk

Purpose of OPR Measure: DCC is incentivised to provide a high-quality service to Users through the resolution of incidents in a timely and efficient manner.

OPR performance measure methodology: Percentage of incidents at each severity level (1-5) which were resolved within the DCC Target Resolution Time over the regulatory year, calculated as specified in the amended DCC RIGs.

Reporting Obligations: Combined SEC Code Performance Measure 4 and 5.

SUM1 – DCC Service Desk		
The percentage of severity level 1-5 incidents, which DCC is responsible for resolving, that are resolved in accordance with the Incident Management Policy and within Target Resolution Time.		
Minimum	**Target**	**Actual**
80.02%	90.04%	**93.18**
RIGS reference: Column N in tab: *vi. SUM1*		
Evidence Provided to Ofgem: DCC High Priority Incident Review Tracker[5] shows the number of incidents which DCC was responsible for resolving.		
DCC Self-Assessment: DCC requests full margin associated with this metric.		

Explanation: DCC has performed above target for this OPR measure in RY2019/20.
In total there were 54 High Priority Incidents in RY2019/20 of which 9 were severity 1 (SEV1) incidents and 45 severity 2 (SEV2) incidents.

There was a total of 13,822 non-High Priority Incidents (SEV3, SEV4, SEV5).

4.2 Service User Measure 2: Communication Hubs

Purpose of OPR Measure: DCC is incentivised to ensure Communication Hubs are delivered on time and that the comms hubs delivered are of a high quality.

OPR performance measure methodology: Percentage of Communications Hubs delivered on time, as specified in the amended DCC Regulatory Instructions and Guidance.

[5] Ref. 3 - *DCC High Priority Incident Review Spreadsheet*

Reporting Obligations:

- *Reporting Obligations for SUM2a:* Reported List of Service Provider Performance Measures Schedule 11 PM 1.1
- *Reporting Obligations for SUM2b:* Reported List of Service Provider Performance Measures Schedule 11 1.2
- *Reporting Obligations for SUM2c:* Reported List of Service Provider Performance Measures Schedule 11 PM 1.3

SUM2a Communication Hubs (Delivery)		
Percentage of Communications Hubs delivered on time		
Minimum	**Target**	**Actual**
95.00%	99.00%	**100%**
RIGS reference: Column N, tab *vii. SUM2a*		
Evidence Provided to Ofgem N/A		
DCC Self-Assessment DCC requests full margin associated with this metric		

SUM2b Communication Hubs (Quality)		
Percentage of Communications Hubs accepted by DCC service users		
Minimum	**Target**	**Actual**
99.00%	99.90%	**100%**
RIGS reference: Column N, tab *viii. SUM2b*		
Evidence Provided to Ofgem N/A		
DCC Self-Assessment DCC requests full margin associated with this metric		

SUM2c Communication Hubs (Quality)		
Percentage of Communications Hubs not faulty at installation		
Minimum	**Target**	**Actual**
99.50%	99.90%	**100%**
RIGS reference: Column N, tab *ix. SUM2c*		
Evidence Provided to Ofgem N/A		
DCC Self-Assessment DCC requests full margin associated with this metric		

Explanation: At the time of submission, no customers have reported issues with communications hubs delivery, acceptance and installation that are relevant to the calculation of the above metrics. DCC therefore report having achieved 100% performance.

4.3 Service Delivery Measure 1: Wide Area Network (WAN) Coverage

Purpose of OPR Measure: DCC is incentivised to achieve the agreed levels of WAN coverage, that coverage information is accurate, and communications are reliable.

OPR performance measure methodology: DCC must ensure that the contractual coverage commitments in its Communications Service Provider (CSP) contracts are met and specifically that all milestone dates are met within the relevant regulatory year as specified in the amended DCC Regulatory Instructions and Guidance.

Reporting obligations:

- *Reporting Obligations for SDM1a:* Included in CSP contracts, as reported annually by DCC in the Statement of Service Exemptions
- *Reporting Obligations for SDM1b:* Schedule 2.2 Performance Measure (PM) 1.1 of Reported List of Service Provider Performance Measures

SDM1a Wireless Area Network (Coverage)		
DCC ensures that contractual coverage commitments in CSP contracts are met (i.e. all Milestone Dates in the regulatory year must have been met)		
Minimum	**Target**	**Actual**
All milestones need to have been met	All milestones need to have been met	B15 Missed B16 Met
RIGS reference: Column N, tab x. *SDM1*		
Evidence Provided to Ofgem Impact of B15 Milestone Miss in CSPN - slide pack		
DCC Self-Assessment DCC requests 0% margin retention associated with SDM1a, but 100% retention for SDM1b, therefore 50% margin retention in aggregate across incentivised measure SDM1		

Explanation: CSP North missed a single coverage milestone (B15) in June 2019 but went on to meet the milestone in December 2019 and met the B16 milestone in January 2020.

