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By email:

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## DCC Review: Phase 1 consultation

We welcome the opportunity to respond to the DCC Review: Phase1 consultation.

We note the consultation articulates an option (Option B) that reflects, amongst other features, a not for profit and stakeholder led governance model. In your November consultation workshop there were a number of references to the Alt HAN governance as another example of such a model. Further to Alt HAN's discussion with your team we committed to share our observations and experience of operating a stakeholder led model to help inform the consultation with real life experience of operating such a model after discussion with the Forum. We have captured an overview of the Alt HAN model in an Appendix to this 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?**

Option B could be an effective model for DCC services with a stakeholder led, not for profit entity based on the Alt HAN experience. The features of this model and its benefits are:

- **Stakeholder oversight** Appropriate controls for determining how services are delivered and prioritisation of activities through stakeholder involvement in the decision making, budgeting and prioritisation of services.
- **Clear definition of scope** Objectives established in licence/regulatory framework, this allows for the DCC to focus solely on its core activities and purpose. Additions to scope can be assessed on a case by case basis and if necessary the scope revised, subject to stakeholder assessment and feedback.
- **Independent Board** Overseeing delivery of the business activities with stakeholder input to appointing/replacing Board members

- **Cost recovery from stakeholders** A transparent budget which is consulted upon and agreed by stakeholders ex-ante, providing certainty of costs. Also includes the flexibility to obtain financing to spread the cost recovery from stakeholders
- **Clear decision making** Defined objectives and mechanisms for routes to allow for appeals and prompt resolution of any appeals
- **Incentivised to deliver** Services delivered to add value in accordance with objectives without the risk of focus shifting towards maximising profitable activities (and the ability to return unspent budget)

The building blocks of such an approach are there in the Alt HAN Governance (Section Z of the SEC) and in the stakeholder led option for the future ELEXON ownership. However such a model would require Ofgem to determine how much direct control stakeholders would have and an assessment that a stakeholder led model (e.g. like Alt HAN) is scalable to the significantly larger DCC activities with its real time operation and the breadth of operational and business decisions. To work most effectively would require a great investment of time from stakeholders (with individuals of a suitable level of knowledge and experience) and would need to address how smaller stakeholders, with limited time and resource can be engaged effectively in the model. Decision making processes should ensure all stakeholders views are considered and therefore mechanisms such as weighted voting (which is how Forum resolutions are made) may not always allow for the most efficient outcomes.

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

The application of the principles appears sensible.

The outcome of any model should be to drive the correct behaviours for stakeholders and consumers and how these outcomes are measured will be important in driving the right behaviours. Under a stakeholder led model those stakeholders should be able to define how a service is delivered that most effectively meets the needs of stakeholders and consumers (and the framework should allow for this).

In addition, an assessment of what works effectively in the existing model (regarding services or service delivery approach) could be considered and incorporated into the framework for any new model. Stakeholders would be well placed to confirm the aspects of service and service behaviours they would like to see retained or defined within any new model.

**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 have no comments on Option A as we have no direct operational experience of this option. However we believe there should be learnings from the current model that could inform any future model.

**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?**

We believe that Option B would be an effective model and reflect on the Alt HAN design as an example. Alt HAN is a successful working example that an independent Board can oversee the services and activities required under licence and code obligations. Stakeholder control is exercised through the Forum and the Board oversees delivery based on direction from the Forum. Cost is managed by working to a budget, developed through consultation with stakeholders and approved ex-ante providing certainty and transparency of costs and associated activities. Decisions are taken against the clear objectives set out in the SEC and can be appealed, allowing for stakeholders to challenge decisions if they do not believe the objectives are better met by a decision.

Ofgem should determine how much direct control stakeholders would have and an assessment for whether a stakeholder led model can be applied to the DCC activities with its real time operation and the breadth of operational and business decisions. To work most effectively would require a great investment of time from stakeholders (with individuals of a suitable level of knowledge and experience) and would need to address how smaller stakeholders, with limited time and resource can be engaged effectively in the model. Decision making processes should ensure all stakeholders views are considered and therefore mechanisms such as weighted voting (which is how Forum resolutions are made) may not always allow for the most efficient outcomes.

