Data Communications Company

DCC Review Phase 2: Process for Determination of Allowed Revenue

Smart DCC Response

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1. Executive Summary

DCC is pleased to have the opportunity to review Ofgem's proposals for the transition to an ex ante price control framework. Alongside Ofgem's decisions on switching[1] and changes in DCC's governance arrangements[2] and its forthcoming consultation on the future role of the organisation, this consultation is a vital step in ensuring that future arrangements are appropriate for a not-for-profit DCC to deliver its services effectively on behalf of customers.

The transition from an ex post to ex ante price control framework is a major undertaking and it is important that the decisions which result from this consultation provide the necessary clarity for it to be delivered successfully. It will be important that all stakeholders, including the Department for Energy Security and Net Zero (DESNZ) and DCC's customers, are aligned with and understand the implications of these fundamental changes to the regulatory model.

Below we have set out a summary of our position on each of the areas on which Ofgem has consulted, followed by more detailed responses to each of the questions that Ofgem has raised.

Cost control scope and cycle

DCC firmly supports the proposal to move towards a multi-annual, ex ante price control with uncertainty mechanisms. This will support our overarching aim to provide customers and stakeholders with greater upfront clarity and confidence in the services we will provide, the improvements we will deliver, and the associated costs and risks.

Ofgem has rightly identified that as a not-for-profit organisation, DCC will not be able to take on the financial risk associated with either disallowance of overspend retrospectively, or regulatory incentives based on financial penalties. It therefore makes sense to adopt a full ex ante regime rather than a hybrid model in which ex post assessment continues to play a role for some cost categories. DCC agrees that a full ex ante regime based on a costed business plan will provide greater cost transparency to customers, and upfront determination of the efficient cost envelope will provide greater cost certainty.

As the ex ante price control process is resource-intensive and takes over a year to complete, we favour a multi-annual process, and we welcome Ofgem's intention to put in place an uncertainty mechanism framework to address those costs which remain uncertain at the point the business plan is submitted. This will provide protection to both customers and DCC from risk associated with forecasting uncertain costs.

While DCC recognises the benefits that longer price control cycles can provide, we do not think it is sensible at this point to make a decision to extend the length of the price control period to three years from April 2028. Longer price controls present greater risk around cost forecasting, and there is insufficient detail available about the proposed ex ante framework at this juncture for DCC to assess the implications of an extension. We have yet to commence an ex ante price control cycle, and it is unclear whether the proposed arrangements set out in the consultation will work effectively. We believe this issue should be reviewed once there has been a chance to evaluate the delivery of the first ex ante price control cycle.

DCC does, however, support Ofgem's proposal to merge the strategic outlook currently provided by the Business Development Plan (BDP) into the ex ante business plan. By removing the separate requirement for the BDP, this will streamline the number of outputs and offer customers and stakeholders a clearer link between DCC's strategy and our proposed activities and costs.

[1] DCC Review Phase 2: Centralised Registration Service arrangements - decision | Ofgem
[2] DCC Review Phase 2: Governance arrangements - conclusions | Ofgem

Managing risk and uncertainty

The critical change in moving to an ex ante regime is that DCC will only be able to spend what Ofgem determines upfront as efficient allowances, with Ofgem's ex ante determination becoming the budget against which DCC will deliver its services. That means determining the right baseline allowance for the price control period is vital.

DCC recognises the need to provide appropriate evidence to underpin its proposed activities and costs in the business plan but forecast costs will always carry more risk than historic reporting of actual activity and cost incurred. In an ex ante regime there will be areas where there are questions over the precise level of expenditure required in future years (e.g. tender quotes have not yet been received for a future contract). We are concerned that Ofgem's proposal to retain the same approach to assessing costs as used in its ex post assessment risks disallowance where there is no reasonable prospect of delivering cost certainty. The proposed uncertainty mechanism framework may provide a timely route to subsequent funding in some cases, but in others it may necessitate unhelpful delays. Appropriately calibrating the threshold for proof of costs will be key to ensuring DCC does not face large cost disallowances which prevent the delivery of mandatory services.

Fungibility and contingency arrangements

In the context of the forecasting risk inherent in ex ante price controls, fungibility of allowances is important. This enables a business to reallocate underspend from one area to another to meet the priorities of the business, and in so doing prevent activity having to be stopped where cost overruns occur. DCC is therefore concerned that Ofgem is proposing a low fungibility model in which only 15% of its cost base (associated with staffing) can be reallocated. In our response to question 4, we have set out analysis on why Ofgem's proposals may delay activity even where DCC expects to underspend in the round, and why there is a danger that Ofgem's proposals may drive perverse behaviour to overspend so contingency funding arrangements can be accessed. We believe there are strong arguments to extend fungibility to External Costs (70% of the cost base) and External Services in the interests of keeping overall costs down and avoiding unnecessary delays to services. We also ask that Ofgem looks to confirm fungibility of spend across the years of the price control so unspent funding resulting from delayed activity can be reprofiled without recourse to the re-opener process. Ultimately, without a degree of flexibility within the agreed envelope, there is a significant risk the confidence an ex ante regime provides is undermined and the regulation becomes a blocker to timely delivery.

Ofgem's proposals for contingency funding conflate two distinct financial challenges: ensuring DCC has sufficient working capital; and addressing minor overspends. DCC believes these challenges need to be addressed separately. The challenge on working capital is to ensure that an appropriate level of liquidity is delivered and does not relate to a requirement to spend more than the allowance awarded, whereas managing minor cost overruns does necessitate access to funds beyond the awarded allowance.

In our response to question 5, we have set out details of our liquidity policy and calculations of the cash healthy range that DCC's financial advisors have recommended DCC maintains. Currently this liquidity is largely delivered through holding customer cash, but DCC has indicated in discussions with Ofgem that we would be open to a re-balanced approach potentially involving Revolving Credit Facilities [3] which may allow our customer cash requirements to reduce.

