

DCC Oversight and Regulatory Review

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DCC Review: Phase 1 Consultation

Octopus welcomes the opportunity to respond to the first phase of this consultation reviewing the DCC and exploring options for alternative regulatory approaches in the next licence period.

Smart meters are core to harnessing domestic flexibility which in turn is needed to accommodate renewables efficiently onto the system. Smart meters and the associated communication infrastructure are a necessity for time of use tariffs and other retail innovations which encourage customers to optimise their EV charging, the use of heat pumps and other Low Carbon Technologies (LCTs). This reduces system costs and allows customers to contribute to the net zero transition. Without robust and granular consumption data many core and crucially important industry programmes will be at risk; such as mandatory half hourly settlement which is due to be implemented in 2025 and will be a key enabler in the move to a smarter, more flexible energy system.

Many future decarbonisation deliverables rely on UK-wide smart meter coverage and quick and easy accessibility to smart meter data. However, the current DCC communications network is not in a stable state, and is jeopardising an efficient, customer focused energy transition. For this reason, **we urge Ofgem to give priority to addressing these failings and to ensure that the DCC's scope is not extended beyond the delivery of their core mandated services.**

We summarise some of the key points in our response below:

- The DCC's core mandatory business activities should not be expanded in the next licence period and their improvements must remain the priority in the remainder of the current licence period. The core DCC services must be delivered better, more reliably and to a standard which will allow the UK to create a smart, flexible system which is capable of fully harnessing flexibility from LCTs. Alternative regulatory approaches (most notably model A; a retender of the licence) can only be considered for the next licence period if these service improvements are made.

- The DCC and the operation of an efficient smart meter network should facilitate others to innovate. The DCC's role should be to enable innovation through the provision of a secure and reliable communications network, NOT to be the innovator itself.
- We are against the DCC exploring any Value Added Services, especially not in the EV metering and smart charging space where competition is driving rapid innovation without the need for a central solution.
- The obligations of the future DCC Licence holder as well as the expected roles of Ofgem and BEIS must be well defined so as to reduce the ability to widen the DCC's scope throughout the licence period.
- We are not convinced that changes to the regulatory approaches are the "silver bullet" to addressing Users' frustrations with the DCC. We'd like to see Ofgem do more under the current arrangements to drive service improvements, including through introducing ex-ante regulation, and to make progress in detangling the current complex set of governance arrangements over the DCC. Progress on these fronts is needed before deciding the appropriate arrangements for 2025 onwards.
- There are issues with both regulatory approaches that have been proposed in this consultation. Option A (retender to a private company) should not be dismissed but we recognise it is only feasible if significant service improvements are made in the intervening period. The prospect of being able to retender may however, provide Capita with the incentive it needs to improve services in the short term. Option B (not for profit, stakeholder governed) needs further development and assessment. Other bodies set up along these lines have not always been successful and more thought is required on governance before we could support this approach. Moreover we are concerned that a decision cannot be made on the preferred regulatory approach until improvements are made to current DCC operation.

Future role of DCC

The successful roll out of smart meters and operation of a secure and stable data communications network are essential building blocks which will allow retail innovation that will set the UK on the path to meet our decarbonisation targets. Without robust smart meter data a number of industry programmes essential to ensure we remain on track to meet our decarbonisation targets, such as marketwide half hourly settlement, will be at risk of failure. BEIS' own Smart System and Flexibility Plan highlighted just how crucial market wide half-hourly settlement is to achieve a flexible system - "the introduction of market wide half-hourly settlement in the mid-2020s will increase the availability of smart

tariffs which will drive uptake of smart technologies such as battery storage”. The DCC’s core mandatory business activities are critical.

At present, issues with current DCC infrastructure are persistent, which is providing poor customer experience with smart meters, impacting customer’s ability to switch suppliers smoothly and, limiting our delivery of innovative smart services such as ToU tariffs. These all reduce customer confidence in smart technologies - which may affect wider customer acceptance of LCTs and add materially to the costs of Octopus and the wider industry. Some examples of current issues include:

- Continuing occurrences of SEV1 and SEV2 outages causing significant interruptions to DCC network users
- Excessive site visits to restore/replace DCC Comms Hub capabilities
- HAN stability issues causing a number of SMETS2 meters to stop working
- Under delivery on the migration of SMETS1 meters onto the DCC network
- Unclear understanding of WAN coverage and reliability
- Concerns over the scalability of CSP North
- Unreliability of trust centre swap out process
- Prepayment top-up performance remains lower than previous SMETS1 solutions

Given the DCC’s infrastructure and core services are still unstable, we do not deem it appropriate that the DCC has been able to, or should be able to, expand its Core Mandatory Business activities. The continued focus must be on maintaining the stability of existing infrastructure so it is able to deliver core requirements to DCC Users.

