Monday, 16 January 2023

Ofgem
10 South Colonnade,
Canary Wharf,
London,
E14 4PU

Dear Ofgem,

Re: DCC Review: Phase 1 Consultation

Utilita Energy welcomes the opportunity to respond to this consultation. Change is absolutely necessary, as the responses to Ofgem's 2021 call for evidence make clear. This change is only achievable through fundamental alternations to the DCC Licence, alterations which provide the DCC with incentives to provide a robust platform - one that suppliers can be confident that they can build essential services on in order to best serve their customers in the way they need to.

Utilita continues to raise concerns around the DCC's capability to support the most vulnerable consumers on Prepayment meters at scale, and that functionality to support this demographic is not being prioritised. We are concerned by principle 5 as it appears to legitimise DCC's diversification of its services at the expense of its core responsibility.

Our key feedback from our response is our preference for a stakeholder-controlled board, operated under blanket ex-ante price controls, with principle 5 being removed from Ofgem's review criteria.

The desired end state, to be delivered through the next Licence period, is a smart metering solution with core services that are robust, resilient, highly available, fast and with adequate capacity - delivering a DCC whose sole focus is on the provision of an efficient, streamlined, and resilient core messaging service, with clear accountabilities on cost-reduction and simplicity. The critical first step, and the outcome from this first stage of consultation, should be a clear vision from Ofgem on what the DCC should become over the next 15 years of this Licence cycle, and what incentives will exist to drive the right behaviours. We must move to ensure that the holder of the Licence is primarily focussed on supporting the activities of stakeholders and the needs of end users, as opposed to broadening DCC's use cases and increasing revenues. Our response aims to describe how we believe this first step could be best achieved.

Our response is formed of two parts: this covering letter, our core response - which sets out our principle-based vision for the DCC, and an attached appendix, which answers the individual questions as posed in the consultation. The answers we provide to the individual questions are those which we believe best capture the high-level vision and objectives described in this cover letter. In most cases, meaningful change is not delivered simply through choosing one option over another - instead it comes from subsequent, low-level changes, delivered through the day-to-day efforts of the DCC over the next Licence period, some of which may be more easily achieved through the correct set of Licence changes. We consider this change process will take time to embed into DCC as we believe it needs a culture shift in DCC's thinking and approach to delivery.

Utilita is a specialist smart meter prepay supplier, offering uniquely high-quality smart meter services to 650,000 prepay customers with 1.2m smart meters (80% of our total 800,000 customers). Since our 2003 entry in the UK energy supply market, our focus has been on the development and refinement of a market-leading smart prepayment offering, based on technological innovation and enduring refinement. Our initial success and growth as a supplier was facilitated by the establishment and growth of a smart metering solution, similar to that delivered by the DCC. Our success has been dependent upon the effective design and operation of a smart metering system. This includes the system architecture, the messaging services, implementation of the data and communications structure, refining operational efficiency and ensuring resilience of the system - a programme of work with identical objectives to those of the SMIP and the DCC.

As Ofgem is aware, Utilita has long been extremely concerned that the services made available under DCC will not meet the needs of our prepay customers to the standards they currently enjoy – our concerns here are primarily around the risk of top-up failures and consequent risk of customer self-disconnection. These concerns continue and apply both to the level of services currently delivered by DCC and to the service levels DCC is expected to achieve.

Utilita is supportive of the objectives of the SMIP and fully embraces the benefits smart metering delivers. As pioneers of both smart metering and smart prepayment services, we have a clear vision as to what the DCC and its Service Providers should be. Our experience gives us insight into the design and operation of a robust smart metering solution. We have already designed and implemented an economically efficient and operationally resilient smart metering ecosystem. We recognise the key differences between the DCC as it exists today and our experience of what an effective solution should be. Contrasting our experience with the issues faced by the DCC is what forms our overall vision of how the DCC should change and what their objective end-state should be. In responding to this consultation, our goal is to convey this vision of:

1. What the DCC does (their Core Mandatory Business)
2. How the DCC operates (Principles)

The development of the SMETS2 system is one which has been plagued by delays and budget increases. We are now in a period of relative stability; however major incidents are common and overall cost is disproportionately high. CSP North requires development and investment (at additional cost) to be fit for purpose over the next few years, which is unacceptable given the level of progress made in rolling out meters in the North. Industry is already running into capacity issues (with a little over half of all properties fitted with smart meters), with MHHS and an influx of Other Users showing that there is simply insufficient headroom in the system – this state of affairs is certainly not conducive to innovation. Despite the continued efforts of industry and the code administrator, system change is excessively expensive and slow – with Suppliers and Networks funding the development of proposals which they do not fully support.