On contingency for cost overruns, we welcome the proposal in principle but have two significant concerns. Firstly, we may face cost overruns on individual projects that neither fungibility nor contingency arrangements will address if overall expenditure is forecast to remain below 100% of allowances. Secondly, it is vital that we confirm that the proposed automatic adjustment mechanism for indexation, passthrough

[3] A revolving credit facility (RCF) is a form of business capital financing that lets you withdraw money if you need to finance your company. It is a commonly used short-term funding method in the energy sector.

costs and volume adjustments is not counted as contingency expenditure in the event actual costs in these non-controllable areas is higher than forecast in the business plan. If that cost delta were to draw on the contingency, we could face a scenario in which the cost delta is larger than the contingency available, which would then mean we would need to find offsetting savings from approved expenditure in the allowance to fund a variance in non-controllable expenditure.

Uncertainty mechanisms

DCC welcomes the uncertainty mechanism framework that Ofgem is proposing, which identifies the right cost drivers for cost uncertainty after the point of business plan submission. We fully support the proposal to introduce an automatic adjustment mechanism to address variance in cost through indexation, passthrough costs and volume-sensitive costs and look forward to working with Ofgem to agree the detail of how these mechanisms will work in practice. The proposed end of year and emergency re-openers are also a pragmatic approach to managing cost uncertainty over which DCC has control, although we note in our response to question 6 that there may be areas in which the end of year re-opener is not sufficiently timely, and the scope of the emergency re-opener may need to be broadened.

Financial incentives

We strongly support the proposal that all DCC's Authorised Business under the Successor Licence should be carried out on a not-for-profit basis, and that consequently the Baseline Margin mechanism (and associated adjustments) should be removed from the Successor Licence.

On Ofgem's proposals for ring-fenced funding, DCC believes it would be helpful to consider 'commercial services' and 'innovative services' separately as they are likely to raise different issues.

On innovative services, we strongly believe that there is potential for greater public value to be extracted from the smart metering network, smart meter data and the DCC in support of these or other Government and regulatory policy objectives. Volume of data will continue to grow exponentially and better access to and use of data can deliver economic growth, productivity, cost efficiency and better outcomes for consumers. However, this potential is unlikely to be realised without exploratory development work – and DCC having access to appropriate funding is a pre-requisite for this. We therefore support the proposal for DCC to be able to seek funding for exploratory work for innovative services through a ringfenced budget in the business plan.

DCC's view is that as a fully not-for-profit organisation, the Successor Licensee (hereon referred to as DCC2[4]) should not be delivering commercial services for the financial benefit of DCC. However, if the proceeds from any commercially viable services flowed back to DCC's customers, then commercial services for the financial benefit of third parties might be in the interests of DCC customers (and ultimately consumers) by reducing the net cost to DCC customers of mandatory services. In our view, commercial services using the DCC network for third party benefit should only be considered if they do not put at risk core service delivery, and demonstrably provide a net overall benefit to DCC customers.

Incentives measures

We agree with the proposed removal of the current External Contract Gain Share (ECGS) mechanism. Although it has provided substantial benefits to customers, with £276.7m of cost savings between RY15/16 and RY23/24, we recognise that the current ECGS mechanism does not translate well into a not-for-profit model.

We do though believe it is important for our customers and consumers that DCC should be incentivised to continually seek cost efficiencies, and we are surprised that Ofgem is not proposing a mechanism for the first ex ante business plan cycle that incentivises DCC to seek savings across all its activities, over and above those incorporated into the approved business plan. As a matter of regulatory principle, our view is that

[4] For ease, we refer to the current licensee as DCC1 and the Successor Licensee as DCC2 in this document.

DCC should be seeking efficiency savings that were not identifiable at the start of the business planning process, and we would be open to cost efficiency forming part of the incentive framework in the first price control cycle - sooner than Ofgem is proposing. As this is the first ex ante planning cycle, any such regime should be open-ended, rather than including specific targets. The first price control cycle could be used to help calibrate potential target setting for future price control cycles. We would welcome further discussions with Ofgem on how this may be approached.

We note Ofgem's recent decisions on the incentive regime in the DCC Review Phase 2 Governance arrangements[5], which confirmed that a targeted incentive model would be introduced for DCC's executives and staff to link reputation incentives and financial incentives.

On the specific incentive measures that Ofgem proposes in this consultation, we agree with Ofgem's proposals to include customer satisfaction as a measure and replace the current Operational Performance Regime (OPR) Customer Engagement measure with a broader customer satisfaction survey to be carried out at least once every two regulatory years with assurance from an independent third party. We also recognise the importance of acting in a timely manner on feedback from this survey and commit to doing so. We also agree with the proposal to include performance and delivery measures and welcome Ofgem's corresponding decision in the governance consultation decision[6] .

We note that in the governance consultation decision[7] Ofgem confirmed that it would be proceeding with a business plan incentive for the second ex ante business plan starting in April 2028 and that a cost management incentive, which focuses on the accuracy of cost forecasts, will commence in April 2027.

We recognise that a factor underlying Ofgem's decision to proceed is that we have not yet been able to provide Ofgem and stakeholders with full confidence in DCC's ability to produce a business plan that is of good quality with robust cost forecasts. We commit to working constructively with Ofgem and stakeholders to build this confidence, reducing the perceived need in the future for these specific incentive measures – which we suggest are best viewed as being transitional measures related to the introduction and bedding in of the new ex ante framework, but not necessarily enduring features of that framework.

As a matter of principle, we regard it as more appropriate for DCC to be incentivised on the overall outcome of delivering an efficient service than on delivery against the cost schedule set out in the approved business plan. The proposed cost management incentive will need careful design to avoid unintended consequences whereby accuracy takes precedence over efficiency. We will develop further thinking on how this could be achieved.

We agree with the removal of contract management from the incentive mechanism and instead for the DCC Board to be responsible for actioning the audit findings and follow up activities.

We observe that the current lack of incentives directly related to major programmes would appear to be a gap in the proposed framework for DCC2; we are conscious of current discussions involving DESNZ regarding potential incentivisation of programmes which will extend beyond the Business Transfer Date. Whatever the outcome on this point, it will be important to achieve stakeholder alignment so that DCC2 is clear on what it is being incentivised to deliver, and that all incentives are compatible with the not-for-profit framework under which financial penalty-based incentives are not possible.

Customer engagement

Customer input to DCC's planning and decision-making is essential. We currently deliver extensive customer engagement across a range of issues affecting the delivery of our services and run a specific process for gathering customer input on our Business Development Plan each year. DCC is also planning

[5] DCC Review Phase 2: Governance arrangements - conclusions | Ofgem
[6] Ibid.
[7] Ibid.

to engage extensively with our customers as part of its business plan preparation, following a similar approach to that taken by other businesses operating under ex ante regulatory frameworks. Nevertheless, we understand the gaps identified by Ofgem and support the need for greater visibility of DCC's internal cost drivers and enhanced engagement to develop the ex ante business plan.

