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Ayena Gupta
DCC Oversight and Regulatory Review
Office of Gas and Electricity Markets
10 South Colonnade
Canary Wharf
London
E14 4PU

20/12/2022

Dear Ayena,

Consultation on DCC Price Control: Regulatory Year 2021/22

Thank you for the opportunity to respond to the consultation on the DCC Price Control: Regulatory Year 2021/22.

Since the start of the smart meter programme Electricity North West Limited (ENWL) has held regular bilateral meetings with the Department for Business, Energy and Industrial Strategy (BEIS) to support progress with the rollout and realise the ability of our ENWL customers to benefit from smart meters and co-operated with the delivery of the outputs from the Switching Programme.

We share a number of Ofgem's concerns regarding the DCC's performance:

- lack of cost transparency and poor customer engagement – as a DCC user we incur costs that arise as a result of decisions made through DCC's internal governance processes and as such we would expect robust evidence of how DCC has taken customer views into account. We have concerns that DCC's customers have not been able to fully scrutinise costs on key DCC programmes such as business planning and SEC modifications to be able to feed into decisions.
- unjustified forecasted costs which don't meet certainty thresholds – as a DCC user and customer we use the DCC forecasts to estimate the impact on our cash flow and our own price control forecasts. Whilst we recognise there is some uncertainty around DCC's activities, the DCC are consistently over estimating costs against programmes and SEC modifications. This has eroded customer confidence in the DCC's financial forecasting over its last seven price control years. We would welcome closer alignment of the DCC charging statements and invoicing with its price control forecasting.

We have observed that Ofgem have been raising the same concerns regarding the DCC's performance for multiple price control reviews. We calculate the volume of costs being disallowed by Ofgem compared to the allowed revenue for the remainder of the licence term has been increasing for the last three price control years. The rate of proposed disallowed costs for RY21/22 is nearly double the disallowed costs for RY19/20[1]. We recommend the DCC are not awarded any new contracts beyond the current core mandatory services for the remainder of their licence period. We will be responding separately to the Ofgem DCC's Licence Review Phase 1 consultation regarding our views on the ownership model, transition arrangements and future role of the DCC beyond the end of this licence term.

Appendix 1 provides our detailed responses to each of the consultation questions.

I hope these comments are helpful. Please do not hesitate to contact me or Catherine Duggan (07775 547624) if you would like to follow up on any particular aspect of our response.

Yours sincerely,

Paul Auckland

Digitally signed by Paul Auckland
Date: 2022.12.20 14:48:14 Z

Paul Auckland
Head of Economic Regulation

[1] For RY21/20 Ofgem are proposing disallowed costs of £299m against a proposed allowed revenue of £2.1bn for the remainder of the licence term which equates to 14.0%. For RY19/20 Ofgem disallowed costs of £220m against an allowed revenue of £2.9bn for the remainder of the licence term which equates to 7.7%.

Appendix 1 – ENWL detailed responses to each of the consultation questions

The following table includes our views on the consultation:

Ref.	Question	Response
Section 2: External Costs		
1	**What are your views on our proposal to disallow a portion of External Costs associated with programme delivery?**	We are unable to provide a view if the External Costs are economic and efficient as we do not have adequate transparency of DCC costs due to their restricted commercially sensitive nature. Since everybody pays for a monopoly service there ought to be more transparency of the costs. Ofgem is much better placed to understand the efficiency of the significant cost increases and the appropriateness of the decisions that drive them. We welcome Ofgem disallowing forecast costs of ~ £6m associated with CSP-N on account of insufficient justification. We also welcome the differentiation in the cost variations between the DCCs CSP regions has narrowed from RY 20/21 to RY21/22 and the cost variation has reduced for the CSP-North region from 8% to 3%; what is not clear, is if current DCC performance is appropriate for the cost variations across the CSP providers. Refer to our response to Q12-14 regarding our views on Ofgem proposals regarding the DCC's performance incentives.
2	**What are your views on our proposal to remove from the forecasts all costs associated with 'CSP-C&S price support' from RY22/23? Do you have any views on the issue of Working Capital Charges?**	We agree with Ofgem's concerns regarding the magnitude of the DCC incurred Working Capital Charges (WCC) on the cost of some change requests and project requests. Especially as a WCC can be applied by a DCC service provider if the DCC fails to meet a payment deadline and yet the DCC expect SEC Parties to pay their monthly fixed charges within 5 working days. We would welcome Ofgem including the WCC in the scope of the RY22/23 OPR contract management audit.
3	**What are your views on our proposal to disallow £108.22m of forecast External Costs?**	Please see our response to Q1.
4	**Have you got any other views on External Costs?**	We have no visibility if the DCC's have ensured any external costs incurred because of SEC modifications have been efficiently procured. We also note this year's OPR contract management audit found that the DCC consistently does not meet required timescales for producing impact assessments for SEC mods as such we strongly support the inclusion of 'quality of impact assessments' into the scope of the next year's OPR audit.
Section 3: Internal Costs		
5	**What are your views on our proposals on DCC's approach to benchmarking of staff remuneration for both contractor and permanent staff?**	We agree that the DCC needs to provide material evidence that Capita consultant rates are economic and efficient via benchmarking going forward. From a principle perspective, we agree with Ofgem's proposal to disallow contractor costs of £0.47m which fall above the reasonable market rates.

