

Arqiva Submission: Ofgem – DCC review: Phase 1 Consultation

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Response on behalf of: Arqiva

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Arqiva welcomes the opportunity to respond to Ofgem's Phase 1 Consultation of the Data Communications Company (DCC) review.

Arqiva's smart energy metering communication network in the North of England and Scotland covers 99.5% of premises, with over 2 million communication hubs operating on the network. We work closely with the DCC to support the efficient rollout of smart energy metering and the realisation of its benefits to consumers across Great Britain.

We support Ofgem's overarching objective to 'put in place an effective regulatory framework for a future DCC' through its review. As highlighted in the consultation paper, smart metering delivers significant benefits for consumers in several ways: empowering users to better manage their energy consumption, improving the accuracy of billing, and ending manual meter readings. The insights provided by smart meters can also support progress towards net zero targets, enabling smart time-of-use tariffs to encourage off-peak consumption and incentivise consumers to sell excess power back to the grid. It is therefore essential for the DCC to remain focused on the delivery of smart metering for consumers, and for the DCC to be empowered to operate efficiently so that progress towards delivering consumer benefits is not delayed.

This submission focuses on several outcomes that we consider important to steer Ofgem's weighing of options for a future regulatory framework: the DCC being enabled to make timely and effective investment decisions; ensuring efficiency throughout the value chain through the alignment of requirements between suppliers, the DCC, and DCC customers; and enabling greater collaboration between suppliers and DCC customers to support innovation. Achieving these outcomes would reduce the likelihood of unnecessary delays in investments, and shorten timeframes between investment, delivery, and benefits being realised by consumers.

Neither of the regulatory models detailed by Ofgem would on their own guarantee that the above outcomes are achieved. We therefore do not have a preference between the regulatory models Ofgem outlines. Rather, we encourage Ofgem to focus on the processes and requirements that would enable the DCC to operate in an agile way and act decisively on investment decisions in the future.

We elaborate on these points below.

Regardless of regulatory model, the DCC must be empowered to act decisively and efficiently

We believe that Ofgem should consider more deeply how the DCC could be empowered to operate as efficiently as possible in order to speed up the delivery of benefits to consumers. This review provides an opportunity to support the DCC to be a more agile decision-maker, able to quickly respond to changes in technology and consumer habits.

Currently, the DCC is inhibited from reacting as quickly as it could to new opportunities by lengthy operational processes. Within the current framework, the DCC undertakes extensive consultation processes with industry and government bodies and lengthy appraisal processes for projects which can extend to over a year, to ensure that spending aligns with requirements. There may be opportunity to make these processes more efficient without compromising on the quality or cost effectiveness of projects.

This could occur through establishing processes that provide greater certainty to the DCC about the spend and projects that it is expected to deliver, thus enabling the DCC to act more decisively.

Streamlining requirements and investment timetables to further increase efficiency

To unlock efficiencies that benefit consumers, there should be a focus on aligning the requirements and expectations between the various players within DCC's ecosystem and the DCC itself.

The DCC is a system integrator, procuring services as needed from external providers to deliver services under the Smart Energy Code (SEC). In our view, there is an opportunity for greater alignment between the SEC and requirements filtered down through the DCC's agreements. For example, the SEC contains operational performance reporting requirements, with service level agreements agreed between the SEC and DCC. Separately, Arqiva has separate SLAs agreed with the DCC. These requirements should, where applicable, be aligned to enable efficiencies and a clear understanding of shared expectations and requirements.

Further, we consider that there is opportunity for the DCC to play a more supportive role in coordinating key players and enabling investment. The DCC has a key role to play in helping to define the roadmap ahead by committing to investment timetables and providing clarity to key players about when and how key outcomes will be achieved.

Greater coordination across the DCC ecosystem can enable greater innovation

Innovation in the products and services delivered to consumers will require the close collaboration of service providers and service users (i.e. energy and gas companies). This review process provides an opportunity to consider how closer collaboration could be enabled.