SmartDCC alone now employs almost 600 staff. The governance and administrative burden of the DCC has grown far beyond what it was originally envisaged to be. Total cost of the SMIP has grown more than two-fold, by over £1.5billion (from £1.39b to £2.9b)[1].

We must recognise the limitations and constraints of the SEC and the DCC. We also note the struggles the programme has had to date, both in terms of costs and timescales. We therefore conclude that we must simplify the remit of the DCC. This is required to keep centrally imposed costs down and offers the most innovation friendly solution.

The DCC and its Service Providers should exist to provide an efficient, cost-effective means of processing core smart metering communications. Any focus on re-use of the system or DCC-led innovation should be removed entirely at this stage – it serves only to distract from their core purpose. While we would not oppose economic system re-use in the longer term, at present, we believe the risk of allowing DCC to split its focus is too high, and this principle should be removed. While we understand the aim of the proposal, it should be considered a second order objective, not a fundamental principle.

The perception that the system delivered by the DCC is complex and must be flexible is incorrect. Overall cost must be reduced, and the efficiency and efficacy of the system must be improved. We must ensure that the focus of the DCC is in the correct place. The DCC should exist to provide the pipe and its goal should be to improve the pipe, whilst reducing costs, finding more and different uses for the pipe should not be core to DCC. Simplification is critical to achieving this. We provide further detail in our answer to question 11 in the appendix.

We believe that the vision we have set out here is one which reverts to the objectives as stated at the foundation stages of the project, as envisaged by Ofgem in 2010. It is a vision which will simplify, decrease costs, future proof, and allow for control to be restored.

Critical to simplification is the cessation of new mandated programmes of work. The DCC themselves are not to blame for the majority of scope creep, indeed various regulators and government bodies have mandated major development and system changes – the benefits of which are yet to materialise, though costs continue to increase. The DCC, as a profit-making entity, is not incentivised correctly – the current arrangements cannot deliver the focus on the core deliverables required (we expand on this in question 3).

With regards to Ofgem's Principles of DCC review, we are supportive of the first three principles:

1. Drive delivery of a quality, cost-efficiency, and secure service
2. Be customer-centric and consumer-focused
3. Enable full accountability and decisive governance
4. Allow DCC's role to evolve in an uncertain environment

[1] 2014 Smart meter roll-out for the domestic and small and medium non-domestic sectors (GB): Impact Assessment

vs 2019 Smart meter roll-out: cost-benefit analysis

We accept that the fourth principle is necessary, but it should only receive a 10% weighting, while the other three carry equal weight. The fifth principle should be removed:

5. Maximise the value of DCC infrastructure by enabling the exploration of assets subject to appropriate control mechanisms.

Complexity and ambiguity have plagued the success of the programme. Removing principle 5 and reducing the priority of principle 4 (to the minimum required for DCC to main future efficiency) is necessary in order to simplify the offering and the remit of the DCC. Whilst we recognise the good intent behind each of these principles, history shows us what is realistic and achievable. The presence of principle 5 has the potential to contradict the quality and cost-efficiency elements of principle 1. The DCC infrastructure already struggles to offer sufficient capacity and flexibility to its core business purpose and customer base, at this stage, the door must be shut on competing objectives and purposes.

The inclusion of principle 5 also detracts from the entrepreneurial market – the innovation benefit and potential does not have to be *delivered* by the DCC, but they should not be allowed to create barriers. The current barriers to entry and unattractive service discourage innovation. This then requires regulatory interference to artificially force innovation, which never truly captures the same benefits. Instead, offering a simplified, streamlined and easily engageable product to the open market has the potential to achieve a lot more than directing the DCC to deliver changes designed and dictated by regulators and government.

