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By email to: DCCregulation@ofgem.gov.uk

16 January 2023

Dear Ayena,

RE: DCC review: Phase 1 Consultation

Scottish and Southern Electricity Networks (Distribution) welcome Ofgem's review of the principles, scope and next steps for the review of regulatory arrangements for the DCC. These potential changes in the regulatory framework have come at a vital point in the smart meter implementation programme, where the decisions can ensure that the future DCC is shaped correctly and held accountable in its core functions. This will allow it to provide a consistent and reliable service into the future for its current and future customers. Our response to your specific questions is set out in Appendix 1.

Thank you for the opportunity to respond and we would be happy to discuss any of our views set out in this response.

Yours sincerely

Matthew Alexander
Smart Metering Process Manager

Appendix 1

1. 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 Option A to be the most suitable option to adopt. Option B is more customer focused due to the fundamental change in ownership and the impact it has on accountability, however, it brings risks through the stakeholder-controlled not-for-profit organisation, and a delay in benefits from the new framework changes, alongside key improvements that are still required for equity injection. As option A also brings with it a competitive tender, this is the most suitable option as it could provide a better solution from a new provider.

In addition to this, option A would be the preferred choice, due to the potential mix of Ex-Ante and Ex-post price control. This approach, if implemented could effectively help drive further performances within the current DCC, such as areas where the DCC's revenue is stable or areas where it will incentivise further to improve service. As stated in previous consultations, DCC needs to provide an improved and stable core service, before seeking to provide additional services.

We also support the proposal of additional board members, in addition to current members. This would provide better representation of the interests of DCC users.

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

SSEN agree with the assessment of the options against the principles. We believe that under both options, challenges could remain in deriving value for money from existing contracts with external service providers. Option A deals with this by incentivising the DCC to suitably manage its contracts.

A key section on the analysis of the options which SSEN support, relates to the DCC being customer focused. We agree and support Option A which looks to ensure enhanced incentives are placed on DCC to provide services in line with its customers' requirements and greater emphasis being placed on the DCC's enduring general objectives, and less emphasis on the development of value-added services.

3. 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?

SSEN believe there is still scope to improve the quality of service delivered to DCC's customers. We accept that at point of initial successful tender a number of assumptions were made. DCC customers now have a far better knowledge of the DCC ecosystem and understand how the DCC needs to operate to provide a valuable service. We feel that greater strides must be taken to continue to move closer to a more reliable and cost-effective service.

Through previous consultations and improvement workshops, SSEN note that core and required improvements are blocked through the gaps between the initial contracts between the DCC and its FSPs, and the necessary performance improvements that DCC customers require. Without the possibility of a re-tender, improvements are hindered. Due to this we support the potential for Ofgem to approve or veto costs through consultation to ensure the future DCC budgets are robust.

4. 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?

SSEN agree through the consultation information, that Under Option B, DCC customers should be able to better ensure that services are delivered to the desired quality, and that DCC are sufficiently responsive to its user's needs. However, there are risks involved around the confliction of needs between stakeholders, particularly as the roll out of smart meters is not complete, and there are still many core issues such as communication and missing/incorrect data that require changes or resolution.

Alongside this, as technology moves at a rapid pace, noting 4G and 5G and the Internet of Things (IoT), if there is no monetary drive to seek new avenue streams or system re-use, there is a strong possibility that this option may stifle innovation as detailed within this consultation. Users will be minded continue to strive for a stable service rather than look to potential innovation.

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

N/A

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

SSEN believe that extending for up to 3 or 6 years could pose serious risks to benefits when extending the license to this length. As the extensions will crossover current workstreams that include MHHS, CSPN Scaling and Optimisation and overall capacity constraints. SSEN believe that if a new tender is agreed, dates could be incorporated into the licence, which will support the required activities for the new provider. This should negate some of the risks associated with extensions and initial implementation approaches.

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

SSEN agree with the assumptions made on the transition periods, as there are core changes occurring within options A and B. SSEN also agree with the time periods described.

8. 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?

SSEN believe that one of the key dependencies and considerations are DCC's key contracts and their expiry dates. These include contracts with existing Fundamental Service Providers, as well as external service providers for the SMETS1, ECoS and Switching programmes. We expect any necessary re-procurement activity for these contracts to begin appropriately in advance of their deadlines. It may also be necessary to procure new contracts to support new capabilities which may occur during the period 2025-2031. The timing of the handover will impact whether the current or new DCC is expected to procure a particular contract and should be taken into consideration for any transition period.

Further to this, SSEN believe that another key dependency is to factor in the differences between customer expectations and the current contractual obligations for the DCC's service providers. Due to commercial sensitivity, we have been unable to fully understand where expectations cannot be met as part of existing contracts.