DCC supports the proposal to set up a customer group. In doing so, we think it is essential that Ofgem reviews DCC's current customer engagement landscape as part of the design work for the group to ensure it supports a more coherent approach with complementary fora that do not duplicate roles and activities (such as in relation to the SEC Panel and its sub-committees).

We believe implementation based on an Independent Stakeholder Group (ISG) model as seen in RIIO[8] would provide greater benefit than Ofgem's preferred option of a Customer Challenge Group (CCG), because it would foster a more open, deeper working relationship with DCC. Nevertheless, DCC stands ready to work with a CCG, and whichever option is chosen we would recommend that an evaluation exercise is carried out at the end of the price control to assess whether it has met Ofgem's objectives.

Given the limited three-month period Ofgem is proposing for the CCG to complete its work, DCC believes it would be sensible to focus on a consistent core membership. This should ensure diverse and balanced representation of both customer segments and the wider consumer base with sufficient subject matter expertise in areas such as regulation, economics, contract management and procurement to be able to evaluate any business plan information that DCC shares. Stakeholders have already raised their concerns about the length of time available to complete the business plan review process at Ofgem's stakeholder workshop, so it is important that membership is stable with a clear commitment of time and resource to enable effective challenge.

DCC supports the three high level focus areas outlined in the consultation – Quality, Engagement and Cost. It is important that the group does not just focus on cost scrutiny and time is afforded for equally important aspects of the plan such as alignment of activities to strategic priorities and customer concerns. In defining the scope of the Group, it will also be essential to avoid the Group re-assessing requirements and costs which have already been subject to other governance processes, such as for Green Book Business Cases and Smart Energy Code (SEC) modifications.

DCC will look to support the work of the group, but it will be important to determine upfront whether the Group is expected to focus on just the business plan or to review other supporting documentation, and the clarification process to be followed given the limited timeframe for the Group's work. Ofgem will need to ensure arrangements are put in place for the handling of commercially sensitive material. DCC is particularly concerned about the time it will take to receive the Group's feedback as it will then need to assess options, revise the plan and undertake necessary assurance and governance processes ahead of final submission. DCC looks forward to the Group's feedback but the ultimate decision on the contents of the plan must remain with the DCC Board.

We support the Group's primary output being a report on DCC's business plan. To ensure the final report sent to Ofgem is factually correct, we would suggest the draft Group report is shared with DCC for factual accuracy checking only, before being shared with Ofgem and published. As is the case for ISGs, DCC would also support the report being made publicly available.

Ofgem has also indicated it would expect the Group to respond to its Draft Determination on the business plan and to play a role in the scrutiny of re-opener applications in-period. This suggests the Group will need to operate through to at least Q1 2027 so it will be important that stable, long-term membership of the Group is agreed to support this.

[8] RIIO (Revenue = Incentives + Innovation + Outputs) is used to refer to the Price Control framework used by Ofgem to regulate network companies

Implementation considerations

DCC fully supports the transition to an ex ante framework. However, we have significant concerns about the timetable Ofgem is proposing for the submission of the business plan and publication of Ofgem's ex ante determination, and the complexity associated with the transition from ex post to ex ante price control arrangements.

Ofgem has indicated that the ex ante framework will only apply to DCC2 from the Business Transfer Date, which is expected towards the end of 2026. Nevertheless, it has expressed a preference for the first ex ante business plan to cover the two year period from April 2026, meaning the plan will also cover a period while DCC1 is still the licensee. To enable Ofgem to produce its ex ante determinations in time, it is requesting that DCC submit its draft business plan to the CCG by 30 June 2025 and its final business plan to Ofgem by no later than 30 September 2025.

DCC has significant concerns about the submission and determination timetable.

Firstly, before DCC can finish drafting the ex ante business plan for the CCG to review, it will need to have absolute clarity on the final design of the ex ante regime and Ofgem's requirements for the submission itself. This clarity is needed by the end of March 2025 if we are going to be able to share the draft plan with the CCG in July. This means Ofgem will need to not only finalise the details of the ex ante regime, but also conclude its consultations and make decisions on the future role and scope of the DCC so that we can ensure the ex ante plan covers the full DCC remit. If these timelines cannot be met, DCC will need to caveat the draft business plan to indicate it may be incomplete, or Ofgem will need to recalibrate its timetable for DCC to submit its draft plan.

Secondly, Ofgem proposes a three month period in which the CCG is expected to review the draft business plan, feedback its concerns to DCC, and for DCC to consider amendments to the plan ahead of obtaining internal approval for submission of the final business plan. At Ofgem's stakeholder workshop on 21 January, stakeholders raised concerns about whether three months was long enough. DCC's concern is that the window for feedback is actually much shorter – no more than six weeks - if we are to have time to amend the plan ahead of the submission deadline. DCC believes that in light of these concerns, Ofgem must review the CCG timetable and allow longer for this process.

Thirdly, the timetable for completion of Ofgem's determinations appears very tight. Ofgem requires seven months to produce its final determination on DCC's ex post price control submissions which provides a retrospective view of costs for a single regulatory year. For the first ex ante price control process, which will cover forecast costs for a two year period, Ofgem is proposing to complete the process faster than it has ever completed an ex post price control review. We are concerned that if it cannot be achieved, DCC will receive the Final Determination after the price control period has started, thereby reducing the time available to correct planned expenditure across RY26/27.

We will meet the current proposed timetable if that is Ofgem's decision, but we believe it will be very difficult for DCC to submit a business plan which is aligned to the regulatory framework and guidance, and which subsequently addresses the feedback of the CCG in the timeframe envisaged. There is also a high risk that Ofgem's upfront determination of allowances will be delivered after the point that expenditure has already started to be incurred, which would not be good regulatory practice.

DCC also has concerns about the proposed price control transition arrangements.

In its consultation, Ofgem makes clear that DCC1 will be subject to the existing ex post price control obligations and incentive regime until the Business Transfer Date towards the end of 2026. However, it proposes the first costed business plan should cover the two years from April 2026 and that the ex ante determination will set an allowance for this two year period. This raises a number of complications.

