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Dear Ayena

DCC PRICE CONTROL CONSULTATION: REGULATORY YEAR 22/23

Thank you for the opportunity to respond to this consultation on the DCC's Price Control for Regulatory Year 2022/23.

Despite the initial 12-year term of its licence officially drawing to a close, we note that the DCC's reported costs for RY2022/23 were 24% above forecast, resulting in a revised estimate approaching £5.5bn for the whole licence term.

After ten years, we had hoped that the DCC would be better equipped to forecast its annual costs than these figures would seem to suggest. Nevertheless, we do not believe it symptomatic of an underlying uncertainty that might constitute sufficient reason to delay delivery of *ex ante* arrangements; rather, we would urge Ofgem to press on in this regard. Indeed, in light of the forecast sums that Ofgem would now disallow, the need for ever greater sedulity in DCC forecasting is surely more salient than ever and, in our view, can only be achieved within an *ex ante* regime.

We welcome Ofgem's proposals to disallow those costs that it believes the DCC has been unable to properly justify, costs that would otherwise almost inevitably find their way back to consumers. We also welcome proposals to revisit the 15% allowed through the Baseline Margin Adjustment (BMA) mechanism which has been permitted the DCC since licence award. It is no longer reasonable to accept that the singularity of the DCC's role still comes with the uncertainty that it did at the outset. We consider a figure nearer to 7%, which would be more in line with the switching arrangements, to be more appropriate in future.

Absent any visibility of the DCC's regulatory submission, we do not feel particularly well placed to comment on Ofgem's proposals, and for that reason have not responded individually to each of the questions posed in the consultation. Although we offer the following comments/observations, we will essentially defer to Ofgem's judgement where it has recommended disallowance on the grounds that costs have not demonstrably been economically and efficiently incurred:

- Certain of the features that Ofgem highlights give us cause for concern: e.g. the noted drop in the quality of the DCC's regulatory submission this year; including, *inter alia*, the reinstatement of previously disallowed costs, without explanation, which would seem to betray a lack of genuine engagement with the process on the part of the DCC; and perhaps begs a question as to how seriously they take these matters.
- The 4G CH&N project is ascribed significant bearing on the variance from the forecast for the year, with the justification offered that the project is 'new' for 2022/23. However, given that delivery of 4G has already slipped quite significantly from the original intended date, and although they would not have manifest in the outturn, we might have expected some of these costs to be budgeted for in earlier forecasts.
- It is disappointing that the DCC sought to recover the costs incurred with respect to issues with a SMETS1 supply chain that it had put in place itself. None of the related narrative makes for comfortable reading but, given its primary role as a contract manager, it is particularly difficult to fathom how the DCC could inadvertently end up paying for the same service twice.
- With regard to innovation, we agree with Ofgem that the DCC needs to focus on getting the basics right instead of looking at future commercial opportunities; and we absolutely agree that DCC work on exploratory ventures should not be at the expense of its Users.
- We remain concerned at the size of the ever growing DCC workforce. While we note the steady move away from contract/consultancy resources, we are of the view that any organisation that exists to manage contracts on our behalf should be as lean as possible. While we have no real visibility as to what the ~600 permanent DCC staff do on a day-to-day basis, instinctively that number seems very high.
- We support the proposal that would exclude services procured from Capita from being eligible to earn additional BM through the adjustment process.

Finally, we would commend Ofgem for its work on this price control, which has clearly represented a considerable undertaking at a time of unprecedented competing priorities.

I trust you will find this response helpful. Should you wish to discuss any aspect of it, please do not hesitate to get in touch.

Yours sincerely,



Richard Sweet
Director of Regulatory Policy