



DCC review: Phase 1 Consultation

Northern Powergrid's response to the consultation from Ofgem issued on 30 September 2022

KEY POINTS

- Northern Powergrid as a DCC User welcomes a review of the regulatory framework for the DCC and the opportunity to provide feedback on future models.
- On behalf of our 8 million customers, we are committed to realising benefits associated to the smart metering programme. It is important that benefits that can be delivered by network operators from obtaining access to data from smart meters, at the lowest possible cost to the customer.
- We agree that the current arrangements are not fit for purpose and there is a need for change.
- Given the maturity of the DCC services and the risk that significant change introduces we would recommend a more comprehensive review of model options is undertaken and that any decision considers commercial and service impact to customers.
- We do not believe the two models being consulted on sufficiently address the complexity of the service delivery arrangements managed by the DCC.
- We agree with the key dependencies identified, support Ofgem's proposals for transition and an extension of existing arrangements if required. We support the inclusion of an uncertainty mechanism. We strongly recommend DCC Core Mandatory services are their sole and primary focus and development of additional, bespoke or elective services restricted, subject to performance standards exceeding contractual minimums.
- A combination of ex-post and ex-ante works well in other regulated sectors and we see no reason why this should not be applied to the DCC.

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Detailed responses to Ofgem's consultation questions

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?

1. We support a review of the DCC regulatory framework and do believe change is required in the interests of DCC Users and to ensure minimum customer service standards, contractual value-for-money and benefits can be realised in the interests of energy consumers. We do not believe the current arrangements are fit for purpose.
2. Whilst we accept that the decision rests with Ofgem, we don't believe either of the two models being proposed sufficiently address the issues experienced by DCC Users.
3. The level of change being proposed by the non-for-profit model introduces a significant amount of risk. The overhead required to set up these arrangements, ensure a managed transition to a newly structured, unproven arrangement could result in unintended and undesired consequences. This option fails to appreciate the complexity of managing and transitioning the managements of live, network systems, or considers the impact of the transition on a service already struggling to meet basic user requirements.
4. Revision and retendering of the contract may fail to address the fundamental design issues of the DCC and the arrangements in place with their service providers, i.e. sub-contractors.
5. Whilst acknowledging the Call for Evidence and Ofgem's analysis to date, we would strongly recommend that Ofgem proposes a wider range of model options for consultation with stakeholders.
6. Ofgem acknowledge that both options "offer a different set of benefits and risks". We believe that whilst the retendering option would carry least risk there is a potential for lower benefits realisation in the longer term.

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

7. We largely agree with the application of the principles in Ofgem's analysis. We would recommend that the feasibility of transitioning to new arrangements and the impact to DCC Users also be included in the analysis.

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?

8. We do not believe the DCC services issues we are experiencing as a DCC User can wholly be resolved by DCC licence changes to incentives. For example, the design of the radio network in the CSP North and its equivalence to service performance levels in CSP Central and South. The DCC Charging Methodology does not consider service standards experienced by DCC Users or system performance and access to smart metering data. Fundamentally we need regulators to step-up and enforce licence obligations and where those obligations are not meeting requirements, enhance them.

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?

9. Whilst Option B may be effective in managing quality and cost of service due to the complexity of the DCC services it is unlikely that management would be implemented as comprehensively as Option A.
10. We are also concerned about the impact of transitioning the current organisation and set-up to a new one. It is our view that, just when the UK consumers need stability following the implementation of the rollout, they will potentially see more disruption.

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

11. No.

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

12. No.

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

13. We note, "DCC's current licence is due to expire in September 2025. Under the licence, subject to specifically defined parameters, the Authority has the power to extend the licence for up to 6 years". Whilst we would support extending the current licence to facilitate a longer handover to a new licensee or revised arrangements we believe this should be expedited.

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14. We would encourage Ofgem to undertake detailed planning that thoroughly considers all the technical dependencies on systems change and to DCC Users, to align with the significant industry change underway or expected, for example Market Wide Half Hourly Settlement.

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?

15. We believe that the key dependencies during the transition period to beEnergy Code Reform due to the scale of impact and BEIS transition because of introduction of risk in the management of DCC and the assurance of ongoing service levels.

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?

16. We would strongly recommend any incremental changes take into consideration equal treatment of DCC Users.

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

17. Regardless of scope, we would encourage Ofgem to limit the DCC's Core Mandatory Business so that any framework does not encourage or motivate DCC to assign resources to researching or implementing ancillary, bespoke or elective services. We recommend that DCC are strongly incentivised to deliver the scoped service well rather than add-ons.

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'?

18. No, we would strongly recommend the primary and sole focus of the DCC is delivering for existing DCC Users to the highest standards possible. We are supportive of the feedback received to date and strongly recommend Ofgem listen to the views of stakeholders limiting DCC's activities.
19. We believe that any ancillary or additional services should be scoped without commercial impact to customers, i.e. at their own risk and costs are only assigned to direct beneficiaries with their agreement. Any work on ancillary or additional services should be contractually linked to maintaining a high, minimum performance level of the Core Mandatory Business.

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?

20. We agree with the proposal to include an uncertainty mechanism in the framework to allow for a controlled evolution in DCC's role.

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?

21. The DCC is funded by the public's money (directly or indirectly) and it should be obligated to ensure that the cost of its infrastructure is minimised throughout the entire lifetime of each component. A commercial option to re-use this infrastructure seems like a logical first step. Due to the nature of the DCCs business, special care must be taken to minimise the risk of data breach in this process.

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?

22. A combination of ex-post and ex-ante works well in other regulated sectors and we see no reason why this should not be applied to the DCC.

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?

23. Northern Powergrid do not hold an opinion on this question.

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?

24. The best way to control risk is to ensure that commercial frameworks seek to allocate that risk and reward to those best placed to control it. It would be an error to allocate this risk to the customers of the DCC when they have no control on how that risk is mitigated and balanced.

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

25. We believe that the DCC would be able to reduce costs under an ex-ante regime, however depending on whether DCC2 chooses option 1 or 2 for ownership/management, there may be different levels of attempts. Where shareholder's returns are capped, there may be a lack of interest to reduce further. Option 2 may create an aim to reduce costs more as the aim to benefit consumers will always remain a key principle for board decisions. Cost reduction must not come at the cost of service quality in an already challenged service.

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)?

26. We believe that where only an ex-ante regime is used, that there will always be a risk of reduction in performance. The weight of the 'do nothing' option grows when other projects are running behind and/or over budget. Therefore, a hybrid approach is perhaps necessary, to further separate the costs of operation, and protect against uncertainty.

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?

27. The DCC should share details of costs as early as possible where there is certainty. There will need to be a discussion about what level of uncertainty is deemed acceptable before the information is formalised. This information should be shared openly with SEC and REC parties regularly for scrutiny.

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.

28. We agree that this model has the potential to reduce the burden of resources on the DCC and Ofgem. Ex-ante regulation should drive the reduction of costs in the long-term, but we would be cautious about this in the case of the DCC, where the regulators will have no comparators with whom to benchmark the forecasts. This could be open to regulatory "gaming" by the DCC.