Firstly, the proposal to split a single regulatory allowance between two licensed entities is highly unusual, and neither party will know what their allowance will be at the point the overall allowance is determined. It means that the allowance for RY26/27 will have to be split between DCC1 and DCC2. Ofgem intends for this to be on a 'pro rata' basis, but this does not align to how DCC expenditure is profiled, nor is it clear what mechanisms will be put in place to adjust the split of allowances if activity is delayed, deferred or even brought forward. The proposals set out in the consultation would lead to high levels of uncertainty for both licensees.

Ofgem also proposes a 'pro rata' allowance will provide a reference forecast for DCC1's final ex post submission for RY26/27, but this is likely to lead to an inaccurate basis for variance analysis given the problems set out above.

The proposed timetable also presents challenges around regulatory workload. One of the advantages Ofgem suggests its preferred approach offers is the ability for DCC2 to onboard with a budget already in place. While that is true, if the Business Transfer takes place in Q3 of RY26/27, it will mean DCC2 almost immediately has to prepare its re-opener application. Moreover, this period will see a number of concurrent regulatory processes beyond the Business Transfer itself, which will involve both DCC1 and DCC2 and will include: finalisation of the ex post price control review for RY25/26; preparation for the final ex post review for RY26/27; the re-opener process for RY27/28 and work on preparation of the second ex ante business plan from FY28/29 which will need to be submitted in the first half of 2027. Collectively, these processes represent a spike in regulatory workload at a time of significant change, and risk not just the individual regulatory outputs but loss of organisational focus on delivery. DCC will deliver the regulatory outputs in these timescales if required, but it is not clear that the benefits of the proposed timetable outweigh the risks.

DCC sees limited value in an ex ante business plan and allowance commencing while DCC1 remains the licensee operating under an ex post framework. We believe there is an opportunity to deliver a more coherent transition between ex post and ex ante arrangements if the start date for the business plan and ex ante allowances is deferred to the Business Transfer Date. This would also allow Ofgem to present a more realistic timetable for the delivery of DCC's ex ante business plan and its own ex ante determinations, and would reduce the complexity and concurrent workload involved in the price control transition from ex post to ex ante arrangements.

2. DCC's Detailed Response

The following section sets out the DCC response to each of the consultation questions.

a. Cost control scope and cycle (questions 1-2)

Summary

Move to full ex ante regime

- We support the proposal to fully implement an ex ante regime in which all costs are approved upfront or otherwise approved through uncertainty mechanisms. This is important as DCC becomes a not-for-profit organisation which cannot take on the risk of retrospective disallowance. It will also aid greater cost transparency for customers.
- DCC fully supports the requirement for a costed business plan.

Length of price control period

- DCC favours retaining a two-year business plan for the second ex ante price control cycle, given the lack of clarity over the regulatory arrangements that will apply and lack of evidence as to how the proposed ex ante framework works in practice. Any review of price control length should be postponed until such evidence is available.

Merging Business Development Plan and Ex Ante Business Plan Requirements

- DCC fully supports the inclusion of the company's strategic forward look as part of the ex ante business plan requirement, and the removal of the requirement for a separate Business Development Plan.

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?

DCC supports the proposal to move towards a multiannual, ex ante price control with uncertainty mechanisms. This will support our overarching aim to provide customers and stakeholders with greater upfront clarity and confidence in the services we will provide, the improvements we will deliver, and the associated costs.

We agreed with Ofgem's Phase 1 decision[9] that costs deemed to be sufficiently stable should be subject to upfront approval through either a budget-setting process or an ex ante form of cost control, and we support the proposal in this consultation to fully implement an ex ante regime in which all costs are approved upfront or otherwise approved through uncertainty mechanisms.

The transition to an ex ante price control framework is important in the context of DCC's move to become a not-for-profit organisation. As Ofgem acknowledges in the consultation, this change in status means that DCC would not be able to take on the financial risk associated with disallowance of overspend retrospectively. In this context, DCC acknowledges the importance of greater planning discipline and setting out upfront a clear, costed plan of activity against which Ofgem can set its determination of the

[9] DCC review: Phase 1 Decision | Ofgem

economic and efficient cost. This will provide an agreed cost envelope for the delivery of the proposed outputs, give greater predictability and transparency of costs for customers, and improve certainty of allowances for DCC compared to the current ex post regime.

We agree with Ofgem's assessment that a full ex ante model would result in better outcomes than an alternative hybrid model.

In a full ex ante regime, DCC would be required to set out its planned activities and the associated costs. It would also highlight where there is uncertainty over the need for activity or the level of cost associated with the delivery of outputs. This transparency will not only provide a clear indication of forecast cost against planning assumptions but also enable customers and Ofgem to assess the risks associated with DCC's plan.

In contrast, one of the challenges with a hybrid regime is the potential lack of transparency for customers and wider stakeholders. If some costs were not to be included in the costed business plan for ex ante approval it would provide an incomplete picture of DCC's costs which would only become complete during the ex post review process after the event. This would not be consistent with the shared aim of providing greater upfront transparency of DCC's costs to customers.

A further challenge with an alternative hybrid regime in which costs identified as uncertain or unstable are approved retrospectively through an ex post assessment is that a not-for-profit DCC would have to recover all its costs with no retrospective cost disallowance. If ex post assessment formed part of the regulatory regime, it would offer Ofgem no ability to correct the cost of delivery to one that is economic and efficient. We do not think it is in the interests of customers and consumers to apply this form of regulatory regime for a not-for-profit organisation.

The multiannual aspect of Ofgem's proposal is important. The preparation of an ex ante business plan, subsequent stakeholder engagement and regulatory review together constitute a resource-intensive and time-consuming exercise. The process from development of a costed business plan to delivery of Ofgem's final determination on ex ante allowances takes significantly more than a year.

If the submission of a costed business plan for ex ante review were to be an annual process it would result in DCC beginning work on a future business plan before Ofgem even completes its allowance determination for the preceding one. Given that an increasing share of DCC's costs are stabilising we do not think such a frequent cycle of ex ante review is required, and it would represent an unnecessary regulatory burden. We cover the potential length of a multiannual ex ante cycle in our response to question 2.