CSP North has provided details of the post codes that did not have coverage between June 2019 and December 2019 but would have done had milestone B15 been met. This is included in the Impact of B15 Milestone Miss in CSPN document which is included in Annex 1. The document cites a total of circa 391 postcodes, equating to circa 8,386 delivery points (premises) without coverage, all in rural and remote areas.

Therefore, it is highly unlikely that the absence of WAN coverage at these delivery points would have had any impact on the numbers of SMETS2 meters being installed, and therefore had negligible impact on customers or end consumers.

The design of this OPR measure is such that missing a single milestone results in DCC retaining zero margin across the entire SDM1 incentivised measure. Ofgem's May 2020 consultation on revisions to the OPR regime would remove this defect. We observe that Ofgem therefore does not support this feature of the current OPR regime where all margin associated with SDM1 is lost for failing to hit either SDM1a or SDM1b.

DCC has managed its CSPs to deliver **all** milestones in the Central and South regions as well as ensuring that milestone B15 was met in the North region before the end of the calendar year, and with negligible impact on the roll out of SMETS2 meters. Because of this, subsequently meeting B16 on time, and in light of the fact that Ofgem is consulting on removing this feature of the measure, DCC believes it would be disproportionate for Ofgem to disallow all margin against this measure.

We have populated Annex 1 of the RIGS as per Ofgem's requirements, with one exception to reflect that we are requesting Ofgem considers our proposal to recognise the missed milestone in CSP North, but to allow us to retain all margin associated with SDM1b. The net effect being we retain 50% of the margin at risk under SDM1. This would also be similar to Ofgem's May 2020 OPR consultation proposals around removing 50% of margin for the WAN coverage measure if one region performs poorly. We have overwritten the formula in cell N23 in sheet *i. Summary* to reflect this, which then feeds through into the BMOPA number in cell N13. The former is highlighted in yellow with a red font colour. This then feeds through into the Main RIGS template where the BMOPA numbers are repeated. We have made no other changes in Annex 1 to reflect our proposal, so it would be easy for Ofgem to change what we have done.

SDM1b Wireless Area Network (Reliability)		
Percentage of first time SMWAN connectivity at install		
Minimum	**Target**	**Actual**
78.38%	88.38%	**98.68%**
RIGS reference: Column N, tab *x. SDM1*		
Evidence Provided to Ofgem: N/A		
DCC Self-Assessment: See DCC Self-Assessment for SDM1a		

Explanation: A performance achievement of 98.68% shows the reliability of the network coverage to be extremely high and significantly over and above the target of 88.38%. Were Ofgem to disallow the full amount of margin associated with SDM1, this level of performance would not be recognised, nor incentivised.

4.4 Service Delivery Measure 2: Core Service Requests

Purpose of OPR Measure*:* DCC is incentivised to ensure that communications are reliable, and that Users receive an efficient service.

OPR performance measure methodology*:* Percentage of service responses delivered within the applicable Target Response Time, as specified in the amended DCC Regulatory Instructions and Guidance.

Reporting Obligations *for SDM2:* Combined SEC CPM 1, 2 and 3

SDM2 Core Service Requests		
Percentage of service responses delivered within the applicable Target Response Time		
Minimum	**Target**	**Actual**
96.00%	99.00%	**98.78%**
RIGS reference: Column N, tab x*i. SDM2*		
Evidence Provided to Ofgem: N/A		
DCC Self-Assessment: DCC requests 97.78% retention of the margin associated with this metric, as per the calculation in the RIGS		

Explanation: Some transactions have been affected due to installed meters being above the Radio Frequency Interference (RFI) tolerance levels. Performance were variable during the reporting year, resulting in us missing the target by 0.22%.

4.5 Service Delivery Measure 3: Service / System Availability

Purpose of OPR Measure: DCC is incentivised to ensure that systems and services are reliable for Users.

OPR performance measure methodology*:* Percentage availability of: Data Service; User Gateway; Service Management System; and Self-Service Interface, as specified in the amended DCC Regulatory Instructions and Guidance.