We are concerned by proposals for the DCC to offer ‘ancillary services’. The DCC, as a monopoly, will have unfair advantages, owing to its central position, funding and access to privileged information when engaging in competitive markets. In the example of adaptor services that has been given, as well as concerns around competition, there are likely numerous architectural and security concerns to resolve and there may be a need for internal separation of systems/responsibilities within the DCC. These will be complicated to resolve, and whilst it may be surmountable, solutions which come forward through the competitive market would not require complex governance arrangements. These points are likely to be true of other ancillary services. Therefore ancillary services could certainly be a distraction from the successful delivery of the DCC’s core services. The exception is testing services. These are different to other potential ancillary services in that

to provide testing services requires in essence a duplicate DCC, and therefore is something only the DCC can provide (and in that sense are not contestable).

There has likely been limited uptake of Elective Communication Services due to high DCC costs and very long lead times. The provision of Elective Communication Services, as defined in SEC Section H7, requires significant review in terms of process and time scale in order to be a viable means to provide needed services to suppliers. Additionally, given the scale of innovation in demand side response initiatives and EV charging propositions, for example, it is not apparent that the DCC communications network is capable of adapting at the pace needed by industry. A more useful solution would be for the DCC to implement changes to services which are likely essential for a number of expected innovations which will unlock domestic flexibility. For example, this may include improved data latency, service request response times and greater granularity of data provided over the HAN.

We are strongly against proposals for the DCC to re-use their infrastructure to provide nationwide secure load control for EV chargepoints. There has been a huge amount of innovation in the EV and smart charging space to date which has not required a central communications network to deliver interoperability. Competition in this space has led to falling costs and the market moving quickly to adapt to users' needs, which would not be possible through a monopoly. Allowing the DCC to extend its infrastructure to EV metering and smart charging should not be permitted as a Value Added Service as this will stifle innovation in this area and result in unnecessary costs to DCC Users, which are ultimately borne by consumers. Handing over load control to DNOs would elicit too much market power for monopoly organisations and given a competitive market has already emerged which is delivering low cost solutions to customers quickly, much of the sunk costs have already been spent. Therefore, handing this over to the DCC at such a late stage would result in an unnecessary cost burden on consumers which would deliver little (or likely less) value than the current path we are on.

Despite the above concerns, there are opportunities which could be explored for the DCC to build services around its core business activities of providing a stable communications network for smart meters. A few examples include:

- Facilitating the transition to more granular settlement (essential to more cost reflectively value and reward domestic flexibility)
- Increasing the frequency and latency of data that is published to the home area network from smart meters

The above activities would increase the usefulness of the DCC infrastructure and would enable the realisation of system wide benefits from more accurate data provision and settlement of domestic energy consumption. The DCC should focus on its core mandated services and enhancements to services and systems that ensure the DCC does not impede retail and technological innovation that will enable customers to contribute to the achievement of decarbonisation targets as soon as possible.

Alternative Regulatory Models

It is difficult to be definitive about the most appropriate regulatory model for the future DCC. To some extent, the best way forward will depend on whether there is progress made in the coming years on establishing a secure and stable communications network. We also believe that there are alternative approaches which Ofgem should be considering alongside the options set out in the document.

