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Dear Ayena,

DCC REVIEW: PHASE 1 CONSULTATION

We welcome the opportunity to respond to the DCC Review: Phase 1 Consultation. Our answers to the consultation questions are in Annex 1.

In summary, we support Ofgem moving forward with Option B, designing wide ranging reforms of the DCC that would reshape the company into a not-for-profit organisation led by a stakeholder-controlled Board. We believe this would accomplish two main goals:

- **Deliver cost-efficient service**: A not-for-profit organisation, supported by a stakeholder-controlled Board, would be more incentivised to deliver the services customers expect than under private ownership. Pursuing Option B would encourage the DCC, a monopolistic business, to move away from contestable commercial activities and return the company's focus to its Core Mandated Business activities. We believe a public ownership model can negotiate and manage key contracts with external service providers in a manner better suited to their customers than the current DCC has proved capable of.

- **Provide cost transparency**: Customers and other stakeholders have not been able to influence the DCC's private decision making. Commercial interests, coupled with the system of *ex post* price controls, may have incentivised the company to increase expenditure, then seek to justify it *ex post facto*. We believe a public ownership model led by stakeholders, together with an *ex ante* system of price controls, can maintain cost transparency between the company and its customers.

Our themes of returning the DCC to its Core Mandatory Business and focusing on cost-efficiency extends to our belief that Ofgem should reject the exploration of commercial re-use of system infrastructure. Further, we discuss throughout our response the customer-centric benefits of a public ownership model, which will allow the future DCC to build a reputation for the reliability and high-quality distribution of its network.

I hope you will find our comments helpful; however, should you wish to discuss any aspect of our response please do not hesitate to contact me.

Yours sincerely,

Richard Sweet
Director of Regulatory Policy

Annex 1

DCC REVIEW: PHASE 1 CONSULTATION – SCOTTISHPOWER REPONSE

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?

Ofgem has proposed two broad models as the basis for the design of the future DCC regulatory framework. These are:

- Option A - a redesign of the current model to introduce changes to some of the key parameters of the existing framework, followed by a competitive retender of the Licence.

- Option B - more extensive changes to the governance of DCC and its operation by a not-for-profit organisation accountable to DCC customers through a stakeholder-controlled or independent DCC Board.

To assess the viability of the two models, Ofgem has used five key principles to guide its assessment: delivery of a high-quality cost-effective service, customer engagement, accountability, facilitating evolution and maximising value. We believe the DCC must be redesigned to best fulfil these five principles. Since the licence was awarded, the DCC has struggled with the spiralling costs from its contracts with key service providers. The current framework has allowed the company to undertake largely opaque contract negotiations without meaningful user input, which might have contributed to these cost increases. It is to be hoped that the opportunity to deliver a new regulatory framework will allow a future licence holder to deliver the service suppliers and customers should expect.

We consider delivery of a cost-effective service and enabling full accountability to be the two most significant principles of Ofgem's suggested five. DCC users and stakeholders have borne the brunt of seemingly inefficient contract management, and by extension cost-inefficiency. In our view, the general lack of transparency surrounding the DCC's commercial arrangements with service providers has merely served to engender a sense of mistrust in the Capita-controlled DCC over the years, which might be difficult to reverse. The new regulatory framework should enable the DCC to communicate with stakeholders effectively, build trust by maintaining transparency with industry users, and ensure that efficient contract management is properly incentivised, which is key to the functioning of the DCC. We note past lobbying by DCC users to gain a seat at the DCC's table have always been denied.

We believe moving forward with Option B will enable the DCC to best fulfil both these principles. The DCC, governed by a stakeholder-controlled Board, would be able to:

- **Provide transparency** – A stakeholder-led Board would seem, *prima facie*, more likely to share commercial information and details of service provider contracts than the current Board. Opaque contracts are a significant stakeholder grievance against the DCC, as they, and ultimately customers, share the DCC's costs without any real knowledge or evidence of its efficiency.