Inclusion of principle 4 at such a high weighting risks potentially distracting the DCC and Service Providers from the delivery of a core service. Effective delivery of the first 3 principles should deliver the same outcomes of principle 4. Inclusion of principle 4 has the potential to detract from the first 3 principles in order to evolve in a manner which not all stakeholders are comfortable with. We must be wary of all ambiguous and loosely defined principles and objectives, including net zero.

Removal of principle 5 does not preclude the DCC from being a vehicle for innovation and evolution. We this objective can still be delivered by presenting industry with a more attractive and easily engageable core messaging service.

The overarching theme in our response is that of regaining control, reducing scope, and refining existing services with a goal of simplification. The transition to a stakeholder-controlled model, with an ex-ante price control, appear to be the changes which assist in the transition towards our vision. The value in these changes comes in their specific implementation, rather than the general principles.

The end state design of the DCC must be simple and easy to engage with - complexity must be removed where possible. Change must be expedient and economically viable. The model should be easily accessible by organisations who currently sit outside the industry and the barriers for entry should be reasonable and understandable. The rules of use should be clear, as should the sharing of economic gains.

This will not be achieved through changes to funding models or the structure of the board – these are simply levers which allow for the necessary work to happen in a manner conducive to the agreed vision. Once a new Licence structure is in place, the first objective of any new DCC Board should be the production of a clear and realistic roadmap which delivers the vision agreed upon by industry and Ofgem. We should not expect this to be a simple or only a

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surface change - many elements of it may require contractual changes which are not achievable for many years, or indeed replacement of entire processes or service altogether.

The length of any transition period will be defined by the steps necessary to reach this agreed vision. We believe it is too early in the process to begin agreeing specific extensions to contractual periods – as we do not yet have agreement on what handover work is necessary. We recognise the need for a stable handover process, to ensure continuity of services and to avoid knowledge gaps developing, however we are also keen to keep any transition period to a minimum – as we imagine that dual operation will come with accompanying costs. However, given we are now in 2023, and the magnitude of redesign is large, we accept that an extension to the existing licence may be required. Assuming this to be the case, it must be kept to the minimum to ensure DCC customers and consumers can benefit from the change as soon as possible. On balance we recommend that the period should initially be set to two years, with an option for a third year if required and fully justified. Allowing three years at the outset may reduce benefits experienced by DDC users.

The appendix which follows sets out clearly what we believe the core mandatory services of the DCC should be. The DCC should focus on these activities, refining them to make them simpler, cheaper, faster and more streamlined. We also describe how we believe the DCC should operate, which is making their purpose clear to themselves, removal of external interference and agreeing simple, transparent goals – allowing innovation and evolution to occur outside of the DCC.

Alison Russell

Director of Policy and Regulatory Affairs

Utilita Energy Ltd

Appendix

Alternative Regulatory Models

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?

Utilita's preference is Option B. The board is central to the evolution of the DCC over the next Licence period. To deliver the future DCC we envisage, one of simplification and cost reduction, we believe a stakeholder-controlled board is the only viable option. The nature of this work, and the associated profit incentives, are unlikely to appeal to Third-Party shareholders, as they will have little incentive to deliver these objectives.

As described in our cover letter, significant change will not be delivered simply through the selection of one model over another. The effort involved in shifting to a stakeholder-controlled board will be challenging, as explained further in response to Q4. Ensuring correct board structure and membership is critical; contracts and DCC workings are redacted/opaque and hence currently respondents have very little insight as to what the transition and subsequent operation requires, and thus what expertise and financial commitment is required.

Subsequent consultations should focus on refining Option B, ensuring more information about current board structure and operation is provided to support respondents in providing informed and effective submissions to consultations on this complex matter. We state our preference as Option B, recognising that significant development work is required prior to agreeing any significant structural change. There are numerous examples of effective organisations operating in a similar space, such as Elexon and Network Operators, who do not seem to suffer from the same structural issues as the DCC.

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

As described in the covering letter we are supportive of the first three principles, and each should carry an equal weight:

1. Drive delivery of a quality, cost-efficiency, and secure service
2. Be customer-centric and consumer-focused
3. Enable full accountability and decisive governance

We accept that the fourth principle is necessary, but it should only receive a 10% weighting:

4. Allow DCC's role to evolve in an uncertain environment

The fifth principle should be removed:

5. Maximise the value of DCC infrastructure by enabling the exploration of assets subject to appropriate control mechanisms.

