



Consultation on DCC Price Control (Regulatory Year 2022/23)

E.ON Response (December 2023)

General Comments

E.ON welcome the opportunity to respond to the consultation on the DCC Price Control for Regulatory Year 2022/2023 (RY22/23).

Reviewing the consultation document published by the Authority, we are concerned at the volume of clarification questions which have had to be addressed to the DCC over the course of this Price Control process. Given its monopoly position, it is entirely reasonable to expect the DCC to appropriately justify and explain its activities through the Price Control process.

We believe that the DCC must take the appropriate steps to improve the accuracy of its cost forecasting. Inaccuracies in the DCC's cost forecasting have been highlighted in each Price Control process, and it is reasonable to assume that Fundamental Service Provider (FSP) costs should now be broadly predictable. The planned move to an ex-ante price control means that the DCC must take all reasonable steps to ensure its forecasting processes are appropriate, robust, and meet external stakeholder expectations.

In addition, we continue to have significant concerns about the year-on-year growth in the DCC's permanent headcount, and the fact that growth is forecast to continue in subsequent regulatory years. The DCC has not appropriately justified how its headcount growth, the appointment of individuals into new senior roles, and the associated costs tangibly benefit DCC Users and energy consumers.

The main body of E.ON's response is not confidential. However, we have supplied a separate appendix containing material which is deemed confidential.

Question 1: What are your views on our proposal to disallow £4.159m in incurred External Costs and £12.406m in forecast External Costs associated with DCC's procurement of an interim solution for the SMETS1 supply chain?

We have provided a separate confidential appendix in response to this specific question.

Question 2: What are your views on our proposed cost disallowance of up to £2.675m in relation to SMETS1 service stabilisation in RY22/23?

We agree with the proposed cost disallowance. Over the course of 2022, specific DCC SMETS1 services were impacted by repeated incidents and outages, affecting the enrolment of SMETS1 assets at pace. We expect the DCC to ensure that services are appropriately designed, built, and tested from the outset to avoid additional remediation or service stabilisation costs being incurred.

Question 3: What are your views on our proposal for a disallowance up to the amount of External Costs incurred on a directly awarded contract in the 4G CHs & Networks programme?

We agree with the proposed action.



E.ON expects that the DCC will comply with good procurement practice, and its own processes and procedures when procuring services. The DCC typically procures services that operate over several years, meaning that it must negotiate and agree contract terms that offer value for money to DCC Users and consumers who ultimately fund the DCC's activities. In the case of the 4G CH and Networks programme directly awarded contract, we are unclear whether the DCC has demonstrated that procurement tests (e.g., value for money; supplier compliance; etc.) have been considered and appropriately met. Where the DCC cannot demonstrate value for money on the specific contract in question, then DCC Users should not be expected to fund the DCC's procurement failings over the life of that contract.

Overall, we have significant concerns that DCC Users do not have the ability to scrutinise the DCC's operational and programme costs, or its procurement activities. Fundamentally, the DCC's Quarterly Finance Forum (QFF) is not fit for purpose as an industry scrutiny mechanism, given that the DCC controls the agenda and the materials which are presented. In E.ON's view, the QFF is not a decision-making forum and many of the suggestions proposed by DCC Users are ultimately ignored by the DCC. In response to Ofgem's comments on the QFF, we do not believe that the DCC provides transparency on its costs to DCC Users. We are inputting to industry discussions involving the SEC Panel Chair on the options to establish a specific SEC Panel Sub-Committee with the vires to confidentially scrutinise DCC's costs, contracts, and procurement activities. However, we recognise that establishing such a group is likely to require changes to Licence Conditions and the Smart Energy Code.

Question 4: What are your views on our proposal to disallow £44.054m in forecast FSP External Costs?

We agree with the proposed approach outlined in this area.

The scale of disallowance is significant, which raises concerns about DCC's ability to accurately forecast costs and its ability to manage its Fundamental Service Providers (FSPs). It is crucial that the DCC provides much greater certainty on its costs, given the move to an ex-ante regime and the fact that the DCC has been managing these service providers over many years.

Question 5: Do you have any other views on External Costs?

The continued increase in External Costs is concerning, particularly given the proportion that this category contributes to DCC's overall cost base. We believe that the DCC must robustly demonstrate that these increases are economic, efficient, and deliver value for money to DCC Users and consumers.

We are very concerned the DCC had to be challenged to provide sufficient evidence through a series of clarification questions or follow-up discussions. Ultimately, this raises significant questions on the rigour that DCC applies to its Price Control submission.

Question 6: What are your views on our proposals on disallow a 50% proportion of the RY22/23 resource costs associated to Corporate Management, Design and Assurance, Security cost centres and the Network Evolution programme?