6	**What are your views on our proposal to disallow costs associated with non-competitive procurements where we have not received satisfactory justification or evidence?**	We note that Ofgem have determined that a significant proportion of External services in RY21/22 were sourced non-competitively and that 15% were provided directly through the DCC's parent company Capita Ltd. We agree the DCC justification that 'pressing timescales' and a service provider's 'understanding of DCC's processes and system' as main reasons for non-competitively procuring Capita Ltd is not sufficient. We agree with Ofgem to disallow the costs ~ £4.3m associated to those procurements in RY 21/22 and forecast for future years.
7	**What are your views on our proposal to disallow the costs of the Order Management System, Customer Engagement Portal and the Executive Leadership Programme?**	As in previous years. we would prefer that the DCC improve its performance on its existing core services and engages with us on those before considering developing value added services. As such, we would like to see transparency on the headcounts and recruitment against each project. We have concerns the DCC continue to recruit senior roles, which incur significant recruitment agency fees, against projects that do not contribute towards core services. We agree with Ofgem's proposal to disallow costs of £0.2632 in the absence of any evidence that leadership programme delivered by Capita. Refer to our question to Q6.
8	**What are your views on our proposal to disallow costs directly associated with the Business Accuracy Programme?**	We agree following Ofgem's review all costs associated with the Business Accuracy Programme (BAP) are disallowed ~ £2.560m mainly due to his costs being duplicated elsewhere.
9	**What are your views on our proposals on the Shared Service Charge?**	We agree with Ofgem's concerns in the DCC regarding cross-subsidisation across affiliated or related undertakings and disallowing ~ £13m for both RY21/22 and to the end of the Licence term. The DCC need to actively ensure and evidence they are achieving value for money from the Shared Service Charge (SSC) applied to their baseline activities.
10	**What are your views on our proposal to disallow costs associated with the product management team, DCC's work on EVs and additional products?**	Yes. DCC's main priority should as ever remain delivery of its core services related to the smart metering communication network and for switching. Electric Vehicle (EV) work is not a mandated requirement in the DCC licence nor is the demand for this service and products known or justified. As such we agree that Ofgem disallows the costs associated with DCC's EV activity costs and other additional products.
11	**What are your views on our proposal to disallow forecast cost variances in RY22/23 and RY23/24 in the Corporate Management (including Policy and Markets team), Finance & People, and Operations cost centres, and the Network Evolution, SMETS1, and ECoS programmes; and all baseline forecast costs for RY24/25 onwards?**	We are supportive of DCC working to improve customer engagement as this has been a concern for many years. Yes. We agree with Ofgem's proposed disallowances of ~ £32m. Whilst we have seen some improvements in the DCC engagement with DNO community in the last year regarding operational matters, we would expect to see significant improvements in customer engagement next year to justify the new roles regarding Strategic Customer Engagement in the Corporate Management team. Specifically, we expect to see improves in how the DCC collect and act and report back on feedback from customers regarding their business planning and in developing SEC modifications. Both these topics were raised as areas of concern at the recent Ofgem DCC price control RY21/22 stakeholder

		event on the 5 December 2022. Please also refer to our response to Q14.
Section 4: Performance Incentives		
12	**What are your views on our proposed position on DCC's System Performance?**	We welcome Ofgem new OPR included setting the performance levels and system performance penalty mechanisms. We welcome Ofgem reducing the baseline margin associated with missing their DCC Service Desk SUM1 performance target. We raised concerns with elements of SUM1 in our response to last year's price control consultation. We request Ofgem provide transparency on the data reported by the DCC, which elements of the SUM1 have resulted in the DCC missing their milestone.
13	**What are your views on our proposed position on DCC's Contract Management?**	We welcome the DCC contract management performance now being financially incentivised under the revised OPR and that this includes the DCC contract management of the DCC's Communication Service Provider Arqiva and adherence to the SEC modification change process. We note and agree with the independent auditors found that the DCC consistently underperforms on timeliness for SEC modifications. We agree with Ofgem's reduction of £0.338m for the margin available.
14	**What are your views on our proposed position on DCC's Customer Engagement?**	No. We disagree. We note that the DCC state they have listened to customer frustrations on CSP-N performance and knew performance on this needed to improve – and over all they believe they have met the required standard. It should be noted that in terms of Power Outage Alerts and Power Restoration Alerts the standard has been amended (via SEC Modification P096 DNO Power Outage Alerts) to match the DCC delivery capability rather than improved as stated. Whilst we have seen some improvements in the DCC engagement with DNO community in the last year regarding operational matters, we agree with the SEC Panel that largely SEC party feedback is ignored or not addressed by DCC (paragraph 4.70).. We also agree with the SEC Panel (paragraph 4.50) that when DCC disagrees with feedback provided, it typically remains silent and proceeds 'without explanation or justification' and as such the customer engagement Ofgem score is too high at 1.67 and would agree with the recommended SEC Panel's score of 1 (paragraph 4.54). Recent examples of poor stakeholder engagement include: 1) RY 21/22 Business plan: • The DCC provide insufficient time to review and feedback on the plan • The DCC does not publish or summarise responses from users. • The DCC remains silent on the feedback and if they have accepted or rejected the feedback. • No discernible changes between the draft and final plan which encourages users to believe it is a paper exercise.

