



## Consultation on DCC Price Control – Regulatory Year 2023/24

### E.ON Next Response (December 2024)

#### **General Comments**

E.ON welcome the opportunity to respond to the consultation on the DCC Price Control for Regulatory Year 2023/2024 (RY23/24).

We are disappointed that DCC had to be requested to provide supplementary evidence and responses to clarification questions. Given its monopoly position, it is reasonable to expect the DCC to submit sufficient, high quality evidence to Ofgem to support their timely analysis during the Price Control process. DCC's evidence should be submitted well in advance of the DCC Price Control consultation, to allow suitable opportunity for funding DCC Users to input to Ofgem's decision-making.

Issues with CSP North Wide Area Network (WAN) performance have directly impacted the installation and operation of SMETS2 meters in customer premises during the RY23/24 period. These issues have continued into RY24/25 as of December 2024. Given the elapsed time and material performance difference between CSP North and CSP Central and South, it is reasonable to have expected Arqiva to have investigated and remediated the underlying cause(s). As the DCC has continued to invoice funding DCC Users over the RY23-25 period, this suggests that Arqiva have not been financially penalised even though their service has failed to operationally deliver for energy consumers in the CSP North region.

In our RY22/23 response, we raised significant concerns about DCC's headcount growth. Our concerns continue, given the ongoing headcount growth in RY23/24 and projections for subsequent years. As there appears to be a growth in "Director of..." roles, we are also concerned that the DCC is now skewed towards more senior positions that are solely focussed on stakeholder management or business partnering activities. Reviewing Para. 4.122, the projected growth in the Licence Renewal Sub-Team appears to be a specific case in point. Fundamentally, we believe that the DCC should be a lean and cost efficient organisation that is focused on driving work by contracted outsource providers in a way that supports energy consumers. The DCC must justify how its overall headcount growth, mix of roles, use of external consultants, and the associated costs tangibly benefit DCC Users and energy consumers.

The main body of E.ON's response is not deemed confidential.

#### **External Costs**

**Q1. What are your views on our proposals to disallow all of the costs associated with the ECoS monitoring solution and integration cyber security programme?**

We agree with Ofgem's proposals.

Had the DCC shared appropriate detail through the SEC Sub-Committee structure, funding DCC Users could have advised on the appropriateness of the changes proposed and the likelihood of performance improvements being realised. Ultimately, the DCC must be required to provide appropriate levels of detail and supporting justification where emerging factors mean that unplanned additional costs are more likely to be incurred.

**Q2. What are your views on our proposed cost disallowance of up to £0.600m in relation to SMETS1 service stabilisation?**

We agree with Ofgem's proposals.

System defect or operational incident remediation costs resulting from inaction or inefficiencies by the DCC's External Service Providers should be disallowed. Fix-related costs should be funded by the relevant External Service Provider(s), rather than energy suppliers or consumers.

Costs associated with SMETS1 certificate rotation should also be disallowed. It is reasonable to have expected these to have been addressed through routine contract management activity between the DCC and the External Service Provider(s) involved.

Overall, we agree that SMETS1-related topics have been considered and addressed over several previous DCC Price Control processes. However, we remain concerned that the DCC will continue to identify new SMETS1 stability issues and bring forward additional costs in subsequent regulatory years. Any additional costs in this area will warrant considerable scrutiny, given the time that has elapsed since the launch of DCC's SMETS1 solutions.

**Q3. What are your views on our proposal to disallow up to £2.481m of costs incurred on the device swap-out project?**

Costs relating to the SMETS1 device swap-out project should be entirely disallowed.

While DCC consulted on proposals for a SMETS1 device swap-out solution, only one energy supplier apparently expressed an interest in the solution being taken forward. E.ON, and we believe other energy suppliers, rejected the DCC's solution proposal during the DCC's initial scoping work.

Following this point, DCC did not consult with funding DCC Users ahead of, or while the circa £2.5m costs were being incurred. It is unacceptable that energy suppliers who vocally rejected the DCC's proposed solution at a very early stage are now being asked to fund the considerable costs for DCC's subsequent work and failed delivery.

It is also unclear whether the SMETS1 device swap-out project fully adhered to DCC's own procurement policies, given the Ofgem consultation states work was undertaken "...without the contractual change being signed by the DCC and the service providers...". Given that other procurement policy breaches have occurred in previous regulatory years, this appears to warrant further investigation and potentially action.