- **Incentivise the delivery of a cost-efficient service** – It seems self-evident that a stakeholder-led Board would be more likely to align its objectives with those of wider stakeholders, and customers, than one that is privately controlled. We note the prevalence of contracts with service providers that are not disclosed to industry members yet have resulted in soaring costs. Further, a publicly owned DCC would be more incentivised to remain on-hand with its Core Mandatory Business, rather than pursuing commercial ventures that we believe are at odds with its status as a monopoly business.

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

We broadly agree with the way Ofgem has applied the five principles in its analysis. However, we note Ofgem's use of a weighting system that has been applied to qualitatively assess the significance of each of the five principles. We reiterate that our focus are the two principles of cost-efficiency and accountability of governance, and we consider these principles as the key metrics to assess the viability of the future DCC against. It would be helpful if Ofgem could elaborate on how it plans to use the weighted principles in future decisions and consultations.

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 do not believe that Option A is the correct model to provide the DCC with incentives to deliver cost-effective service and effective management. The current DCC, owned and operated by Capita, is motivated primarily through price incentives. As a result, the DCC may have been incentivised to manage contracts in a manner not reflective of customers' or stakeholders' best interests. Specifically, we have in mind the lack of transparency between the DCC and stakeholders with regards to contracts, which allows the DCC to avoid the scrutiny that should be provided through the yearly Price Control consultations. As the DCC has been able to avoid disclosing the details of its contracts, we can only speculate as to whether such contracts are conducive to delivering the high-quality, cost-effective service that industry requires, which we consider inappropriate given the DCC's monopoly position.

The Option A model would review the key parameters of the current DCC framework to best fulfil Ofgem's five key principles. However, we are not persuaded that licence changes alone will be able to challenge the overriding commercial incentives to which the DCC ultimately responds.

We believe the change control allowances in the initial DCC Service Provider contracts to be a major driver of inflated DCC costs. These allowances, which typically offer a premium to the contract service provider if they are asked to vary the contracted deliverables, are not a cost inefficient way to deliver services. Under Option B, we would expect to see greater understanding of future requirements, especially those arising from SEC modifications, such that change controls would be the rare exception, rather than the norm. The adoption of an *ex ante* price control mechanism would also disincentivise these costs, since they could not be claimed back so easily.

Under Option A, we believe that the DCC would be less able to incentivise third-party Service Providers to be cost-efficient and transparent than customers and stakeholders should expect them to be, and that a regulatory framework where the DCC is publicly owned and controlled by stakeholders would be more likely to maximise efficiency.

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 recommend moving forward with Option B, the model we expect will best provide a high-quality, cost-effective service. Specifically, we recommend Ofgem explore design options for a not-for-profit, publicly owned DCC in the manner of ELEXON and the BSCCo.

We believe a publicly owned DCC, operated by a stakeholder-led Board, would be able to deliver cost-efficient service and efficient management. With Option B, Ofgem could design a future framework for the DCC that provides stronger incentives to collaborate, acknowledge stakeholder concerns and ultimately become more cost efficient, in part because a stakeholder-led Board would be more inclined to focus on the DCC's Core Mandatory Business, rather than on unnecessary commercial pursuits. This would be reflected in the company adopting an attitude towards contract negotiation and management that incorporates greater stakeholder input, which is where the bulk of the DCC's costs lie.

Further, the DCC's future framework under Option B would provide stronger incentives to acknowledge customer concerns and deliver a better quality of service. The national network suffers from unequal distribution between service regions, resulting in customers across the country experiencing varying quality standards. This issue, along with other problems such as unreliable access to or installation of smart meters, would be better served by incorporating customer and stakeholder feedback in the DCC's Board than by continuing with a privately controlled Board.

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

We acknowledge that Option B is the further-reaching proposal and has therefore been left more open-ended. We suggest that Ofgem narrow down the Option B proposal through our suggested not-for-profit DCC model governed by a stakeholder-led Board, in the manner of ELEXON and the BSC Panel. It would be particularly helpful if Ofgem could expand on the transitional arrangements for both the Options, so that industry members may have a better grasp of what to expect in future.

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

We believe a licence extension is required to give Ofgem and suppliers confidence in the DCC's future regulatory framework. The current Licence condition expires in 2025, which we do not consider appropriate to allow regulatory re-design on this scale.

