Part 1 – Ensuring Value for Money

Price Control Submission RY2017/18

Date:	July 2018
Classification:	DCC Public

Contents

1 Introduction

1.1 Orientation and Purpose

This document is the first in a suite of five documents – as illustrated in Figure 1-1 below - which comprise the core narrative of the RY2017/18 DCC Price Control submission.

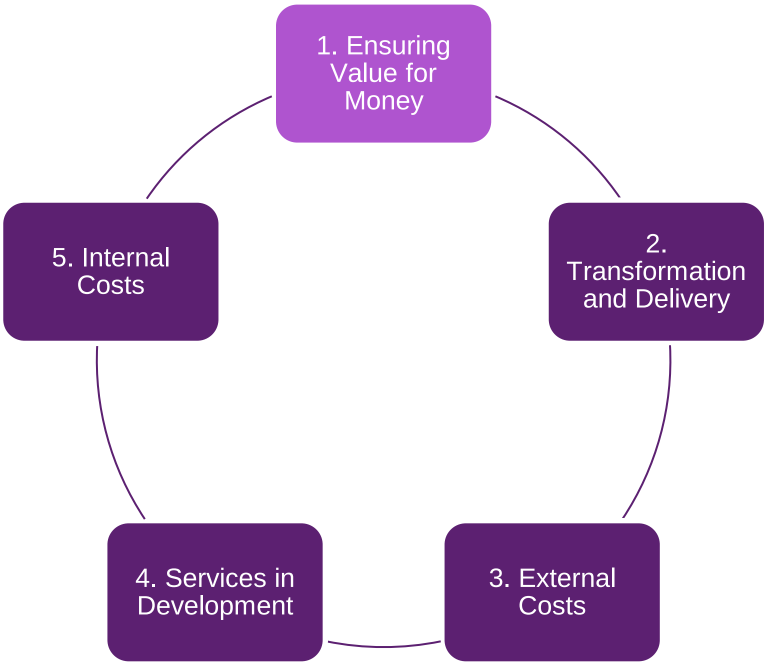

Figure 1-1: Document suite relating to Price Control submission

It focuses on DCC's key governance, control and management processes to ensure that DCC is performing its role economically and efficiently on behalf of its customers. With service delivery through external providers being fundamental to the DCC operating model, there is also a strong emphasis on the commercial and procurement arrangements which have been developed by DCC.

In RY2016/17, we explained that there was a need to adapt some governance and management arrangements to take account of the introduction of live service operations and the delivery of multiple major programmes in parallel.

This has continued into RY2017/18, leading to changes in the executive and senior management personnel and in the way the business is organised and managed. It has also led to the development of enhanced capabilities to meet the challenges inherent in operating critical national infrastructure at scale, whilst being able to be flexible to change and new initiatives, such as Switching. This is a process of evolution that will continue into RY2018/19.

In preparing this document, we have focussed on those aspects where there has been change in RY2017/18. We do draw on material from previous submissions where it will aid understanding, but we have tried to avoid repeating content where there has not been material change.

As indicated, there are several areas where change is underway and where this will continue. Where appropriate, we provide information on the further changes that we anticipate.

2 DCC Corporate Governance

This Chapter describes the changes to the corporate governance structure during RY2017/18. In all other respects, the DCC approach to governance remains the same as reported in RY2016/17.

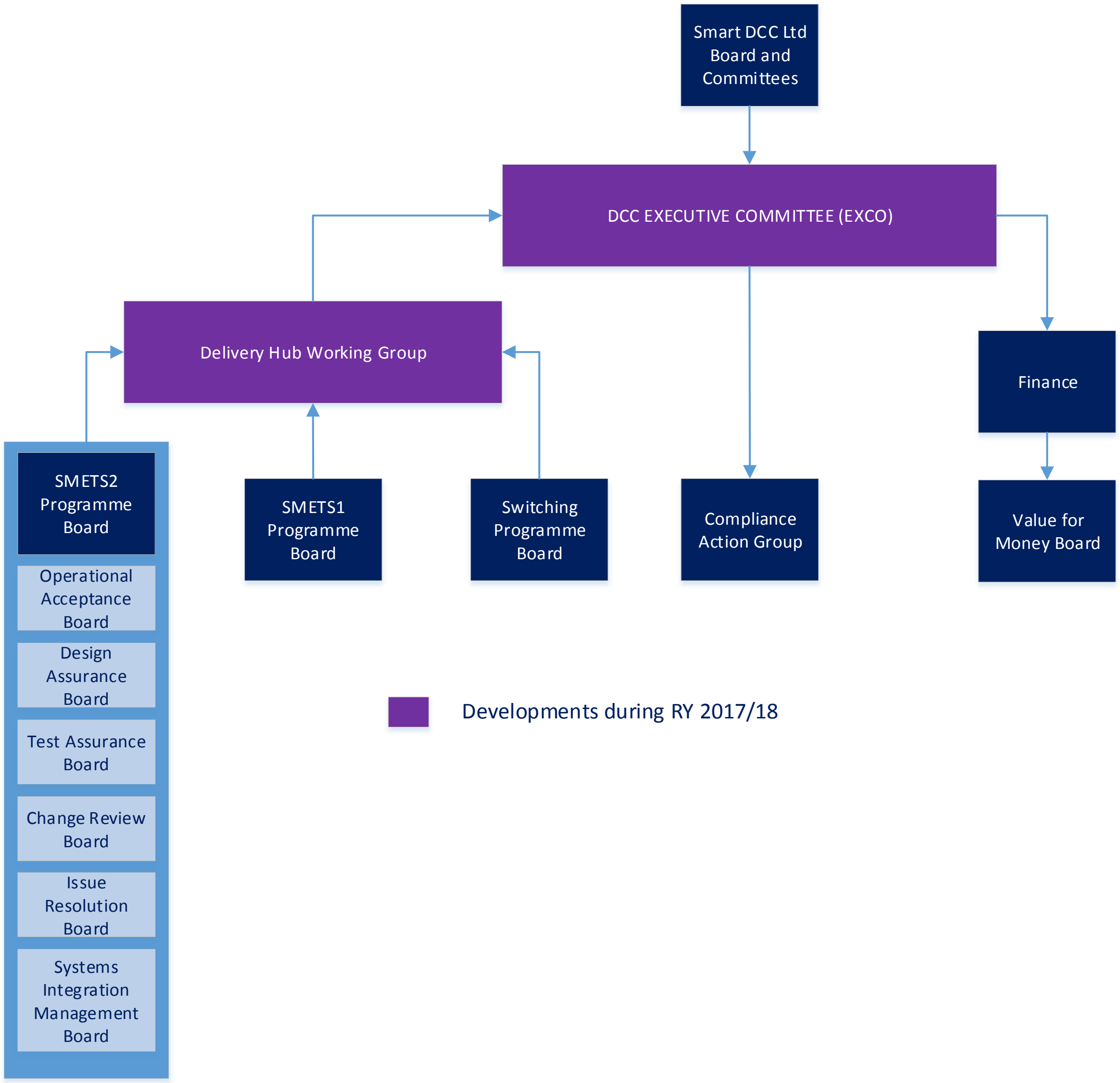

Figure 2-1: DCC Corporate Governance structure

The ultimate governance body is the Smart DCC Ltd Board, and its associated Audit and Remuneration Committees. Accountability then cascades through the DCC management structure.

As the DCC has developed its business capabilities, moved to a multi-programme environment and prepared for live service at scale, the governance requirements have continued to evolve. Table 2-1 outlines the enhancements that have been made during RY2017/18.

Table 2-1: Changes to DCC Governance Boards since RY2016/17

Board	Previous Status	Rationale for Change
Appointment of an additional Sufficiently Independent Director (SID). March 2018	2 SIDs in place. Extended to 3	[REDACTED] has joined the DCC Board, bringing valuable experience in senior roles in the energy industry and specifically regulated businesses.
Executive Committee (ExCo) Delivery Hub Working Group	DCC Executive Board (DEB) - Programme DCC Executive Board (DEB) – Business	A previous review of the functioning of the DCC governance structure concluded that the organisation required a structure that allowed for a separation of programme and business governance processes in a multi-programme environment. This principle continues, however with revised forum names and memberships
Compliance Action Group	Compliance Board	Name has been updated and the membership is in the process of being extended to include both security and operational representation.

During RY2017/18, DCC has improved its approach to business planning which is described in chapter 9. This will have implications for the ongoing governance and oversight processes which will be described in the RY2018/19 submission.

3 DCC/Capita Relationship

DCC has necessary interactions with Capita, both as a parent company and as a Service Provider. DCC remains committed to compliance with its obligations under Chapter 3 of the Licence and this is a regular theme in internal communications with all DCC staff.

There have been no material changes in the nature of this relationship, nor the processes through which DCC ensures that Chapter 3 is observed and complied with. As in RY2016/17, the Compliance Officer [REDACTED] issued an unqualified audit report for RY2017/18.

4 Compliance with the Licence and SEC

DCC has always been mindful of the need for compliance with the Licence and SEC, and this is reflected in the Risk Management Strategy.

In this chapter we report changes since RY2016/17.

4.1 Licence Compliance

The process for ensuring licence compliance has not changed[1]. No examples of Licence non-compliance have been identified, either through testing or through incident management.

4.2 SEC Compliance – The Compliance Management Framework

In the previous Price Control submission[2], DCC outlined the step-change in formalising the SEC Compliance process that would be implemented during RY2017/18 through introduction of the Compliance Management Framework.

An overview of the framework is provided in Table 4-1:

Table 4-1: Benefits of CMF Implementation

Benefits of implementation of CMF
Consistent - A single, unambiguous approach ensuring compliance with our obligations and that good practice is observed in all areas of DCC
Evidenced - Provides a mechanism for DCC to document and demonstrate compliance with all obligations in the SEC
Accessible - Enables DCC (and stakeholders) to understand the impact of change, aid in resolution of disputes and provide a mechanism to assess the risk of non-compliance
Integrated - All DCC functions integrate compliance checks, controls, education, training and tools in their processes and ways of working, such that they are monitored and reviewed continuously.

4.2.1 Implementation

The Compliance Management Framework implementation was completed on schedule in January 2018. At high-level, it comprises:

Processes: Compliance processes have been developed, implemented and documented

People: A compliance analyst has been in post since April 2017 to manage compliance and act as systems administrator

Tools: "*Compliance 360"* (a Governance Risk and Compliance software tool) was procured and implemented between July and November 2017 to:

- Identify the c.1500 obligations on DCC under the Smart Energy Code (SEC) and manage the process of change through modifications and contract change requests

[1] Part 1, Section 4.1 – Licence Compliance
[2] Part 1 Section 4.3 – Compliance Management Framework

- Ensure that there is effective mapping between SEC obligations and contractual provisions in the Service Provider contracts
- Act as a linked repository for obligation compliance evidence
- Manage the audit of Service Provider contractual compliance and support future internal audit activity.

Compliance 360 enables us to collect compliance evidence at key gates during the development process, rather than just at the point of transition of the service /solution to the production environment.

Relevant staff across DCC have been trained to increase their awareness of the SEC and our compliance requirements, how to engage with *Compliance 360* and the assessment of obligations.

The initial training programme has been developed into an enduring course, and we have regular engagement with teams at DCC, as well as running courses at our three office locations to continually reinforce to staff the importance of SEC compliance.

4.2.2 Continuously Developing Usage

The Compliance Management Framework has greatly enhanced DCC's capability to manage, monitor and report on DCC's regulatory obligations. This is complemented by Compliance 360, which was selected for and configured specifically to allow scalability.

Work is currently underway to incorporate the Smart Communications Licence into the tool and during RY2018/19 we will include changes to the SEC to reflect the SMETS1 obligations, and those under the Retail Energy Code (REC), once designated.

As part of the activity to facilitate Internal Audits, the corresponding audit planning module in *Compliance 360* has been configured and hence, their execution can be captured in the tool.

5 Management and Capability Enhancement

In less than five years, Smart DCC has grown to an organisation of around 400 staff and offices in 3 locations across the UK. It has evolved from having a single purpose of developing the core SMETS2 service into a fully-fledged operational business, delivering multiple programmes and accompanying live services, with all the corporate functions required to support a modern business.

This growth has been necessarily swift and, in order to ensure the organisation remains effective, there has needed to be continual investment in the people, governance structures, processes and systems. This commitment to building a complete organisation, rather than merely one that delivers one-off development programmes, is a theme which runs through this Price Control submission. It will continue into RY2018/19 and hence will also be a feature of next year's submission

5.1 Executive Responsibility

RY2017/18 has seen an investment in the senior and executive management grades. This is in recognition of the demands of delivering and operating critical national infrastructure, alongside the major development programmes – SMETS1, SMETS2 Release 2.0 (R2.0), and Switching. In addition, several of the senior staff who were employed early in the life of Smart DCC have departed, thus creating the opportunity to bring in new skill sets, suited to the maturity of the business, and also to rethink the organisational structures and processes that have evolved over time.

In the change from DEB to ExCo, described in section 2, the executive committee has also been expanded to include several additional or revised roles that were not required in the early life of DCC, specifically:

- Chief Strategy and Product Management Officer
- Director of People and Organisational Development
- Director of Transformation

Full descriptions of these roles can be found in part 5 of the submission.

This process has continued into RY2018/19 with a proposed division of Corporate Affairs into Regulatory Affairs, Communications and Public Affairs and with the risk and compliance function moved to report to the Director of Transformation.

Each of these changes recognises the increasing need for a diversity of experience and greater specialist skills to direct and manage an increasingly complex business. This ensures that ExCo has the necessary breadth of experience to ensure that decisions are being made with full regard to all of the potential implications for the business.

5.2 Organisational Changes

Organisational change has not just occurred amongst the Executive of DCC. It has become evident that investment and strengthening was required in other capabilities. Three examples of this are:

- **People team** – building and retaining a talented workforce is fundamental to the effectiveness of DCC, particularly given the specialist nature of many of the skills required, and the need to compete with other unregulated technology companies for those services.

Whilst Capita continues to provide many of the transactional HR services required by DCC, it was recognised that there needed to be a local capability to support the ongoing development of the workforce through performance management, training and development and succession planning. In addition, as DCC finds itself competing for expertise more akin to the high-tech sector, a key strand of work for the People team is in building a culture and employee offer which is attractive to the calibre of people we need to recruit and retain.

- **Supply Chain** – the former Commercial team has been expanded to create 3 specialist functions – Contract Management, Procurement and Supplier Relationship Management. This recognises the centrality of Service Providers to the effective operation of DCC and the achievement of value for money for our customers. This is no longer a case of simply managing the contracts we inherited from

Government, but also increasingly sourcing new capability, contracting and then optimising delivery through the lifecycle of the relationship.

This more sophisticated approach to the management of our service providers inevitably has required recruitment of additional experienced staff so as to establish the necessary processes and move the existing relationships into this new model of supplier management.

This has also facilitated enhanced rigour in the management of the supply chain which yielded significant cost savings for DCC's customers.

- **Strategy and Product Management** – DCC is reaching a point in its development when it is legitimate to consider the mandate for innovation and opportunity to leverage the DCC infrastructure to reduce costs, which is envisaged in the DCC licence. Whilst the focus rightly remains on delivering the core DCC service and support for the SMETS2 rollout, it is prudent to start to consider how DCC would go about exploring the significant possibilities that exist. Hence, DCC has started to put in place a small number of additional roles, led by a new Director of Strategy and Product Management, to consider our approach.