Reporting Obligations for SDM3: Reported List of Service Provider Performance Measures Schedule 2.2 PM 2.1 -2.4

SDM3 Service / System Availability		
Percentage availability of: - Data Service-User Gateway - Service Management System - Self Service Interface		
Minimum	**Target**	**Actual**
98.50%	99.73%	**99.97%**
RIGS reference: Column N, tab *xiii. SDM3*		
Evidence Provided to Ofgem: N/A		
DCC Self-Assessment: DCC requests full margin associated with this metric.		

Explanation: Target performance level was exceeded.

Appendix A – Supporting documents and analysis for the OPR submission RY2019/20

Ref #	Document	Description	Link to OPR metric(s)
1	*Annex 1 RIGS Reporting Template – Quality of Service (sent separately)*	A reporting tool which calculates DCC's OPR performance based on input data. This is an Ofgem requirement.	All metrics
2	*DCC High Priority Incident Review Spreadsheet* [REDACTED]	A spreadsheet which lists the total SEV1 and SEV2 incidents that occurred in RY2019/20, as well as those excluded as reported in the RIGs.	SUM1
3	*Ofgem email* [REDACTED]	Confirmation of how DCC should report performance levels.	All metrics
4	*SDM1 – Impact of B15 Milestone Miss in CSPN slide pack* *[REDACTED]*	Description of the reasons for the missed SDM1a milestone, and the impacts it had on customers	SDM1

1 Release 2.0

In October 2018, DCC delivered a major update to our systems - Release 2.0. This paved the way for Dual Band Communications Hubs, which will provide a greater Home Area Network (HAN) coverage than Single Band Communications Hubs.

Release 2.0 has three main components:

1. A new release of core code including Data Service Provider (DSP) code and Parse & Correlate which provides the facility for customers to make use of the new DCC User Interface Specification (DUIS) 2.0 interface and Great Britain Companion Specification (GBCS) 2.0 specification

2. New Single Band Communications Hub (SBCH) firmware which complies with new GBCS 2.0 specifications and will work on existing Communications Hub hardware. This is designed to be both backwardly compatible with existing SMETS2v2 devices and to work with new, GBCS 2.0 capable, SMETS2v3 devices.

3. New Dual Band Communications Hub (DBCH) hardware and firmware which will provide a bigger radio footprint in homes. This is required where homes have particularly thick walls or where the Gas Meter or In-Home Display device is particularly remote from the Communications Hub. These hubs also support the new GBCS 2.0 specification but differ from existing hubs in that they operate in two radio frequency bands instead of one.

DCC has been delivering against the LC13 plan agreed in October 2017 for the implementation of Release 2.0. On 28 October 2018, DCC made the core R2.0 code live and made SBCH firmware for all Communications Hub manufacturers in North and Central and South Regions available to users in the UIT-A environment. Putting the R2.0 code live was the first step in customers making use of the new functionality. However, the new DUIS 2.0 functionality can only be used once the R2.0 Communications Hub firmware has been deployed (either to existing Communications Hubs or by deploying new DBCH devices) and meters/devices have been uplifted to be SMETS2v3 compliant. It was always envisaged that this would happen gradually after the core code go-live as customers become ready to adopt new R2.0 capabilities.

In delivering this plan, a number of issues have emerged which will impact when DCC can provide all elements of the original LC13 plan. DCC delivered GBCS 2.0 compliant SBCH for the Central and South (CSP C&S) Region on 30 August 2019. However, SBCH for the North (CSP North) are not yet compliant with GBCS 2.0. In addition, there have been delays in the delivery dates for DBCH caused by a lack of sub-GHz meters, issues associated with Communications Hubs firmware and critical Zigbee chipset stability issues.

It has been recognised that the Release 2.0 plan that was agreed in October 2017 is now out of date and does not reflect the currently planned deliverables and milestones for the elements of Release 2.0 that remain outstanding. On 30 June 2020, BEIS issued a direction under Condition 13 of the DCC licence for the DCC to produce a new plan to replace those elements of the existing plan relating to outstanding Release 2.0 content.

In July 2020, DCC consulted on a new plan that sets out when the outstanding elements of Service Release 2.0 will be met. This includes:

- The bulk availability for ordering of updated Single Band Communications Hubs in CSP North.
- The bulk availability for ordering of Dual Band Communications Hubs in each of the CSP Regions.