We agree with the proposed approach outlined in this area, especially where the DCC has not provided sufficient evidence or a justified rationale.



Focussing on the Network Evolution topic area, we are unclear why only 50% of the difference between the RY22/23 incurred costs and the RY22/23 forecasted costs in the RY21/22 submission has been disallowed. Given the Authority's overarching comments on the robustness of the DCC's Price Control submission and the number of clarification questions raised, it is our view that a larger disallowance on Network Evolution costs is potentially warranted.

Question 7: What are your views on our proposals on DCC's approach to benchmarking of staff remuneration for both contractor and permanent staff?

We agree with the proposed approach outlined in this area.

Overall, we continue to have significant concerns about the DCC's year-on-year permanent headcount growth, and the forecast that this growth will continue in subsequent regulatory years. To date, the DCC has not appropriately justified how its headcount growth tangibly benefits DCC Users and energy consumers. Additionally, we are concerned at the continued appointment of what appear to be senior level roles in the DCC's opaque organisational structure.

The DCC also continues to experience a significant level of personnel churn. Not only does this result in additional and avoidable recruitment costs being incurred, but this personnel churn also contributes to a lack of corporate memory. We observe issues with DCC's corporate memory during industry discussions and their delivery of major industry programmes. Given Ofgem's review of the DCC Licence requirements, we believe that appropriate monitoring or benchmarking requirements associated with DCC's staff retention could be introduced. This could also consider appropriate reporting highlighting relevant staff retention trends or factors.

While DCC must report on contractor headcount as part of the Price Control process, it is unclear whether this is focussed on a single point in the calendar year. To provide appropriate oversight, we believe that DCC should be reporting contractor headcount as a trend across each calendar month. Requiring more detailed reporting would allow Ofgem and DCC Users to scrutinise contractor usage across each regulatory year and ensure that DCC is not releasing significant numbers of contractors immediately before the key Price Control reporting deadlines.

Question 8: What are your views on our proposal to disallow the continued costs that are linked to the activities that we disallowed in RY21/22 – these include additional costs associated with the Executive training programme, innovation, and growth as well as a continuation of the RY21/22 non-competitive procurements?

We agree with the Authority's proposals to disallow the continued costs. It is disappointing that the DCC deems it appropriate to attempt to reinstate costs which have been disallowed in previous Price Control processes.

Question 9: What are your views on our proposal to disallow a proportion of the costs linked to the activities that we consider not have been resourced in the most economic and efficient way?

We agree with the position outlined by the Authority. While DCC's scope of services has grown and evolved over time, its permanent and contractor headcount has also continued to grow significantly.



Given that many of the DCC's re-procurement exercises and the resulting programmes could be reasonably foreseen, we believe that the DCC should have taken steps to resource these activities appropriately and economically using internal staff.

Question 10: What are your views on our proposal to disallow costs directly associated with the Business Accuracy Programme?

We agree with the position proposed.

Alongside other industry representatives at the DCC Quarterly Finance Forum (QFF), we have repeatedly challenged the objectives and costs associated with the Business Accuracy Programme. Even after the DCC's QFF updates, we remain unconvinced that the Business Accuracy Programme will deliver material benefits for DCC Users and/or energy consumers.

Question 11: What are your views on our proposal to disallow costs associated with the RY22/23 non-competitive procurements for which we have not received satisfactory justification or evidence?

E.ON agree with the position proposed.

We are extremely concerned at the evidence presented through the consultation which indicates that DCC are failing to follow good procurement practice, especially considering the value range of the contracts apparently directly awarded. It is entirely reasonable to expect that the DCC will routinely adopt and enforce appropriate governance controls that ensure its services procured represent good value for money and will meet the requirements of DCC Users.

Given the DCC's monopoly provider position and the duration of many of its contracts, E.ON believe the DCC must transparently demonstrate to stakeholders that its procurement activities are economic, efficient, and deliver benefits to energy consumers.

Question 12: What are your views on our proposals on the Shared Service Charge?

We agree with the position proposed. E.ON firmly believes that the DCC should be required to provide detailed justification on the Shared Services provided and their associated costs.

Question 13: What are your views on our proposal to disallow forecast resource cost variances in RY23/24 and RY24/25; and disallow all baseline forecast costs for RY25/26 onwards?

We agree with the Authority's proposal, where the DCC has not supplied suitable justification.

Question 14: What are your views on our proposed position on DCC's System Performance?

We do not agree with the Authority's position on DCC's System Performance.

Given the performance issues and incidents experienced by E.ON and other DCC Users over the course of RY22/23, we do not believe that the DCC should be allowed to retain the entire margin associated with System Performance measures. The extent and duration of Major Incidents, Unplanned Maintenance and Planned Maintenance activities over RY22/23 has been significant, impacting the



installation of smart meters and delivery of services to energy consumers. Overall, the impacts on energy consumers from DCC's activities and system performance should be considered when determining a final decision on margin in this area.