This will continue into RY2018/19 with a gradual expansion of the team so that it is able to respond to the opportunities which are already starting to present themselves.

Similar changes in other teams are described in detail in Part 5 of this submission where justification of any growth is provided.

5.3 Investing in DCC's Capability

The emphasis of previous submissions has rightly fallen on the development of the core SMETS2 service, as well as the early-life of SMETS1 and Switching. However, there are a whole series of crucial supporting processes and systems which are required to ensure that DCC can operate and enhance the infrastructure on an ongoing basis, together with continual improvements to our customers' experience.

RY2017/18 has seen an increased focus on those support processes and systems, and this will continue into RY2018/19, as DCC ensures that it is able to meet the operational demands of the roll-out and then has an efficient organisation which meets the needs of our customers.

One of our key initiatives in addressing this requirement has been through programmes of work known internally as 'Project to Business' and 'Ready to Scale'. A full description of the content of these initiatives is provided in Part 2 sections 4.2 and 4.3 of the submission. However, a number of the individual components fall squarely in the realm of governance and management processes. As such, these have been covered in this document and can be found as parts of the following sections:

- People and Culture
- Resource Management
- Risk Management and Internal Controls
- Delivery Hub Working Group
- Commercial Strategy

6 People and Culture

6.1 Introduction

As previously stated, DCC has grown rapidly to an organisation of around 400 staff. Consistent with a small company within the Capita Group, the HR services were largely based on standard Capita processes and systems or developed locally.

DCC is a classic case of a business where it's success is largely down to the quality of its people. Hence, the increasing headcount and the importance of retaining and recruiting staff has required DCC to enhance its people management capability to ensure continuous development and improvement of staff. Without this, DCC could place itself at risk of failing to meet its objectives and critical licence requirements.

DCC would argue that recognition of the importance of our workforce will pay very clear dividends for our customers who will benefit from an engaged, well-supported and motivated workforce – characteristics that will be of immense value during the inevitable demands made by the roll-out process and implementation of further capability.

These additional people management requirements were the subject of targeted initiatives as part of DCC's wider Project to Business programme. These included:

- Introducing and embedding a set of organisation values within DCC.
- Implementing improved organisation design, structures and grading.
- Implementing tailored performance management processes.
- Implementing a talent management framework.
- Implementing additional online HR tools and processes.

6.2 Change Drivers and Triggers of Change

DCC is accountable for the management, construction, testing and efficient operation of critical national infrastructure. As technology is at the heart of our business, our success is dependent upon recruiting and retaining motivated, skilled staff within a highly competitive market.

As DCC has moved from a single programme structure to a multi-programme environment, there has been a need to increase the headcount in the organisation and recruit staff across a range of disciplines. In itself, this then puts pressure on the support functions that complement the delivery organisation. In the early part of RY2017/8, DCC was required to recruit at pace and volume to ensure it could deliver its requirements of multiple releases to time, cost and quality. Our headcount requirement accordingly went from 266 staff on 31 March 2017 to 405 staff as of 31 March 2018.

Also, up to this point, DCC had a significant reliance on contractor resource, consistent with a start-up needing to mobilise activity to short timescales. The strategic decision was made that, given the pipeline of programme work over an extended period, DCC could start to shift the balance towards a larger proportion of permanent staff, bringing with it significant benefits in terms of cost efficiency and retention of corporate knowledge.

In RY2017/18, DCC has moved from an approximate 60:40 ratio of permanent: contract staff to around 75:25. This is now DCC's target mix for RY2018/19 and RY2019/20.

Hence, DCC has faced the twin challenges of increasing the total headcount substantially in RY2017/18, whilst replacing a considerable number of contractors with permanent staff.

The developments of DCC's HR and people management systems also reflect the company's heritage. As a relatively small project-based organisation, existing mainly on one site, flexible and informal processes and systems were adequate. These co-existed with Capita's own HR policies which were legally compliant and designed to operate across a series of differing businesses, with an assumption of a foundation level of management capability. This is because they are largely designed for mature organisations operating in steady-state.

6.3 Project to Business - People Management

6.3.1 Organisation values within DCC

Context and driver

A company vision and associated set of values was developed in early RY2017/8. These values were to illustrate and emphasise DCC's service philosophy, behaviours and desired outcomes for all staff. Equally, we wanted to be distinct from Capita as staff generally feel more aligned to DCC and its customers.

The values were launched in Summer 2017, with a series of workshops held across the organisation, and were incorporated within the revised performance management process where they now form part of the assessment.

Figure 6-1: DCC Values

What was implemented

The vision and values were discussed at the Executive Committee in March 2017, before being discussed in staff workshops throughout May, and implemented in the Summer. These then formed part of the annual performance management process.

6.3.2 Organisation design, structures and grading

Context and driver

DCC's rapid growth over the last four years has been against an organisational structure that has developed organically. This had resulted in a range of issues which were counter to good HR practice, such as extremely small/large spans of control, a multiplicity of job titles for similar roles, differing levels of authority from manager to manager etc

To address these issues, DCC obtained consultancy support from [REDACTED] following an open procurement process. It provided market insight and best practice in organisational design and organisational structures, hierarchies, grading structure (including job titles and benchmarked salaries), role accountabilities and levels.

In parallel with this, several new ExCo members had been appointed, and they had important input into the appropriate structures and resource requirements for their functions. When combined with the advice from [REDACTED], this resulted in the following options which were considered;

- OPTION 1: No change
- OPTION 2: Implement [REDACTED] recommendations in full, as a 'big bang'
- OPTION 3: Phase the implementation of the [REDACTED] recommendations such that any ExCo driven changes could be made (although these should be made in accordance with the [REDACTED] advice). Then, revisit the [REDACTED] recommendations and consider whether any change was required.

What was implemented

Ultimately, a phased implementation was selected which made some organisational changes, primarily in Operations, but also in Programme and CTO. This decision was arrived at given the high volume and criticality of programme delivery activity at the time, and the potential for any wide-ranging organisational change to be highly disruptive to the smooth running of the programmes. As a result, these changes were implemented in early RY2018/19.

6.3.3 Performance management process

Context and driver

The standard Capita performance management processes were not felt to be sufficient for DCC's purposes. DCC required performance management to be enhanced with regards to the quality of objectives, and to ensure that values and behaviours were considered in how staff operated, ensuring sustainable ways of working were built.

DCC conducted a short, open procurement exercise to obtain consultancy advice on performance management and talent management. [REDACTED] was selected for this engagement.

[REDACTED] work resulted in three options being presented to DCC:

- OPTION 1: Use standard Capita materials and systems – provides consistent approach, using Capita's competency framework.
- OPTION 2: Continue with the current approach and persuade Capita to change the enabling tools supporting the HR processes
- OPTION 3: (Chosen) Use a performance approach developed by [REDACTED], featuring a performance template adapted to use DCC's values.

Option 1 was rejected. The feasibility of Option 2 was examined; however, Capita were unwilling to change the standard approach. As such, DCC decided to take forward Option 3 and redesigned the Performance Management materials and process in line with [REDACTED] recommendations.

What was implemented

The revised and improved performance management process was implemented in September 2017 and used for mid-year appraisals in September 2017 and end of year appraisals in March 2018. The benefits to DCC are as follows:

- staff are being supported to continuously improve their performance.
- good performance is being recognised,
- poor performance is being identified and challenged.

6.3.4 Talent management framework

Context and Driver

Recruiting for a role in the open labour market can be resource intensive, expensive and time consuming. It is important, therefore to make the most of any information held on potential candidates who may already possess the requisite skills, capabilities and motivations.

These candidates could be sourced from DCC's existing staff. In addition, DCC's portfolio of contractors or candidates that have been interviewed for previous roles also forms a potential source of talent. The overall policy framework that encapsulates this is called 'talent management' and it was clear that DCC did not have a mature or consistent approach to this.

Part of the scope of the advice procured from [REDACTED] was to provide options to address the gap in Talent Management. Again, three options were presented:

- Option 1: Use the 9-box model[3] of talent management (a well-known standard model)
- Option 2: Use the [REDACTED] 6 box model / talent pool which is aligned with succession planning
- Option 3: Use an approach based on viewing all staff as having potential. This would be based on having quality, formal career conversations in which the staff member is asked about their career ambitions, and development interventions are considered accordingly.

What was implemented

Having considered these options, it was concluded that there were too few staff for a 9-box model to have the statistical power to produce helpful results. Option 3 was felt to be closer to the kind of culture which DCC is trying to implement, however elements of the 6-box model were also used to help inform a succession planning model.

As a result, a new 'Career Conversations' process was implemented for the start of the performance management year, in May 2018, following approval by ExCo.

6.3.5 Online HR tools and processes

Context and Driver

Discussions were held with Capita HR and four external suppliers to assess different approaches and opportunities to improving user engagement with HR processes.

Approval was granted to conduct a tendering exercise through the Value for Money Board in December 2017. A tendering exercise was conducted in early 2018, which failed to find an appropriate supplier, at an acceptable cost. DCC is now actively considering the most appropriate course of action.

[3] The 9-box model is a three by three matrix, with performance on one axis and potential on the other. The bottom left box usually indicates under performance and the top right and box signifies a future leader

7 Resource Management

As DCC continues to mature, it is imperative to put in place a sustainable workforce, with the right mix of skills and experience to deliver the long-term needs of our customers and our strategic objectives as an organisation. This process has gathered pace over the last twelve months as we have transitioned from a single programme organisation to a multiple programme organisation. Hence, it has been essential that we look at the ways we operate, so that we optimise our use of resources and minimise costs.

The different programmes being delivered by DCC require varying expertise, however there is equally a degree of commonality between them. Historically, we have tended to recruit with a particular role in a programme in mind. Now, having reached a critical mass of DCC permanent staff, we are looking to consider how we can develop a pool of resources which can be moved from activity to activity on programmes as they arise.

To achieve this, we have introduced the concept of matrix management. This is a model where pools of resource are held centrally and then deployed on an assignment basis, to meet the priorities of the business at the time. Hence, the resources are no longer "owned" by the projects and programmes, but instead become a more flexible capability which can be drawn on as appropriate.

This approach brings several benefits:

- Cost optimisation – resource is deployed in line with the priorities of the business which improves productivity over time

- Fewer functional silos – matrix management helps break down barriers.

- Processes and tools –Having one single methodology which we all adhere to gives consistency in the way we operate and govern. It also supports resource rotation.

- Development – our people are given the opportunity to work across a number of projects, growing their skills and capabilities and enhancing their overall knowledge of the business. This also contributes to staff engagement, reducing churn and creating a happy and motivated workforce.

- Reduced contractor costs – optimising our permanent workforce enables flexibility and allows us to reduce our dependency on short-term, and therefore, expensive contractor resource for day-to-day delivery.

To support matrix management there are several capabilities that need to be in place:

1. Portfolio Management - ensures scare resources are deployed effectively adding the most value to the organisation. This is achieved through improved resource allocation, a consideration of priorities and a clear process for deciding these.
-
2. Programme Management - ensures that change is delivered effectively and that the anticipated benefits to the organisation are realised.
-
3. Project Management - ensures that the time and effort spent in delivering the project is more than offset by the benefits that are realised

Note: further information on these capabilities is provided at Section 10 of this document (Delivery Hub Working Group).

7.1.1 Use of Timesheeting

To ensure value for money, it is important that DCC understands how we are deploying our resources to deliver our strategic objectives. By implementing a time recording system we can track and view this.

Timesheets now form a core component of the wider resource management capability and this is starting to give a greater insight into how resource is being utilised on agreed and forecasted activities. This also enables us to take remedial action quickly when this is not the case. As we move forward and become more sophisticated in our use of this data, this will aid our ability to more accurately hold to long range forecast budgets.

The timesheet tool we have implemented is a component of the SAP finance tool already in place. This was not being utilised but importantly means that DCC did not incur any incremental cost increase in deploying it. This also enabled a speedy adoption and negated the need for any formal RFP process. Whilst alternative commercial solutions, with similar capabilities could have been explored it made no commercial sense to do this due to the incremental costs which would have been incurred.

Ultimately, time recording will help with resource prioritisation in the future, which will become particularly important if we have more discretion in the work that we pursue. This will help us understand the costs of opportunities better, to be able to prioritise them and hence to aid the Business Planning process.

8 Risk Management and Internal Controls

8.1 Developments to Risk and Control Framework

8.1.1 Risk Management

Risk Management continues to be a core discipline of DCC and follows the principles described within the DCC Risk Management Strategy. Although the main principles of risk management have not changed from those included in the RY2016/17 submission, there have been changes to the reporting lines, tools and terminology.

As trailed in last year's Price Control submission[4], the Delivery Hub project (see section 10) included a review of our approach to programme and project management, with risk management an element of this. Following this review, the changes described in Table 8-1 were implemented:

Table 8-1: Changes to Risk and Control Framework

RY 2016/17	RY 2017/18	Rationale for Change
Teams managing risks		
Programme risks managed by the PMO and Corporate Risks managed by the Compliance Team in Corporate Affairs. These were then consolidated into 'Strategic Risks' for DCC board reporting	Management of all risks at a programme/project or function level are now managed by the Portfolio Office Risk Team, including consolidation for ExCo review. Strategic (now referred to as Enterprise Risks) included in Board Reporting reported by the Compliance Team in Corporate Affairs.	Having the risks managed by the same team across DCC improves: - The consistency of methodology application - The ability to identify interdependencies across projects and functions Board reporting has stayed with the Compliance Team to ensure compliance with UK Corporate Governance Code requirements on reporting e.g. principal risks in the financial statements
Risk Tool		
Aspyre	*Project Online* implemented	Aspyre worked well in a single program environment, but ultimately the reporting flexibility was limited. *Project Online* was selected following a review of risk management as the most suitable and cost-effective tool to improve risk management. This was implemented in January 2018.
Reporting to ExCo and DCC Board		
Reporting of strategic risks to the DCC board for each meeting	Formal reporting and review by the ExCo in advance of reporting to the DCC Board	To ensure that the ExCo has timely input into the DCC risk position and is able to influence output.

As the revised process is embedded in the organisation, it is anticipated that there will be further developments to the methodology to incorporate the feedback of users.

8.1.2 Internal Control

The internal control framework [5] has not been subject to any material changes during RY 2017/18, other than the introduction of the Compliance 360 tool covered in section 4.2. However, during the year, DCC undertook a

[4] Part 1, Section 5.1 – Developments to Risk and Control Framework
[5] As per the Internal Control Document, (Licence Condition 7)

review of the internal control structure to ensure that it is appropriate for the organisation when mass roll out is underway.

Following this review, the DCC ExCo and Audit Committee approved a proposal to implement a specialist internal audit function to support DCC's wider compliance activity. This is planned to be implemented in Autumn 2018 and the nature and scope of this function will be covered in the RY2018/19 Price Control submission.

8.2 Continuous Improvement

DCC recognises the importance of having a system to capture and manage continuous improvement opportunities. DCC continues to maintain the Continuous Improvement Tracker (CIT) as reported in Price Control RY 2016/17[6], and report its status on the same basis. Continuous improvement, in this context, relates to improving the internal control and governance environments, with operational improvement covered by other functions.

Sources of new improvement actions in RY2017/18 have included:

- Testing result findings from Quarterly Business Assurance Report testing
- Recommendations from the Compliance Officer
- Recommendations from Capita Group Internal Audit Reviews
- Lessons learnt from incidents during the year.