On the assumption that the revised LC13 plan is agreed, the following Release 2.0 programme milestones will be changed:

- First batch of production DBCH available for CSP North – proposed as 24 August 2020
- Full production of DBCH available for CSP North – proposed as 16 November 2020
- Full production of DBCH available for CSP Central and South – proposed as 26 November 2020

The above programme milestones were subject to incentivisation under the Baseline Margin Project Performance Adjustment Scheme for Release 2.0. These milestones are defined as 3A, 4A and 4B as per the order in the bullets above. Because these were not met in RY18/19 and were not subsequently met within the taper period for the incentive scheme, the full amount of margin associated with milestone 3A was removed by Ofgem in the price control decision for RY18/19. This year, we are also submitting Project Activity Performance Factors (PAPFs) for milestone 4A and 4B of 1, meaning we will again lose the full margin associated with these missed milestones.

However, BEIS is now in the process of consulting on making amendments to the BMPPA for Release 2.06. Should it proceed with these amendments, we would apply to Ofgem for the relevant margin we have historically lost to be returned and subsequently put at risk again based on the new features of the scheme. We believe the appropriate place to make this application will be in the price control submission in the relevant reporting year, which we expect will be RY20/21.

[6] BEIS consultation on the proposed update of the BMPPA scheme relating to delivery of Release 2.0 (including dual band Communications Hubs) by the DCC

1 DCC Position on Margin retained against Delivery Milestone 1 – Switching Programme

1.1 Introduction

The Price Control submission for RY 2019/20 includes a proposed retention of 80% of the margin associated with Delivery Milestone (DM) 1 under the Design, Build and Test (DBT) phase of the Switching Programme. This annex explains the DCC rationale for that level of retention. Whilst DCC considers that it is liable for a 20% loss of associated margin relating to DM1, this annex seeks to explain the full causes of missing the milestone including those issues that were outside of DCC's control. We have populated the relevant cells in the RIGS annex to apportion 20% of the delay to DCC within the taper period.

Outside of this explanation, we believe a simpler process would be for DCC to raise a retrospective Change Request to amend the date of DM1 to reflect the amended Programme timelines. This would acknowledge that the approach taken contemporarily was to benefit the Switching Programme, rather than simply a failure to meet a milestone. We would welcome the opportunity to discuss this approach.

1.2 Summary of DCC's proposed approach to DM1 Margin Retention

This annex presents information on the late definition of the delivery milestone, misaligned expectations and 12 weeks of delay caused by Programme decisions that impacted upon DCC's ability to deliver the milestone. Key points to note:

- Decisions taken by Ofgem and Programme governance requirements at the end of the previous phase delayed DCC's early activity in DBT. DCC and its service providers sought to recover the time based on the high-level understanding of DM1 at that point.
- On realising the changing position on DM1, DCC, under the Switching Programme's explicit 'fix first' ethos, was encouraged to wait until the Price Control process to formalise the position on this milestone.
- Clarity from Ofgem on the full expectation of DM1 was provided too late in the process for DCC to achieve the milestone. The expectation moved from one deliverable to several and additional rounds of consultation were then required. Whilst the consultation may indeed have been beneficial for the Programme overall, this generated additional issues to resolve late in the sequence of consultations, resulting in further delays.
- DCC accept some quality concerns raised during the periods in question and the delays caused by these quality concerns have been aggregated in the proposed margin loss.

2 Background and timings

DM1 was initially defined as giving certainty to industry to commence their design, build and test activities and included one deliverable. Additional programme activities were later added to the milestone description, some of which were defined after the deliverable was due. This meant that DCC could not have met the full deliverable on the defined due date.

Ofgem consultation and confirmation of DM1

The Framework for DCC's Performance on DBT was directed following Ofgem's consultation with industry. The consultation defined DM1 as follows:

> *"1) DBT Readiness: this milestone gives certainty to the industry parties to commence their design, build and testing activities through publishing the external CSS interfaces design."*

Appendix 3 of the consultation stated:

> *"DBT Readiness - At this point the SI Provider will have worked with the CSS and existing service providers and finalised the DBT plan as well as published the interface specification for CSS components as well as proposed updates to the CSS and E2E Delivery Products to align with the revised Core Systems and Services Integration Approach and Plan. This milestone gives certainty to the industry parties to commence their DBT activities."*

The deliverable was given as *"External CSS Interfaces Published."*

This approach was confirmed via a letter7 on 3 May 2019. DM1 was given as "DBT Readiness at the end of July 2019."

A distinction should be drawn between Programme Milestones and the incentivised Delivery Milestones set for DCC, there is a risk they are conflated. The title given to DM1 is DBT Readiness; the definition in Ofgem's consultation document is shown above. This definition includes one stated deliverable, the Interface Specification for CSS Component. This was published on 28 June 2019 and represented the sole item that industry had stated was required for them to be ready to commence DBT activities.