We believe Option B – 'Extending the Licence for up to three years' – will offer sufficient time to prepare the new DCC while providing industry with a suitable deadline. The wide scope of the consultation, which includes the structure of the new DCC and consideration of *ex ante* price controls, merits time to deliberate and consult effectively. We note under Option B Ofgem would be given the powers to extend the Licence annually up to 2028, and we would hope this flexibility allowed the new regulatory framework to be completed earlier than 2028. Extending the Licence annually also fits with the twelve months Ofgem has predicted it will take to grant the award, making it possible to align the new award with the expiry of the current Licence.

We support Model B, where the DCC would become a not-for-profit company governed by a stakeholder-led Board. We note the possibility that transitional arrangements could be made to the current Capita-controlled Board before the new Licence is awarded. In this case, we would suggest that members of the SEC panel be appointed to the Board on a transitional basis.

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

Ofgem has assumed both Options A and B will require approximately 24 months of deliberation and consultation. While we recognise the wide-scope of the project, it would be helpful if Ofgem could provide details of these estimates as soon as it is able, noting that it states that Option B, the further-reaching proposal, may require the licence to be extended by up to three years. Whereas we are comfortable with pursuing Option B, we would certainly hope to see any transitional licence extension expire earlier than 2028.

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?

Ofgem has listed four key dependencies that should be considered during the transition period between the new and incumbent DCC licensees. We consider each of the dependencies in turn:

<u>Contract Dates</u>

We believe the most important dependency Ofgem considers will be the expiry, renewal and negotiation of the key DCC contracts that are due to expire. It is vital that the design of the new-look DCC is reflected in the key contracts reviewed during the transition period, which may then last for the duration of the new licence. We note that though Ofgem has guaranteed that contracts contain extension clauses and are capable of novation, the Authority should take care to ensure these important clauses are enforced.

We believe that beyond securing extension of key contracts, as far as possible the reformed DCC should have as great a hand in negotiating terms for new and renegotiated contracts as possible. Without this power, the reformed DCC will not be able to best reach its potential and may be hamstrung by the same flaws in key contracts that has led to rising costs and a lower-than-expected quality of service. We suggest transitional Board members may be appointed during the transition period where the License is extended beyond its initial scope; this would have the twin benefits of giving the current Licensee a clear picture of its expiring powers, while giving suppliers and consumers a closer view of what to expect from the reformed DCC. Our suggestion would be for members of the SEC panel be appointed to the Board during the transition period, much how the BSC panel currently governs the operations of ELEXON.

<u>BEIS Transition</u>

During the lifetime of the current DCC Licence, BEIS has taken an interventionist approach to mandate services upon the DCC. We welcome Ofgem's anticipation of a change in BEIS's role; that the Government will be less interventionist, and therefore will less directly govern the DCC, is a positive that will reduce the activation of change control allowance clauses and the impact of sudden increasing costs. We agree that some governance structures will be required during the transition period but would be keen to understand how Ofgem intends to keep this to a minimum, especially considering that BEIS involvement revolves around numerous other factors, e.g. government programmes, publications, the energy market.

<u>Energy Code Reform</u>

We note the Energy Code Reforms which will treat the DCC as a Central System Delivery Body, shifting the role of strategy development away from the DCC into the purview of Ofgem and energy code managers. We welcome all reforms that focus the future role of the DCC as a delivery body focused on efficient operation and away from self-interested commercial activities. We would recommend that code governance reforms relating to the SEC and, consequently the DCC, should be phased to commence once the proposed reforms on the DCC have been implemented. Such an approach should minimise disruption to the industry and reduce the risk of the DCC reforms being undermined or distorted.

Sunsetting of 2G and 3G Technology

The 2G/3G sunsetting arrangements mean that the technology in the existing Communications Hubs will need to be replaced by 2033 at the latest. The DCC is actively working with its relevant service providers towards the funding and development of replacement 4G devices, but these devices are not scheduled for delivery before 2025. It is clearly very important that these activities are insulated from any disruption that might otherwise result from a change of DCC. Moreover, Ofgem must ensure that the existing DCC is suitably incentivised, throughout any transition to a new DCC, to minimise the costs arising from its efforts towards 4G delivery.