In RY2018/19, DCC is looking to take a more strategic approach to Continuous Improvement as a key element in delivering long-term efficiency and service quality to our customers. Plans are being developed to create a small Business Improvement team who will facilitate the development of an improvement culture across DCC.

8.3 Project to Business – Enterprise Management and Controls

As part of Project to Business, it was decided to consider whether the framework of controls and related management processes, many of which were established in the early life of DCC, remained appropriate, given the change in scale and complexity of the organisation. This question led to the development of a series of targeted workstreams, as described below:

8.3.1 Risk Management approach

Context and Driver:

Given the increasing complexity of DCC, a single system was required where all risks and issues are recorded and scored consistently using the same criteria. This would allow the Portfolio Office to identify trends and aggregated risks.

The benefits of this approach include defining DCC's risk tolerance and identifying the required systems for managing risk. An accurate ExCo risk register is in use.

The key activities within this included:

- Defining the systems required for managing risk enterprise wide
- Refreshing the ExCo DCC risk register
- Setting up enduring support for risk systems

[6] Part 1, Section 5.2 – Continuous Improvement

What was implemented

On completion of the workstream, the required systems support had been delivered, to cover the whole of DCC, supported by a scoring system, policy documents and a delivery plan.

Further work has continued subsequently to refine the processes, and to focus on ensuring the usability of the approach.

8.3.2 Finance

Objective: To introduce a range of improvements into the Finance organisation and processes to provide better support to the business and increase the capacity of the Finance function, commensurate with the increasing size and complexity of DCC.

This project was broken down into 5 distinct areas of activity as follows:

Moving to finance business partnering model

Context and Driver:

Historically, only generalised finance support had been available to the business and this was accessed on an ad-hoc basis, as required. This limited engagement meant that Finance support was only drawn on intermittently by projects or functions and Finance was unable to advise or influence expenditure decisions in a systematic way.

It was recognised that there was a requirement to provide more dedicated finance support given the increasing scale of expenditure. In addition, this greater insight into day-to-day expenditure would enable Finance to improve the overall financial management of DCC.

What was implemented:

Business partners (BP) have now been introduced for all the vertical functions and some of the horizontal programmes (switching and SMETS1). This has served to embed the Finance team in key decision making, thus aiding understanding of the core business outcomes, risks and finance opportunities.

There are four BPs covering both internal and external expenditure. They meet with cost centre owners on a monthly basis to update and develop the financial forecast.

The next steps will be to establish the Finance Business Partner model for SMETS2, and complete assessment of both vertical and horizontal functions to ensure there are no gaps.

Further activities will be designed to embed the model including workshops/training days to review best practice and to develop improved ways of working

Shorten the monthly financial reporting cycle

Context and Driver:

With the growing scale and complexity of DCC, the month end accounting process was proving increasingly cumbersome and difficult to deliver within the required timescales. The month-end was routinely taking around 10 working days, as against an ideal of 7 working days.

If a shorter month-end was to be achieved, there was a need to streamline the process, as the alternatives might include deploying additional resource and hence increasing the cost of the Finance function.

What was implemented:

This initiative required changes to processes, an improved approach to documentation, as well as ensuring that appropriate skills existed within the team. A target was set to complete all month-end processes by working day 8 by July 2018, and then to sustain this. DCC is on target to achieve this.

The decision to relax the objective to completion by working day 8 rather than working day 7 was a pragmatic decision, driven by the realisation that there is a dependency on Capita for certain data, and this was unlikely to be available early enough to support the initial objective.

Financial system improvements (“Finance Sprint”).

Context and Driver:

An assessment of the performance of the Finance function was undertaken, with the aim of yielding opportunities for process and systems improvement. The following issues were identified:

- There were too many, albeit non-material audit adjustments during RY2016/17 due to errors/interpretations of manual spreadsheets
- There were limitations on the ability to provide information in support of both the annual audit and Price Control processes, thus creating wider issues for those activities and challenges in meeting the required timescales.
- Issues with the documentation of the systems and their configuration was causing difficulties in training new staff to use them and also in the ongoing maintenance and enhancement of those systems.
- Manual interventions were often required to complete financial processes due to deficiencies in system support
- Reporting capability was limited and inflexible.

What was implemented:

In response to this, the following activities have been undertaken:

- Mapping of the current processes, including all those that input into month-end and Price Control processes and into our reporting tool, tool, Business Planning and Consolidation (BPC).
- Design of a set of ‘to-be’ processes that embody lean principles where applicable, together with written documentation
- The configuration behind the BPC reporting system has been fully documented, including all calculations, together with ownership of each model and its attributes
- Partial automation of the population of the Price Control RIGs, with the intent of moving to a monthly cycle of production
- Automation of the year end process of accruals for Regulatory accounts purposes, on a monthly cycle.

As part of this exercise, DCC also considered moving to a new ERP system. However, it was concluded that the time taken to implement and the fact that some business processes are still in development means that such a decision would be premature.

The outcome of the Sprint was to free up an estimated 26 person-days/month of effort which had largely been devoted to manual processes. This has enabled DCC to ‘reuse’ this effort to insource work associated with the maintenance and development of the reporting system.

Increase financial process control

Context and Driver:

Given the growth in DCC, it was identified that delegated authority should be reviewed in relation to use of the financial systems (or any systems that ‘touch’ the financial systems).

DCC's financial and HR systems are provided by Capita. Hence, DCC requirements must be reflected in Capita's systems and processes to ensure that they are aligned and not just defaulting to what may be inappropriate Capita values.

As part of this work, it was noted that DCC's reporting tool was implemented by a third-party supplier (Rinedata). With a continual flow of change which was likely to continue, there was concern that DCC had become too reliant on the company to implement any minor changes.

What was implemented:

DCC's governance requirements were clarified and forwarded to Capita. DCC obtained approval for the increase in approval limits within DCC for our Managing Director and Finance Director to gain control of our approval chain

In parallel with this, DCC reviewed its financial processes to identify points where reliance on Rinedata could be reduced/removed, hence reducing cost. Further discounts have been negotiated with Rinedata and the intent is to move fixed price contracts for any work placed with them.

As stated, a saving of 26 days of effort per month has been realised through the work of the Finance Sprint. This has enabled the Finance function to allocate much of the monthly cycle of work previously supported by Rinedata to an internal resource going forward. They will undertake additional training over the coming year to enhance their skills and hence further reduce our reliance on Rinedata for minor development work.

Note: subsequent to the end of RY2017/18, this finance transformation activity has led to the DCC Finance team being short-listed for the British Accountancy Awards, "Finance Team of the Year".

Implement an automated purchasing system

Context and Driver:

Historically, purchase orders were created in Excel. This served the purposes of DCC in its early life, however the volume of transactions has increased substantially and there was a need for greater control, thus avoiding manual errors and providing an appropriate audit trail.

An established, fully auditable process for purchase orders which is mandatory and enforced was required. This would have the benefit of a reducing the time and cost to process purchase orders

What was implemented:

The preferred solution was to adopt Capita's automated purchasing system (at nil cost) with modified approval limits for DCC. Whilst this solution does not meet all DCC needs, it is adequate for current purposes, whereas purchasing a more tailored, standalone system would have incurred integration costs.

Initially the purchase order information is being provided to Finance in a form. The Finance team will then own the activities to raise the purchase order in the system - no other business functions will have direct access. Once the process is established then a review will take place as to whether access to the purchase order system will be extended.

The new system went live on 1 September 2017. This has allowed Finance to view non-conformances as they occur and hence assist people to follow the process correctly. Within a few months, non-conformances have reduced significantly.

8.3.3 KPI Reporting and Dashboard Management

Context and Driver:

DCC has developed systems which are able to meet its obligations in terms of reporting under SEC. However, there is a gap between these minimum reporting requirements and the capabilities of a modern 'data driven organisation' which could inform both strategic and day-to-day decision making.

Hence, following a competitive procurement, DCC commissioned an independent investigation into the capability gap.

This work included interviews with 29 different stakeholders of data, as well as in-depth analysis of data from 3 different systems. The intention was to deliver a strategy that could set the direction for DCC to become a truly data driven company.

This process began in RY2017/18 with the investigation phase, but the following capabilities are due for implementation in RY2018/19, as part of our “Data Hub” strategy:

- CDO - recruiting a Chief Data Officer reporting into the CEO.
- Data model – Defining an enterprise reporting data model which will help to support organisation-wide insights
- Methodology - Providing a proven methodology for future implementation.
- Master data solution - Providing a master data solution with a business user interface
- Dashboards - Developing a number of dashboards and reports based on identified and prioritised business projects from the roadmap within the data strategy.
- A machine learning model – to help Smart DCC predict changes in their business to allow for proactive decision making.

8.3.4 GDPR

Context and Driver:

The General Data Protection Regulation (GDPR) became law on 25 May 2018 and the Network and Information Security Directive (NISD) on 10 May 2018, although the latter involves a period of government scoping and decision making before being applied to industry.

DCC undertook work to prepare for compliance with GDPR and with NISD (where applicable), although it was later confirmed that the government had decided that Smart DCC would fall outside of NISD scope.

What was implemented:

For GDPR, the main thrust of activity consisted of:

- Updating contracts with service providers and suppliers
- Creating services to handle enquiries made under GDPR.
- Updating security policies and procedures
- Educating staff across DCC of the requirements of GDPR

GPDR was passed into law on 25 May 2018. No significant outstanding risks were identified, either internally or from a third-party assessment of the readiness project that was completed ahead of go live.

8.3.5 Price Control Improvement

Context and Driver:

For each Regulatory Year, DCC is required to submit justifications for material variances between baseline and incurred costs. As of 2017, DCC had produced four such submissions since the granting of its licence in 2013.

Whilst DCC has a track-record of improving the quality of the submission year-on-year, DCC’s operations have also become increasingly complex and the costs have grown considerably.

This has resulted in a challenge to the timely assembly of regulated costs from the business. It has also become more difficult to provide an accompanying narrative that is comprehensive and succinct.

Following a review and competitive procurement, [REDACTED] were commissioned to recommend improvements to a series of existing processes related to delivery of the Price Control (PC) outputs, as well as to develop a road map for further change. The primary objectives of the work were to deliver processes with the following objectives

- **Simplification** - To simplify the production of the submission and reduce the production effort
- **Distribute Effort Across RY** - To spread the work load of developing submission material throughout the regulatory year where relevant.
- **Increase Quality** – Assist Ofgem by providing better justification of efficiently incurred costs
- **Strategic View**- Enable key decision makers to strategically make decisions of what to include or exclude from the submission, where to focus more time and effort
- **Skills transfer** – DCC wanted to acquire new capabilities in business

The project was split into two interdependent workstreams.

Workstream 1 – Content production and learning. This workstream was tasked with completing components of the RY2017/18 submission using the existing processes for information gathering. As the consultants worked on the submission, pain points and inefficiencies were identified for later analysis.

Workstream 2 – Root cause analysis. The consultant worked closely with the business and the price control team to uncover the root-causes of issues and problems. This was heavily informed by the output of workstream 1. A broad stakeholder group was involved in so that improvements would resonate with the business and be more likely to embed.

What was implemented:

By workshopping problems and developing potential solutions with teams from across the business, the consultants created a Roadmap for process improvements for both the near- and long-term.

A number of the recommendations have been incorporated within the process for completion of this submission, including the use of a dedicated Project Manager from outside the Regulation team.

8.3.6 Independent Audit and Assurance

Context and Driver:

Whilst the licence and SEC do not place a requirement on DCC for an Internal Audit capability, it was the view of the CEO that DCC had reached a scale and complexity where this was now appropriate. The intent was that it should be independent of ExCo and report to the Audit Committee.

A robust internal audit and assurance function would support effective delivery of DCC’s responsibilities and contribute to Continuous Improvement across the DCC business

During RY2017/18, an independent consultant was brought in to review enterprise risk and control. Following consultation across DCC a proposal was made which would include the implementation of an Internal Audit function, with an experienced Head supported by two staff. Their primary brief would be to identify those areas needing audit support, produce a timetable and recruit experts to undertake the reviews. Note: it is envisaged that the actual audits themselves would largely be carried out by specialist third parties.

What was implemented:

Work is underway to specify the function in detail, and the roles within it, with a view to establishing the function in the Autumn of 2018.

8.3.7 Information Management

Context and Driver:

The existing data and document management processes and systems were implemented early in the life of DCC and have evolved as the company has grown.

which increases effort and risk. The consequence is that we are now faced with a situation which is inefficient and does not take advantage of the opportunities available to DCC

Many processes rely on manual intervention which, when combined with the growth of the organisation and the increasing numbers of routine contacts with external organisations, increases the effort in data handling and the risk of mishandling occurring.

In light of this it was thought timely to review the effectiveness of these processes and systems, including a detailed assessment of the current data retention strategy and controls.

Following a competitive procurement, [REDACTED] were appointed to undertake a 4-week review of information management needs within DCC. A report was provided to DCC which included recommendations for platforms, tools, processes and people and what approach should be taken to deliver.

What was implemented:

[REDACTED] have been retained to assist DCC in enhancing its practices, and the first phase of this work is underway currently, which is to improve the set-up and usage of DCC's SharePoint systems.

9 Business Planning

9.1 Scope and Purpose of Business Planning

The annual DCC business planning process determines DCC's priorities, plans and budgets for the next four years. It has two main components: the planning and budgeting process and the external facing Business Plan document:

- The planning and budgeting process results in organisational and functional plans and associated budgets for the next four years. These budgets are reflected in the Charging Statement for the upcoming Regulatory Year and the Indicative Budgets for the subsequent three years.

- The external facing Business Plan document is intended to help our customers and other stakeholders understand and contribute to our plans for:

  – DCC's role in the energy industry

  – The services DCC provides

  – Our performance over the last year

  – Our plans for the next four-year period

  – Our financial budget and forecasts for the next four-year period.

The latest Business Plan was published on 5 June 2018.

9.2 Business Planning Process for the Period RY2018/19 – RY2021/22

In September 2017, ExCo carried out mid-year reviews of the performance of each function. These examined delivery and financial performance in the year to date, identified lessons learnt, and set out each function's plans for the next 18 months. This provided a useful pre-cursor to the Business Planning process, enabling each function to start to consider its purpose and strategy based on the DCC vision and strategy.

Prior to business planning getting underway, ExCo set out DCC's vision, strategy and values, the roadmap of activities and core planning assumptions to provide a common basis for each function to produce its plans. These planning assumptions also reflected the development priorities we had consulted on with customers and stakeholders as part of the Development Planning process.

ExCo also agreed a defined total resource (FTE) and financial envelope that was published to customers. Each function was allocated an FTE efficiency challenge and cost reduction challenge as a guide for producing their plans.

The approach to defining **resource** costs and **other internal costs** was based on a matrix model so for many functions, this required planning both for their own functional needs but also the requirements of any programme they needed to support.

Each programme defined its delivery objectives, set out the intended delivery strategy and timescales, and identified the skill sets required to deliver its objectives. These requirements were then reviewed and challenged by the heads of each DCC function, to inform their associated resource plans and other internal costs.

In addition, each function set out their objectives for the next four years, associated business activities with resource plans and internal costs.

External costs were reviewed by programme managers and relevant functions to update the forecast based on current delivery plans. This included making assumptions where there was uncertainty relating to future requirements.

Proposed objectives, resourcing and costs were then subject to several rounds of challenge by members of ExCo. Functional heads were challenged on their objectives and proposed delivery approach, the level of resource required and whether the proposed recruitment profile was realistic.