The contracting of the Central Switching Service (CSS) provider (During Enactment, the phase before DBT and subject to a separate performance regime)

The early work of the CSS provider was key to achieving DM1. The CSS provider would define interfaces – "*External CSS Interfaces Published"* was viewed as the key deliverable.

The contract signature for the CSS was originally planned for 2 April 2019. The CSS contract was not signed with [REDACTED] until 10 May 2019, six weeks later than scheduled in the overall DBT Programme Plan. The reasons for this delay are set out later in this Annex.

DBT start and early DBT plan

The Switching Programme formally entered the DBT phase after confirmation at an Ofgem Delivery Group meeting on 14 May 2019.

At this point, the Programme was working to a Plan on a Page that also indicated when industry and stakeholder consultations related to DMs were scheduled to occur. In retrospect, seeking a change to the formal plan should have been requested at the point that the expectations were changed, but it had been impressed upon DCC to 'fix first'.

Ofgem and the Programme Coordinator expectations

Ofgem contracted [REDACTED] as Programme Coordinator (PC) later than planned and some key documents that would have informed DCC's understanding of Ofgem's requirements were only issued when the PC had mobilised. One key deliverable (D-8.2 – Governance and Assurance Framework) was not provided, despite having first been requested towards the end of 2018. This deliverable was later rolled into a revised Milestone Assumptions and Dependency (MAD) Log.

Ofgem first issued the Milestone Assumptions and Dependency Log in September 2018; a further draft was issued in May 2019 after consideration by [REDACTED] and confirmed the Programme's expectations, including the timings around consulting industry on DM1 outputs.

Ofgem's PMO sent an email to the Ofgem Delivery Group on 5 June 2019 stating that Ofgem, DCC, [REDACTED] and the PC would undertake a re-plan of the industry consultation phase to ensure sufficient time to consult with licensed parties in the lead up to the L1-05 milestone (how DM1 is designated in

[7] https://www.ofgem.gov.uk/system/files/docs/2019/05/decision_on_margin_and_incentives_for_dccs_role_in_the_dbt_phase_-_clean_1.pdf

Ofgem's Programme plan) and that participants could expect an approximately 3-4 week delay for this milestone. This message was received as a Programme Decision and was not agreed with DCC in advance.

Product descriptions had been used in the Enactment phase and had been generally initiated by Ofgem with DCC input. The Product Description for DM1, including the composition and expected consultation approach, was not agreed until after the date for DM1 had passed. DCC prompted Ofgem on 6 June 2019 for this missing document and received v0.3 following discussions on 28 June 2019.

DM1 was called DBT Readiness and linked to Programme milestone L1-06, 'Programme Parties Mobilised'. The deliverable was no longer solely concerning DCC and its service providers being ready for DBT, which commenced in May 2019, but now incorporated the information being ready for Programme Parties to enter into DBT. The original single artefact - Interface Specifications - were available on 28 June 2019. The milestone date was set as 31 July 2019; however, the milestone description was not agreed until after 19 August 2019 (see attached version 1.1, p10). The milestone was then to be assessed at the Delivery Group on 27 August 2019.

Ofgem accepted that it was responsible for the delay to agreeing the milestone description and the discussions that were held that are referred to in this annex.

[REDACTED]

A subsequent decision was made to move the milestone assessment to 3 October 2019 (the delivery milestone was achieved by this date). This timing reflected:

- The volume of comments received from industry suggested concern with some documentation and a key document (The Core Systems and Services Integration Approach or CSSIA) had been circulated in parts for comment and needed to be circulated again as a whole for a further industry consultation cycle. DCC recognised some of the quality concerns were valid and should be addressed by its service provider in subsequent drafts.
- The Programme took a decision to schedule consultation during August, when multiple parties were not available owing to summer holidays, which prevented the intended involvement of industry through governance.