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?

Utilita have little faith that licence changes alone could ever align the interests of a profit-seeking, investor-controlled board with those of its customers (e.g. suppliers). The current set of Licence conditions were designed to ensure the needs of customers were met, whilst also offering value for money. We do not believe this has been achieved, with DCC customers unsatisfied with the performance of the network and overall costs increasing threefold from initial project plans. We do not believe that tweaking conditions and maintaining the ownership status-quo would reorientate the culture of the DCC and its Service Providers to operate in the manner we desire.

Third party investor-controlled organisations seek to deliver the requirements of the DCC licence while maximising financial gain – this is their only incentive for service delivery. The current framework has the impact of incentivising increases in gross expenditure (and consequently revenue in an ex-post world), whether through scope creep or otherwise, and disincentivises efficient economic provision, which may be more aligned to the interests of both consumers and DCC's customers. Adjusting Licence Conditions on a regulated entity will not alter the motivations of a profit seeking third party.

The difficulty of delivering the changes required is compounded by the current state of the communication network and data service provider contracts. While sight of the terms and conditions of critical FSP contracts is not available to users (or they are so redacted as to be meaningless), the results delivered demonstrate that there are significant contractual issues. Both the network and the contractual framework must be adjusted in a way which drives down costs but improves core service provision – a set of requirements which licence condition change alone is unlikely to achieve.

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

This second Licence period presents a different challenge from the first. The development and implementation phase, which was the core of the initial Licence years, has now largely been completed. The programme will be well past transition by 2025. It follows that the nature of the work involved in this second period is different, as are the ideal structures and incentives required to best deliver the required transformation.

Assuming that the stakeholder-controlled board is, at least partially, formed of representatives from DCC customers, then it seems to follow that customer requirements would be better represented, as they would be directly responsible.

There are of course risks associated with this model, such as

- Differing requirements between stakeholders
- The risk of disruption and issues during handover/transition periods

- Agreeing an effective board structure and membership
- Ensuring adequate expertise and financial/time commitment is provided to the board

Regardless of the risks, Option B is the fairest model. It places control back into the hands of those who fund the DCC and those who will continue to fund it over the coming decades. Placing control in the hands of those who must answer directly to customers ensures that the needs and requirements of these customers are best represented.

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

All our answers are caveated upon the need for significant future refinement of Options. Our preference for Option B is based upon high-level principles and requirements. Utilita's requirements for the future of the DCC inform our stated preference, however there are doubtless methods and mechanisms to produce the desired outcomes (stated in our covering letter) in other models so our preference may be flexible. We note Ofgem's intention to issue future consultations and welcome the opportunity to further develop proposals through this process. We request that Ofgem provide as much information as possible ahead of such consultations – perhaps as working papers – to inform stakeholder submissions. Workshop discussions following Chatham House principles may also aid development.

Transition Period Considerations

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

Utilita agrees that there may be the need to extend the current Licence. The length of extension required is dependent upon the changes being made to the Licence and the specifics which follow.

Therefore, it is too early to provide views on transition periods. Providing a meaningful answer at this stage would have to account for a number of variables and outstanding questions, and thus be too speculative to have significant value at this point.

We must first answer questions, particularly regarding ownership model and price-control mechanism before we can have meaningful input on transition periods. However, as set out in our covering letter, we recognise an extension is likely to be needed and given the notice period required, we suggest an initial two-year period with an option to switch on a third year based on clear evidence would be a reasonable approach.

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

Utilita note that the handover periods appear optimistic. Ensuring stable continuity of operations is critical, and we must endeavour to de-risk this activity.

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?

Sunsetting of 2G3G technologies is the primary consideration. The deployment of 4G Communication Hubs is a larger operation than the SMETS2 rollout, with immovable deadlines and the potential loss of smart services for customers.