We would note the following:

1. It is only after the network is stabilised that model A (retendering the licence to a private company) becomes a feasible option. Given the instability of the current system there are significant operational liabilities that the new licence holder would have to take on and it is likely that any party bidding to take the licence would add a significant risk premium, adding unnecessary costs to the contract. For this reason, we think Ofgem's focus must be on encouraging the DCC to improve its services;
2. It may be easier to encourage Capita to make improvements in the DCC if there is some prospect of the company being able to bid for a renewed licence in return for improving services. Ofgem might want to consider whether it can set specific service improvement targets in the remaining years which, if met, would allow Capita to participate in the competition for the licence. We can see the theoretical arguments for Model B. A not for profit DCC with a stakeholder Board or independent Board could in principle align the interest of the DCC with the industry it serves. Equally, in absence of a profit motive, one might expect that the scope of DCC activities could be narrowed so as to focus purely on excellent performance in relation to the DCC's core mandatory services. However, we note that this model has not proven to work well in all cases it has been deployed in the industry - and that in cases where it is employed (like Elexon) there is still debate about its suitability, including the not for profit element. The calibre and independence of individuals on the board are critical and

therefore more detail is needed on how Ofgem would intend for board members to be elected. Equally important is to understand whether this elected board would be sufficiently empowered to supervise and improve the executive function of a revised DCC.

3. We understand the natural tendency for DCC Users to look to an alternative regulatory model to solve the issues associated with the current arrangements. However, at present we are not convinced that model B will provide a silver bullet. In our view many of the current issues with the DCC stem from the complicated governance arrangements and poorly structured financial incentives that currently exist. We therefore encourage Ofgem to first determine the root cause of current problems with the DCC and prioritise making changes to address those that are distinct from the regulatory model.
4. Finally, other models - such as setting up a new for profit licensee, regulated by price control, as with the FSO - may have merit and deserve further consideration. These are the kind of options which might emerge if the operational and the current complications in how the DCC is governed are addressed.

Price Control Change Considerations

Given the views we have set out on the future role of the DCC, whilst there are a number of unknowns which may influence the way that the DCC is regulated, there is increasing certainty on the core business activities expected of the DCC and a track record on costs which should enable implementation of an ex-ante price control regime. Ex ante allowances and operational performance incentives should drive better service and efficiency, which would be very welcome to drive improvements to the DCC's current services and network. We, therefore, deem that is now appropriate for a move to an ex-ante price control framework for certain parts of DCC's Allowed Revenue in order to deliver the best value for customers. In particular, the DCC's core mandated business should be subject to an ex-ante regime. Even if the decision is made to move to model B for the regulatory model in the next licence period we have a preference for an ex-ante price control approach, rather than budgets being set by the Board. This is important to ensure a fair and transparent approach to price control regulation which represents the views of all DCC Users and minimises the risk that board members disabuse their power or expected impartiality.

The focus in the remaining years of the current licence period should be on stabilising smart meter communications and data provision so that an ex-ante price control approach can be implemented by 2025. This will require that the

DCC's focus on core mandated services is not undermined by conflicting pressures from BEIS or Ofgem in the remaining years of the current DCC licence.

To allow the price control to be flexible and adaptable, re-openers or volume drivers could be considered (akin to the RIIO framework) so that additional funding could be requested for activities not foreseen at the time of DCC business plan formation and cost setting.

Transition Period Considerations

We understand that there may be a need to extend the current licence to facilitate a lower-risk transition particularly if Model B is chosen as this presents more significant governance changes, as opposed to the licence retender under Model A. However, regardless of the preferred regulatory arrangements, we urge that this period is minimised as much as possible so as to allow the realisation of the benefits of the new regulatory approach as soon as possible. If a transition period is determined to be necessary, it is vital that elements of the future framework are phased in within the extension period to minimise transitional impacts. For example, introduction of the ex-ante price control framework should be done during the extension period or commencing the process for nominating DCC user representatives onto the DCC board.

We do however recognise that the current DCC Licence renewal date occurs in a period of significant change - eg. the move to a 4G communications network for the Central and South CSP region is expected in 2025. Therefore, it is important that Ofgem considers any exogenous pressures which may inform the decision on the most optimal extension length of the current licence so as to minimise disruption during the transition period.

By the time the decision is made on the regulatory framework for the next licence period and therefore any transition period arrangements that are required, it is fundamental that the roles and responsibilities of BEIS and Ofgem are clearly defined. At present, there is a lack of clarity in roles and enforcement power between BEIS and Ofgem which has led to suboptimal smart meter roll out regulation and weak enforcement action when it comes to DCC regulation. In order to minimise the transition risk and maximise performance of the DCC in the current and next licence period, it is important that BEIS steps away from activities which have been handed over to Ofgem and does not extend the powers to direct the DCC to perform additional activities beyond 2023. The governance structure for the DCC must be streamlined to allow the DCC to move



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forward with decisions more quickly which should result in better outcomes for DCC users.