9. 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 implementing incremental changes will help the earlier adoption of new frameworks. We believe that this will assist in both the price control and governance. Although a full implementation approach has benefits, an incremental approach allows for more control, industry engagement and scrutiny throughout all required changes.

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

SSEN agree with the proposed scope, however there are some existing concerns on the granular detail within sections contained within Appendix 5 of the consultation. For example, we believe that more work can be done to improve the Reliability of the service by reducing DCC maintenance windows and incidents that impact useability of the smart meter service.

We also believe there is greater improvements that can be made with regards to the section of "Decommissioning, Withdrawal and Suspension of Devices". There are still large numbers of multiple commissioned devices against an MPAN which impacts the ability to understand what devices are communicable at a premise. We also believe there is more work to be done to improve incident management within the DCC.

11. 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 agree that DCC should continue to be required to deliver services on behalf of, and as instructed by, the Authority or the Secretary of State beyond the original scope of its role to enable required functionality to improve industry functions. However, we believe that the DCC should be targeted at providing a more stable service before it can begin to focus on any ancillary business. For example, reducing the number of category 1 and 2 incidents and the number and length of unplanned maintenance windows. When discussing the point of elective communication services, as the DCC service is still not at a point where we receive all data as we should and in a timely manner. We have not sought to utilise the elective communications service, however there are use cases in the future that could utilise this service if the stability and continuity improves.

12. 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 the triggers and mechanisms are clear and straightforward which will allow future change to be adequately managed.

SSEN note the trigger detailed in section 5.27 which highlights a "Change in customer expectations & consumer needs", this needs to be structured in a way that covers the historic understanding when talking about a change in customer expectations and consumer needs. An example of this is the collection of data from smart meters, the DUIS documentation clearly describes the data held by the device and if it is able to be requested. However, since inception of these documents we now understand that this information is not available to be successfully retrieved from smart meters. We suggest these documents are updated to align industry understanding for current new SEC parties.

13. 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?

SSEN agree that DCC should have the ability to maximise the value of its infrastructure through the exploration of re-use. We also agree that this opens up the possibility of reducing charges to its customers or offsetting the setup and operational costs. This must be managed and governed in a way that ensures any exploration and re-use undertaken, does not negatively impact the core service the DCC provides.

14. 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?

SSEN believe the current model and review process allows users to support or provide feedback on DCC's costs. However, as in previous responses SSEN are not opposed to an ex-ante model if it has positive drivers to ensure DCC is held accountable, whereby it's spending or evidence of decisions around costs are not adequately communicated to industry.

15. 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?

SSEN believe that not many elements of the DCC's allowed revenue are stable, based on the continuous changes in which the DCC are exposed to new work streams as obligated by industry. Looking at the future and the DCC's current contracts with its FSP's, we believe that even with a robust framework there will still be considerable risk exposure to DCC in the current contractual framework.

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

SSEN as per our response in question 15, believe that if implemented correctly could provide further benefits in driving benefits due to allowed revenues, and cost savings to the DCC and its customers. However, as previously detailed, due to the key differences between customers' expectations and the current FSP contracts, we believe the DCC have very little control over a proportion of costs.

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

SSEN agree that it is possible to incentivise the DCC effectively under an ex-ante regime, however as noted in previous responses, as FSP contracts cannot be reviewed it is difficult to analyse any potential gaps which may hinder the effective incentivisation due to commercial sensitivity.

18. 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)?

SSEN agree with the detail contained within the consultation that if cost allowances are set ex-ante, there is a risk that DCC focuses on cost-cutting at the expense of the quality of service and target deliverables. We believe that there is inherent risk with this model and if implemented incorrectly could undo some of the hard work undertaken by industry since the DCC's inception to align DCC's performance to the expectations on its customers.

19. 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?

SSEN believe that the current framework allows users to adequately scrutinise costs alongside Ofgem but understand that there are some costs that have little detail, and some which we need to take the steer from Ofgem in light of information provided.

If these costs were to go ex-ante, we believe this could result in delays and longer lead times as there may be situations whereby DCC customers need adequate information but due to other reasons this information cannot be provided, or further information will be requested by DCC customers through industry forums. This puts the process at risk of constant liaison with the DCC, its customers and industry bodies which will use unnecessary resource from all parties involved.

20. 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.

SSEN agree with the initial views set out relating to reducing resource burden. As discussed in other responses relating to the different models, there are improvements available by changing the model, where some ex-ante models can be used to guide any changes that may be made in the future, there are risks which could cause extra resource burden and potential inefficiencies to be implemented if not managed and adopted correctly by the DCC and other industry parties.