

DCCregulation@ofgem.gov.uk

6 January 2023

Dear Sir/Madam

Consultation on DCC review: Phase 1 Consultation

I am writing on behalf of National Grid Electricity Distribution (South Wales) plc, National Grid Electricity Distribution (South West) plc, National Grid Electricity Distribution (East Midlands) plc and National Grid Electricity Distribution (West Midlands) plc in response to the above consultation.

This response is not confidential.

Yours sincerely



Gemma Slaney
National Change Manager

Consultation Response

Question 1. Which of the two broad models do you think we should adopt as the basis for our design of the future regulatory framework for DCC and why? What are the features of your preferred option that lead to you to this choice?

We believe that Option A should be adopted. We believe that with some amendments, the current structure would be fit for purpose and therefore there is no need to consider a completely alternative approach, especially given the amount of change that the industry is undergoing at this time.

Question 2: Do you agree with the way we have applied the principles in our analysis of the options? Please state your reasoning.

We agree with the way that the principles have been applied in the analysis of the options, with the main principles being appropriate and valid.

Question 3: With regard to Option A, to what extent do you think that changes to the DCC licence alone could provide incentives that result in a third party investor-controlled DCC Board providing the quality and cost of service that DCC customers require, and managing DCC effectively?

We think that Licence changes in relation to Option A, along with changes to the price control structure and Board membership, could result in the DCC being better encouraged to provide a higher quality and more cost efficient service that the DCC customers expect and would be satisfied with.

Question 4: With regard to Option B, how effective do you think a non-profit-making, stakeholder-controlled or independent DCC Board would be in providing the quality and cost of service that DCC customers require, and managing DCC effectively?

Option B has benefits in that the Board would not be trying to see a return for investors, but there is a potential of a conflict of interest and priorities where there are differences of opinions of the best interests of the users and whether these match the interests of all possible stakeholders.

Question 5: Do you have any views on the details of Options A and B?

We believe that the suggestion under Option A to include one or more industry appointed board member would be a very positive move to add another level of information and opinion to the discussions and decisions made. We also feel that having some ex-ante price control would help focus the DCC on providing adequate evidence for certain tasks where there should be enough certainty. Particularly as the core system stabilises and the volume of meters and traffic is known.

We do question, given that the DCC's role under the Faster Switching Programme is so different to that under Smart Metering, whether there should be a separate funding mechanism and regime for each area.

Question 6: What are your views on the options identified and the associated trade-offs for a possible licence extension?

We understand the likely need to extend the licence due to the changes that would be required. We would be reluctant to extend the licence by the maximum of six years as we think that these changes need to be implemented as soon as possible. We believe that as short an extension as possible is required in order to start realising benefits from any new structure, however we also

understand the suggestion of a three year extension to allow enough time to make the changes and ensure a smooth transition.

Question 7: What are your views on the assumptions we have made for Options A and B transition periods?

The assumptions appear appropriate for the transition period.

Question 8: In your view, which of the considerations we have identified for the transition period are the key dependencies and why? Are there any other dependencies that should be considered?

We believe that all the considerations stated are key dependencies and need considering. We also question whether some of the broader statements should be expanded slightly, such as MHHS being a key dependency on its own. Careful and appropriate management of the various contracts that need re-procurement during this time will be vital, with a holistic and transparent approach to how all the different work streams fit together.

Question 9: What is your view on implementing incremental changes to the regulatory framework during a transition period? Which parts of the regulatory framework would be most suitable for such changes and why? Do you have suggestions for their implementation?

We believe that there is definite benefit to considering the implementation of changes during the transition period. Getting changes to the price control framework and potentially the Board set up during a transition period would see benefits from these changes being realised as soon as possible.

Question 10: Do you agree with our proposed scope of future DCC's Core Mandatory Business?

Whilst we agree with the proposed scope of the DCC's Core Mandatory Business, we think it will need to be emphasised that DCC customers expect the DCC's immediate focus to be on continuing to maintain a secure, reliable and efficient smart metering service, addressing known issues, along with improvements in customer engagement and transparency.

Question 11: Should the future framework permit DCC to carry out any services additional to its Core Mandatory Business? What are your views on the concepts of 'mandated services', 'ancillary services' and 'additional services to users'?

Whilst we agree that the future framework should permit additional services, we echo our response to question nine, in that DCC customers expect the DCC's immediate focus to be on continuing to maintain a secure, reliable and efficient smart metering service, addressing known issues, along with improvements in customer engagement and transparency. The concepts of the mandatory business seem appropriate to ensure DCC have scope to carry out additional work that might be required of them, however we believe that they need to understand customers will still have concerns about projects and work being undertaken and costs incurred without appropriate buy in and support.

