

22 January 2025

By email:

[DCCregulation@ofgem.gov.uk](mailto:DCCregulation@ofgem.gov.uk)

## **DCC Review: Phase 2 – Process for determination of Allowed Revenue**

Alt HAN Co welcomes the opportunity to respond to the DCC Review: Phase 2 – Process for determination of Allowed Revenue.

Alt HAN Co operates an ex-ante budget approval process, therefore our response is intended to reflect upon our experience of managing this budgetary approval model such that it may help inform Ofgem's thinking. In addition as Alt HAN costs (and SECCo costs) are recoverable via DCC we want to ensure the new process allows for Alt HAN (and SECCo) to follow their own budget approval processes to help inform any budget assumptions DCC must make for these pass through costs.

### **Question 1. What are your views on our proposal to move towards a multiannual, ex-ante cost control with uncertainty mechanisms? Do you agree with our proposal to require from DCC a costed Business Plan to form part of its cost control submission?**

Alt HAN Co agrees that an ex-ante cost control approach which includes uncertainty mechanisms should allow for the licensee to forecast costs based on a decade of operational evidence. DCC stakeholders will want as much certainty of forecast costs to factor into their own business planning and budgeting. Other central services provided on a not-for-profit basis (e.g. Alt HAN Co, ELEXON) operate a similar approach and will account for uncertainty by providing as much evidence as possible to justify any potential variation. A mechanism that allows for contingency to be budgeted for, but only used when certain criteria are met, will help with any genuine uncertainty. Open consultation on the budget will allow stakeholders to set out any concerns or challenge, which in turn, should assist the licensee in ensuring it has explained its cost assumptions.

### **Question 2. What are your views on the length of the cost control cycles under the Successor Licence? What are your views on the interaction between the Business Development Plan and a costed Business Plan?**

A two year forecast is a reasonable period for the licensee to justify its costs and to allow stakeholders to assess those costs based on certainty of many of the central resource costs and contracts. Combining the BDP with the Business Plan creates simplicity and transparency as the BDP

can signpost future costs, which may remain uncertain beyond year 2, but are required to help stakeholders understand the trajectory of costs based on known or predicted activity. A single document reduces the effort required by the licensee to develop and maintain business planning and budgeting materials, reduces the risk of misalignment and confusion and will benefit stakeholders who can see a single coherent plan, strategy and budget.

**Question 3. What are your views on the outlined general approach towards determining efficient forecast costs?**

Alt HAN Co notes that there could be an underspend in costs as well as an overspend (e.g. for projects subject to delay beyond the licensee's control (caused by delay of other projects not led by the licensee or due to regulatory driven change)). Consideration should be given as to whether costs should be returned to funders within year or can be offset against the next financial year costs. Alt HAN has been able to return costs (via DCC charges to users) where costs were not incurred due to unforeseen circumstances.

**Question 4. What are your views on flexibility within DCC's Allowed Revenue? At what level should DCC be afforded flexibility to manage overspend/underspend?**

Alt HAN believes there should be some flexibility over any cost uncertainty to allow for both a reasonable cost increase or charge decrease. Flexibility will relate to uncertainty, however the licensee should be able to explain its assumptions with regards to when a cost may crystallise and any criteria that could be met to justify the spend. This can be best managed through a contingency element to the budget with a mechanism to return or offset costs for users where the conditions for using the contingency are not met/not required.

**Question 5. What are your views on our proposal to allow DCC to access working capital through a contingency set at 2% of its annual Allowed Revenue? Would this level of contingency be sufficient to manage risks to DCC's ability to finance its Mandatory Business? What are your views on the risk and benefits of cash v accruals-based reporting of Price Control information?**

Two percent seems a sensible level given that most costs should be known in advance and therefore the need for working capital should be limited. Alternatively rather than a fixed percentage it may be more prudent to allow for a contingency to be proposed, consulted upon and approved based on the specific circumstances affecting cost certainty in the regulatory year. The justification for using contingency is then understood well in advance and can be evidenced if it is needed to be utilised. Smaller, temporary, cash flow variances may also be managed using overdraft facilities.

**Question 6. What are your views on the proposed three types of Uncertainty Mechanisms?**

*Automatic adjustment:* Alt HAN Co agrees that the licensee should be able to recover costs it simply recovers for other services but has no control over (e.g. SECCo and Alt HAN Costs). Where these change the licensee should be allowed to recover these in a timely fashion. We would also stress the

importance of there being a timely process for the return to users of unspent funds where there has been an underspend against forecast costs (there have been examples of Alt HAN Co notifying the licensee of such underspends but the return of funds to users has taken some time). As both SECCo and Alt HAN Co have their own processes for agreeing their budgets via stakeholder consultation, the licensee should be allowed to apply contingency to pass through costs, if these have not been formally approved by the relevant governance cycle when it sets its own budget and plan.