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

Please see the response to Questions 1 and 4 regarding the features of the Alt HAN model as a practical example of a stakeholder led model akin to Option B.

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

Alt HAN sees this is a matter for the core DCC stakeholders, however, we would note that if there are perceived benefits to be derived from either model it would seem important to see these implemented as soon as possible. Therefore once the future DCC design is agreed the priority should be to effect the swiftest transition as this should help drive achievement of the smart rollout objectives. Appendix 4 of the consultation document sets out the procurement activity and there would appear to be a

window to ensure procurement activity scheduled prior to 2025 can complete and any new procurement can be managed by the incoming DCC provider after September 2025.

The adoption of an Option B model would seem to remove the time and effort required for a procurement exercise and therefore allow for a swifter transition.

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

We would note that alongside the various options that have been set out there is the possibility to implement the core regulatory framework within the period between now and 2025 and enhance with detailed requirements, where necessary, post introduction of the new regime. This could be done using powers to amend licences and codes (either by extending the current Secretary of State powers or introducing new powers for the Secretary of State or Authority). This approach would probably only work for Option B as a commercial entity may need greater certainty before agreeing to a licence. It may also present a good opportunity for an Option B type model to utilise stakeholder led governance to refine the framework in a suitable way.

**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 would concur with the observations you raise in your consultation that the introduction of Code Reform proposals could be aligned to the introduction of the new regime to avoid prolonged periods of change in governance models. It may be that the DCC changes could be an early candidate for code reform proposals as part of an Option B model. The Strategic Direction provided through the Code Reform will be critical in ensuring the DCC provider delivers against the relevant policy priorities. The absence of a procurement activity to appoint a licensee under Option B also saves significant Ofgem and industry effort and should help bring forward any transition.

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

See the response to question 8.

We would note that a clear definition of scope and objectives established in licence/regulatory framework for the Core Mandatory Business would allow the DCC to focus solely on its core activities and purpose with certainty and without any unintended distractions to its delivery model. Additions to scope can of course be assessed on a case by case basis and if necessary the scope revised, subject to stakeholder assessment and feedback.

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

No comment.

**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'?**

We have noted elsewhere in this response that a clear definition of scope and objectives established in licence/regulatory framework would allow for the DCC to focus solely on its core activities and purpose. There is under a defined scope the Incentive to deliver services efficiently and to add value in accordance with DCC's objectives without the risk of focus shifting towards maximising new or more profitable activities.

Additions to scope can be assessed on a case by case basis and if necessary the scope revised, subject to stakeholder assessment and feedback. (e.g. if there is scope within the infrastructures to serve other markets or industries and defray the costs to existing users then this may be an appropriate justification to enable for new activity).

**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?**

No comment.

**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?**

The principle of re-use seems reasonable where this does not affect the core service. The consultation document identifies the measures requiring consideration, it may be worth considering how costs could be defrayed for existing users for system re-use.

**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?**

No comment.

**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?**

No comment.

**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?**

Under a not for profit model the budget should be transparently set through collaboration and consultation with stakeholders with mechanisms in place to manage uncertainty and release spend subject to the spend being confirmed. Unused funds can be returned to stakeholders within year, in Year +1 or contributed to a reduce future budget provision.

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

From operating a stakeholder led, not for profit, central service model we would note that the opportunity to reduce costs is largely driven through:

- Contract renegotiations (and any associated efficiency sharing gains within contracts)
- Resourcing (e.g. contract vs permanent mode – for example Alt HAN has made significant savings from moving from a contract to employee led organisation)
- Introduction of operational efficiencies

As DCC's model is based on management of long term, large, central contracts there are limited areas where significant savings could be realised once contracts are in place. The focus could for example be on delivering value from new contracts/contract extensions. The control of costs can be managed by conducting transparent budget and business planning with stakeholders. Consultation and feedback helps drive prioritisation. Uncertainty can be factored in by prudent estimate of potential costs and explanation of factors and likelihood of costs falling within year. A stakeholder led model allows for the Board/stakeholder body to confirm where conditions are met to release budgeted funds or to agree to return monies to stakeholders where funding is not required (as Alt HAN has done).