**Q4. What are your views on the following proposed disallowances in relation to increased charges for the SMETS1 interim DCO contract: (a) £0.437m of operational costs incurred in RY23/24 above the indexation adjustment applied on the base contract, and (b) £9.029m in unjustified forecasts over the Licence term?**

We agree with Ofgem's position on DCO-related costs.

As the current DCO contract was only recently agreed and implemented, it is reasonable to expect the DCC to have appropriately scoped the contract costs in detail. We believe that the DCC should be using the contractual mechanisms and levers to ensure that its DCO service providers (e.g., Capita) deliver in a way that represents Value for Money for energy consumers. Where suitable evidence cannot be provided ahead of publication of the Ofgem consultation, then the costs should be disallowed and

absorbed by the DCC or the relevant External Service Provider(s). Additionally, we are disappointed that the DCC appears to be continuing to adopt an approach where it submits further evidence to justify costs, only once Ofgem's disallowance proposals have been published and consulted upon.

***Q5. What are your views on our proposal to disallow all costs of the procurement of a replacement DCC Service Management System (DSMS)?***

We agree with Ofgem's proposal.

Where there is evidence that the DCC did not comply with its licence obligations on the DSMS programme, it is entirely possible that other costs incurred (e.g., Internal Costs) should also be disallowed. We would welcome Ofgem considering this factor.

***Q6. What are your views on our proposal to disallow £0.515m of costs associated with operational issues and defect fixes within the implementation of an updated version of Great Britain Companion Specifications (GBCS)?***

We agree with Ofgem's proposed disallowance.

As the costs appear to relate to resolution of defects in a developed solution, then the additional costs should be entirely funded by the DCC External Service Provider(s) involved. Fundamentally, the DCC should be maximising its use of contract levers in its agreements with External Service Provider contracts, rather than relying on DCC Users to fund its cost inefficiencies or programme over-runs.

Where defects are identified during DCC or DCC User testing ahead of a release, responsibility for the delivery of appropriate fixes remains with the relevant DCC External Service Provider. Although SEC Sub-Committees may agree that defects fall within a set 'defect mask' or exit criteria, this only allows the release to progress to the next programme phase. A 'defect mask' does not absolve the DCC or its External Service Providers from the task or costs of resolving a design error or the incorrect implementation of the DCC requirements. Ultimately the cost of remediation sits with either the DCC or the relevant External Service Provider, and the DCC should not be permitted to attempt to pass these through to Funding DCC Users.

***Q7. What are your views on our proposed cost disallowance of £0.740m related to delays in the TAF programme?***

We agree with Ofgem's proposed disallowance.

Materials presented to the SEC Panel Test Assurance Group (TAG) indicated that the delays were caused by contributing factors that the DCC could have reasonably identified and addressed efficiently. The underlying contributing factors also appear to have been solely within the DCC's control to resolve.

Finally, we are not convinced that the lab-based robotics solution implemented by the DCC will deliver significant benefits to funding DCC Users. We would welcome the DCC publishing details of the benefits practically realised over the mid-term, so the value of the TAF programme can be robustly monitored and scrutinised.

**Q8. What are your views on our proposal to disallow £11.347m in forecast FSP External Costs?**

We agree with Ofgem's proposed disallowance.

As in previous regulatory years, it is disappointing to see that DCC had to be asked to submit further evidence to justify its costs, activities, and specific delays.

**Q9. Do you have any other views on External Costs?**

Based on E.ON's attendance at various SEC Sub-Committees and the SEC Change Board, we have concerns over the robustness of DCC's cost forecasting processes. 'Forecast versus actual cost' discrepancies appear to affect DCC's SEC Modification scoping and delivery work, which then impacts the subsequent assessment and approval of different proposals. Given the move to ex-ante in due course, it is vital that the DCC ensures its forecasting processes are robust and stand up to scrutiny or challenge.

We are aware that the SEC Panel has implemented a Change Benefits Realisation Project, which appears to confirm broader concerns in this area.

Given DCC's poor forecasting record historically, we have little confidence that the SMETS2 CSP Cost Forecast movement range detailed in Figure 3.3 of the consultation will actually materialise in practice.

**Internal Costs**

**Q10. What are your views on our proposals to disallow a 50% proportion of the RY23/24 resource costs associated with the Network Evolution programme?**

We do not agree with the level of disallowance proposed by Ofgem and believe that the entire increase in RY23/24 costs should be disallowed. The proposed disallowance of 50% appears to reward DCC for cost increases, even though it has failed to provide satisfactory evidence or justification to Ofgem.