While we recognise industry work to identify an enduring OPR solution, an appropriate incentivisation mechanism and supporting metrics must also be contractually defined during the Smart Meter Communication Licensee re-procurement process.

Question 15: What are your views on our proposed position on DCC's Contract Management?

Overall, we agree with the Authority's minded-to position on DCC's margin in this area.

The DCC's use of directly awarded contracts is hugely disappointing, given the risk that it imposes unnecessary or avoidable costs on DCC Users and energy consumers over the medium to long term. In the remainder of its licence term, the DCC will be responsible for re-procuring services that form critical parts of the end-to-end DCC infrastructure. Therefore, it is imperative that new contracts are let in a way which follows best practice, enables suitable industry scrutiny, and that maximises value for money on behalf of energy consumers and DCC Users.

E.ON believes that DCC's approach to supply chain challenges in recent regulatory years has involved offloading these risks to DCC Users, rather than appropriately managing, or driving its key suppliers. In cases where the supply of key Communication Hub components was forecast to become constrained, the DCC automatically defaulted to a position of offering price support or requiring DCC Users to commit to additional volumes. Looking forward, the DCC will hold a pivotal role in ensuring its supply chain delivers a smooth and cost-effective transition between 2G/3G and 4G Communication Hub devices. Therefore, the DCC must reconsider its approach to supply chain management.

Considering the recently launched Smart Meter Communication Licensee re-procurement, we believe these factors warrant suitable independent audit oversight of the DCC's activities. It is essential that the scope of this audit oversight is broad enough to test and validate the effectiveness of the DCC's corporate governance and contract management arrangements.

Question 16: What are your views on our proposed position on DCC's Customer Engagement?

We agree with the Authority's minded-to position on Baseline Margin reduction in this area.

DCC has continued to deliver information and materials of variable quality to industry forums, such as the SEC Panel Sub-Committees. We believe that information sharing on the DSP Technical Refresh and BCDR Testing activities across 2022 was poor, with DCC Users having to repeatedly request that a single view of maintenance outage dates, times, and durations was provided. Given the level of disruption to DCC Users and energy consumers, it is reasonable to expect the DCC to share detailed information by default.

In E.ON's opinion, the DCC's Quarterly Finance Forum (QFF) does not offer a suitable mechanism to effectively scrutinise the DCC's costs, its assumptions, or strategic decision-making. As such, the QFF as an engagement mechanism does not represent good value for money given the agenda, materials,



and discussions are entirely managed by the DCC. Scrutiny through the QFF forum is limited, with alternative proposals or suggestion from DCC Users typically being ignored by the DCC. While the DCC provides data on costings or billing through the QFF, we are aware of cases where this data had to be reworked.

E.ON intends to input to discussions led by SECAS and the SEC Panel Chair on the formation of a SEC Finance and Costs Sub-Committee, which we hope will have the vires to enable DCC User representatives to scrutinise DCC's costs and contracts on a confidential basis.

While the DCC has started using social media channels to share general information, the level of third-party engagement with the DCC's posts appears very limited. Paragraph 5.78 highlights the supposed benefits of DCC's presence on Twitter to DCC customers, but it is likely that this target audience will rely on industry-wide mechanisms (e.g., DCC Nominated Contact List, or SECAS communications).

Question 17: What are your views on our proposed position on the assessment of the SMETS1 Baseline Margin Project Performance Scheme (BMPPAS)?

We agree with the Authority's minded-to position on BMPPAS. Rather than distributing the Baseline Margin reduction over three years, we believe this should be completed sooner and that the DCC should be required to clearly explain the BMPPAS-related charging changes.

Question 18: What are your views on our assessment of DCC's application to adjust its Baseline Margin?

Our response on the individual categories is detailed below.

'Increase in Customer Service Expectations'

Based on the limited evidence presented in the consultation document, we agree with the Authority's proposal to reject the application for a 'Increase in Customer Service Expectations' margin adjustment over the RY22/23 to RY24/25 timeframe.

In our view, the DCC's Quarterly Finance Forum (QFF) does not offer a suitable mechanism to effectively scrutinise the DCC's costs, its assumptions, or strategic decision-making. While the DCC may claim that it has incurred resource and non-resource costs resources associated with the QFF, we do not believe this engagement mechanism represents good value for money. The QFF agenda, materials, and discussions are entirely managed by the DCC meaning that scrutiny offered through this forum is limited at best, and proposals from DCC Users are typically ignored by the DCC.