This approach resulted in changes to plans and budgets, including to the approach to delivering objectives, reductions in the level of resource required, a slower ramp-up in recruitment plans and an overall reduction in the total budget for RY2018/19 compared to the original proposals.

The Finance Business Partners worked closely with the functions to refine functional budgets and to present consolidated budgets and analysis to ExCo to inform the challenge process. The Business Planning team also worked with ExCo and functional heads to ensure alignment between the plans.

Following finalisation of the plans and budgets, the DCC Corporate Objectives were updated to reflect the agreed plans and priorities. We updated and then published the external Business Plan for RY2018/19–RY2021/22 in June 2018. The finalised budgets form the baseline against which functional heads are held to account.

9.3 Improvements to the Business Planning Process

Since producing the first Business Plan in January 2016, we have introduced improvements to the process and the external output, often in response to stakeholder feedback.

This year we introduced further rigour to the process by requiring the functions to explain the link between their function objectives, deliverables, activities, resource plans and budgets. This enabled more robust challenge on the priorities for each function and their proposed delivery approach. We also introduced explicit cost reduction targets for each function and have committed to an overall DCC cost reduction target, which we have published to customers.

We expect to make further improvements to the business planning process in future years. We intend that our customers should have a growing role in shaping our plans.

9.4 Ensuring an Economic and Efficient Outcome for Customers

The business planning process helps to ensure that DCC's objectives and plans are transparent and reflect customer priorities, so that we undertake activities that will meet our customers' needs. It ensures that our plans and resources are aligned and coordinated to deliver defined objectives.

We ensure that we adopt an economic and efficient approach by challenging ourselves on whether our plans are realistic and how we can deliver the same outcome within a lower budget envelope than originally requested by managers.

The finalised budgets also form the baseline against which we compare requests to incur additional costs through the Internal Change Process. This helps to ensure that we identify any variances from planned expenditure, challenge planned and unplanned spend and identify savings when required, so that we remain within the budget as set out in the Charging Statement for that year.

In parallel with the financial controls placed by the new planning and review processes, DCC is able to discuss activity with its customers through forums such as SMDG, and the SEC Operations working group. These industry forums will become increasingly important in guiding the activities which DCC undertakes, as we move away from mandated Programme Delivery and establishment of the DCC Operations function and into a period where there is greater discretion over requirements on DCC.

9.5 Monthly Business Plan Tracking

In previous submissions, we have described the process through which requests for expenditure of internal costs have been scrutinised – the production of Internal Change Requests (ICRs) and scrutiny through the Value for Money board (VfMB).

As part of the introduction of a more rigorous business planning process, it was felt appropriate to consider whether the previous Value for Money process was still fit for purpose or drove the right behaviours amongst our Executive and Senior Managers.

The downside of this process was that the vast majority of spending requirements passed through the VfMB, thus creating an overhead for managers in preparing ICRs. This was further exacerbated by the very low £10k threshold, above which an ICR was required.

Typically, in an unregulated, commercial business, functional heads would hold a budget and then be expected to manage within it, but with a defined process through which unexpected, or out of budget, expenditure could be proposed, challenged, and then be funded or denied.

In RY2018/19, we aim to develop a more commercial culture in DCC by requiring managers to approach budget management in an equivalent way, but with variations away from the Business Plan requiring separate approval. This is also a crucial preparation for moving to any form of ex-ante style regulation where operating within a spending limit becomes extremely important.

Executive managers will be empowered to execute their business plan without scrutiny of the specific actions they are taking, as their business plan has already been scrutinised in detail and approved. For example, if the agreed plan includes recruitment of an additional manager, then this can proceed without further scrutiny, whereas historically this would have required an ICR to be presented for approval by the VfMB.

However, recognising that there will inevitably be variations from the business plan, DCC have instituted a monthly review meeting with each Executive or cost centre owner where progress against the business plan is tracked. This serves the dual purpose of enabling the Finance team to track expenditure against the agreed budget, but also to identify and scrutinise unplanned expenditure.

In some cases, unplanned expenditure can be accommodated by re-prioritisation within the cost centre budget, and managers will be allowed to do this. However, if this is not possible due to the scale of expenditure, or where the expenditure is for a purpose significantly different from what was agreed in the business plan, then a business case is required to be produced.

Various criteria have been defined which require a business case to be produced – these include:

- The unplanned expenditure is greater than £100k
- There is a change to the proposed structure of the unit, or individual roles are either being upgraded or downgraded
- The expenditure cannot be funded within the budget of the business unit
- A procurement is required which was not identified in the business plan
- There has been a change to the resourcing strategy for a role(s) – e.g. a contractor is to be employed instead of a permanent member of staff.

Hence, one of the key changes that has been made is a move away from an ICR being required ahead of all expenditure greater than £10k, to a more efficient process of managing by exception.

This process has been introduced from May 2018 onwards, building on the financial review processes which had previously operated. Over time, this monthly review process will be improved and optimised to ensure it is driving the right behaviours around expenditure within DCC management.

10 Delivery Hub Working Group

10.1 Development of DCC's project management capability

Context and Driver:

For the first three years of DCC's existence, the focus was on the delivery of the core SMETS2 communications infrastructure. In support of that work, DCC deployed a small Project Management Office (PMO) which focused exclusively on this single programme.

The vast majority of DCC specialist resource (e.g. design architects, business analysts, testing experts, regulatory experts) worked on the SMETS2 programme, with other smaller, or embryonic activities being subservient to its needs.

The core activities of the PMO in that single programme context could be described as follows:

- Maintaining the plan, including milestones
- Project and programme management
- Risk and Issue management
- Reporting
- Programme Governance
- Change Control

At the end of 2015, the delivery of the SMETS2 infrastructure was re-planned and split into two separate releases, R1.2 and R1.3. The additional complexity resulting from this revised approach resulted in an increased workload on the PMO as activities on different releases began to take place in parallel.

RY2017/18 has seen a very significant increase in the complexity of delivery activity within DCC. Whilst the initial scope of the SMETS2 programme was completed successfully, R1.4 has followed and delivery plans for R2.0 and the enrolment and adoption of SMETS1 meters have been confirmed. In addition, the Switching programme and planning for the enduring Release Management Strategy have moved forward.

As a result, the former PMO model focussed on a single programme no longer has the capacity or capability required to support each of the releases to a sufficient standard. This brings with it the risk of inconsistent approaches and methodologies being adopted across different DCC programmes.

To maximise the use of DCC's specialist resource and to deliver change efficiently, ExCo decided to introduce matrix management working, with resource pools held centrally and then deployed to meet the priorities of the business. Whilst resources are assigned to projects and programmes, they are not owned by them.

In parallel with this, it was recognised that the PMO function would have to be enhanced to work efficiently and flexibly to meet the needs of each programme, but also to manage the complete set of programmes and projects and their interdependencies, including resource planning and management

10.1.1 Proposals for change

In September 2016, [REDACTED] was retained to review the PMO function and to make recommendations. The review assessed some of the PMO capabilities to require improvement as follows:

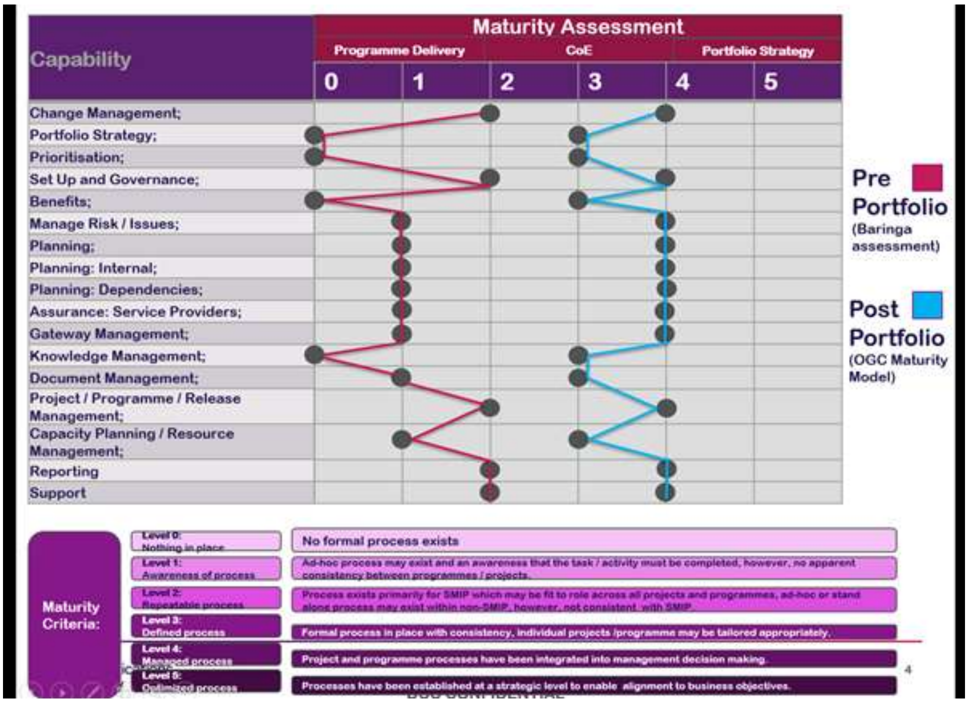

Figure 10-1 – [REDACTED] assessment of PMO capability

Note: in the figure above, the red and blue lines indicate the following:

- **Red** - indicates [REDACTED] findings against the standard OGC maturity model.
- **Blue** - indicates [REDACTED] assessment of the desired future state.

There was evidence of a range of processes being in place, but there was limited consistency between individual projects.

It was concluded by ExCo that, for the increasing complexity of multi-programme environment to be supported, there needed to be a step change in the capability and capacity of DCC in this area.

Work needed to be undertaken such that DCC was able to effectively manage multiple programmes with common tools and approaches and to ensure delivery of all programmes to time and quality standards. This would be based on a single PMO structure with shared resources allowing DCC to manage PMO resource flexibly across different programmes. This use of matrix management would thus allow the PMO service to be delivered in the most efficient way.

10.1.2 What was implemented

Following a competitive procurement, a specialist PMO consultancy was commissioned to support DCC's need to uplift the capability and maturity of the PMO function. The rationale for appointing external consultants was the need to bring in a PMO team to develop new tools and processes as a package, rather than simply recruiting additional staff with specific areas of expertise that may not be matched in terms of skill and experience with the rest of the team.

Specialist providers would also enable DCC to access off the shelf management tools to upgrade our ability to manage multiple programmes and matrix working, such as a common risk framework.

The objective was for the external team to create the right conditions, including new tools and ways of working, for the permanent DCC team, comprised of new permanent staff and of existing staff whose skills would be upgraded as part of the contract.

The proposals for change were reviewed and agreed by the ExCo and the approach to procuring the external resource was agreed by the Value for Money Board in May 2017 (see ICR0338). [REDACTED] were appointed to deliver this project

As [REDACTED] worked with DCC, the desired Target Operating Model for the PMO function was developed, alongside the introduction of new tools for managing all the programmes in a consistent way. The outcome of this work was the creation of:

The Project and Programme Management Office

The project and programme offices deliver:

- **Programme management** – Quality management of new functionality or capability that DCC is delivering to ensure that DCC meets all its objectives and milestones. This includes strong coordination between projects, and the management of any interdependencies between projects or programmes.
- **Project management –** Additional capacity is available to DCC to manage important projects that require specific management and governance.

Portfolio Office

The portfolio office is the essential information hub for the organisation. It provides governance and support to the business, delivering up to date analysis, status reports and information to enable timely and effective decision-making. It provides insight and challenge across the portfolio of all activity including:

- Baseline resource schedules and staffing plans
- Common guidance and templates to ensure a standard approach
- A common performance data set
- A common format risk register to enable escalation and aggregation of risk throughout DCC
- Management of the gating process

Project Support Office (PSO)

The PSO is responsible for supporting the programme and project teams, providing a key role in data collection and feeding into the portfolio office. It provides programme and project support including scheduling, management of dependencies, risks and issues, reporting and other support activities.

New tool set

A range of additional software tools and systems have been provided to aid the work of the Project and Programme Management functions. These include:

- **Project Online**, which will enable us to capture, record and report on all programmes and projects. This has been piloted in early 2018, with the intention of rolling it out across DCC later in the year.
- A timesheeting tool which enables the business to analyse where resource is allocated and to forecast supply and demand.
- A risk management tool covering all functional and corporate risks.
- Data analysis tools to import and interrogate data from the existing toolsets we are implementing as well as future unknown data sources.

10.1.3 Benefits

The culmination of these organisational, process and system improvements has been to significantly upgrade the capability of the central programme and project management functions. The benefits which will accrue from this can be summarised as follows:

- **Delivery confidence** – the strengthened programme and project management capability allows DCC to manage all activity to a high quality and to manage delivery risks proactively.

- **Cost optimisation** –resource can be deployed to match the priorities of the business in a flexible way.

- **Valuable information** – better information sharing, and data availability allows us to understand and take action on issues more effectively, e.g. failures to deliver by FSPs.

- **Development of DCC staff** – DCC's staff are given the opportunity to work across a number of projects and programmes, growing their skills and capabilities.

11 Commercial Strategy

11.1 Introduction

As in previous years, changes to the SMETS2 Service Provider contracts emanate from changes to requirements and specifications which also lead to consequential changes to the timescales for delivery. These contractual changes have flowed down from external changes, such as the direction from BEIS to develop new functionality for SMETS1 Enrolment and Adoption, Modifications from SEC Parties and DCC internal systems changes for defect fix and continuous improvement activity.

During RY2017/18, 130 Change Requests (CRs) were raised of which approximately 80 were for changes impacting the Fundamental Service Providers (FSPs) and 50 were for changes impacting the Relevant Service Providers (RSPs).

The most material changes were associated with the impact on the FSPs of Release 2.0 and hence, we continue to focus much of our attention on these contracts, and changes to them, in order to maximise the value achieved in commercial negotiations. We engage in very detailed technical and commercial negotiations with the FSPs in relation to change. For contracts that are not provided by the FSPs we have a set of rigorous processes and controls in place to manage costs.

During delivery of Releases 1.2 and 1.3, DCC concluded that the current contractual framework did not always give DCC the levers it needs to drive performance from the FSPs. As a result, we have carried out a Commercial transformation this year to reset the commercial relationships with the FSPs and RSPs with the objective of maximising DCC's ability to drive an economic, high quality outcome. Further details of this are provided in Section XXX of this report

During the year the most significant commercial negotiations with the FSPs centred on CRs for Release 2.0 and the SMETS1 programmes. The process and outcome of these negotiations are described in Parts 2 and 4 of this submission respectively.

The Modification Proposal requirements in section D of the SEC became 'live' in February 2016 and as a result, during RY2017/18, a further 10 changes from this source were received. Our FSPs struggled to manage this additional requirement for impact assessment alongside delivery of the core SMETS2 service. Despite challenging the FSPs to make more progress, DCC did not succeed in delivering to the timescale expectations of our customers and the SEC Panel. It remains a priority for DCC to improve this situation in RY2018/19. This is set out in more detail in section 4 of Part 4 of this submission.

Towards the end of 2016, DCC engaged SMBC to investigate refinancing options for the Set-up Charges of the two CSPs. This resulted in low-cost refinancing arrangements being implemented for CSP (N) in December 2017 and CSP (C&S) in May 2018. We also continued to apply the low-cost refinancing to the DSP Set-up Charges. For all existing Set-up Charges these arrangements will produce overall cost savings in the region of £46m.