Ultimately, DCC's delivery of its Communication Hub and Networks (CH&N) programme is circa two years later than originally planned. Key strategic decisions taken by the DCC's CTO function in the RY23/24 period also appear to be contributing to issues identified during key CH&N test phases (e.g., User Integration Testing, and Initial Pallet Validation) in RY24/25. Overall, we have significant concerns that funding DCC Users could be asked to fund 4G CH&N remedial work or alternative solutions in subsequent years, even though the issues appear to stem from DCC's own strategic decision-making.

**Q11. What are your views on our proposals on DCC's approach to benchmarking of staff remuneration for both contractor and permanent staff?**

We have significant concerns at DCC's approach to exempt specific roles from the scope of its benchmarking processes, which does not appear to have been appropriately justified. Overall, exempting contractor roles from benchmarking solely on the grounds that the roles are niche or particularly technical should still warrant detailed explanation or supporting evidence from the DCC.

This is an area where a further disallowance may be warranted, subject obviously to further analysis.

**Q12. What are your views on our proposal to disallow a proportion of the costs linked to the activities that we consider not to have been resourced in the most economic and efficient way?**

We are reliant on Ofgem's analysis in this area, given the detail that can be shared through the consultation process. On this basis, we are supportive of Ofgem's position.

Given its monopoly service provider position, we expect the DCC to robustly demonstrate that its actions are economic and efficient to both funding DCC Users and energy consumers. Overall, we support disallowances where the DCC fails to provide appropriate evidence to the detail and timescales required by Ofgem.

***Q13. What are your views on our proposal to disallow costs directly associated with the Business Accuracy Programme?***

We agree with the proposed disallowance.

E.ON have had significant concerns about the DCC's Business Accuracy Programme, and the limited external scrutiny that it has been subjected to. While the DCC will look to claim that the Business Accuracy Programme was subject to review at the DCC Quarterly Finance Forum (QFF), it is important to note that the DCC controls the agenda and content used for this forum. After significant questioning by funding DCC Users, updates to the QFF on the Business Accuracy Programme were subsequently restricted. Given the lack of an independent chairperson or oversight, we continue to have significant concerns at the level of external scrutiny that the DCC's QFF offers in practice.

It is reasonable to assume that the benefits proposed for the Business Accuracy Programme should have been realised through normal good business practice, rather than requiring a dedicated DCC programme. It is also unclear whether DCC's processes in previous years were unduly inefficient and therefore imposed unnecessary costs on funding DCC Users and energy consumers.

***Q14. What are your views on our proposal to disallow forecast cost variances in RY23/24 and 24/25; and all baseline forecast costs for RY24/25 onwards?***

We agree with Ofgem's proposals.

In our RY22/23 response, we raised significant concerns about DCC's headcount growth. Our concerns continue, given the ongoing headcount growth and associated costs in RY23/24 plus the projections for subsequent years. As there appears to be a growth in "Director of..." roles, we are also concerned that the DCC is now skewed towards more senior positions that are solely focussed on stakeholder management or business partnering activities. Reviewing Para. 4.122 of the Ofgem consultation, the projected growth in the Licence Renewal Sub-Team appears to be a case in point. Fundamentally, we believe that the DCC should be a lean and cost efficient organisation that is focused on driving work by contracted outsource providers in a way that supports energy consumers.

The repeated disallowance of DCC's forecast cost variance points to potential issues with the processes that the DCC operates. It is important that the DCC takes reasonable steps to address any process failing, given the impending move to ex-ante mechanisms.

***Performance Incentives***

***Q15. What are your views on our proposed position on DCC's System Performance***

We are disappointed to see proposals for the DCC to retain the full margin for service performance.

Although Planned Maintenance events reduced, there was a correlation between completion of maintenance work and major incidents in the days immediately following. Additionally, we have experienced ongoing issues in the CSP North region during 2023 and 2024. While DCC may not fully

control SRV8.11 performance, it is responsible for monitoring and managing the operational performance of its External Service Providers, including Arqiva.

Issues with CSP North Wide Area Network (WAN) performance have directly impacted the installation and operation of SMETS2 meters in customer premises over 2023 and 2024. Reports presented to SEC Committees have continued to indicate a material difference between CSP North WAN performance, and that delivered in CSP Central and South. It is reasonable to have expected Arqiva and DCC to have proactively identified, investigated, and remediated the underlying system issues contributing to this poor CSP North WAN performance. The lack of proactivity by Arqiva ultimately led to energy suppliers raising a formal industry CSP North escalation in H1 2024. Although the timing of this formal escalation is outside of the scope of the RY23/24 DCC Price Control consultation, CSP North No WAN related issues have persisted into the RY24/25 period and continue as of mid-December 2024.

