

Ofgem's response to the Department of Energy and Climate Change's consultation on DCC procurement strategy and statement of service exemptions

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- Open letters & correspondence

Policy area(s)

- Domestic consumers
 - Electricity - retail markets
 - Gas - retail markets
 - Licences, codes and standards
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- [Link to DECC consultation](#)

Dear David,

Ofgem response to the consultation on the DCC's Procurement Strategy and Statement of Service Exemptions

Thank you for the opportunity to respond to your consultation which seeks views on the Smart DCC Limited ("the DCC") Statement of the Procurement Strategy for Relevant Service Capability (Smart Meter Communication Licence, Licence Condition 16, "LC16", Part D) and the DCC's Statement of Service Exemptions (Smart Meter Communication Licence, Licence Condition 17, "LC17", Appendix 1). Our response to each of the consultation questions is set out below.

Do you have any comments on the DCC's Procurement Strategy for Relevant Service Capability? In particular:

- Do you agree that the Strategy meets the requirements of the DCC licence? and
- Do you agree that the Strategy is a suitable for approval by the Secretary of State?

If you do not agree, please explain your rationale.

We note that the DCC has further defined Relevant Service Capability in Section 2 of the DCC Procurement Strategy for Relevant Service Capability, beyond the definition in the licence. The DCC should rely on the definition in the Licence, (LC16.2) to ensure compliance with their procurement obligations.

The overarching requirement of the LC16 is that the DCC procurement activities are economical and efficient. Normally this would be achieved by the DCC conducting procurement on a competitive basis, similar to public procurement regulations. However the Licence gives the DCC an option to source capabilities from its own resources or affiliates, provided the DCC is satisfied that it is "the most economical and efficient option; or would be immaterial in terms of its value or use of resources within the overall context of the Mandatory Business" of the DCC (LC16.6).

We considered the DCC Statement of Procurement Strategy. We did not find sufficient detail explaining how the DCC's procurement processes ensure economic efficiency. Under LC16.6, the DCC decides whether a competitive procurement process is necessary. The DCC did not set out the criteria they will follow when choosing to procure goods or services on a non-competitive basis and how they will demonstrate value for money of such choice. There is a risk that, without such predefined criteria, the DCC's non-competitive procurement practices will be, or will be seen as, non-transparent, inconsistent and arbitrary.

In the Statement of Procurement Strategy, the DCC states that they are not subject to public procurement regulations when procuring goods or services on a competitive basis. We note that the Data Service Provider ("DSP") and three Communications Service Providers ("CSPs") contracts were awarded by DECC according to public procurement regulations. Our response is on the basis of the procurement principles in the Licence. The DCC must ensure that their approach complies with the relevant Licence conditions.

Do you have any comments on the DCC's Statement of Service Exemptions? In particular:

- Do you agree that the Statement meets the requirements of the DCC licence?
- Do you agree that it is reasonable that more detail is provided as the DCC and the CSP's learn from operational experience? and
- Do you agree that the Statement is suitable for approval by the Secretary of State?

If you do not agree, please explain your rationale.

The LC17, Appendix 1, requires the DCC to provide a Statement of Service Exemptions which:

- specifies premises' types (Category 1), and
- specifies any geographical areas (Category 2)

where the communications hub connectivity provided by the CSPs will not be available. The DCC's Statement of Service Exemptions defines geographical areas as being "determined by postcode and premises address information". This information is not provided in the document submitted, or by other means. It will be important for suppliers to have sufficiently detailed coverage information to plan for initial live operations, to ensure a high proportion of successful installation visits. We note that the DCC plans to provide access to its Coverage Database to all DCC

Users via the DCC Self Service Interface. It would be useful for the DCC to include an indication of when DCC Users will be able to access coverage information, so that they can plan effectively.

Through the tender process for CSP contracts, DECC set a competitive baseline for proportionate costs by agreeing the set percentage of properties that each CSP must connect. Suppliers will depend on this level of connectivity to meet their smart meter rollout obligations. We expect the DCC to take all reasonable steps to ensure that the CSPs meet their contractual coverage targets. The Statement of Service Exemptions states that Category 1 exemptions will be an additional 1% inside the specified Coverage Areas. It will therefore be important for the DCC to ensure that CSPs tackle these exempted properties during the rollout period.

Our interpretation is that the remaining percentage of contracts would therefore currently be considered to be disproportionate at this point in time. We expect the DCC to continue to explore technology advances that could make those costs proportionate in future years, and see this as an important point to cover in future iterations of its Development Plan.

If you would like to discuss any of the issues raised in this letter, please contact
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Yours sincerely,

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