All other stated transition period concerns are governance related and confined to industry participants. The transition to 4G has direct implication to customers and a scale of cost beyond all other considerations. Industry must ensure that ongoing services to current customers are not disrupted and that there are no impacts to the total prepayment infrastructure. Whenever the transition to the new licence arrangements happens it will be during a critical phase of the 4G migration as time is already of the essences for that programme.

We must also ensure that other industry change which impacts the DCC, such as Market-Wide Half Hourly Settlement, has a tightly defined scope, which is not subject to scope creep. Ofgem must consider the remit and responsibilities of stakeholders under Option B, to ensure that no element of service provision by the DCC could present future conflicts of interest under new ownership models.

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?

Utilita are not opposed to incremental change where it is required. We recognise that some incremental change may be necessary in order to handle a transition, particularly if shifting to Option B.

However, we are keen to ensure that unnecessary complexity is avoided. Where possible, simplicity should be preferred, particularly in situations where incremental changes require significant coordination between participants. Where a trade-off exists, Utilita errs towards the more direct and unilateral approach to change. Our experience of the programme to date suggests that simplicity and clear ownership/responsibility results in smoother and more effective change. Even where perceived benefits of early incremental changes are believed to exist, we suggest that simplicity should be prioritised unless the benefits are clearly evidenced to be overwhelming.

Future Role of DCC

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

Utilita agrees with the proposed scope of DCC's Core Mandatory Business.

Using SEC Appendix E (DCC User Interface Services Schedule) allows for a simple listing of commands to be adopted as the core focus of the DCC. We note that Appendix E is lacking in detail as to the functioning of these commands – this leaves ambiguity and could be enhanced to provided certainty.

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'?

The next Licence period must be one of stability and cost reduction. We therefore believe that as stated in our covering letter, the DCC's sole focus at this stage must be on its Core Mandatory Business. Leaving the door open to potential future services too early makes it impossible to baseline requirements when providing enabling technologies, such as communication or data infrastructure, and risks dividing DCC's focus. Project planning and delivery is hampered by ever shifting requirements and expectations of potential, but undefined, costs and benefits. This makes economic delivery incredibly challenging and frustrates industry engagement, as requirements and outcomes are constantly shifting. This pattern cannot continue and has been a key contributor to many of the delivery issues the programme has faced to date.

We recognise that some change is necessary and unavoidable - this should also be controlled by stakeholders. We propose that what Ofgem define as "ancillary services" should be permitted, and the current code-change process should persist. We proposed that any "mandated services" are also delivered through the same route, noting that the Authority already has the power to approve whatever they wish, regardless of votes.

The concept of "additional services to users" is present today in the form of bilateral agreements between the DCC and parties. In reality, this mechanism is rarely used. The difficulties around charging and use of DCC resources have proven too complicated to overcome, and the cost estimates observed are too high for a single party to justify funding.

There is little that the current network and data infrastructure offers which is unique or cost effective. Therefore, the only realistic use cases are those which offer compounding benefits when paired with other non-contestable elements of DCC delivery. The only way to attract other realistic offerings for re-use would be to reduce costs and improve efficiency of the network. This would result in the network becoming a genuinely attractive prospect for those seeking to utilise the raw communication potential.

Without significant improvements to cost and efficiency, there are far less realistic cases for reuse and innovation. The network must improve in its primary function before we consider whether reuse is realistic.

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 answer this question in the context of our belief that Principle 4 (Allowing the DCC to evolve in an uncertain environment) is necessary, but it should only receive a 10% weighting.

Much of the scope change explained in 5.24 is the kind of requirements creep Utilita wishes to prevent. We recognise the trade-off for avoiding this kind of change may be a more expensive change in the future – and that may be no option other than to accept this – currently the programme wants all the benefits but want to pay none of the costs.

Adoption of new technologies is achieved through changes to service provider contracts. There is nothing that could be achieved through an evolution in the role which could introduce new technologies. The board would seek to introduce new technologies in their re-procurement of service provider contracts cycle.

New policy or regulatory requirements are unavoidable and welcomed. These should be delivered through the current modification process.

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 are not opposed in principle to the maximisation of the value of DCC's infrastructure through exploration or re-use. However, we question if these possibilities exist and, if they do, whether they will detract from the provision of core services. There are still frequent operational issues, particularly in CSP North. Current focus must be on the provision of effective core services and the potential for re-use has frequently been a distractor for both DCC and regulators. DCC must deliver its core services prior to being enabled to explore other activities.