*End-of-year reopener:* An end-of-year reopener would work. However, if there is sufficient contingency built in then cost variance should be limited. It may be therefore that there should simply be a reopener mechanism that can be triggered (along the lines of the emergency reopener proposed).

*Emergency reopener:* It would make sense to allow for an emergency reopener, where costs have arisen beyond the licensee's control which could not have been accounted for within the contingency element of the budget forecast. Presumably agreement of such costs would be swift to prevent any delay to activity arising from approval.

**Question 7. What are your views on the reopener process, criteria and risks? What are your views on the trade-off between allowing DCC a more flexible approach to receive additional Allowed Revenue?**

Alt HAN Co has no firm views. Any approach needs to be clearly documented and understood by all stakeholders, should minimise any additional administrative burden and should account for the prompt return of underspend as well as dealing with the ability for the licensee to access additional funds.

**Question 8. Do you agree with our proposal to require that all of DCC's Authorised should be carried out on a not for profit basis?**

Yes.

**Question 9. What are your views on the proposal to allow DCC to apply for ringfenced funding to enable potential development of commercial or innovative services?**

Alt HAN Co has no view, this is a question for funders of DCC services. It is unclear why an innovative service could not simply go down the SEC Modification route with its associated disciplines of governance and transparency.

**Question 10. Do you agree with our proposal to remove the ECGS mechanism from the Successor Licence? What are your views on considerations to introduce open ended or set stretch efficiency targets on DCC in respect of its External and Internal costs for a future cost control cycle? What other mechanisms or approaches could be**

**effective to drive cost efficiencies?**

Alt HAN believes the ECGS mechanism is not necessary for the future licence, any savings achieved on the contracts should naturally flow back to users.

**Question 11. What are your views on the proposed measures to be considered as part of any targeted incentive model on senior managers and staff?**

An incentive model should allow for the reward of individual and group performance, the Board can oversee what a suitable mechanism is and agree with stakeholders the KPIs to be used to measure group performance.

**Question 12. Do you agree with our proposal to set up a customer challenge group under the SEC to have a role in the business planning process?**

Alt HAN has no views as this is a question for paying users of the DCC service. We would note however that, as stakeholder engagement is likely to be a key metric for the licensee, the licensee should also be able to determine the optimal way to engage with stakeholders on budget development and consultation.

**Question 13. What are your views on the Group's membership? Do you agree with our outlined core and non-core membership model?**

Alt HAN has no firm views on this as we do not directly pay for the DCC services we receive (DCC recovers Alt HAN Costs from Suppliers). However we note the following (i) The Other User category covers a wide range of organisations (e.g. MAP, meter manufacturers, metering service providers) who may have differing views and interests who may not be represented by a single member; (ii) presumably the criteria for the 'non-core' membership (to have the relevant expertise to support the group) could equally be applied to the core membership attendees (and baked into the Terms of Reference for membership experience/qualifications)? Individual organisations should be able to provide their feedback via consultation/engagement conducted via DCC itself.

**Question 14. What are your view on the presented considerations for the scope, focus and responsibilities of the Group?**

Alt HAN agrees the proposed scope and focus look reasonable. We would not expect the pass through costs to be scrutinised by the Group if these have already been agreed through separate consultation and approval mechanisms (e.g. the SECCo and Alt HAN costs are approved through existing governance arrangements involving consultation and stakeholder sign off).

**Question 15. Do you agree with the proposed outputs of the Group?**

Yes.

**Question 16. What are your views on our proposed implementation approach, the requirements on the first Business Plan and the interaction with the current Price Control**

**process?**

Alt HAN Co agrees that commencing the new process now will assist any future licensee in preparing to take on the service and also allows Ofgem to iron out any potential issues/inefficiencies in the process.

We would be happy to discuss our response further. Please contact my colleague [David.jones@althanco.com](mailto:David.jones@althanco.com) in the first instance.

Yours sincerely

A handwritten signature in blue ink that reads "Paul Cooper". The signature is written in a cursive style with a large initial 'P' and a trailing dot.

*Paul Cooper*  
*Managing Director*  
*AltHAN Co*