Full details of the refinancing arrangements are provided in DCC's 'Proposal for a Relevant Adjustment to the ECGSt term 2018'.

It is worth noting that DCC applied a more rigorous review of Service Provider performance in RY201718 in the Annual Service Report, issued in August 2017. This rated all three FSPs as "Improvement Required" compared to the prior year rating of "Satisfactory Performance". This downgrading has led to a more frank and constructive way of working which is driving improved FSP performance in many areas – particularly with the two CSPs.

11.2 The FSP Negotiation Strategy

Our strategy for negotiating contract changes with the FSPs remains unchanged from last year and is to take a targeted approach, directing our efforts to where there is the highest potential cost for SEC Parties and ultimately, end-consumers. The DCC has some levers to drive value by the FSPs. However, there are limits to these levers, given the fixed term and monopolistic nature of the contracts.

In implementing our strategy, we aim to exert leverage in the following ways:

1. **Reputational Risk for FSPs** - The FSPs are major service providers in other markets and have a reputation to protect in relation to expanding that work. As such, they are aware that BEIS, Ofgem, and

the Industry are being updated with progress reports during the negotiations. Ultimately all costs are public, and changes are subject to government and regulatory scrutiny, therefore the FSPs are incentivised to propose credible costs for change. The FSPs are also aware that DCC reports publicly on its assessment of Service Provider performance in the Annual Service Report.

2. **Application of Contractual Levers for Change** - These ‘levers’ are the obligations of the FSPs as defined in their contracts. For the purposes of contract changes, these are detailed in Schedule 8.2 (Change Control) of the FSP contracts. Examples of such ‘levers’ include FSP obligations to follow pre-defined rules regarding the rates (labour, finance, margin) that may be applied in the preparation of the adjustment to the Charges. The FSPs are required to take reasonable steps to mitigate costs and risks and to provide a significant amount of supporting information regarding the additional costs and risks and how they have been mitigated or avoided. DCC’s ability to challenge each Service Provider’s proposed price for a change is dependent on the detail provided in these areas.
3. **Commercial Cover for FSPs** – In order to meet our delivery timescales, it is not usually possible to pause activities whilst the contract change is being negotiated. Hence, the FSPs have continued working on their solutions to meet the changed requirements in parallel with the negotiations. The contracts require the FSP to work only on the pre-change contractual obligations until the change comes into legal effect. However, all parties recognise that the delivery programme would be severely compromised if we adopted this approach.

DCC has recognised that there is a limit to the level of financial exposure that each FSP can tolerate. Therefore, DCC has provided an appropriate form of ‘commercial cover’ to each so that the exposure level has not compromised the FSP programme team’s ability to work to the revised scope and plan. This ‘commercial cover’ has been in the form of ‘Letters of Instruction’ with an appropriate limit of liability for both DSP and CSP (C&S). For CSP (N), DCC has made a number of milestone payments instead.

4. **Contractual cover** – Ultimately each FSP seeks formal contractual cover in the form of a signed Change Authorisation Note (CAN) for changes. This acts as some incentive to provide timely information to support the change so that formal agreement may be reached without undue delay.
5. **Competition** – [REDACTED]

For minor and/or low value change requests some of these factors will be less relevant, although our regular and consistent procurement and re-procurement activity ensures that costs are ‘market-based’.

11.3 Value for Money in Routine FSP Change

The commercial strategy for RY2017/18 remains unchanged from last year and we continue to apply the Change Control process, as described in Schedule 8.2 of the FSP contracts. Each change is reviewed to test for the justification for the change, and its alignment with DCC’s requirements and the General Objectives of the Licence.

The process followed by DCC in assessing these changes is also unchanged from that described in last year’s submission.

11.4 Value for money in substantial change

In RY2017/18, the most substantial changes for the FSPs were the suite of CRs associated with Release 2.0. As it was not possible to determine all the requirements for the Release before work commenced, the Release was split into phases with separate CRs (and one PR) for each phase. The programme of work commenced in 2016/17 with PR015 which covered DBCH hardware design. The remaining design and build activities (Pre-Integration Test (PIT) Phase) were covered by CR184 and CR194 for the CSPs and CR218 and CR194 for the DSP. The PIT Phase Contract Authorisation Notices (CANs) were then finalised during RY2017/18.

The remaining phases of the Release, i.e. System and Device Integration Test (SIT/DIT), User Integration Test (UIT) and Transfer to Operations (TTO) were then impacted under separate CRs (CR253, CR274 and CR301, respectively). Each CR and its CAN were separately negotiated with each FSP.

Whilst determining the Release 2.0 test requirements it became apparent that further test environments would be required, and these were requested from the FSPs through CR208. **The Release 2.0 CAN negotiations resulted in savings of £30m from the FSPs original estimates of the costs for development and**

<u>operational support charges resulting from the changes</u>. In addition, through reducing the DBCH prices from CSP(N) and CSP(C&S) by about £5.00 and £5.50 per unit respectively, we estimate a further £32m cost reduction for our customers.

In this section, we briefly describe the factors that informed our commercial strategy during the negotiation process.

11.4.1 The process of negotiation of high value contracts

Whilst the content of the negotiation is informed by the strategic framework above, attention to process is particularly important in high value commercial negotiations. Key elements include:

Strong negotiating team

The negotiation of the CANs for the Release 2.0 Implementation Plan (CR184, 194, 218, 253, 274 & 301) was tightly controlled within DCC. The Head of Contract Management led the team undertaking the face-to-face negotiations with each FSP. For each formal discussion, the relevant Contract Manager was supported, as appropriate, by Delivery Assurance Managers, and representatives from Finance and subject matter experts from Security, Design Assurance and Testing.

Negotiations for Release 2.0 were mainly carried out at Ibex House, as DCC was typically able to provide suitable conference rooms for the entire duration of the negotiations with the three FSPs. On some occasions, discussions took place at FSP premises if rooms were not available at Ibex House or if it was deemed more appropriate for the availability of staff. This became particularly relevant when the negotiations required the part-time presence of a member of the FSP delivery team.

Strong governance of the process

The DCC Board was kept up-to-date with the progress of the negotiations for the various Release 2.0 CRs with a Board update papers supported by verbal briefings at Board meetings. Ultimately, the DCC Board provided approval for the CANs to be signed based on the final negotiated positions with each FSP.

11.5 Ensuring Value for Money of FSP Contracts

QQ1 – External Cost Value for money provisions

Please report how the licensee undertook its contract management responsibilities in the current regulatory reporting year.

Please explain how value for money provisions in the DSP and CSP contracts have been applied in the current reporting year.

11.5.1 Deriving value for money through the DCC procurement and contract management teams

During RY2017/18, DCC concluded the procurement of 70 new contracts for Relevant Service Capability resulting in a total of 85 contracts managed by DCC during the year.

[REDACTED] Irrespective of the value, these are all required to deliver the DCC service. DCC is committed to managing all contracts to a high degree of efficiency and in a way that is both proportionate and provides value for money.

In this section, DCC describes how it discharges its contract management responsibilities and how it ensures that, where relevant, value for money ‘levers’ are used.

Undertaking contract management responsibilities in RY2017/18

The contracts managed by DCC arise from three procurement routes. Firstly, there are Fundamental Service Provider Contracts; secondly there are procurements anticipated in the Licence Application Business Plan (LABP) and finally there are new procurements that have been carried out since Licence award.

Contract management of the FSP contracts is specifically carried out in accordance with the governance provisions detailed in Schedule 8 of the respective contracts. This is discussed below.

The Governance Framework is defined in Schedule 8.1 (Governance) of the FSP contracts. This framework comprises a number of management boards each with a pre-defined purpose and objectives. During RY2015/16 the Governance Framework was amended, and the revised structure was applied as appropriate to the management of R2.0.

The tracking and reporting of contract deliverables by each FSP has not changed from previous years and was described in the RY2015/16 submission. The FSP contracts are managed by the DCC Supply Chain team whose roles are described in section 4 of Part 5 of this submission.

As in previous years, a large part of the focus of contract management activities during RY2017/18 was related to change control. However, there are other contractual responsibilities of the FSP which have been addressed during this year, and these are described in Table 11-1.

Table 11-1: Schedule 8 RY2017/18 activity

FSP Contract Reference	Area Covered	RY2017/18 Activity
Schedule 8.3	The Dispute Resolution Process	There were no formal disputes with any of the FSPs or any of the other External Service Providers during RY2017/18.
Schedule 8.4	Records and Audit Provisions - DCC is entitled to carry out one full audit under the terms of Schedule 8.4 with each FSP per contract year.	Following work in previous years to examine costs of major contractual change, PwC was re-engaged in RY2017/18 to carry out the annual audits of DSP and CSP contracts. These audits comprised a validation that the price for change CR160 reflects the cost incurred, plus margin at the agreed rate, and also sought verification of each FSP's compliance with the requirements of its Contract in relation to financial stability. These items were selected as a result of a risk-based analysis with an intention to audit other high-risk items on a rolling basis in future years. DCC also used the annual audit to review opportunities for re-financing CSP (N) Set-up Charges and to investigate possible constraints.
Schedule 8.5	Exit and service transfer arrangements	No material changes in RY2017/18.
Schedule 8.6	Requirements to provide a Business Continuity and Disaster Recovery (BCDR) plan	DCC and External Service Providers have reviewed and updated the outline BCDR plans to reflect ongoing change.
Schedule 8.7	Obligations to co-operate with DCC and other DCC FSPs	Updates to the Co-operation Agreements were provided following the closure last year of the CAN037 for the CR160 changes.

FSP Contract Reference	Area Covered	RY2017/18 Activity
Schedule 8.8	The process for agreeing the scope of a project and its subsequent implementation	31 Project Requests were raised in RY2017/18. 14 were closed, 1 was withdrawn and 16 remained open at the end of RY2017/18.
Schedule 8.9	The required content of Operations Manuals	The DCC Operations team have been working with the Service Providers to agree format and content of various internal Operating Model documents which serve to meet the requirements of this Schedule.
Schedule 8.10	DCC's rights and remedies in respect of any occurrence of any Enhanced Security Trigger and/or Step-in trigger	There were no breaches of obligations by any of the Service Providers leading to the triggering of Enhanced Scrutiny or Step-in.

Due to the nature of the contracts with BT, Critical Software and Capita, where change is much less frequent, the level of Contract Management required is less onerous than that for the FSP contracts. There were fewer CRs that impacted these Service Providers and these CRs tend to be of much lower values than those of the FSPs, however DCC still applied the same due diligence process as that for the FSPs to these changes.

11.5.2 Applying value for money provisions in the FSP contracts

The baseline versions of the FSP contracts were established to be economic and efficient by the initial competitive procurement of these contracts by DECC. These contracts have been subject to change using the value for money 'levers' provided in Schedule 8.2 of these contracts.

The FSP contracts also contain specific obligations to achieve additional value for money as the programme progresses into the delivery phase. These obligations are provided in Schedule 7.3 (Value for Money) and details are provided in **Error! Reference source not found.**.

Table 11-2: FSP Contract schedule 7.3 summary

Schedule 7.3 FSP Contract Reference	Area Covered
Part A – Obligations in relation to benchmarking	DCC is not entitled to carry out any Benchmark Reviews until three years after the respective Effective Dates. This timescale anticipated that live service would have been operational for at least a year at this point in time. The earliest such benchmarks could take place would be November 2016. However, as live service did not commence until November 2016 there would clearly be no service history to benchmark. Delivery at scale has still not commenced and so it is expected that Benchmark Reviews would not be cost-effective until there has been at least 1 year of a reasonable level of service activity. We are currently expecting to initiate the benchmarking activities towards the end of RY2018/19.

Schedule 7.3 FSP Contract Reference	Area Covered
Part B – Obligations in relation to Gainsharing	Gainshare is based on the FSPs being able to implement improvements (under the Continuous Improvement Plan of Schedule 2.4) or through the implementation of other changes or projects which reduce the costs of delivering Services. The cost savings would then be shared with the DCC and hence, DCC customers. No gain share opportunities connected with changes or projects were identified by us or the Service Providers during RY2017/18. Whilst there are some possible areas of cost saving that are currently being investigated, it may be that more material opportunities cannot be identified until after reasonable period of live service activity.
Part C – Obligations in relation to Refinancing Gainsharing	The CSP obligations refer specifically to the refinancing of the monthly asset charges relating to Communications Hubs. Finance arrangements are in place for the first tranche of Communications Hubs with delivery of these commencing in RY2016/17. Due to the slower-than-expected roll-out of Communications Hubs, it is now expected that financing arrangements for future tranches of Communication Hubs will be provided by the CSPs during RY2018/19. The DSP has obligations to review the financing of its Set Up Charges. The DSP carried this out as part of its assessment of CR091 during RY2015/16. This arrangement was further enhanced during RY2016/17 with the introduction of a second bank which further reduced the finance costs. This arrangement continued to be used during RY2018/19 and the full details of the resulting refinancing arrangement and Refinancing Gain are provided in DCC's Proposal for a Relevant Adjustment to the ECGSt term 2018. CSP(N) does not have contractual obligations to seek refinancing of its Set-up Charges. However, DCC led an initiative during RY2017/18 to introduce low cost financing for CSP(N) Release 2.0 milestones and other charges (in total ~£70m). The arrangement was implemented in December 2017 and is expected to apply for all future Set-up Charges such as those associated with future releases. DCC also worked with CSP(C&S) to refinance ~£220m of Set-up Charges. Two arrangements were worked on by the parties. The first for £100m concluded in May 2018 and the second for the balance is expected to conclude in August 2018. Both the CSP(N) and the completed CSP(C&S) refinancing arrangements are also detailed in DCC's Proposal for a Relevant Adjustment to the ECGSt term 2018.
Part D – Obligations in relation to Non-mandatory Activities	During RY2017/18 DCC did not receive any requests, from the FSPs, for approval of the use of any of the Relevant Assets in relation to the performance of any Non-Mandatory Activities.
Part E – Obligations in relation to Financial Audit	Audits under the terms of Schedule 8.4 carried out by [REDACTED] for each FSP are described in Section 11.6. These were not used to assess and identify opportunities to realise cost savings and/or other financial gains in relation to the performance of the Services nor to verify the FSP's compliance with its obligations under Schedule 2.4 (Continuous Improvement). These items were not included in the scope of the audits as they are designed to apply to the delivery phase of the programme which will only commence in a

Schedule 7.3 FSP Contract Reference	Area Covered
	meaningful way after Release 1.3 has gone live. However, although Release 1.3 went live in July 2017, there has still been a slow roll-out of Communications Hubs with the 1000th SMETS2 installation only occurring during June 2018. [N.B. The expectation in the original plan was that circa 3 million installations would take place in the first year of live operations.]
Part F – Obligations in relation to Efficiency Gains	There are no Efficiency Gains currently identified in the CSP contracts. However, the Gains identified in the DSP contract commenced in November 2017 (The start date was changed to apply 12 months from the Release 1.2 'Go-Live' date.). For RY2017/18, these gains were 8% of the DSP Fixed Operational Charges which when applied to the 4 months (November 2017 to March 2018) of Fixed Operational Charges amounted to savings of £379,422.

11.5.3 Value for money from other External Service Provider contracts

The FSP contracts are by far the most complex contracts and the management approach to those is not appropriate for most other Service Providers. We therefore apply our procurement process in many cases for other Service Provide contract updates or new services.