Managing future uncertainty is the key challenge with an ex ante price control framework: the business plan is submitted at a fixed point in time, based on customer and stakeholder priorities at that time. It is our goal to be recognised as a customer-responsive business, focused on customer priorities and adapting as those priorities or circumstances evolve. Achieving this goal will require recognition that events after the conclusion of the ex ante price control process may require the company to bear additional costs beyond the allowance determined by Ofgem, and there will always be some costs which have an element of uncertainty or variability.

A well-defined uncertainty mechanism framework is therefore very important in providing clear rules on the circumstances in which additional allowances can be provided and to enable cost control over pre-defined areas of cost uncertainty. DCC therefore welcomes Ofgem's intention to introduce such a framework which should provide protection to both customers and DCC against the risks of upfront determination of allowances for costs which by their nature are uncertain.

DCC fully supports the requirement to provide a costed business plan as part of the ex ante price control process. It will provide the opportunity to build on the processes already in place for Green Book Business Cases and SEC Modification costs to increase engagement by DCC with its customers and stakeholders on its planned activities and costs. It would also enable DCC to provide a cohesive narrative that explains how various programmes and projects come together to deliver its services.

For DCC to deliver such a costed business plan in the first ex ante cycle, it is important that Ofgem provides its regulatory decisions on the ex ante price control framework and changes to the organisation's role that will affect its plans and costs several months ahead of the required submission date. These decisions will need to be published early enough that they can be considered, their implications costed into the business plan and time allowed for standard internal governance and assurance processes.

In addition, Ofgem must also publish its final business plan guidance in sufficient time to enable DCC to ensure that it delivers all required elements, especially given Ofgem's intention to introduce a business plan incentive as part of the ex ante price control framework[10]. We provide further details on our concerns about the timetable for the publication of these outputs in response to question 16.

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?

We have set out our views on this question below, taking each aspect in turn.

a. Length of price control cycles

DCC believes the length of ex ante price controls under DCC2 must be based on an assessment of the risks associated with different durations.

In determining the optimum length of the price control cycle, it is important to consider how duration impacts certainty of output requirements, cost forecasting risk, the ability to calibrate performance targets and regulatory burden.

Shorter price controls are more likely to enable a company to accurately forecast required outputs over the defined period, which in turn impacts ability to deliver accurate cost forecasts. Where long price controls are set, there is a risk that the scale and means of delivering required outputs alters, which in turn can drive divergence of actual costs from the forecast, and new output requirements are more likely to emerge during the price control period.

As Ofgem recognises, forecasting risk is inherent in ex ante regulation[11]. That risk is accentuated the further out an organisation looks to forecast, so there is likely to be less deviation between the forecast and actual performance the shorter a price control cycle is. Longer price control cycles can present the risk of inaccurate/inflated forecasts which may not provide a stretching efficiency challenge to a company, or they may set allowances too low and require significant in-period adjustments through uncertainty mechanisms.

A similar risk is faced when setting incentive targets. It is more likely that targets will be appropriately calibrated for shorter periods. The risk with longer price controls is that expectations around target performance may alter, or initial targets may be deemed to have been poorly calibrated.

As set out in our response to question 1, each ex ante business plan and determination cycle will be a resource-intensive and time-consuming process lasting significantly longer than a year. For that reason, it

[10] DCC Review Phase 2: Governance arrangements - conclusions | Ofgem
[11] RIIO-2 Framework Page 18

is important to balance concerns about forecasting required outputs and costs, setting targets and managing price control risk in longer price controls against the regulatory burden associated with the preparation and review of price control business plans.

A further factor to consider in the case of DCC is its transition to become a not-for-profit organisation which will have to recover all its costs and none of its costs will be capable of being disallowed retrospectively.

Ofgem has proposed a two year price control period from April 2026 to March 2028 and raises the possibility of the subsequent price control period running for a longer period of three years from April 2028.

DCC recognises that a longer price control may provide greater upfront cost transparency, provide greater scope for DCC to set out where it expects it can improve performance or drive longer term efficiency in the delivery of its services, and it may reduce upfront regulatory burden. Nevertheless, DCC is not currently able to support the proposal to extend the length of the price control period. DCC has yet to undertake an ex ante price control cycle, and it is unclear whether the proposed arrangements set out in the consultation will deliver the expected benefits over a two year period. A longer price control period would mean greater risk of variance between actual performance and the forecast in the final year, and we are concerned that the proposals Ofgem has set out on fungibility and contingency funding (see our response to questions 4 and 5 for detail) will constrain DCC's ability to manage that risk effectively. Ofgem is also proposing to focus on accuracy of cost reporting under a new cost management incentive, and achievement of any forecasting accuracy targets will inevitably be more challenging the longer the price control period. More generally there is insufficient detail available about the proposed ex ante framework at this juncture for DCC to reach a view that a longer price control cycle from April 2028 should be recommended.

In future, it may be that clarity on the price control framework, learnings from the first ex ante price control process and potential subsequent modifications to price control arrangements will all indicate that a longer price control period is sensible. However, a decision to extend the length of future ex ante price controls does not need to be made now and it should be postponed until there is a stronger evidence base than is available presently.

b. Interaction between costed Business Plans and Business Development Plans

DCC's strong preference is to consolidate the requirements of the Business Development Plan with the costed ex ante business plan, regardless of whether Ofgem decides the business plan should be two or three years in duration. This would have the benefit of clearly aligning detailed activity and cost information with the strategic objectives of the company. With the removal of the annual Business Development Plan requirement, DCC would rely on the publication of the ex ante business plan to provide updates to the company's strategic direction. We believe the publication of these plans would occur often enough to keep key information on our strategic priorities up to date.

With Data Best Practice expected to apply to DCC, and with it the requirement to produce a Digitalisation Strategy and Action Plan, we see benefit in streamlining to a single regulatory product to avoid similar publications which only serve to increase the regulatory burden and customer confusion.

b. Managing risk and uncertainty (questions 3-7)

Summary

Setting efficient allowances

- While DCC is broadly content with the proposed reporting structure and evidence requirements, Ofgem's proposal 'not to fundamentally change how we assess the economy and efficiency of DCC's costs' is concerning.
- The current construct was designed for an ex post process in which costs are assessed retrospectively. Determining efficient cost in an ex ante regime, however, requires a different approach to cost assessment as the process happens in advance.
- Forecasting costs will involve some level of uncertainty, and it will be important that Ofgem's certainty threshold is not set in such a way that the potential for limited variances drives a large volume of costs into in-period review mechanisms which will slow up the speed of delivery.