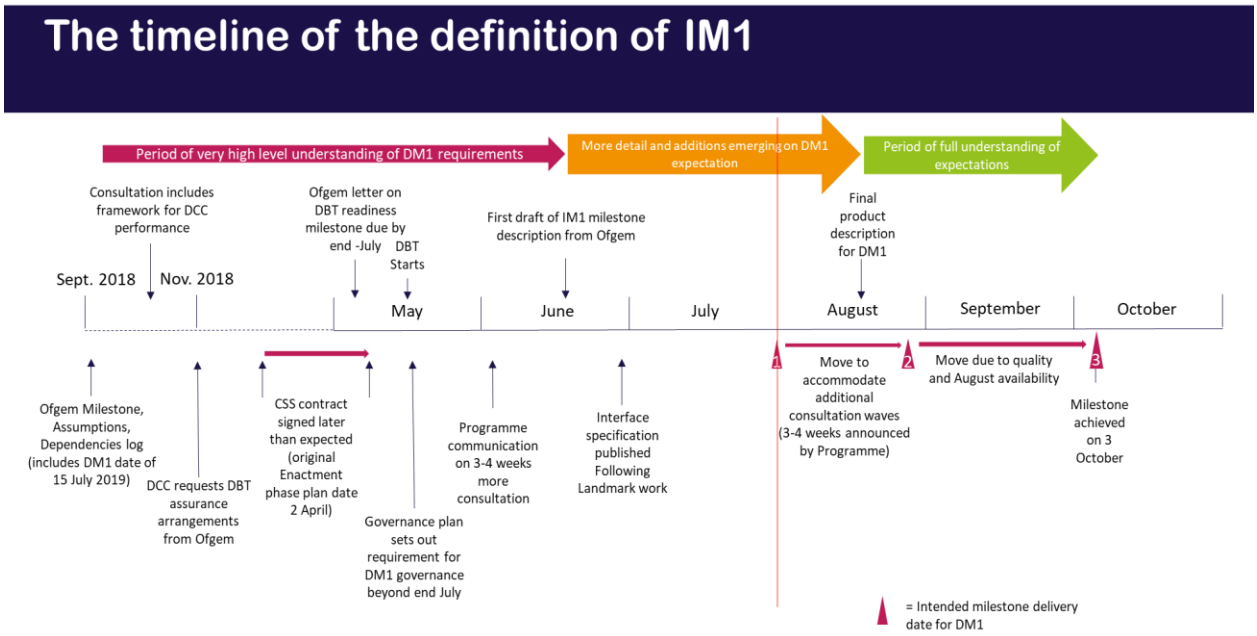
The change in date was made in August. At the first August Delivery Group it was reported that:

> *"Programme status at Amber/Red for this reporting period. Contained within the pack is an update as to the key deliverables tracking towards L104/05/06.*
> *Our starting position on the delivery to the Programme Plan, is that the protection of L1 milestones is a means of ensuring that the best outcomes for Programme Participants are protected.*
>
> *However, we recognise that an equally important aspect of delivery is ensuring that quality is met, that products are stable, sufficiently discussed with programme participants and assured. As such, if achievement of these aspects within the set timeframes is not viable, then Ofgem will make decisions that are in the best interest of the objectives of the Programme.*
>
> *On the basis of the detail contained within the slides below, Ofgem would like to discuss how best to mitigate risks and manage impacts to Programme Participants, and what this might mean with respect to the L104/05/06 milestones."*

3 Causes of delay to completion of activities for DM1

The governance that represented sign-off of the DM expectations in the Product Description as 'Programme parties mobilised' took place on 3 October 2019. This is nine weeks after the baseline end of July 2019 date and clearly beyond the four weeks during which margin could be retained under the standard margin loss curve. A subsequent assurance by [REDACTED] simply confirmed the DM had not been achieved on the originally intended date. The Programme milestone date had been moved but the DM date had not and therefore DCC was considered to have missed the deadline.

The following sections set out the key delays that contributed to DCC missing the milestone and what was and was not within DCC's control. A summary of the timeline is in the figure below.



The delay in contracting [REDACTED]

The contracting of [REDACTED] as CSS provider came at the end of the previous Enactment phase and under a different performance regime. It was not an incentivised milestone in that phase. It was delayed by six weeks for two reasons:

- The change in the positioning of who was the preferred bidder and subsequent checking of their ([REDACTED]'s) solution and adaptability as requested by Ofgem.
- Ofgem requested additional scrutiny above DCC's procurement process, to ensure that the Licence that [REDACTED] intended to put in place with Ordnance Survey (OS) after agreeing their contract with DCC met the Programme governance requirements. The scrutiny did not change the Licence [REDACTED] had proposed but confirmed it.

DCC could have sought a re-baselining of the plan to accommodate this delay but recognised the emphasis Ofgem placed on 'fix first' and looked rather to accelerate [REDACTED]'s work.

The change in preferred bidder was a decision reached to achieve the best outcome and after growing concerns with responses to negotiation with the previous preferred bidder (these included but went further than the OS Licencing). This concern during negotiation is a risk inherent in any commercial activity and the basis for changing preferred bidder was fully communicated through and agreed by Programme governance. Whilst we could have proceeded with the previous preferred bidder, DCC acted to improve the overall result.