E.ON intends to continue inputting to discussions led by SECAS and the SEC Panel Chair on the formation of a SEC Finance and Costs Sub-Committee, which we hope will have the vires to enable DCC User representatives to routinely scrutinise DCC's costs and contracts on a confidential basis.

'Non-Resource Positive Cost Variances Below the £150k Threshold'

Overall, the DCC should not benefit from Baseline Margin Adjustments (BMA) for positive cost variances where it does not provide appropriate supporting evidence to the Authority. Therefore, we



support the proposal to reject the Baseline Margin Adjustments in this area over the RY22/23 to RY24/25 timeframe.

'Managing Capacity on the Network'

The DCC has continued to incur resource and non-resource costs in its attempts to deliver improvements to its CSP North services. While some improvements have been observed, CSP North continues to under-perform compared to CSP Central and South. We do not believe there have been "...significant changes in the expectations on the system...", with DCC Users simply having the reasonable expectation of installing, operating, and managing their smart meter fleets. E.ON's industry representatives and those of other energy suppliers have clearly articulated these expectations to the DCC through industry forum discussions (e.g., at SEC Panel Sub-Committee meetings).

'Changes to DCC's Supply Chain Structure'

We are disappointed to see the DCC claiming Baseline Margin Adjustments on the grounds of 'Changes to DCC's Supply Chain Structure – Increase in Commercial Activity'. Underperformance in, and previous restructuring activity to, this DCC function has been funded by DCC Users for many years. Coupled with the fact that a Supply Chain structure is a standard corporate governance mechanism, the basis for the BMA proposal has not been justified by the DCC.

Additionally, E.ON and other industry stakeholders have raised concerns on the DCC's decision to develop and introduce a supply chain disaggregation strategy. It is unclear whether the DCC has realised tangible cost savings from this strategy, while topics discussed in SEC Panel Sub-Committees point to additional complexity and operational overheads caused by the resulting expansion in the DCC's supply chain. Assuming it continues to adopt this strategy in the major re-procurement activities it is leading (e.g., DSP re-procurement), the DCC must demonstrate tangible cost and operational efficiencies from supply chain disaggregation.

Overall, we agree with the Authority's position to disallow this BMA proposal on the grounds that efficiently run supplier and contract management functions are something that the DCC should have reasonably anticipated. Where the DCC adopts a strategy that has been questioned by industry, we do not believe that additional associated costs should be passed through to DCC Users.

'Facilitating Additional Relevant Service Capability'

Reviewing the overview on 'Conference, Forums, Events' and 'DCC Culture Project' activities, we agree with the Authority's position to disallow DCC's BMA request for elements in this category over the RY22/23 to RY24/25 period.

Question 19: What are your views on our assessment of DCC's application to adjust its ECGS?

Subject to the comments below, we agree with the Authority's position.

Given the scale of its operations and outsource contracts, the DCC should be actively exploring opportunities to realise cost savings in other areas. Over the years, DCC has heavily relied on the



refinancing of Communication Hubs to secure External Contract Gain Share (ECGS) through the Price Control process. It is likely that other cost savings exist, and we believe that the DCC's Contract Management team should be looking to explore and realise these savings as doing so would be in the best interests of energy consumers.

Overall, the forthcoming procurement activity to appoint a 'Successor Licensee' for the Smart Meter Communication Licences could allow the Authority to strengthen expectations and obligations in this area.

Question 20: What are your views on our proposed position on DCC's costs associated with Switching?

We agree with the Authority's position, including the proposal to disallow forecast costs for Switching in the RY23/24 to RY25/26 period.

Question 21: What are your views on our assessment of Delivery Milestone 5 of the Switching Programme?

We agree with the position outlined.

Question 22: Do you agree with our proposal to apply a margin somewhere in the range of 7-9% when calculating BM adjustments from 01 April 2024 onwards? Do you have a specific figure that you think should be applied?

We agree with the proposal, based on the explanation outlined in the Authority's consultation document.

Question 23: Do you agree with our proposal to adjust the Shared Services Charge (SSC) from 9.5% to 4.5%?

We agree with the Authority's proposal.

However, it is essential that the DCC delivers on the requirement to tangibly demonstrate that it is achieving value for money from Capita-provided Shared Services. Reviewing Paragraph 8.30 of the Authority's consultation document, we are disappointed to read that DCC has apparently failed to undertake and/or report on an in-depth and independent value for money review on Capita Shared Services. We believe that the forthcoming procurement activity to appoint a 'Successor Licensee' for the Smart Meter Communication Licences offers the opportunity to introduce appropriate obligations in this area.

Question 24: Do you agree with our proposal that any services provided to DCC by Capita, whether through a services contract or through the SSC arrangements, should not be eligible to earn any additional Baseline Margin through the adjustment process from 01 April 2024 onwards?

We agree with the Authority's proposal.