Fungibility

- DCC welcomes the internal cost fungibility Ofgem proposes but strongly believes broader level of fungibility should be allowed, in particular to allow fungibility on DCC's external costs and across programmes (we have provided different scenarios in our response herein to illustrate our point).
- Under External Costs, it is important to allow fungibility within service family programmes to mitigate minor cost overruns delaying projects, especially as contingency funding will not always be accessible.
- It is also important to enable flexibility in the deployment of consultancy funding so it can be deployed quickly to address project and programme challenges where the application of expert external knowledge is required.
- Cross-year fungibility is also important so funding can be re-profiled across years if a delay to activity necessitates this.

Contingency funding

- DCC contends it is important to assess working capital and cost overrun requirements separately as they have different drivers.
- On working capital requirements, DCC requests that Ofgem accepts DCC's current liquidity policy as the basis for determining the healthy cash range, which currently stands at 4-8% of Allowed Revenue. DCC has a strong governance regime in place to monitor its cash position.
- On cost overruns, DCC understands Ofgem's proposal means it cannot access contingency funding unless the overall forecast is to exceed 100% of Allowed Revenue, which will negate its utility for project overruns where overall spend is within allowances.
- It is vital to confirm that uncontrollable variances between business plan forecasts and actual costs for automatic adjustments relating to inflation indexation, passthrough costs, and volume-sensitive costs are not classed as a call on the contingency facility – otherwise this will undermine the rationale and operation of the adjustment mechanism.

- Assuming the contingency facility is solely to address genuine, controllable cost overruns, DCC assesses that a 2% contingency facility would be appropriate for the first ex ante business plan period.

Cash v Accruals

- DCC welcomes the proposed move to accruals-based reporting which will offer a more accurate view of costs incurred in delivering our services.
- It will be important to clarify how cash-based ex post reporting and accruals-based ex ante reporting will align where forecasts cover the same regulatory years.

Uncertainty mechanisms

- DCC agrees with the drivers of cost uncertainty identified by Ofgem.
- DCC also broadly agrees Ofgem's assessment of the types of cost which may be affected by uncertainty, but we also think Ofgem should leave open the possibility of additional funding for unforeseen corporate overhead costs.
- DCC welcomes the proposals for automatic adjustments to allowances in relation to inflation indexation, passthrough costs and volume-sensitive costs.
- We ask that Ofgem assesses the case for communication hub and 4G hub fitting costs to be included in passthrough costs.
- For volume-sensitive costs it will be important to ensure baseline allowances reflect agreed forecast assumptions, which will help stabilise customer charging.
- The End of Year re-opener process appears sensible but there are several circumstances in which timing could be an issue and the scope of the proposed Emergency Re-opener should be widened.

Reporting Structure

- It is essential we agree the reporting structure (i.e. 'RIGS' data templates) with Ofgem and we would urge the regulator to consult on this as soon as possible.

In Chapter 3 of its consultation, Ofgem sets out proposals for determining efficient costs, limited fungibility in the deployment of allowances, the use of a contingency fund to support working capital requirements and manage minor cost overruns, and a suite of uncertainty mechanisms to enable allowances to be increased where justified. In reviewing this suite of measures, DCC believes it is important to make a distinction between budgeting and the management of cashflow.

The switch from an ex post to ex ante process is a critical transition in which DCC must now secure funding before the point of delivery rather than explaining its expenditure retrospectively. That means the process to determine the efficient baseline allowance with which DCC should begin the price control period is vital. The allowance that Ofgem awards in its ex ante determination will become the budget against which DCC delivers its services.

Ofgem's proposals on fungibility and uncertainty mechanisms support the budgeting process. Fungibility is an important management tool to enable the redeployment of funding to where it is needed most to deliver customer priorities and plays an important role in ensuring outputs can be delivered within the proposed cost envelope. Uncertainty mechanisms contribute by ensuring the level of funding can be adjusted to enable economic and efficient delivery of outputs. Ofgem's proposals for contingency funding, however, aim not just to provide some additional allowance flexibility where the right conditions apply, but also to enable overcharging of customers so DCC can maintain working capital.

It is important to review how these mechanisms work together in the round, but this is challenging because they conflate challenges around two distinct financial processes; allowance setting and effective budget management on the one hand; and mechanisms to support appropriate levels of working capital on the other. DCC sees the process to agree and effectively use its allowance as distinct from maintaining appropriate levels of working capital. They are different financial processes.

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

The approach to cost assessment needs to be considered as part of the overall package of measures in the ex ante design. For example, the way that upfront cost assessment interacts with the process for managing risk and uncertainty will be critical for ensuring that DCC has economic and efficient allowances to deliver the services that its customers require. It will also be important to strike the right balance between the regulatory burden of the cost management process (through cost assessment and re-openers) and the benefits provided by each element. Moving to an ex ante regime provides an opportunity to review the regulatory burden for both DCC and Ofgem, without reducing the level of assurance provided to customers.

We provide our feedback below on the reporting structure, evidential requirements and concerns about the threshold of certainty in an ex ante regime.

<u>Reporting Structure</u>

DCC notes Ofgem's intention to consult on the RIGS (data templates and associated guidance) during Quarter 1 of 2025, and ahead of that we offer the following points for consideration on how costs may be reported in future:

- <u>Internal Costs</u>. DCC believes it continues to make sense to report internal costs using the ten General Ledger codes, which adequately cover the types of internal costs faced. Regarding the cost centre structure, it is important to note that DCC's operating model has adapted in recent years and it will be important to align the cost centre structure to the way the business is now run. We have provided further information on this to Ofgem ahead of the RIGS consultation.
- <u>External Costs</u>. The current structure of the external service provider programmes in the RIGS does not fully align to how DCC has re-organised its service delivery to customers. This is now being centred on service families in which projects that support the delivery of a service (or services) are grouped together to ensure the objectives and synergies of delivery and outputs are appropriately managed. The advantage of this approach, which is similar to many other programmes in other organisations, is that the sequencing and trade-offs between different aspects of service delivery can be effectively managed. We will share further details on our proposed service family structure to Ofgem ahead of its RIGS consultation.
- <u>Centralised Registration Service</u>. Given Ofgem's recent decision[12] for DCC to retain the delivery of the switching service it makes sense to retain this element of cost reporting. This is included within our service family taxonomy.
- <u>Shared Service Charge</u>. Our Business Handover Plan anticipates that there will be a need for the continued provision of some services from Capita in the near term after the Business Transfer Date. These services are likely to be provided under the terms of a Transitional Services Arrangement, so we presume some form of reporting of these arrangements is likely to be required for the first ex ante price control period. It is also not yet clear whether DCC2 will receive services from a corporate parent; we will continue to engage with Ofgem on potential future arrangements through the

[12] DCC Review Phase 2: Centralised Registration Service arrangements - decision | Ofgem

Business Handover planning process. If DCC2 does receive services from a corporate parent, then we presume that there would be a requirement to report on shared service charges.