When we agreed [REDACTED] were to be taken forward to contract, the greater scrutiny of [REDACTED]'s intended Licence arrangement with Ordnance Survey was not something DCC would have done without the need to meet Ofgem's governance and assurance requirements. It is not an approach DCC Commercial believed was necessary before contract signature. DCC's lesson learnt analysis after this procurement confirmed this commercial position. The scrutiny did not change the OS Licence approach but provided reassurance to Ofgem.

This delay was outside our control and cost 6 weeks to the start of the CSS Provider contract. It was not reflected in the plan and the expected delivery date for DM1.

To ensure transparent governance, at the Programme Board on 18 April 2019 DCC presented a timeline for contract signature with either CSS bidder and there was a recommendation/decision, as follows:

> *"The team is recommending that the Programme Board advise DCC that they can proceed with contracting with the successful bidder"*

Then from the minutes of a further Programme Board meeting on 26 April 2019:

> *"[REDACTED] provided an update. [REDACTED] and [REDACTED] presented to the DCC Board on 25 April 2019. The Board was supportive, agreed that due diligence had been followed and that minimal legal risk was present in the procurement/contracting approach being undertaken. [REDACTED confirmed that a partial rescore (of the Preferred and Reserve bidders) is being undertaken as a result of DCC Legal advice. This will be completed on Monday (29 April 2019). [REDACTED] confirmed the rescoring will be limited to areas where additional information has been received during the contracting discussions. Evaluation will be by the same people who originally provided scoring and the moderation will take place on Monday. [REDACTED] confirmed that the 'break clauses' (Action PB44-A09) are in the contracts and accepted by the bidders. Both the preferred and the reserve bidder are on track to be in a position start the signing process of a contract by 3 May 2019."*

At the Delivery Group meeting on 14 May 2019 a near term milestone re-plan was presented by DCC and [REDACTED] following the signature of the contract with [REDACTED]. The proposal was based on quick mobilisation of [REDACTED]. The plan included six weeks' consultation on the Physical Interface Design Specification, the External Interfaces Design and the CSSIP and nine weeks' consultation on the CSSIA, see slides 30 to 38 in the attached Delivery Group papers, and was consistent with achieving the DM1 milestone date of 31st July 2019.

[REDACTED]

This near-term re-plan was subsequently contradicted by the Milestones Assumptions and Dependencies (MAD) log expectations.

The delay in understanding expectations

There were a number of challenges arising from Ofgem's coordination and communication of what was expected for this DM. It is difficult to precisely identify all of the time and quality impacts of DCC not knowing exactly what was expected so the points below focus on the assumptions DCC worked to and the ability to accommodate changes to those within a timeframe.

- The Product Description for the DM was not agreed until after the DM date at the end of July 2019. This limited our ability to manage delivery to full expectations in terms of both content and process. The approach to the previous phase – Enactment – had seen Ofgem setting the terms for product descriptions and DCC adding detail. It was less clear under DBT that the same 'artefact' based approach would be taken with delivery milestones but as the expectation became more complicated DCC prompted the Product Description.
- In May 2019, the PC created a draft Governance Plan. It introduced the requirement for additional consultation on the different parts of the CSSIA. The Governance Plan was presented to the Implementation Group on 13 August 2019. Within the Governance Plan, the Programme plan was being re-engineered with a final version being made available for the Delivery Group meeting on 6 August 2019. The Delivery Milestones were not amended in accordance with the re-baselined Programme Plan.
- 31 May 2019 – Ofgem announced to the Delivery Group that further consultation would be required resulting in the movement of the L1-06 milestone by three to four weeks, see p4 of the attached Delivery Group papers. This movement was presented as being the result of workshops with Existing Service Providers (ESP) being included in the plan in June plus the need to retain the same level of consultation as originally anticipated.

[REDACTED]

- The MAD Log was the basis of identifying key Programme milestone dates and their descriptions and was developed late by Ofgem and the PC. When published, it introduced two waves of consultation with industry that DCC had not incorporated in their planning. The assumptions DCC had made in their consultancy planning were in line with previous phases of the programme. Additionally, setting this expectation came too late to allow time to build in the intended steps.
- The MAD Log included a mistake. In the version issued alongside the Ofgem Plan on a Page, the Programme Parties Mobilised Milestone (L1-06) was identified as being on 23 August 2019 and not 1 August 2019 as was later asserted. Leaving other matters aside, this negatively impacted DCC plans by three weeks.
- D-8.2, the Governance and Assurance Framework, should have clarified expectations and was not produced or provided, despite being requested in 2018.
- Switching Programme Parties Mobilisation Readiness Framework: The purpose of this document was to outline the criteria and assessment process to be followed to support the second pan-Programme readiness assessment for the Programme Parties Mobilisation Milestone on 2 August 2019. This was later than expected.