Question 12: Do you agree with our proposed drivers for a controlled change in DCC's role? What are your views on the ways in which evolution of DCC's role can be managed?

We agree that there is a need for the DCC's role to evolve, firstly due to an uncertain environment and secondly due to an ever changing landscape. It is crucial that this evolution is appropriate, transparent and subject to a clear process. We agree with the triggers identified in the consultation, however, the DCC need to ensure that their customers' views are fully considered

and the focus of continuing to maintain a secure, reliable and efficient smart metering service remains a priority.

Question 13: Do you agree that the future framework should enable exploration of re-use of DCC's infrastructure? What are your views on the specific conditions and measures that may need to be in place to enable it?

We believe that there is the potential for re-using the DCC's infrastructure and in particular providing an opportunity to reduce charges to customers. That being said, if the framework allows exploration of re-use, we feel that it needs to be explicit that this cannot be to the detriment of the Mandatory Business and the DCC's main focus must always be on maintaining a secure, reliable and efficient smart metering service. There will also need to be a very clear understanding of the funding mechanism for this work, as well as transparent governance and timely engagement.

Question 14: Do you consider that a hybrid model, where some costs are regulated under an ex-ante regime and some under an ex-post regime based on the level of cost uncertainty, would be appropriate for DCC?

We do not feel that the current ex-post price control framework is working as intended, is not resulting in the best output and doesn't provide sufficient control over the DCC costs. We believe that it would be appropriate for a hybrid approach with ex-ante being considered for certain activities and operations where there should be enough stability, resulting in greater control over the budget as well as more transparency and accountability for DCC Users.

Question 15: What elements of DCC's Allowed Revenue are stable (with low risk of forecasts being either under- or over-estimated) and would benefit most from an ex-ante approach by 2025?

We believe that there needs to be an aim to push focus on what actually should be stable and ex-ante, especially given that we are now so far into the programme. Whilst we accept there will always be a level of uncertainty, the main core requirements should be known at this point and we think the DCC should be challenged to focus on this rather than continuing to raise the challenge that requirements keep changing. We need to move forward collaboratively to push for stable core services and these being ex-ante rather than ex-post.

Question 16: What are your views on the different ways in which risk (ie the benefit of underspending and the cost of overspending) can be shared between the DCC and its customers under an ex-ante regime?

No comment.

Question 17: What are your views on whether DCC can be effectively incentivised to reduce costs at scale under an ex-ante regime?

Ofgem disallow a large amount of the DCC spend each year and therefore we believe that by changing to an ex-ante approach will encourage the DCC to fully consider the work and costs ahead of the spend and to have to justify these fully prior to spending, rather than asking for the money after the fact. The ex-ante approach will also mean that once the costs are agreed the DCC would be encouraged to come in under as this would result in higher profits. Ex-ante has also been proven to work for other monopoly companies.

Question 18: Do you think that moving to an ex-ante regime could adversely affect the quality of service? What mechanisms could be used to reduce the risk of underperformance under an ex-ante regime (eg provisions to allow clawback in case of delivery failing to meet specifications)?

We believe that there could be a risk in moving to an ex-ante regime, with the potential that the DCC might look to reduce spend purely to increase profits, or delay spending, however with a very clear incentive structure and milestones, there is no reason that the DCC cannot be appropriately incentivised under an ex-ante regime. Gaining customer views for valuable input will help ensure that the DCC focuses on providing a service that the DCC Users are happy with.

Question 19: What are your views on how best to assess costs under an ex-ante approach? For example: What level of detail on costs and benefits would be appropriate? How early should DCC share details of costs with customers? How should this information be shared and evaluated?

The DCC have been consistently challenged by customers for their lack of transparency and engagement when it comes to costs, as well as publishing consultations with challenging deadlines. Therefore, we believe that there needs to be enough detail shared, early enough, that customers have adequate time to fully consume the detail and scrutinise appropriately, with enough engagement that the DCC can consider these views properly and amend their proposal where required.

Question 20: Do you agree with our initial view that an ex-ante model has the potential to reduce the resource burden both for Ofgem and DCC? Please state why.

We agree with the view that an ex-ante model has the potential to reduce the resource burden going forward as an efficient cost level will become clear and provide information for future considerations. We think that any changes to the current structure will have resource implications for implementation in the early stages, but we need to remain focussed on the end goal and ensure that any regime is fit for purpose so it will bring the best outcome for customers and ultimately the end consumer.