**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 (e.g. provisions to allow clawback in case of delivery failing to meet specifications)?**

We see no reason why an ex ante regime should affect the quality of service. Ex ante regimes are used elsewhere for monopoly and central energy industry services.

**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 certainty on final budget forecast should be made within a timeframe that allows stakeholders to incorporate costs into their planning for the next financial year. In the case of Alt HAN the budget

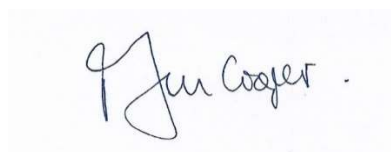
development, consultation and approval takes place before 1 December in the year preceding the financial year to which the budget relates.

**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.**

Alt HAN operates an ex ante budget model and notes that this provides full transparency and certainty of maximum costs for stakeholders. Uncertainty in the budget is addressed through assessing the potential areas for cost that may arise and budgeting according to the potential requirement or bundling uncertainty into contingency. The justification for costs and activity is driven through the budget and planning development and consultation processes. As certainty improves within year regarding whether those costs will arise in the financial year a decision can be made to either confirm the spend or return funds. As long as a budget is treated as a transparent and prudent estimate of costs and not simply 'permission to spend all' then the ex ante model works.

We would be happy to discuss our response further. Please contact my colleague [David.jones@althanco.com](mailto:David.jones@althanco.com) in the first instance.

Yours sincerely



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*Appendix - Background to the Alternative Home Area Network Company (Alt HAN Co)*

Alt HAN Co has been established to enable energy Suppliers to collectively meet their licence obligations with regards to developing solutions for extending the Home Area Network (HAN), when the HAN from a smart installation is unable to reach into the customers home. The Alt HAN solution allows those, who would otherwise not have been able to access their information over the HAN, to enjoy the same smart benefits as other customers.

The requirement to establish the Alt HAN arrangements is set out in the Supplier Licence Conditions (SLC 55 for electricity and SLC 49 for gas). The detailed governance, funding and establishment of Alt HAN Co is set out in Section Z of the Smart Energy Code (SEC), linking back to the licence conditions. Alt HAN Co has an independent Board to oversee the business of Alt HAN and the SEC establishes a representative Forum, comprised of Relevant Suppliers, which is the main decision making body. There are some interactions with the SEC Panel and the SEC Administrator but Alt HAN has its own Secretariat function and decisions of the Forum are only appealable directly to the

Authority). The budget for Alt HAN activities is subject to industry consultation and major decisions are informed by an Economic Case that establishes how Alt HAN meets the policy objectives.

**The Alt HAN arrangements are therefore established in such a way that delivers strategic policy and a central service to meet common stakeholder objectives, working in collaboration with those stakeholders. In principle DCC exists for a similar purpose.**

#### *Responses to specific questions*

We have focused our responses below where there is relevant learning from the Alt HAN arrangements. We have not provided a formal view on the merits of the options proposed as individual energy Suppliers, whom the Alt HAN Co arrangements support, will have their own views. However we do think AHC model is demonstrably strong at doing things closely aligned to what DCC needs to do over the period beyond 2030 – hence is a highly relevant design option to consider. To date our stakeholder led model has seen, through stakeholder control and oversight:

- Delivered complex, high-value procurements for technology development & delivery, and for operational capabilities to interface with market participants
- Applied development partnership approach to retaining competition in design & proving of new services before down-selection
- Delivered competitive sourcing of finance through application of “transfer of receivables” approach
- Applied robust, transparent framework for ongoing confirmation of value-for-money (applied to core service, and other initiatives (CMR and device reset)
- Created a regulatory environment and commercial/operational capability to deliver services on behalf of all energy suppliers at a building-level
- Oversight and approval of budget and return of unspent funds
- Driven reductions in resource costs by developing employee led model.

The service is overseen by service users, who in turn have the direct relationship with end consumers and ensures service users are incentivised to provide the resources and focus the service to user needs, supported from resources of sufficient expertise and seniority.