- Passthrough Costs. DCC agrees that it will be important to continue reporting pass-through costs separately and would expect to include the costs currently reported. In addition, it will be important to review the categorisation of costs associated with communication hubs and fitting costs of 4G replacement hubs ahead of 2G/3G sunsetting.

Evidence Requirements

External Costs. DCC accepts the evidential requirements set out at paragraph 3.14 for External Costs in an ex ante price control process. There is, however, an important distinction to be made between live contracts and future procurement activity, as the costs associated with the former are more certain because they are tied to contract terms whereas the latter are subject to the completion of a procurement process. In assessing live contracts, it will be important to distinguish between fixed and variable costs. Fixed costs should be known in the case of live contracts but variable costs by their nature will be less certain and will be candidates for inclusion in Ofgem's proposed automatic adjustment mechanism for volume-sensitive costs.

It will also be important to ensure that the cost scrutiny process does not undermine or duplicate other governance processes, such as for Green Book Business Cases and SEC modifications, through which requirements and costs have already been scrutinised and approved. DCC will provide evidence of such approvals as part of its business plan, which should help streamline the scrutiny process.

DCC welcomes Ofgem's acknowledgement that DCC will need to include costs which are uncertain in the costed business plan, and we accept the need to provide the most up to date assumptions, dependencies and risks behind those costs. Cross-referencing to existing business cases, as Ofgem suggests, is a pragmatic way of doing this, but it would be helpful for Ofgem to confirm whether the figures used should be approved costs or could be figures in a business case that is still to be approved. For example, if an Outline Business Case includes a cost forecast but a more up-to-date draft Full Business Case includes revised costs, which document would Ofgem want DCC to use as the source for costs?

Internal Costs. DCC agrees with the types of evidence Ofgem has suggested in relation to internal costs, although it has concerns over the approach to be taken to assess benchmarking data and data on the use of External Services.

DCC acknowledges the need to provide evidence of benchmarking against the midpoint of market rates for both resource and non-resource costs. However, DCC is concerned about the way this information is currently used to assess DCC's performance in the ex post price control review process, and requests that it is reviewed before the ex ante process begins. In RY23/24, DCC delivered a net saving of £3.3m for overall contractor costs when compared to the median benchmark. However, DCC faces a £0.5m cost disallowance in Ofgem's Draft Determination which is a result of disallowing contractor costs deemed to fall materially above reasonable market rates. Disallowing costs for individuals above the benchmark and ignoring savings delivered below it does not take account of the realities of operating a business with individual recruitments subject to market constraints.

Consultancy fees have historically constituted most External Service costs. In some instances, the requirement for these services is predictable and it will be possible to set out in the business plan the scope of services required and the associated costs. However, like many other businesses there are instances where DCC will need to be able to access expert external knowledge to address project or programme challenges at short notice to address unforeseen challenges. DCC would expect to be able to hold a sensible level of funding for such eventualities (noting that contingency funding can only be accessed where DCC expects to overspend). While DCC may be able to provide historic data on the annual costs of such requirements, we clearly will not be able to set out detail of scope and cost, and nor will we be able to share with customers details of requirements which remain unspecified.

Other Costs. It would be helpful for Ofgem to set out what evidential requirements it has for other types of cost forecasts that will need to be included in the business plan, including Centralised Registration Service costs and Passthrough Costs.

Certainty Threshold

Ofgem's proposal in paragraph 3.11 not to "fundamentally change how we assess the economy and efficiency of DCCs costs" is concerning as the current construct was designed for an ex post process in which costs are assessed retrospectively. Clearly, where costs have already been incurred, it is possible to scrutinise evidence around the process and governance followed. Determining efficient cost in an ex ante regime, however, requires a different approach to cost assessment as the process happens in advance.

It is helpful that Ofgem recognises that DCC will need to include costs which are uncertain in the costed business plan and that the evidence it will need to see as justification for inclusion of forecast costs will need to be the latest assumptions for a particular initiative. Nevertheless, DCC has two key concerns:

- it will require Ofgem to acknowledge in its cost assessment process that ex ante forecasts are inherently less certain than ex post justification of cost incurred, and there is a limit to the certainty that can be provided by DCC.
- the consequences of costs not being awarded are different under the proposed ex ante regime than is currently the case for the ex post regime.

In paragraph 2.2 of its consultation, Ofgem assesses that c.70-80% of DCC's total cost base is sufficiently certain to be assessed on an ex ante basis, and that any regime put in place would need to provide for the uncertainty associated with the balance of costs. However, DCC is concerned that it would not be appropriate for 20-30% of costs (potentially up to £200m) to be excluded from DCC's ex ante allowance as the uncertainty mechanisms (particularly the end-of-year re-opener) and contingency arrangements proposed are very unlikely to be sufficient for DCC to access all these additional funds in a timely manner.

DCC acknowledges the need to provide a complete business plan with a level of justification consistent with Ofgem's ex ante business plan guidance (which we have yet to see and comment on). However, there will be cases where it is certain that some level of cost will be incurred (e.g. mandated activity), but the quantum is not yet known. In the current ex post regime, this has led to costs being excluded from the regulatory forecast due to a lack of certainty. This will clearly not be appropriate under an ex ante regime as it will lead to a significant proportion of costs (including some for mandated activity) being unfunded going into the delivery period.