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?

If an approved transitional period were to last longer than six months, we agree that it could be possible to implement incremental changes to the DCC's regulatory framework. As discussed in Question 6, we support Option B – Licence extension of up to three years - and anticipate further discussion of such incremental changes in future consultations.

We believe the most important aspects of the DCC's regulatory overhaul will be changes to the company's governance and the opportunity to renegotiate contracts with key service providers. As supporters of the stakeholder-led DCC Board approach, we would advise incremental changes to the DCC's Board, perhaps with members of the SEC panel being appointed as individual members of the extended Capita-led Board. This would give board members greater experience and knowhow of the DCC's positions in the interim period and indicate their approach to contract extensions to wider industry members. We do not recommend an incremental approach to potential *ex ante* price controls, as we believe all costs should fall under the *ex ante* model by the time of the new licence award – we expand more on the *ex ante* proposals under Question 19.

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

As the DCC is a monopoly, we believe its Core Mandatory Business should be the focus of the company. We agree with Ofgem's proposal to encapsulate those activities which relate directly to the function of an efficient smart metering business and are not contestable within the scope of the DCC's future Core Mandatory Business. We agree that these activities should remain clearly defined and enshrined in the DCC licence.

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 opportunity to consult on the DCC's future regulatory framework presents the chance to re-establish the company's main activities through its Core Mandatory Business. The pursuit of commercial activities may have resulted in DCC cost increases and a shift in focus away from principal services. Therefore, we would advise limiting the expansion of the DCC's Core Mandatory Business away from those activities which are already known to be non-contestable and essential to the running of a smart metering business.

The category of 'Mandated Services' could be an example of where expanded services may feasibly be included under the DCC's Core Business. We note recent examples of the DCC seeking to expand its purview beyond the operation of smart meters, including Smart Charging for Electric Vehicles. It is unclear to what extent such expansions are at the behest of Government, and it is notable that a full transition away from BEIS SMIP to enduring governance under Ofgem may reduce the likelihood of future Government interventions in the DCC. Nevertheless, should such services be mandated upon the future DCC, it may be suitable to include them under the company's Core Business Activities.

We do not believe the other suggested categories of 'ancillary services' or 'additional services to users' should be included under the DCC's Core Mandatory Business. The key feature of these other services is that they are contestable, pitting the DCC against rival competitors. To place contestable activities under the scope of the DCC's core business would be an overstep and would encourage the company to continue pursuing commercial ideas, which have so far not been successful.

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?

The DCC is an evolving company which must respond to drivers within its business. We consider each of Ofgem's three proposed drivers below.

- **Change in customer expectations and consumer needs:** We believe this to be the most important of the drivers Ofgem suggests. We support Option B – wide-ranging reforms to the governance of the DCC, led by a stakeholder-controlled Board – and believe it likely that this form of governance will allow the DCC to best respond to changes in customer needs. By operating through a customer-inclusive governance model, the DCC may be more receptive to and responsive towards changing customer needs. We agree with Ofgem's proposal to recognise this driver in an uncertainty mechanism and recommend that the Authority pursues Option B to best include customer expectations in the governance of the DCC.

- **New policy or regulatory requirements**: We agree with Ofgem's proposal that a changing regulatory environment may require evolution of the DCC's scope. However, we would recommend that external involvement in the DCC's business activities is kept to a minimum to avoid disruption and costly short-term expansion. We note the transitioning role of BEIS and the proposed introduction of Ofgem Code Managers. However, while we recognise that this is a matter of policy, we would urge careful consideration of the implications of introducing the Code Manager role to the DCC arrangements, where costs dwarf the aggregate of those from all of the other codes. The requirements for absolute transparency of the sources of these costs is paramount to the industry stakeholders that will be required to provide the necessary funding.