Use of Procurement Frameworks

Where the contract is of short duration, value for money has been achieved by the application of the competitive procurement requirements of the DCC Procurement Strategy. To make this process more effective DCC has set up procurement frameworks for areas where recurring procurements occur. These are:

- Audit and Assurance
- Consultancy
- Legal Services.

In RY2017/18, there were 7 and 22 procurements under the Audit & Assurance and Consultancy frameworks respectively. The Legal Services framework became effective in March 2017 and 5 procurements under the framework took place during RY2017/18.

These frameworks allow DCC to mobilise external support quickly, which is important in a programme environment. They also provide clarity of pricing through the use of rate cards and allow DCC to benefit from negotiated discounts.

Benchmarking

Where External Service Provider contracts extend over a number of years, DCC aims to include provisions in the contract for the benchmarking of the service to ensure continuing value for money. Examples of contracts containing such benchmarking provisions are the contracts for SMKI, the Billing System and the Service Desk. In addition, rather than awarding contracts for the full licence term, the Service Desk and BIMI contracts have break clauses, which can be triggered by DCC, to ensure that there is an incentive on the Service Provider to maintain service levels.

During RY2017/18, the Benchmarking provisions were not utilised and therefore, the achievement of any 'value for money' type cost savings will be the subject of future submissions.

11.6 Review of Service Provider Costs

QQ2 – Incurred and Future Costs (SP)

Please report actions undertaken by the Licensee to review incurred service provider costs in the current regulatory reporting year and the actions that the Licensee to proposes to take to review service provider costs in the forthcoming regulatory reporting year.

11.6.1 Actions undertaken to review incurred External Service Provider costs

Our response to this question pertains to the charges **paid** to External Service Providers. Review of cost **estimates** for Impact Assessments, Contract Changes and Project Requests for External Costs experiencing material variance in this year is described in Part 3 of the submission. The strategies and activities described in that Part reflect our approach across all CRs, however, the depth and area of scrutiny is in proportion to the size and impact of the CRs itself.

During RY2017/18, a large number of contractual charges were paid (or became payable) to the FSPs and a number of other External Service Providers. FSP Charges were for the achievement of payment milestones and these payments were a combination of charges that were part of the original baseline contracts and additional charges that had been negotiated and agreed as CANs.

Each invoice received for payment of charges is checked:

- For accuracy
- That associated deliverables had been satisfactorily received by DCC
- That any related Milestone Achievement Certificates had been issued by DCC (where applicable)
- That labour costs are consistent with the relevant contract labour Rate Card for Impact Assessments and Project Requests

Towards the end of 2016, DCC engaged SMBC to investigate refinancing options for the Set-up Charges of the two CSPs. This resulted in low-cost refinancing arrangements being implemented for CSP (N) in December 2017 and CSP (C&S) in May 2018. We also continued to apply the low-cost refinancing to the DSP Set-up Charges. For all existing Set-up Charges these arrangements will produce overall savings in the region of £46m. Full details of the refinancing arrangements are provided in DCC's 'Proposal for a Relevant Adjustment to the ECGSt term 2018'

The new Head of Procurement created a forward-looking Procurement Programme. This will ensure DCC is adequately prepared for upcoming requirements and has sufficient resource to deliver comprehensive procurements with appropriate commercial terms for DCC to deliver further innovation with its supply chain partners.

11.6.2 Actions we propose to take to review External Service Provider costs in RY2018/19

In RY2018/19, there will continue to be a number of charges to be paid to the External Service Providers. The invoices for these charges will continue to be checked in accordance with section 7.6.1.

An auditor will again be engaged to conduct the annual audits of FSPs to confirm accuracy of charges. The scope of the audits will be broadened to cover more elements of the contracts (selected on a risk basis) that may be audited under the terms of Schedule 8.4 of the FSP contracts.

Towards the end of RY2018/19 it is expected that a reasonable level of service will have been delivered by the Service Providers such that it would make sense to invoke the relevant Benchmarking provisions in order to benchmark the prices of the services.

As well as continuing to use the techniques described above to assess External Service Provider cost estimates to ensure the achievement of value for money the DCC is also planning a number of initiatives in RY2018/19 to improve and obtain better value from the DCC supply chain. These initiatives will include:

- DCC will continue to work with SMBC, other banks and the CSP (C&S) to put in place a second tranche of refinancing for the deferred monthly Set-up Charges at lower interest rates than those that currently apply

- DCC will also investigate with CSP (C&S) the refinancing of the first tranche of Communications Hubs monthly charges at lower interest rates than those that currently apply.

- The CSPs shall be expected to provide financing proposals for the second tranches of Communication Hubs. DCC shall apply its usual due diligence to these proposals.

- The Head of Supplier Relationship Management (SRM) will implement work on the development of a new SRM Framework which will set out how DCC manages its suppliers. Through the development of supply chain MI, stakeholder management plans, and ways of working with our suppliers, DCC will be able to manage our key supply chain partners better. The objective of this SRM function will be to identify clearly areas of unsatisfactory performance and hold suppliers to account to address this. This will seek to unblock issues without relying on the contract and, where appropriate, manage escalation to senior management in a more controlled manner.

Collaboration with our Service Providers is the best route for success, the achievement of value-for-money and cost reductions. Therefore, we will continue to work together with our key Service Providers to improve how we work. This includes programme managing change with them and prioritising activity. DCC and the Service Providers also need to ensure that the entire system will satisfactorily ‘Operate at Scale’ and be capable of being updated with the regular Releases such that SEC modifications and forthcoming Elective Communication Services may be implemented.

12 Commercial Outcomes

12.1 Service Provider Performance Assessment

QQ3 – Service Provider Performance

Please provide the Licensee's assessment of the performance of its external contract service providers in the current regulatory reporting year. Please detail areas such as implementation and testing, operational performance, data security, business continuity and the on-going financial viability of its suppliers and expected implications for Licensee costs and revenues.

RY2017/18 was the first full year during which DCC provided its SMETS2 Services to SEC parties (DCC's Customers). During the year the following major releases were also undertaken to support the SMETS2 programme:

- Release 1.3 (R1.3) completed the core SMETS2 smart meter communication services in July 2017. This release provided the balance of functionality that was not available in the earlier DCC 'Go-Live' release (Release 1.2), such as functionality for pre-payment customers, alerts for network operators, and support for half-hourly readings. Despite extensive planning for R1.3 in RY2016/17 this release was completed 3 months late.

- Release 1.4 (R1.4) was successfully delivered in November 2017 in accordance with the implementation plan. This release delivered three major new features for DCC Customers including the ability to have more than one user ID per user role, the ability for any customer to view read-meter profiles over the self-service interface, and threshold anomaly detection.

- Release 2.0 (R2.0) will provide DCC Customers with a Dual Band Communications Hub (DBCH) which will provide increased HAN coverage and hence, will enable more successful installations of SMETS2 smart meters. In October 2017, DCC concluded its consultation on the R2.0 implementation plan which supports updated technical specifications planned for implementation on 30th September 2018. This will allow a capability to volume manufacture DBCHs for 13th December 2018. Currently, the programme is on track to go-live as planned on 30th September.

During RY2017/18 the second of DCC's major external programmes – Enrolment and Adoption (SMETS1 Programme) issued its 'Plan for Enrolling SMETS1 meters into the DCC' for consultation in accordance with Licence Condition 13. As a result of this consultation and working closely with BEIS, the design, delivery and commercial workstreams have progressed in accordance with that plan and a number of the service architecture options which were highlighted in last year's feasibility study were down-selected.

A report of performance of our Service Providers is included in the Annual Service Report for Performance Year 2017/18. This will be finalised and submitted to Ofgem by 31 July 18, in accordance with Condition 34.9 of the Licence, Service Providers are given the opportunity to comment on the report before it is finalised and submitted to Ofgem.

12.1.1 Managing performance in RY2017/18

In RY2017/18, as well as the formal contract management and commercial processes, we proactively managed the performance of our Service Providers through the following, which are described in subsequent sections:

- Assessing the performance of implementation and testing

- Assessing the operational performance

- Assessing performance of data security

- Assessing performance of business continuity

- Assessing performance of on-going financial viability

During RY2017/18, when performance in the above areas failed to meet our expectations this had a direct resource requirement on DCC, as we implemented remediation plans to minimise the delay to services being delivered to Users.

12.1.2 Assessment of Service Provider performance - implementation and testing

Release 1.3

Extensive planning of Release 1.3 was undertaken during RY2016/17. R1.3 planning was done on a non-contingent basis and against a government-directed go-live date. The first R1.3 planning in RY2016/17 was driven by the DSP confirmation of the non-feasibility for them to meet the mandated go-live date with full R1.3 scope.

By April 2017 it was apparent that issues with the Gas Proxy Function (GPF) could not be identified and a two-month extension of the SIT phase was required to conclude tests in this area and other critical business scenarios. On 1st June 2017 CSP(C&S) completed SIT testing a day ahead of schedule and CSP(N) completed SIT testing 4 days later due to a late-occurring problem with the SBCH.

Test Assurance Boards (TAB) for CSP(C&S) and CSP(N) were successfully completed subsequently on 5th and 7th June 2017 respectively. DCC completed entry to User Integration Testing (UIT) End-to-End (E2E) testing phase on 13th June as planned. During June 2017 the DCC Programme Delivery team received verbal and written confirmation from the Test Assurance Group (TAG) that they recognised a successful SIT exit as well as the entry to UIT E2E testing. The SEC Panel met on 30th June 2017 and approved DCC achievements of SIT completion as per the above dates and the UIT E2E testing entry. SEC Panel used the TAG recommendation as an input to its decision.

The focus in July 2017 was to undertake communication and engagement with stakeholders to gain approval for R1.3 to go live in the production systems. The first requirement was an initial validation and assurance that the DCC Programme Release has achieved objectives outlined in the R1.3 Readiness document. This document was prepared to be presented to the DCC Board for approval for R1.3 to go into production and was a pre-requisite for BEIS to grant its approval. The R1.3 Readiness document was used to check that the DCC Programme delivery was managed using governance and gating processes in line with good industry practice. Programme Gates and Assurance Points were in place to approve entry into and, where relevant, exit from the various delivery phases and to approve key programme milestones.

In completing these governance and gating processes, DCC firstly ensured that all relevant solution designs were assured for quality and SEC compliance through the Design Assurance Board (DAB), after which these approved then passed through Programme Gates to reach a status of ‘Solution Design Complete’. This set out the baseline design for DCC’s Service Providers and ensured that the designed solutions were implemented via programme delivery. Further checks were done during the readiness review, such as Operational Governance, which assured DCC that R1.3 products have passed through design and test assurance and also the processes that DCC will follow as part of its operation of the production solution.

On 11th July 2017, the DCC Board reviewed and approved that DCC move forward with R1.3 in the governance process and obtain BEIS approval to deploy R1.3 into the live production platforms.

On 13th July 2017, DCC provided the R1.3 submission letter to BEIS to seek approval to deploy R1.3 into the live production platforms. In addition, DCC wrote to BEIS to update on how E2E testing and resolution of testing defects was progressing from the SEC Parties’ perspective in the UIT environment. On 18th July 2017, BEIS granted permission for R1.3 to go live in all regions. The SEC provisions governing R1.3 live services were activated on 21st July 2017. This brought into legal effect the relevant SEC Sections and designated or re-designated a number of SEC Subsidiary Documents and Schedules. The process to deploy R1.3 into deployment process commenced on 21st July 2017 and concluded on 22nd July 2017.

Release 1.4

This was the next planned update to the DCC systems under the enduring change process post the implementation of R1.3 but actually only impacted the DSP systems. Originally the full scope of R1.4 was planned to be delivered in two drops. The first drop consisting of changes to the Self-Service Interface was scheduled to be released into production on 30 June 2017 with the remainder of the scope scheduled to be released into production on 2 November 2017.

Due to the emergence of issues and delays during the latter stages of R1.3 testing, the R1.3 SIT exit date encroached into the R1.4 allotted window. As a result, it has become apparent that it would not be possible to test and deliver the entire scope of R1.4 by 2 November 2017. Following a number of workshops, R1.4 was re-planned to be delivered again in two parts. The main content remained on the original target and delivered date of 2 November 2017, and the remaining change to the SMKI recovery application was allocated to a later delivery. This later delivery was known as SMKI Recovery Testing (SRT) and collected a number of outstanding activities to complete the SMKI Recovery Testing Approach; specifically, parts 3b and 4. SRT was successfully delivered on 29th April 2018.

The R1.4 re-planning implemented the 'Delivery Train' approach, also known as 'feature switching'. This enabled the SRT developed work to reside as part of the DSP asset base in a disabled state until the later SRT Programme has completed the test and validations to confirm it was ready for delivery to production systems. The Delivery Train approach has gone on to be utilised to enable parallel development of R2.0 and SMETS1 programmes sharing the same limited environments.

Release 2.0

Release 2.0 (R2.0) is primarily for the introduction of the Dual Band Communications Hub but also includes the impact of changes to GBCS to include the additional product in Service Provider relevant systems. An overview by Service provider is provided below:

DSP (CGI)

The DSP updated the DCC solution design and implemented code changes to upgrade the DSP code changes to upgrade the DSP code to support DUIS 2.0 and GBCS 2.0. This was completed on time and no significant issues with the code have been found in testing. DSP also implemented changes to improve the test environment by upgrading the Service User Simulator to support decryption of sensitive payloads to endure that the Gas Proxy Function (GPF) can be properly tested in the Systems Integration Test (SIT) environment.

In its role as Systems Integrator (SI), the DSP defined a risk-based approach to testing the R2.0 code by focussing on testing R2.0 Communications Hubs with device emulators in SIT and real devices in Device Integration Testing (DIT). SIT also included 'non-motorway' testing (i.e. testing of other DCC interfaces not involved in delivery of service requests to meters). Improvements in automation of testing and logging since R1.3 enabled a larger number of tests to be executed in a shorter time period. SIT and DIT phases for R2.0 started on time in November2017 and all test phases were tracking to the test glide path during the reporting period to end of March 2018. DSP also implemented anew mechanism to allow concurrent development of multiple releases in a single environment. The 'delivery train' functionality allowed R1.4. R2.0 and SMETS1 code to be tested concurrently in a single environment enabling gaps between releases to be reduced.

CSP(N) (Arqiva)

CSP(N) updated its solution design to support DUIS 2.0 and GBCS 2.0 as well as to support deployment of DBCHs. CSP(N) developed new firmware to support R2.0 functionality for existing Single-Band Communication Hubs (SBCH) and designed and developed a new DBCH. Firmware for existing SBCHs was delivered to commence SIT on time but SIT exit was delayed due to issues encountered during testing. This did not delay the overall R2.0 delivery. Pre-Integration Testing (PIT) work-off plans for SBCH firmware were completed late but again, this did not affect overall progress of the plan. The design and development of DBCHs was delayed as initial testing of HAN radio performance highlighted a problem with the test specification which required clarification. This resulted in a re-design of the DBCH which, in turn, delayed final sign-off of the CSP(N) solution design and implementation of the DBCH. This has not delayed progress of the overall R2.0 plan.