		We request Ofgem further investigates how the DCC engages with users regarding their annual business planning. 2) SEC modification refinement – P096 DNO Power Outage Alerts: • DCC's lack of notification of a DCC consultation • DCC's unrealistic expectations for users to approve or disapprove detailed legal text on calls with no ability to review proposals in advance of a meeting • DCC missing agreed milestones • DCC remaining silent on the feedback from users and if the DCC had accepted or rejected the feedback in the earlier stages. We request in future the DCC work with SEC parties collaboratively in refining SEC modifications.
Section 5: Baseline Margin adjustment and External Contract Gain Share		
15	**What are your views on our assessment of DCC's application to adjust its Baseline Margin?**	We note that the DCC has applied and Ofgem approved MHHS being allowed as an adjustment of Baseline Margin and that Ofgem refer to 100% of the Baseline Margin recovered this year it held to account by the Operational Performance Regime. However, the OPR solely focuses on smart metering activity and excludes both DCC's Switching and MHHS SCR activity. We recommend as per the current Ofgem Switching Incentive Regime consultation, Ofgem give consideration as to how DCC will be held to account regarding their performance on MHHS services.
16	**What are your views on our assessment of DCC's application to adjust its ECGS?**	It is becoming more difficult for DCC users to predict DCC forecasting due to large fluctuations between forecasts and actual spend. We are also concerned the DCC forecasts do not account for MHHS adequately, for example on costs to resolve capacity issues (as directed by Ofgem) which may result in a significant increase.
Section 6: Switching		
17	**What are your views on our proposed position on DCC's costs associated with the Switching Programme?**	We agree with Ofgem disallowing forecast costs for RY23/24 to the end of the Licence ~ £9m and an additional corresponding margin of ~£1m. We understand Switching services are excluded from the independents auditor review of the OPR. As such we wanted to provide evidence of a recent example of poor customer engagement regarding the DCC production of their Switching Address Quality Management plan (referred to as the year 1 plan) in support of the DCC's Retail Energy Code obligations - published in July 2022. DNOs collectively raised their concerns with the DCC imposing service levels agreements on industry parties in absence of any consultation or stakeholder engagement. In October 2022, Ofgem set out they expect the year 1 plan to be subjected to independent assurance to ensure that it is both appropriate and achievable. DNOs have requested further details and a timetable for publication of this assured plan. The DCC response to the ENWL dated 1 December 2022 is "There is a published version of the Year 1 Address Quality Plan (2022/23) on the REC Portal. This version of the plan has been developed to be compliant with the REC obligations and it is this version which DCC continues to operate for the remainder of this

		Financial Year".We have expressed our disappointment to the DCC that they will not be producing an independently assured plan as requested by Ofgem. We have taken a pragmatic view and in the absence of an assured plan has taking reasonable steps to support the DCC with their plan as follows: • provided detailed written feedback to the DCC on their year 1 plan and meet with the DCC and agreed to review a sample of address data, and • recommended that the DCC engage with the DNO community and other impacted parties as soon as possible on the proposed year 2 plan and strongly encourage DCC to progress as a collective activity to ensure that viewpoints from all REC Parties (Suppliers and Gas Transporters also) are taken into proper consideration. We welcome Ofgem's separate more detailed consultation into a new incentive regime for Switching. We will separately respond to that consultation. We recommend lessons are learnt from the DCC management of customer engagement of their smart metering services.
18	**What are your views on our assessment of Delivery Milestone 4 of the Switching Programme?**	We do not have enough transparency of the DCC's report regarding its achieving DM4 as to be able to confirm if we agree with Ofgem's assessment or not.
Section 7: Over-recovery of revenue		
19	**What are your views on our proposal on DCC's over-recovery of revenue?**	Please see our response to Q16. The DCC is now a business operating with more certainty, as such it should be expected to improve and better predict its forecast costs. We agree with Ofgem's proposal; to apply the penalty interest rate against the amount that has been over-recovered.