- **Evolving technology:** The DCC is tasked with providing an effective and efficient smart metering programme, one which is linked with evolving technology in the space. Its Core Business Activities are primarily managed by large external service providers yet are non-contestable, meaning it is likely that inclusion of emerging technologies will have to be directed by the Authority rather than from competition with rival firms. Therefore, we believe this driver necessitates the closest watch from Ofgem. In particular, the developing world of quantum computing and its potential implications for crypto-security should continue to be monitored.

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 supportive of the DCC exploring commercial re-use of its infrastructure. We believe this exploration, which could only occur under the new DCC licence holder, would detract from the DCC's Core Business Activities and lead to some of the same problems currently seen with the over focus on commercial practices. We do not believe a commercial re-use of infrastructure would be viable for three reasons:

- **Competitive rivals**: Commercial re-use of infrastructure would result in the DCC competing directly with rival companies and existing market solutions for its infrastructure. These rivals, free of the regulatory burden carried by the DCC under its monopolistic position in the UK smart metering sphere, are far more likely to be adept at competing for customers than the DCC is. We do not believe the DCC would ever be in a position to transition and become competitive with existing market entrants in an environment that is years away. The DCC's main business is contract management of key service providers to enable the delivery of an efficient smart metering programme; we do not believe the company's experience sets it up to compete with larger, more competitive rivals.

- **Cost to suppliers and customers**: The commercial exploration of infrastructure re-use carries a real cost risk to suppliers and customers who will likely be liable for DCC costs. This exercise would not be covered under any of the categories Ofgem has suggested: i.e. commercialising its infrastructure would not be a mandated, ancillary or additional service to users. We do not believe this exploration would be a justifiable business area for the DCC and would prove overly risky to suppliers and customers; we note Ofgem's proposals for commercial exploration should have a 'clear route for funding' yet customers 'should not take on any risk.' These two principles are unlikely to ever be applicable to commercial exploration since funding commercial projects in advance is always at risk of uncertainty and overrun costs.

- **Pressure on the infrastructure:** The industry has continued to suffer from frequent DCC outages, and we believe the commercial re-use of the infrastructure would merely put additional pressure on that infrastructure and give rise to further disruption to core services. The purpose of the DCC infrastructure is to serve the needs of energy suppliers and their customers and this needs to be the priority.

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?

We support including all costs under an *ex ante* model for the DCC, rather than the hybrid model Ofgem suggests. We do not believe the current *ex post* model has given suppliers and other interested parties the scrutiny and transparency of costs that should be expected of the DCC – the annual Price Control consultations, while in theory giving the opportunity to debate already incurred costs, are hindered by the complex and sensitive nature of the DCC's expenditure. The opportunity to adopt an *ex ante* model will give all parties the opportunity to set cost allowances in advance, keeping the DCC to a stricter operational model that may reduce the risk of overspend on forecasted costs that has been experienced in recent times.

We believe adopting a hybrid model of a split *ex ante* and *ex post* regime would limit the clear benefits described above. It is unclear why Ofgem suggest a hybrid model when it is aware that uncertainty mechanisms can be embedded into the *ex ante* system to accommodate for instances where costs are not fully known in advance. We would be more comfortable with the small risk of having to revisit certain mechanisms of the *ex ante* system than to accept a hybrid system and suffer the issues of *ex post* reviews anyway.

We support Option B, with the future DCC operated by a stakeholder-led Board, and limiting the pursuit of commercial activities, including the re-use of system infrastructure. We anticipate these proposals may reduce the DCC's exposure to unforeseen cost drivers, instead leaving the company to focus on its Core Business Activities where costs are generally known in advance. Therefore, we support including all costs under an *ex ante* model with the opportunity to consult on uncertainty mechanisms in future.

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?

We return to our position in Question 14 and support an *ex ante* approach that covers all DCC costs. It is likely that the *ex ante* regime will most benefit those aspects of DCC's Allowed Revenue that are known in advance, including the long term contracts the company manages with large external service providers. However, we are unclear as to whether Ofgem is choosing 2025 as a target date for an *ex ante* model to be in place or if it merely intends implementation to apply to the future DCC licensee.

