

By email only: DCCregulation@ofgem.gov.uk

29 December 2023

RECCo response to: DCC Price Control: Regulatory Year 2022/23

We welcome the opportunity to respond to this consultation. Our non-confidential response, appended to this letter, represents the views of the Retail Energy Code Company Ltd (RECCo) and is based on our role as operator of the Retail Energy Code (REC).

RECCo is a not-for-profit, corporate vehicle ensuring the proper, effective, and efficient implementation and ongoing management of the REC arrangements. We seek to promote trust, innovation and competition, whilst maintaining focus on positive consumer outcomes. We are committed to ensuring that RECCo is an “*intelligent customer*”, ensuring efficacy and value-for-money of the services we procure and manage on behalf of REC Parties, including those which constitute the REC Code Manager. In July 2022 we took over responsibility for the oversight of the Central Switching Service, with funding for the service being recovered through the REC from 1 April 2023.

We welcome Ofgem’s review of the DCC price control submission and agree with the overall challenges to the costs submitted by DCC. As a consumer-centric organisation we are concerned at the further increase in the DCC’s costs over forecast. A degree of the revision is understandable given the extent to which operational experience differs from the original assumptions. However, the overall position is that the revised forecast of £5.48bn for DCC’s costs over the 12-year licence term (2013/14 – 2025/26), is 13% higher than forecast just last year and 181% greater than the £1.949bn forecast by Ofgem in November 2014.

These escalating costs suggest that the existing price control framework has not of itself been sufficient to ensure that the DCC manage its costs effectively. We therefore welcome the wider review of the DCC licence and consider that improvements to cost control arrangements should be adopted at pace wherever practicable, rather than for instance awaiting the end of the current licence term in Autumn 2025. However, we recognise that those proposals cannot be applied retrospectively and Ofgem must work within the existing price control framework. For the purposes of this consultation response, we have limited our answers to those questions relating to the switching services governed under the REC.

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

We note that Ofgem is proposing to treat the DCC costs associated with the Switching Programme in the regulatory year 2022/23 as economic and efficient. As these costs relate to the period before RECCo assumed responsibility for the funding of the Central Switching Service, we have no basis on which to offer our own informed view of whether these costs were in all cases efficiently incurred and must rely on Ofgem’s assessment.

We also note that Ofgem proposes to disallow DCC’s forecast Switching costs for the regulatory year 2023/24 and onward due to a lack of sufficient justification. As noted, the DCC is now required under the REC to present its cost forecasts to RECCo for review before the start of the financial year. Ofgem notes that only at the point of RECCo approval of the switching budget would it have sufficient certainty and clarity over DCC’s switching costs to be able to approve forecast costs.

Although the Central Switching Service accounts for only c.3% of the DCC revenue, it makes up a significant portion of RECCo's overall budget. Consistent with our commitment to act as an intelligent customer and ensure that REC Parties' money is only expended where necessary, RECCo takes seriously its obligation to scrutinise and where appropriate challenge the DCC's cost proposals, as it would with any other service provider. We have built an effective and constructive working relationship with the DCC, ensuring that we engage earlier in the year to understand the basis of DCC's budgeting assumptions and have sufficient time to review and validate them. For its part, the DCC has been open to challenge over its assumptions and the basis on which certain decisions over future expenditure may, or may not, be made. We have also agreed a six-monthly review to assess progress against forecast and identify any variations early.

We have successfully implemented Service Provider Performance Charges to introduce an economic incentive scheme for the DCC to meet switching related service level agreements, as defined in the REC. The DCC regularly attends the REC Performance Assurance Board to provide status updates and assurance that it is meeting its REC obligations. In the first two reporting quarters the DCC did not meet its service requirements and as such the REC Performance Assurance Board agreed that Performance Charges should be applied, effectively returning money back to REC Parties in compensation for those service failures. It should be noted that those Service Level Agreements were determined as part of the Design, Build and Test phase of the Switching Programme and may be varied in light of operational experience. We are working with the DCC on REC Change Proposal 0092¹ to examine whether such change is appropriate.

We consider that in many respects and despite the difference in scale, the arrangements in place for the management of and accountability for the DCC's switching costs are more robust than those which apply to its smart metering activities. Notwithstanding this, we are also of the view that those arrangements would be further strengthened if the switching activities were wholly unbundled from the DCC's smart-related core mandatory business. As noted, that is a matter for the separate review of the DCC licence. In the meantime, we agree that Ofgem should not include an allowance for forward looking switching costs as part of the price control forecasts, and that they should instead be agreed on an annual basis with RECCo. Similarly, we would not expect any speculative allowance for future change costs, but that they would be approved if appropriate as part of the REC Change Management process.

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

To the extent that Ofgem is satisfied that the DCC has met the requirements of Delivery Milestone 5, we agree that it would be appropriate for the DCC to retain the margin associated with that milestone.

We are happy to discuss any of the points raised in this response.

Yours sincerely,

Jon Dixon
Director, Strategy and Development

¹ REC Change Proposal 0092: DCC Service Level Agreements for the Switching Incentive Regime