CSP(C&S) (Telefónica)

CSP(C&S) updated its solution design to support DUIS 2.0 and GBCS 2.0 as well as to support deployment of DBCHs. CSP(C&S) developed new firmware to support R2.0 functionality for existing SBCHs and designed and developed two new DBCHs (one from each of its suppliers). Initial issues with production of the Zigbee stack required for CSP(C&S) to develop its firmware to support R2.0 functionality meant that PIT was comp0leted later than CSP(N). However, SIT went well and CSP(C&S) were back on track to complete SIT on time. PIT work-off plans for SBCH firmware were completed late but this did not affect overall progress of the plan. The design and development of DBCH was delayed as initial testing of radio performance highlighted a problem with the test specifications which required clarification. This resulted in a re-design of the DBCHs which delayed final sign-off of the CSP(C&S) solution design and implementation of the DBCH. However, this has not delayed progress of the overall R2.0 plan.

Other Service Providers

Critical Software (CSW) – upgraded the GBCS integration testing For Industry (GFI) tool to support GBCS 2.0. Development was completed on time with no significant issues having been identified. CSW also successfully upgraded the Parse and Correlate software.

SLS – developed a new device emulator for R2.0 including an 868MHz radio to facilitate testing of DBCHs. This was completed on time and has successfully supported SIT.

12.1.3 Assessment of Service Provider performance – Operational Services

Live service commenced for the FSPs in November 2016 on the achievement of the R1.2 ‘Go-Live’ milestone.

The live services being provided by the key Service Providers were as follows:

DSP (CGI):

- DCC Data Service (DUIS)
- DCC Service Management System (DSMS)
- Self-Service Interface/Self-Service Management Interface (SSI/SSMI)
- Registration, Enterprise Service, External DSMS Interface
- Systems Integration Testing Environment (For SP testing)
- User Integration Testing Environment (For SP and User testing)
- SMKI Repository Management Service
- DCCKI Certificate Signing Request (CSR)
- DCCKI Registration Service
- Production Proving

DCC monitored DSP’s performance in delivering the above services via the monthly Performance Reporting, Service Reviews, and ongoing Continual Service Improvement Plan (CSIP). (The monthly Performance Reports detail the SP’s level of achievement of its Performance Measures, provide explanations when Service Levels have not been met and include the calculation of Service Credits where applicable.)

At the end of RY2017/18, DCC senior management escalated deficiencies in DSP Operational Performance to the CGI executive level management and a team was brought in by CGI to develop and execute a number of improvements.

CSPs (Arqiva and Telefónica)

- Provision of SMWAN Coverage for their respective regions
- Order Management System (OMS) for their respective regions
- Provision and delivery of Communications Hubs
- Provision of test Communications Hubs and Remote Test Labs

- Training energy suppliers' trainers on Communications Hubs installation
- Provision of a DCC WAN gateway Interface for their respective regions

DCC monitored the CSPs' performance in delivering the above services via monthly Performance Reporting and formal Service reviews.

In addition to the FSPs, BT also provided:

- SMKI Services (Live from March 2016)
- SMKI Registration
- SMKI Certificate Signing Requests
- SMKI and Repository Entry Process

DCC monitored the TSP's performance in delivering the above services via monthly Performance Reporting and formal Service reviews.

12.1.4 Assessment of Service Provider performance - data security

DCC has continued to undertake Security Audits of the FSPs and BT during RY2017/18 to assess their implementation of the ISO27001 Information Security Management System standard and specific contractual security requirements. The TSP and DSP were also subject to the annual tScheme audit related to their SMKI service.

Furthermore, DCC and the FSPs have been subject to the enduring SOC2 annual audit. This was a particularly intensive and costly audit which has been a topic of ongoing discussion with the Security Sub-committee with regards to its relativity to DCC's SEC security requirements. Nonetheless, DCC did get value from the activity and, as a result, several minor security improvements have been made by the FSPs. Overall, the audit scheme that is in place provides a high level of assurance that DCC's Service Providers are meeting their contractual obligations and are applying good security practices.

12.1.5 Assessment of Service Provider performance - business continuity

BCDR Meetings and Workshops

Regular (mainly monthly) workshops have been held with DSP, CSP(N) and CSP(C&S) leading up to the full BCDR Proving Exercise planned for September 2017 with weekly meetings held in the weeks immediately preceding the exercise.

Further post-exercise meetings were held following the September 2017 exercise to track progress on post-exercise actions, particularly in relation to DSP which had not performed well during the proving exercise. As a consequence of this, a second and third proving exercise for DSP only was conducted in December 2017 and February 2018 which necessitated a continuation of regular meetings and workshops with DSP CSP(N) and CSP(C&S) both before and after these exercises.

September 2017

A full post R1.3 BCDR exercise was carried out across 4 weekends in September 2017 to fail-over DSP, CSP(N) and CSP(C&S) from their respective primary environments to secondary environments and back again, with each Service Provider running on its secondary environment for either 1 or two weeks to prove the capability. While CSP(N) and CSP(C&S) were able to demonstrate successfully that they could achieve the required 4-hour Recovery Time Objective (RTO) on both fail-over and fail-back, this was not the case for DSP which performed badly on both fail-over (taking >30 hours) and fail-back (taking > 17 hours). This failure resulted in a request from DCC for DSP to repeat its proving exercise in December 2017.

December 2017

DSP conducted a repeat fail-over and fail-back exercise in December 2017 which was a significant improvement on its September 2017 exercise but still failed to achieve the target 4-hour RTO. Consequently, DCC requested once again that DSP repeat the fail-over/fail-back exercise in February 2018.

February 2018

On its third attempt, DSP successfully achieved the required 4-hour RTO for fail-over and fail-back.

Reporting

Each FSP submitted exercise reports to DCC following the September 2017 exercise and DCC submitted a summary report covering the exercises to the SEC Panel.

DSP also submitted exercise reports to DCC following the repeat exercises in December 2017 and February 2018 and DCC again submitted a summary report covering these repeat exercises to the SEC Panel.

12.1.6 Assessment of SP performance - on-going financial viability

The payment obligations to the DCC of the DSP and CSP (N) are guaranteed by their respective ultimate parent companies. These obligations include sums payable by way of liquidated damages, indemnification and damages or losses in respect of any breach or termination of the contract. There is no parent company guarantee for CSP (C&S) as the contracting entity is a prominent UK registered company and a parent company guarantee was not deemed necessary at the time of contract award.

Each FSP is required to provide regular financial reports and certified ratios to support monitoring of their obligations under Schedule 7.4 (Financial Distress) of their contracts. These obligations apply to both themselves and their key sub-contractors. In this year's FSP annual audit activity, DCC included a check on the Service Providers' adherence to their contractual duty to monitor their own and their key subcontractors' financial health and communicate any financial distress events to DCC.

The audit revealed that the monitoring of financial health by DSP and CSP(C&S) was not in line with their contractual obligations. In most cases, the D&B credit rating was not monitored across the contract period for all their key subcontractors and technical 'financial distress' events were not regularly reported to DCC. Both these FSPs have been informed of these observations and have put in place processes to ensure future compliance.

During RY2014/15 CSP(N) reported a Level 2 breach of one of the financial ratios of its Key Sub-Contractor, Osaki Electric Company (EDMI's parent), for free cash flow to debt service. DCC was satisfied that the reasons provided by Osaki did not require further action at that time. This level of breach continued during RY2016/17 and RY2017/18 but the fundamental circumstances of the breach have not changed. DCC continues to monitor this position.

12.2 Service Provider Performance Risks

QQ4 – Register / assessment of risks

Please detail short, medium and long-term risks (if applicable) which the licensee is monitoring with regards its external service provider performance.

How has performance in the current Regulatory Year impacted on the Licensee's assessment of external service provider performance and risks and the implications for Licensee costs?

DCC has a risk framework in place which sets out the categories of risks and defines the tolerances. The definitions of risks are as follows:

- Enterprise: Risks that interfere with the organisations objectives and/or may have a negative reputational impact.

- Functional: Risks that impact DCC's ability to deliver the business plan
- Programme: Risks that impact delivery of programme milestones and the implementation of deliverables to agreed scope, time and quality criteria.

DCC's approach to risk management is that each risk must have a named individual who is accountable for maintaining and managing the risk on a regular basis. Risks are managed as follows:

- Risk and mitigation owners track, and review risks as required.
- Enterprise risks are reviewed every 6 months at the DCC Board.
- Enterprise and functional risks are reviewed every 6 months by the DCC Executive Committee (ExCo).
- Programme risks are reviewed monthly by the Programme Directors and exceptions reported to ExCo.

Table 12-1 below summarises the key risks that DCC has been monitoring in relation to the external service provider performance.

Table 12-1 Enterprise Risks to External Service Provider Performance.

Risk Type	Title	Detail	Mitigation
Enterprise	Commercial Delivery	DCC is not able to manage its commercial relationships effectively with respect to Service Providers' performance management & change management	Awareness and challenge by Supply Chain team
Enterprise	Operations	Loss of DCC Service due to technical problems	DCC and Service Provider BCDR Plans
Enterprise	Service Design	The delivered service does not meet requirements/expectations of DCC's customers	Business development activity. Enhanced E2E testing capability and support Enhanced testing with customers.
Functional	Communication Hubs Failures	Comms Hub supply chain interruption, component shortage, or high failure rate	Supply Chain management with CSPS. Key assurance activity for logistics and supply chain. Close monitoring and management of the customer demand.
Programme	Test Comms Hubs	Due to EDMI manufacturing delays caused by component shortages, test comms hubs for remote test labs are delayed.	Examining options for completing testing in DCC labs. -Examining options of going live with Telefonica ahead of Arqiva and potentially allowing Telefonica to deploy in the

			North until Arqiva are ready. -Arqiva need to expedite their RTL CH deliveries from EDMI to ensure they meet RTL customer requirements to be able to as a minimum use their RTLs from 27/6. - Arqiva running regular governance with EDMI to expedite dates and will keep DCC informed via Programme governance
Programme	DBCH SIT TAB	DBCH SIT may be delayed due to high severity comms hubs defects blocking tests	Working with CSPs and their comms hub manufacturers to establish fixes and/or workarounds to allow testing to continue Weekend working has been invoked to provide more time to complete tests
Programme	DBCH & SMETS2 meters	R2.0 DBCH will not work with SMETS2v2 meters.	Revisit DIT scope and consider adding this combination during re-planning. Revisit DIT scope if requested by TAG. Identify any gaps in R2.0 Risk of product and revisit accordingly. Identify if this has been tested informally in any way from pre-UIT activity or upgrade/ deployment testing.

The status of these risks, in terms of impact or likelihood, has not moved enough during the year to change their overall impact / likelihood rating.

In the short term, the level of change expected in RY2018/19 and RY2019/20 will continue to be significant. The combination of SMETS1; R2.0 and future releases will put significant strain on the resources of DCC and all its Fundamental Service Providers.

13 Procurement

13.1 The Procurement Processes in RY2017/18

A robust procurement process is crucial to ensure that DCC obtains value for money for the goods and services it procures. The main policies and procedures that govern the procurement process are the DCC Procurement Strategy, the DCC Procurement Policy and the DCC Internal Change Process.

There have been no material changes in either the DCC Procurement Strategy or Policy in RY2017/18. The Procurement Strategy has had a minor update to reflect changes to the Forward Plan and the section on SMETS1.

13.2 Procurement of Relevant Service Capability

QQ12 – Procurement for Relevant Service Capability

(ii) If the Licensee has undertaken to provide new Relevant Service Capability from its own resources or from an Affiliate or Related Undertaking during the current Regulatory Year, in accordance with Licence Condition 16.6, please explain how the Licensee, having regard to the principles set out in Part B of Licence Condition 16 (excluding Principle 2), has satisfied itself that (a) for each material procurement of capability, that this would be the most economical and efficient option; or (b) the aggregate of each procurement of capability of the same type would be immaterial in terms of its value or use of resources within the overall context of the Mandatory Business of the Licensee. For both (a) and (b), please provide assessments and key documents supporting the outcomes of these service provision decisions and explain what provisions the Licensee has in place to secure value for money on an ongoing basis from the provision of services.

13.2.1 Procurement of Relevant Service Capability from third parties

QQ12A Part (i) –Each of these procurements has been undertaken in line with the DCC Procurement Strategy. The key documents supporting these procurements are included in Part 5.

The provisions that DCC has in place to secure value for money from procurements during the life of the contracts are described in Chapter 11.5.3.

13.2.2 Procurement of Relevant Service Capability from Capita

The only new activity with Capita in 2017/18 has been the Intra-Company Lease agreement for the Preston Brook office, however we do not believe that this constitutes provision of relevant service capability. There have been no other material procurements with Capita

Where Capita is the Service Provider, DCC manages the relationship as it would for any other supplier. The only difference occurs when escalation of Service Provider performance is required. In such cases the Capita Non-Executive Directors may be particularly effective in escalating and resolving issues with Capita.

13.2.3 Continuous Improvement in our Procurement Capabilities

The shape of procurement at DCC is changing to reflect the organisation's progression into an operational, multisite environment.

Procurement expertise can no longer be considered a transient requirement aligned to major sourcing projects. DCC has now established a permanent Procurement function to support all sourcing and procurement compliance requirements. All current posts have been recruited.

Further information on the team structure and roles is provided at section 4 of Part 5 of this submission.

Areas of process improvement and transformation have been identified and will be implemented over the coming twelve months. To date, the team have been largely recruiting; strengthening processes and disciplines to support compliance and supporting the large amount of procurement activity being under taken to enable business delivery.

14 Communications Hubs

QQ9 – Communication Hubs

1. Please report on the roll-out of communication hubs.
2. Please explain the communication hub financing arrangements in as far as they affect the Licensee, e.g. regarding cash flows.
3. Please detail any risk which the Licensee is monitoring with regard to communication hub financing.
4. Please detail any actions the Licensee has instructed its service providers to take to secure value for money.

14.1 Communications Hub roll-out

During RY2017/18 thirty-five SEC parties placed forecasts for communication hubs and a total of 261,086 communications hubs have been ordered in 58 separate orders from sixteen SEC parties. CSP (N) received orders for 29,848 communication hubs and CSP (C&S) received orders for 231,238 communication hubs. The first deliveries post R1.3 system upgrade were made in September 2017.

The Communications Hubs are ordered on a 5-month manufacturing and delivery lead time, with initial binding forecasts in a 24-month rolling forecast made 10 months in advance of the required delivery date. All forecasts and orders were placed on the CSPs respective Order Management Systems (OMS)[1].

DCC has continued to provide a range of awareness training and engagement sessions with SEC parties and has run a series of bi-lateral sessions for those parties new to SEC and DCC services[2].

14.2 Communications Hub financing

From the point of delivery, Communication Hubs unit/device costs plus financing costs are repaid to the CSPs by DCC via monthly charges spread over a period of 10 years (or the remaining number of years in the CSP contract whichever is the lower). Once a Communications Hub is installed by a supplier, DCC also pays a monthly maintenance charge to the CSPs. This financing arrangement is identical for both single band and dual band communications hubs.

Each of the CSP baseline contracts, agreed in 2013, include financing arrangements for the above repayment structure for the first 15% of the communication hubs. This equates to approximately 1.5 million communication hubs per region. We refer to this as tranche 1.

For the first tranche of Communication Hubs, CSP (N) has financed the repayments using a ‘sale of receivables’ arrangement with its banks. This financing arrangement requires ‘direct’ payments from SEC parties to a separate bank account held on behalf of CSP (N). DCC also ensures a balance of 3-months’ worth of Communication Hub charges is maintained in the separate bank account to avoid a repayment default to the lending banks should a SEC party default on its payment. Note: CSP (S&C) is self-financing the repayments of its first tranches. We expect both CSPs to provide fixed financing arrangements for future tranches of communication hubs during RY2018/19.