We note our support for Option B, a future DCC governed by a stakeholder-led Board, and a transitional extension of up to three years to 2028, when we expect consultation of the future framework to be complete and the new licence awarded.

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?

We believe the most significant role the DCC can play in delivering efficient and effective service is through prudent contract management with its large external service providers. These costs are not fully controllable by the DCC, yet contract negotiation dictates a large degree of the scale of DCC's costs. We anticipate that an efficiency rate or 'sharing factor' could be designed to cover those costs which the DCC is directly liable for, including internal or operation costs. This mechanism has been demonstrated to function adequately in other parts of the energy sector, including in the network RIIO-2 price controls. We note that the risks of these aspects of DCC costs are likely to be less influential than those in contract management with external service providers.

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

The DCC manages contracts with large external service providers which makes up the bulk of their costs. The company does not have full control over these costs; rather, the DCC is tasked with effective contract negotiation to secure value for money service. With an *ex ante* regime, the DCC will always be incentivised to make cost efficiencies to profit on the difference between allowed revenues and incurred costs. Ofgem may wish to consider how to reflect contract costs within the *ex ante* regime; if a contract is renegotiated mid-price control period, the DCC will need reassurance that it will be compensated for increased costs or that it will profit from lower renegotiated costs. With the correct mechanisms, we do not believe the nature of the DCC's costs being derived from contract management may dampen the benefits of an *ex ante* regime to incentivise the company to make cost savings. The advantages of an *ex ante* regime concerning other forms of DCC costs, including internal or operation costs, are well-known and we do not wish to elaborate further beyond Ofgem's analysis.

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)?

We do not believe adopting an *ex ante* approach will necessarily affect the quality of service delivered. A future DCC governed under an *ex ante* regime is incentivised to make continuous cost efficiencies, since it would profit from the difference between approved revenues and incurred costs. Concerns should only arise if these cost efficiencies were made at the expense of quality of service, though we note lower overall costs are a benefit in and of themselves. Further, we note that if Ofgem proceeds with Option B – DCC governance under a stakeholder-led Board – the inclusion of consumer feedback in Board decisions may reduce the risk of underperformance in quality of service.

Nevertheless, we recommend that Ofgem adopt mechanisms aimed at reducing the risk of over-zealous cost-cutting. In addition to adopting Option B, licence requirements could perhaps ensure quality of service. In this regard, we note that of the different aspects of 'quality of service', customers are more likely to focus on reliability than on innovation.

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?

As discussed in our response to Question 14, we support the adoption of an *ex ante* approach to DCC cost controls. We believe this model is capable of best fulfilling the key principles of transparency and cost efficiency which Ofgem prioritises at the head of this review; Ofgem and suppliers will be able to scrutinise transparent costs before they are incurred, allowing for more reasonable DCC cost forecasts. This contrasts with the current *ex post* price control model, where the delay between incurred costs and consultation and the prevalence of commercially sensitive information has limited the transparency between the DCC and its customers and may have resulted in unjustifiably high costs.

To capitalise on the benefits of an *ex ante* model, we believe transparency of costs must be prioritised. While details of the DCC's costs must necessarily be shared with wider stakeholders ahead of an *ex ante* model redesign, we would support Ofgem in assessing the DCC's costs more regularly. Our suggestion would be for an accredited and independent body to carry out an annual audit of the DCC's costs, with those results possibly being published in the public domain. We believe such transparency is required given the scale of costs that have been incurred by the DCC.

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.

We believe designing the DCC with an *ex ante* model will have the potential to reduce the resource burden for all affected parties. The current *ex post* Price Control model can present a regulatory burden for Ofgem, the DCC and suppliers, as Ofgem is obligated to publish an annual consultation on the DCC's allowed revenue. These annual consultations incur costs related to the time lag between expected and actual revenue for the DCC and a regulatory burden for Ofgem and suppliers. We anticipate that an *ex ante* model can be designed that would remove the need for annual Price Control negotiations, noting that the *ex ante* RIIO programs cover a five-year period. It would be for Ofgem to decide what length of time it wishes the proposed DCC *ex ante* model to cover.

ScottishPower
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