The DCC plays a central role in communication and collaboration between service providers and users. We believe that closer collaboration between providers and users would be beneficial and achievable. Suppliers and service users should be empowered to engage more directly on innovation possibilities, and to work as partners with the DCC on opportunities identified across the ecosystem to resolve or improve products and services.

The DCC should remain principally focussed on assurance of products and services delivered while enabling an ecosystem that fosters innovation. Greater collaboration would enable suppliers to be more responsive to developments in consumer needs and technology.

Ensuring the delivery of the benefits of smart metering infrastructure into the future

We support Ofgem's view that a future DCC should remain focused on the continued delivery of its core business; that is, providing communications and data services to and from smart meters in a secure, economical and coordinated manner.

The smart metering infrastructure may have additional benefits in the future, and we would fully support exploration of the possibilities with DCC and its customers. It will be important that any new services from the DCC that look to utilise the smart metering network do not have a negative impact on the delivery of the DCC's core business, or other services that may be deployed (by Arqiva or others) on the network.

We therefore agree with Ofgem that conditions to be considered include that DCC operations are sufficiently mature before re-use options are explored, and that ensuring the delivering of the 'core' service remains the priority. We also welcome Ofgem's prioritisation of governance and competition measures in this area. Given DCC's monopoly position, measures ensuring good governance and healthy competition will be important to deliver the best outcomes for consumers.

We recognise that this is the first phase of Ofgem's DCC review, and would welcome the opportunity to contribute further as this progresses.

About Arqiva

Arqiva is a communications and media services company based in the UK.

Arqiva is the metering connectivity provider to electricity and gas companies in the North of England and Scotland, following signing of an agreement with the DCC in 2013. There are currently over 2 million communication hubs operating on the network.

Responses to 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 you to this choice?**

Arqiva does not have a preference between regulatory models. Rather, we encourage Ofgem to focus on ensuring the DCC is able to be agile and act decisively on investment decisions. Whichever regulatory model may be pursued in the future, the DCC should be enabled to make faster and more effective decisions. This would reduce the likelihood of unnecessary delays in investments and shorten the timeframes between investment, delivery, and benefits to consumers.

Question 2 – Question 5:

No response.

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

Arqiva does not have a strong view on the transition period proposals outlined. However, whichever option is adopted, it must be ensured that existing contracts and the outcomes delivered for customers are not impacted, to avoid unnecessary delays to the delivery of services.

Question 7 – Question 9:

No response.

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

We agree that the DCC should remain focused on its core business: providing communications and data services to and from smart meters in a secure, economical and coordinated manner.

It will be of ongoing importance for the DCC to remain focused on governance and assurance of products and services. This enables healthy competition, to support the delivery of beneficial outcomes for consumers.

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 believe that the capacity to deliver additional services in the future is important to preserve, as it allows service users to differentiate and innovate, and therefore fundamentally enhances consumer choice. We consider that potential additional services should not be undertaken where these would detract from the efficiency or quality of DCC’s core business to ensure priorities for its customers and consumers are delivered.

As highlighted in our response to question 10, it will be of ongoing importance, given the DCC’s monopoly position, for the DCC to remain focused on governance and assurance of products and services. This enables healthy competition, to support the delivery of beneficial outcomes for consumers.

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 response.

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 welcome and would support the DCC and its customers in the exploration of future services using the smart metering communication network.

Any future services should not come at the expense of the delivery of the DCC’s core business and we therefore support Ofgem’s acknowledgment that certain conditions must be met before re-use options are explored. This includes the DCC consistently delivering high levels of system performance.

We also welcome Ofgem’s prioritisation of governance and competition measures in this area. Given DCC’s monopoly position, measures ensuring good governance and healthy competition will be essential to delivering the best outcomes for consumers.

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?

Arqiva does not at this time have strong views on the DCC’s regulated pricing model and how a hybrid approach may be applied if this is an option pursued.

However, we consider it important that in the future, regulated pricing models applied to the DCC are not then extended into regulated pricing applied to service providers. This is to preserve providers’ capacity to compete and differentiate themselves.

Question 15 – Question 20:

No response.