The existing fixed Communication Hub costs and financing arrangements with the CSPs enabled DCC to set the appropriate communication hub charges in the charging statement.

[1] Evidence Index No. (545)
[2] Evidence Index No. (546) & (547)

14.3 Securing value for money for Communications Hubs

DCC has sought to drive value for money for customers through the development of flexible ordering processes and support for small order quantities for initial orders during RY2016/17 and into RY2017/18. DCC has arranged with the CSPs expedited timelines for deliveries and has also brokered arrangements to avoid or minimise costs associated with order cancellations. DCC has also worked with the CSPs to generate new delivery options which are above and beyond the scope of the SEC but have been requested by customers.

As an example of this, DCC suspended the ordering and forecasting process in the year, as customers were not ready to rollout smart meters due to meter availability and system readiness of customer systems. DCC negotiated a slowdown and suspension of the ordering processes to reduce the costs to Industry parties. The processes were suspended in March 2017 and were restarted in December 2017, with some expedite deliveries being made from September 2017. DCC and the CSPs have also agreed for customers to amend existing orders and forecasts outside of the SEC rules for these processes where this is the most pragmatic and cost-effective way to deal with these challenges.

Feedback from customers has been positive for all these initiatives and no complaints were raised in RY2017/18. DCC has also responded to customer feedback for more transparency and clarity around the costs of Comms Hub manufacturing via a rate card for costs to cancel manufactured units. Customer concerns regarding cancellation quotations have reduced post publication of this information.

15 Corporate Information Systems

In previous years, DCC has provided an update, within the document covering governance and management processes, on certain of its corporate information systems which were actively under development. This reflected the fact that these were centrally-led initiatives, all of which were crucial to the operation of the overall DCC service, but not necessarily part of the core DCC infrastructure which we were committed to deliver under the SEC and licence.

These systems are all now implemented and have moved into a phase of ongoing maintenance and enhancement. Hence, we have decided to justify any associated material expenditure, as part of the expenditure of the owning cost centre. Hence, these are now covered in Part 5 of the submission.

Appendix A – Definition of Baseline

QQ6 – Definition of Baseline

Please provide a full definition of the requirements that the licensee considers to be included in its reported and forecast baseline Internal and External costs. Please confirm that this definition of requirements has been used to report incurred and forecast baseline costs in the current year regulatory reporting template.

Derivation of the Original Baseline Requirements

At the point of Licence award, the list of requirements for the DCC service was distributed across a number of documents which were in varying states of maturity. Figure 15-1 illustrates the relationship between the documents listed below. They were comprised of:

- The draft Smart Meter Communication Licence
- The DCC Operational Service Requirements (OSRs)
- The draft text of Stage 1 of the Smart Energy Code
- The draft Invitation to Submit Final Tender (ISFT), which drove development of the Service Provider Contracts
- The final FSP contracts (for External Costs only).

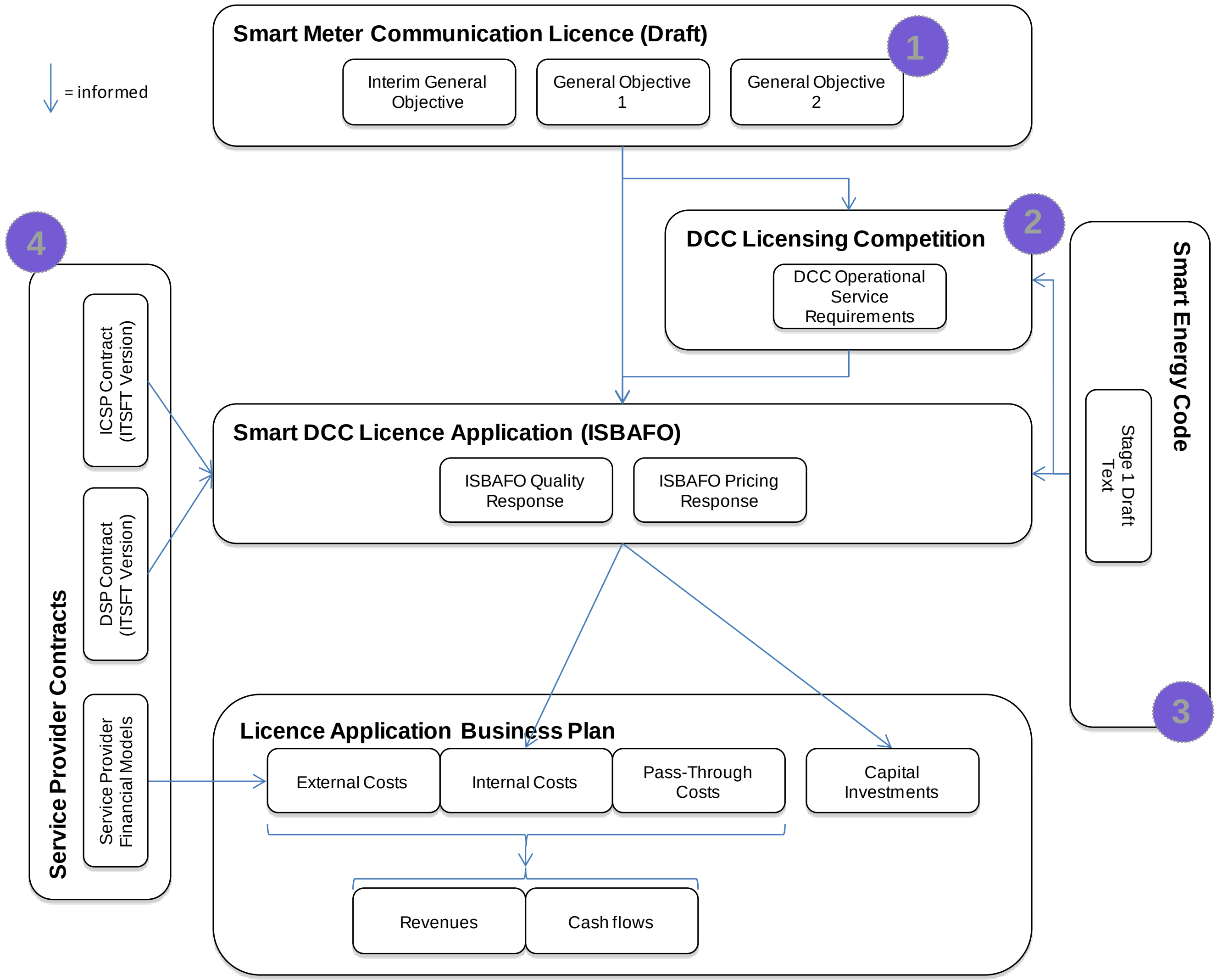

Figure 15-1: Licence Application Business Plan derivation

These documents represent the original baseline requirements, upon which the LABP was prepared – and hence the LABP costs. The LABP was derived directly from the outputs of the DCC Licensing Competition and the Service Provider Procurements.

Reporting costs against changing requirements

As the original baseline documents have evolved, baseline requirements have increased. This has resulted in corresponding increases to the baseline External and Internal costs in the RIGs reporting template for RY2016/17.

How the baseline costs change

Table 15-1 below shows how the costs that we report reflect the effect of a changing set of requirements.

Table 15-1: Definition of Baseline

	Baseline Internal Cost	Baseline External Cost
Incurred costs (original baseline requirements)	This is the cost incurred to deliver the draft SEC (Stage 1), the draft Licence and the OSRs provided to DCC during the DCC Licensing Competition	This is the cost incurred in delivering the requirements associated with the original contracts awarded to the DSP and CSPs
Incurred costs (additional baseline requirements)	This is the cost incurred which is associated with the updated baseline requirements since the Licence was awarded.	This is the cost incurred which is associated with any approved contract changes, projects and/or impact assessments.
Forecast costs (original baseline requirements)	This is the forecast costs associated with the original baseline requirements	This is the forecast costs associated with the original contracts awarded to the DSP and CSPs
Forecast costs (additional baseline requirements)	The forecast costs associated with the additional baseline requirements.	This includes the forecast costs associated with any approved contract changes, projects and/or impact assessments.
=	=	=
Total baseline costs		

Regulatory reporting implications of the changing baseline

The following series of tables demonstrate the extent to which these requirements have changed in RY2017/18. The RY2016/17 submission provided a full list of the changes made to the licence from the original baseline through to the end of RY2016/17. The following tables provide the incremental changes that have been made in RY2017/18.

Changes to the baseline - Licence

Since the LABP, there have been a number of changes to Licence as per Table 15-2 below.

Table 15-2: Changes to the baseline Licence requirements since LABP

Baseline requirement	Changes to the baseline Licence requirements
Original Baseline (LABP): Draft Licence (Commencement date: 1 August 2013)	N/A
Revised baseline RY2013/14	Minor amendments have been made during RY2013/14 in relation to the funding arrangements for Communications Hubs and Baseline Margin.
Revised baseline RY2014/15	A number of amendments have been made during RY2014/15. These include changes to: ▪ Provision of Market Share Information to the Central Delivery Body (Condition 45)

Baseline requirement	Changes to the baseline Licence requirements
	▪ The Second Relevant Policy Objective (Part C) ▪ The definition of Cost of Communications (Part C) ▪ Disputes over failure to enter into an Agreement for Services (Part A) In addition, the following changes have been proposed but not yet concluded: ▪ The definition of Baseline Margin Implementation Total (Part B) ▪ Calculation of the BMP Adjustment term (Part E) ▪ Variation of due dates and development of milestone criteria (Part F).
Revised baseline RY2015/16	There were two new versions of the Licence during RY2015/16: ▪ 1 July 2015[7] ▪ 10 FebruaRY2016[8] These included changes to the definition of Baseline Margin Implementation Total (Part B), the calculation of the BMP Adjustment term (Part E), variation of due dates and development of milestone criteria (Part F), changes to definitions and new part M tech specification, IHD, PPMID, HCALCS. The Secretary of State also issued a direction to remove some Implementation
RY2016/17	A few minor amendments and corrections were made to the Licence on: • 13 July 2016 • 14 July 2016 • 10 August 2016 • 09 February 2017
RY2017/18	During 2017/18, only one change was made to the Licence. This version was issued on 24 November 2017

Changes to the baseline - Smart Energy Code (SEC)

In RY2017/18, further significant changes have been made to the SEC when compared with previous years and with the original LABP baseline.

Table 15-3: Changes to the baseline SEC requirements since LABP

Baseline requirement	Changes to the baseline SEC requirement
Revised Baseline RY2017/18	There were nine new versions of the SEC during RY2016/17: ▪ SEC 5.6 designation –1 April 2017 ▪ SEC 5.7 designation – 11 May 2017 ▪ SEC 5.8 designation – 12 July 2017 ▪ SEC 5.9 designation – 21 July 2017 ▪ SEC 5.10 designation – 14 September 2017 ▪ SEC 5.11 designation – 6 November 2017

[7] Ofgem, 1 July 2015, 'DCC Licence': https://epr.ofgem.gov.uk//Content/Documents/Smart%20DCC%20Limited%20-%20Smart%20Meter%20Communication%20Consolidated%20Licence%20Conditions%20-%2001-07-2015-%20Previous%20Version.pdf

[8] Ofgem, 10 FebruaRY2016, 'DCC Licence': https://epr.ofgem.gov.uk/Content/Documents/Smart%20DCC%20Limited%20-%20Smart%20Meter%20Communication%20Consolidated%20Licence%20Conditions%20-%20Current%20Version.pdf

Baseline requirement	Changes to the baseline SEC requirement
	▪ SEC 5.12 designation – 22 November 2017 ▪ SEC 5.13 designation – 1 February 2018 ▪ SEC 5.14 designation – 22 February 2018 Further detail of the scope of these changes can be obtained at: SEC code v5.14

Changes to the baseline - GBCS

Table 15-4: Changes to the baseline GBCS requirements since LABP

Baseline requirement	Changes to the baseline GBCS requirements
Original Baseline (LABP): Draft Licence (Commencement date: 1 August 2013)	GBCS V0.6
Revised baseline RY2013/14	**GBCS V7r5 (20 December 2013)** – Compared with the original baseline, further updates to main document, including additions and reorganisation of material. Use cases published as HTML document generated from mapping table spreadsheet. Gas use cases removed from this version. **GBCS V0.7r6 (7 FebruaRY2014)** – Compared with GBCS V7r5, consistent styling introduced. Further sections completed in main document, and reorganisation of material. Gas/Zigbee use cases reintroduced and included in embedded use cases. Material relating to error handling, time synchronisation and downloading firmware images to Devices included.
Revised baseline RY2014/15	**GBCS V0.7r7 (13 May 2014) – Compared with GBCS V0.7r6,** significant changes to main document, use cases and mapping table, driven mainly by proving exercise. Inclusion of anti-replay and future dated commands. Updated to align with DLMS/COSEM coloured books and message templates. Functionally complete. **GBCS V0.8 (8 July 2014)** - Compared with GBCS V0.7r7, significant changes to main document, use cases and mapping table, driven mainly by proving exercise. Inclusion of anti-replay and future dated commands. Updated to align with DLMS/COSEM coloured books and message templates. Functionally complete. **GBCS V0.8.1 (28 November 2014)** – Compared with GBCS V0.8 - Minor changes to align with other publications. Various specific content changes to remove ambiguity or address defects.
Revised baseline	**GBCS V0.8.29 (18 November 2015**) – Compared with GBCS V0.8.1, it aligned with SMETS v1.59 and CHTS v1.47, the informative sections were updated, and typographic errors were

[9] See https://www.smartenergycodecompany.co.uk/docs/default-source/sec-documents/developing-sec/baselined-sec-subsidiary-documents/gbcs-v0-8-2-final.docx?sfvrsn=2 1.2a

Baseline requirement	Changes to the baseline GBCS requirements
RY2015/16	corrected. In addition, it incorporated specific changes and updates to GBCS v0.8.1 that had been adopted through a number of Issue Resolution Proposals (IRPs) following the DECC Technical Specifications Issues Management process.
Revised baseline RY2017/18	**GBCS v1.1 (6 November 2017)** – to align with Zigbee Smart Energy Profile Specification 1.2a v1.0. Issued as part of SEC v5.11

Changes to the baseline – External Service Provider contracts

[REDACTED]

Appendix B – Business Events

QQ10 – Business Events

Please list business events that are significant for explaining the reported costs and forecasts in the regulatory reporting templates. (For example: built-up cash reserves, implementation milestones, introduction of value added service, etc.) Please include dates and further details and any other related information where applicable

The business events that are significant for explaining the reported costs in the regulatory reporting templates are discussed in Parts 2 and 4of this submission

Business events that will impact upon DCC's forecast costs include:

Table 15-5: Future Business Events

Type	Business Event	Regulatory Year
Procurement of Relevant Service Capability	Re-procurement of DSP	RY2021/22
	Re-procurement of CSP - N	RY2027/28
	Re-procurement of CSP - C	RY2027/28
	Re-procurement of CSP - S	RY2027/28
	Re-procurement of TSP for SMKI	RY2021/22
	Re-procurement of Parse and Correlation Service Provider	RY2018/19
Introduction of future services	Dual-band Communications Hubs available	RY2018/19
	Enrolment and Adoption of SMETS1 Meters	RY2018/19
	Implementation of Central Switching Service (CSS) (contracting with CSS providers – Design, Build, Integrate, Test)	RY2018/19
	Commencement of CRS	RY2020/21
	Implementation of HHS	RY2020/21
Licence Term	Business Handover to successor Licensee or extension of Licence Term	RY2025/26