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Via email DCCregulation@ofgem.gov.uk

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DCC Review: Phase 1 Consultation

Dear Ayena,

I am responding to the DCC Review: Phase 1 Consultation. This response does not reflect the views of the entire Panel. Individual Panel members may therefore provide their own responses from their organisations. Having discussed the issues at length, Panel has been unable to reach a unanimously agreed view, without a full understanding of the operational detail of the options proposed. This response is therefore from myself, as the Chair of the SEC Panel, rather than on behalf of the SEC Panel. Regardless, I hope you find the views below useful and constructive.

I am encouraged that concerns from the Panel response to the 2021 “call for evidence” have been recognised in the proposals. I am pleased to provide my views against the four main areas of the consultation.

1. Regulatory Model Option

I believe the following principles are essential for any future Licence and Governance model:

1. **Influence** of DCC behaviour to manage risk.
2. **Transparency** of DCC relationship / management of Service Provider contracts (and costs).
3. **Control** of DCC resource priorities.
4. **Value:** ability to derive value from relationship with DCC and DCC service provision (costs).

It is important that there is an ability for Parties who receive DCC services, to influence the behaviour of the DCC, ensuring DCC priorities align with industry.

SEC Parties and end consumers are the recipients of DCC Services. It is essential that SEC Parties have transparency, and that DCC is responsive to SEC Party needs. Industry and Consumer representation should be included in the DCC Board construct. Such representation should also be included on the Programme Boards of major DCC programmes, to ensure these are delivering at the optimal time for SEC Parties and end consumers.

In respect of control of DCC resource priorities, I believe that DCC activity should primarily be focussed on the mandatory activities delivering a reliable, economic, and efficient set of services. I believe a mandatory set of services would comprise:

- a. Smart Metering operations (including Comms Hub provision, testing, security including SMI, DCCKI; Enrolment and Inventory management including decommissioning; provision/operation of “core” services; operational maintenance, Incident and Business Continuity Management, Gateway connections, and Elective services)
- b. Central Switching Services
- c. Market Wide Half Hourly

For each of the above mandatory services the DCC should be required to have in place appropriate strategic planning and operational management processes.

There should be a requirement for an explicit and transparent DCC planning framework, covering and integrating the long, medium, and short-term objectives and outcomes. The DCC should also be required to seek engagement with SEC Parties on each of the components of this planning framework.

The new Licence must ensure that any Key Performance Indicators and/or Service Level Performance Measures by which the DCC Services are measured, are reflected in the underlying Service provider contracts and SEC as appropriate. Achieving this alignment should be explicitly identified as a Licensee obligation. This will avoid the current situation of misalignment and obfuscation in understanding and assessing DCC Service Provider performance.

There needs to be flexibility within the framework to enable the DCC to drive efficiencies that will benefit the recipients of the Services it delivers and for DCC Users to be engaged in the development of these efficiencies. As such, there is a requirement for a transparent process, with sharing of costs and benefits, for new services with SEC Parties and Consumer representatives, with regular progress reporting through design, build, test and operational phases, such that spend is accounted for at each stage.

I have considered party and consumer representation under Option A to the DCC Board and noted that if this option were to progress that such appointment to the DCC Board, that their legal requirements and obligations as Directors would need to be clearly defined. The concern being that as appointed Directors to the DCC Board, they will have legal duties in regard to the company and shareholders. and not those of SEC Parties and consumers.

I have considered both the model options A and B and believe on balance that Option B would provide the better outturn for SEC Parties.

2. Price Control

I consider that under either Regulatory Model option, the commercial risk would remain with SEC Parties. However, on balance, under Option B there would be greater opportunity for SEC Parties to control and influence the DCC and its activities, thereby providing some potential risk mitigation and value for SEC Parties.

Option B with the DCC Board structure including industry participants, will deliver better budgetary control, given that the SEC Parties would be able to scrutinise in advance and challenge budgets and spending plans. In doing so, this provides Industry and Consumer representatives an opportunity to drive efficiencies in DCC operations in a positive way, ensuring objectives are aligned with a common purpose towards net zero ambitions.

3. Transition

There should not be a need to extend the current arrangements by up to 3 or 6 years. The starting aspiration should be to put in place any new framework as soon as possible, recognising that there may be some operational changes that will need to transition subsequently. In any event, the existing Licensee should provide a detailed Exit Plan, setting out how any operational impacts are mitigated during transfer to a new Licensee / licence arrangement.

There is no optimal time to effect Transition of Licensee. However, consideration should be given to potential overlap with wider Ofgem Code Reform plans and winding down of the BEIS Smart Metering Implementation Programme (SMIP); there may be a level of assurance in undertaking the Transition whilst both Panel and BEIS Smart Metering Implementation Programme are still in post to provide support.

I understand that any dual running of licensees is limited in nature, and will be impacting Governance only i.e., Board level interaction, with day-to-day business continuing. In this regard, I assume that the current Transfer Undertaking Protection Employment (TUPE) arrangement applies. However, attention

should be made to key internal and external resource delivering service delivery and major projects e.g., Network Evolution and ensuring programme continuity.

4. Future DCC Role

I believe the new Licence should provide tight control for “mandatory” services the DCC provide. The DCC should be able to offer additional services to facilitate industry, in delivering against the changing energy environment and government policy drive to net zero. However, any new services the DCC wishes to provide should only commence when there is a positive business case approved and overseen by the Authority. Such Authority approval should be required prior to work commencing and any costs being incurred. The business case for new services should consider the value the new services bring by supporting the developing market, whilst reducing overall costs for core / mandatory service provision, through any new revenue stream.

Alternatively, a condition could be placed on the DCC to ensure certain criteria are met when seeking to set up or bid for new services. These conditions could be a financial limit, to reduce exposure for SEC Parties, a requirement to consult with SEC Parties, and for the Authority to retain a power of veto. There is precedent for this type of arrangement already within codes.

Any Services that the DCC proposes to provide in-house should be open to competitive tender, with a transparent process overseen by the Authority.

Whilst it should be recognised that this response reflects my own views, I have appended slides (Appendix A) that were used at a Panel workshop, to provide some insight into the issues that have been discussed by Panel members, during this consultation period.

If you would like to discuss this further, please do not hesitate to contact myself or the SECAS team on 020 7090 7755 or SECAS@gemserv.com.

Yours sincerely,



Peter Davies

SEC Panel Chair

Appendix A – DCC Licence Review - Panel Workshop Appendix A