This extended requirement was confirmed at late notice and was outside of DCC's control, it therefore took circa 4 weeks before DM1 could be delivered to meet the new expectations.

Additional consultations, more comments and concerns about quality

A Programme decision was made to move the governance for sign off for Programme Parties mobilised to 27 August 2019 in order to give Industry the opportunity to comment. The date was subsequently moved to 3 October 2019 primarily as a result of the additional consultation needed after limited engagement in August owing to holidays and quality concerns that had been raised.

The CSSIA document had been issued in three parts with a view to delivering the final part of the document on 25 July 2019. DCC accept that during the fifteen weeks of delay there were various points when the quality or stability of this document was at fault. Whilst we could suggest that the context of uncertainty did not help, we accept that some quality issues cost additional time and were DCC's responsibility as a part of managing its service providers. We propose that the margin at risk for this milestone (20%) reflects an estimate of the aggregate time spread over the total delay at dispersed intervals. It is not the case that the delay we were responsible for occurred over consecutive days immediately following the date of DM1.

It was suggested that further consultation may be required on the complete document set and concern was expressed by industry at a Programme level about undertaking a consultation during the August 2019 holiday period. This additional consultation and the points raised regarding quality led to a delay.

This accommodation of industry time was outside our control and added circa 2 weeks before we could deliver DM1 in line with expectations. The additional consultations generated comments that were interpreted as quality concerns, whereas the comments actually increased later in the consultation stages because some respondents chose only to engage with the near-final version – this made closing off concerns extremely difficult as the volume ramped up not down.

4 Conclusion

DCC could not have delivered DM1 at the end of July 2019 primarily due to issues beyond our control. The Product Description was not provided, and the consultation document paragraph was insufficiently detailed to confirm all that was expected to be delivered. The expectations on the content of the DM were confirmed too late, with too little time to accommodate them within the timescales for publication.

The CSS Provider being in place was key to the ability of DCC to meet the delivery milestone. The delay to the CSS Provider starting occurred in part due to an Ofgem decision beyond our normal commercial

practice. Whilst recovery was attempted after this and other stages, it is included below as one of several key drivers of delay.

Delay	**Issue outside DCC control or Programme agreed**	**DCC liable for delay**
6-week delay in CSS contract signature from 2 April 2019 to 10 May 2019	2 weeks: to clarify Ordnance Survey Licence ahead of contract at Programme request + 4 weeks: Change of preferred bidder and subsequent requirement by Ofgem to test the adaptability of the CSS solution to improve outcome of procurement	
Whilst most of the time above was recovered – the original single artefact being the interface specification was delivered on 28 June 2019 – it still had an impact on our overall delivery and ability to cope with further change and deep uncertainty.		
4-week delay from end of July 2019 through to 27 August 2019	4 weeks: consultation cycles added and confirmed too late for DCC to incorporate	A mix of days of delay dispersed at different points over this timeframe (and some in July) have been estimated based on discussions with those involved.
5-week delay from 27 August through to 3 October 2019	2 weeks: delay due to added time needed by industry for consultation	
Total 15 weeks of delay impacting DM1 delivery	12 weeks: Delays or extended Programme requirements beyond DCC control 80% of the time delays	3 weeks in aggregate: That could be seen as within DCC control 20% of the time delays

We estimate that 15 weeks of delay impacted achievement of DM1. Whilst we recognise that up to three weeks of delay could be aggregated and considered within DCC's control we do not accept that this should be interpreted as consecutive weeks from the DM1 milestone due date. There was a regular interplay of Ofgem seeking to meet industry's expectations and DCC taking and seeking to work with a revised approach. Industry took longer than could reasonably be expected to review and comment on drafts, including raising significant issues late in the process. This was a significant factor in the delay and was beyond our control.

The proposed split in how margin retained is calculated is based on all delays. We therefore propose a split of 80% of all delay attributable to Ofgem/Programme decisions and 20% due to DCC controlled quality and a consequent retention of 80% of the Delivery Milestone margin.

However, it may be more appropriate for DCC to raise a retrospective Change Request to move the incentivised milestone DM1 to align with the relevant milestone in the revised programme plan. We would welcome the opportunity to discuss this approach.