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Price Control Change Considerations

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. As stated before, the goal should be simplicity and focus. There is no need to allow for any element of *ex-post* regime to continue, all costs must be covered by *ex-ante* controls. By 2025, DCC costs should be stable and on a declining glidepath. The only circumstances where *ex-post* may be required is for new major projects, which we have already stated should no longer be required.

Where the regulator wishes to make a direct request of the DCC to undertake new development, we note that *ex-ante* is even more critical here, given the experience of *ex-post* to date. Whilst it may seem necessary to implement *ex-post* controls, to ensure flexibility of development and delivery, we strongly reject this. Cost certainty must be guaranteed for activities undertaken at the behest of non-funding bodies.

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?

As stated in our answer to question 15, by 2025 all significant costs should be stable. The baseline of DCC's operations should be well understood at this point. Contracts will be fixed, and the smart rollout should be complete – this means that all elements of DCC's business should be stable and with a historic cost base to refer to. If necessary, a small headroom allowance could be included to manage uncertainty, to align with the modest weight to be given to principle 4.

The only potential for variance would be through new projects or variations to existing projects. We note that these should be avoided – to ensure cost certainty. Where new projects are required, these should be introduced under ex-ante, with potential fund increases being permitted by the board under exceptional circumstances. DCC are already protected from many financial shocks by the lodging of credit cover by SEC Parties – it is unlikely that any variance would present short term risk to the continuity of service by the DCC.

DCC services should no longer be viewed as a transitional, evolving offering. It is now time to baseline and refine the current services – cost certainty is a key component of this.

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?

The DCC should be aware of impending overspend and must make customers aware of this as soon as possible. At this point, extra funding could be agreed or the consequences of ceasing funding accepted. If DCC were to evolve in the manner we explain elsewhere in our response, overspend should be a very rare occurrence and should only occur in rare circumstances. Where it does occur, there must exist a mechanism for the DCC to request extra funding. If a stakeholder-controlled board is in place, the DCC could gauge support before any request for funding increases is issued.

As costs should be stable, we welcome a closer linking of risks and benefits between DCC and its customers. DCC should exist as an extension of Supplier/Network businesses, and the responsibility of effective operation and financial resilience should likewise be shared. This view is dependent upon the changes we describe elsewhere being implemented and their objectives achieved.

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

A shift to a stakeholder-controlled model is likely the best avenue to incentivise cost reductions, as a large element of responsibility for cost reduction is provided by those who are also funding the organisation.

Implementation of short-term cost reductions can be incentivised through one-off financial payments. This could be a similar system to the milestone payments arrangements which existed during the establishment of the DCC.

Longer term incentives are not as critical, providing the original package of significant cost reductions and robust assessment of efficient underlying spend has been delivered. A perpetual state of cost-reduction has the potential to undermine service quality in the longer term. The balance between total cost, service quality and economic efficiency should be monitored and set by the stakeholder-controlled board.

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)?

There is no reason why the shift to an *ex-ante* regime should adversely affect the quality of service. Outside of the DCC, delivery of an agreed service at a specific service level for a set price is prevalent and successful, indeed it is the DCC's current arrangements which are non-standard. Mechanisms must be in place which reduce the DCC's revenue where service levels are not met.

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?

Submission and approval of costs could be facilitated through a new SEC-Subcommittee. Utilita has already submitted a proposal to form this exact committee and would welcome working with Ofgem to further develop this proposal.

Costs are easiest to assess when they are stable and provided to a pre-agreed scope. By 2025 this should be reasonably easy to achieve, due to the stable nature of DCC's business and a depth of historical financial information to support any forward-looking assessment.

We do not believe that granular, low-level budgeting is in the best interests of the DCC or its customers. Instead, high-level total costs can be agreed and the DCC should be permitted a degree of flexibility at a lower level. Provided total targets are met, a lighter touch review and assessment process is in the interests of all parties.

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.

Utilita agrees - *ex-ante* should make the price-control process easier for both parties. Costs should be clearly defined and thus the provision and assessment of supporting evidence should be simpler and less open to interpretation.

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