Given historical performance, we have doubts that the CSP North Scaling and Optimisation programme will realise the performance benefits projected by the DCC and Arqiva. On this basis, the ongoing expenditure in this area continues to cause E.ON considerable concern.

E.ON has practically supported the CSP North industry escalation and will continue to do so. However, we believe that DCC and Arqiva have had sufficient time to remediate relevant underlying issues or faults. We look forward to Ofgem examining this element in detail in the RY24/25 DCC Price Control process.

***Q16. What are your views on our proposed position on DCC's Contract Engagement?***

E.ON welcomes Ofgem's proposals to adjust the Auditor's scores, given other evidence. However, we believe that the DCC margin reduction should be more significant given the ongoing issues with External Service Provider performance (e.g., Arqiva) and the fact that audit findings from previous years have remained unresolved.

We have significant concerns that the DCC continues to directly award contracts, with this being highlighted by Ofgem over several RY DCC Price Control consultations. DCC appears to have breached its own policies and potentially its Licence in adopting this procurement approach, which potentially warrants further investigation by Ofgem.

***Q17. What are your views on our proposed position on DCC's Customer Engagement?***

We agree with the views and scores presented by the SEC Panel on the DCC's Customer Engagement activities. The DCC has a clear incentive to present a positive overview of its work in this area, to secure a higher average score. We are concerned that the current scoring regime is too restrictive and therefore tends to over-reward the DCC for average performance. A scoring regime of 1 (poor) to 5 (excellent) would allow for a more granular assessment of DCC's Customer Engagement performance.

While engagement has improved in specific areas, the operational and project areas of the DCC have had to be reminded of the impacts of outages or incidents on energy consumers through RY23/23 and RY24/25. Additionally, the number of DCC employees involved in Customer Engagement or Service Management roles anecdotally appears to have increased, yet it is unclear how their activities tangibly benefit organisations other than the DCC itself. We have also observed occasions where DCC

Customer Engagement and Service Management teams also appear to default to a silo working basis, rather than completing work in an aligned way.

While the DCC has agreed to provide increased visibility of commercial arrangements specifically to the SEC Panel, this approach does not allow all funding DCC Users the opportunity to scrutinise relevant elements of DCC's arrangements. The DCC continued to cite commercial confidentiality constraints where funding DCC Users or SEC Sub-Committees have attempted to scrutinise operational issues or incidents (e.g., CSP North Escalation, or 4G CH&N Programme).

We believe that a dedicated cost scrutiny SEC Sub-Committee with suitable funding DCC User representation and Non-Disclosure Agreements would support scrutiny of DCC's procurement and contract management arrangements and protect the interests of energy consumers. On this basis, we welcome Ofgem's comments in Para. 5.65 of the consultation documentation.

### ***Baseline Margin Adjustment and External Contract Gain Share***

#### ***Q18. What are your views on our assessment of DCC's application to adjust its Baseline Margin?***

We agree with Ofgem's assessment and position.

Ultimately the DCC must provide sufficient and detailed evidence to Ofgem to support its assessment ahead of the annual RY DCC Price Control consultation. We are disappointed that the DCC appears to be continuing to adopt an approach where it submits further evidence to justify costs, only after Ofgem's disallowance proposals have been published and consulted upon.

Reviewing the overview on the DCC's newly proposed 'Licence Renewal' ground, we agree with Ofgem's position. It is unclear why the DCC is applying for adjustments relating to a transition to ex-ante price control, the maintenance of the Business Handover Plan, or the design and establishment of the new DCC Licensee.

#### ***Q19. What are your views on our assessment of DCC's application to adjust its ECGS?***

We are reliant on Ofgem's analysis on proposed ECGS adjustments.

Overall, we are concerned that the DCC remains primarily focused on interest rate savings for ECGS. This focus could mean the DCC is not appropriately exploring or realising savings in other significant operational areas.

### ***Switching***

#### ***Q20. What are your views on our proposed position on DCC's costs associated with Switching?***

We are reliant on Ofgem's analysis on DCC's Switching costs and on this basis, we support the proposed position outlined.

#### ***Q21. What are your views on our assessment of DCC's performance under the Switching Incentive Regime?***

We agree with the assessment outlined.