Given that DCC2 will not be able to overspend against its approved cost envelope (as there is no ex post process with the potential to disallow costs in the proposed not-for-profit construct), the consequences of being underfunded would inevitably be that DCC would have to wait for the funding to be added through the re-opener process with a delay to the delivery of planned activities within the budgetary period and to the delivery of benefits to customers. It is therefore essential that the ex ante determination includes 100% of the costs required for year 1 of a price control period (save for volume-driven changes or emergency situations). DCC cannot be in a position where its core activities (including mandated activities) are not funded.

In section 6.3 of the consultation, Ofgem suggests that the proposed approach to approving the ex ante business plan could "ease the burden within the final ex post price control". Whilst DCC supports this intention, this will only be possible if a greater proportion of cost is approved in the ex ante determination than is currently allowed for through the determination on forecasted costs in the ex post regime. A reference forecast that is clearly much lower than the actual expenditure required will still necessitate extensive explanation of variances.

It will be important for the 'Price Control Guidance: Processes and Procedures 2022' document to be reviewed to align it to the limitations of cost justification in an ex ante framework.

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?

DCC recognises the importance of providing accurate forecasts in its costed ex ante business plan, but there must also be realism in the overall price control framework to acknowledge that post-submission there is a high likelihood of changes in assumptions over a multiyear period which inevitably change the quantum and profile of expenditure.

It is our goal to be recognised as a customer responsive business, focused on customer priorities and adapting as those priorities evolve. Responding to evolving customer priorities, or other changes in circumstances, means that it is important to put in place a framework which best enables DCC to mitigate the impact of those changes so that the outputs funded under the costed ex ante business plan can be delivered within the overall agreed cost envelope.

Ofgem proposes to allow no fungibility on DCC's External Costs, which constituted around 70% of annual costs in RY23/24. On internal costs, it proposes to allow fungibility of resource costs and costs correlating with resource (including payroll, accommodation and IT services) which together constitute around 15% of DCC's annual costs. Passthrough and switching costs which constitute the remaining 15% of annual costs are out of scope for fungibility assessment (although we ask Ofgem to confirm whether this includes internal costs relating to switching). As a result, Ofgem is proposing a low fungibility model in which DCC is effectively limited to the redeployment of internal staffing from one area to another.

While DCC welcomes the acknowledgement from Ofgem that DCC should be able to reallocate resource costs and costs correlating with resource, we strongly believe there are grounds for Ofgem to review the constraints it is proposing on fungibility of External Costs and External Services to achieve better outcomes for customers.

External Costs. External Costs represent by far the largest component of DCC's costs. As DCC's operating model relies on the co-ordination of external service providers to deliver its services, Ofgem's proposals effectively mean that there should be no ability to re-prioritise or re-profile expenditure across its whole service delivery model even where this would deliver a better overall outcome for customers.

If a project is expected to underspend because of an efficiency, a delay or adjustment to its scope, the unused allowance cannot be reallocated to address any emerging challenges across the service delivery cost base. The contingency proposals Ofgem has set out do not provide mitigation unless DCC is expecting to spend more than 100% of its overall allowance.

In the event there is underspend available within the overall cost envelope, activity and expenditure would need to be deferred until the following year – delaying benefits to customers –unless DCC is able to secure additional project-specific funds through an emergency re-opener application. Frequent use of the emergency re-opener would be administratively burdensome especially if the additional costs required are limited in nature, and would still result in delayed benefits to customers.

The alternative approach, which Ofgem has proposed not to take forward in its consultation, would be to allow fungibility across programmes (or subject to Ofgem's RIGS consultation what in the future DCC proposes to describe as "service families"). This approach would not allow unfettered fungibility across the whole external cost base but would allow the reallocation of funding within a service family programme to balance out under and overspends and avoid unnecessary delays, while remaining within the overall cost cap for that programme. DCC strongly favours this approach and expects it to lead to better overall customer outcomes by balancing time, cost and quality considerations for individual service areas.

The scenarios set out below outline the challenge that DCC foresees with Ofgem's current proposals, and how fungibility within service family programmes could deliver better outcomes for customers. The costs used in the scenarios are purely hypothetical for the purposes of demonstration and do not relate to actual expenditure incurred by DCC.

Scenario A

In this scenario, we apply Ofgem's proposals for fungibility of resource costs and costs correlating with resource but allow no fungibility across other internal costs and External Costs. External Costs are structured on a service family programme basis so multiple projects contribute to the overall purpose of delivering a defined service.

As indicated in figure 1 below, there are three projects (projects A, E and I with each in a different service family programme) forecasting limited overspends for the regulatory year against their allocated budget. Despite each service family programme forecasting to remain within its allocated budget, DCC is unable to reallocate funding between projects in each of them, so activity needs to be delayed or curtailed on the projects which are forecasting to overspend, delaying or deferring the benefits to customers. DCC would then need to submit a re-opener application for each project to seek additional funding in the next regulatory year, and project milestones would need to be re-scheduled.

There would be no recourse to use Ofgem's proposed contingency facility as this can only be activated if DCC is forecasting to require more than 100% of its Allowed Revenue. In this instance, DCC would be expecting to require less than 100% of its Allowed Revenue despite the forecast overspend in the three projects.

The result of this constraint on fungibility is that actual total expenditure at the end of the regulatory year reduces even further below the Accounting Period 6 forecast (i.e. mid-year) because DCC is unable to reallocate underspend, and each project must bring actual expenditure within its annual budget.

Figure 1 – Scenario A Total Forecast Expenditure is within Allowed Revenue

Cost Category	Service Family Programme	Sub-Category	Fungible?	Annual Budget (£M)	Forecast at Accounting Period 6 (£M)	Actual Expenditure at Year End (£M)	Budget reallocated (£M)
External Cost	1	Project A	No	10	12	10	0
		Project B	No	10	8	8	0
		Project C	No	10	10	10	0
		Sub-Total		**30**	**30**	**28**	**0**
	2	Project D	No	10	10	10	0
		Project E	No	10	12	10	0
		Project F	No	10	8	8	0
		Sub-Total		**30**	**30**	**28**	**0**
	3	Project G	No	10	9	9	0
		Project H	No	10	9	9	0
		Project I	No	10	12	10	0
		Project J	No	10	8	8	0
		Sub-Total		**40**	**38**	**36**	**0**
Internal Costs		Resource	Yes	20	20	20	0
		Non resource	No	10	8	8	0
		Total		**130**	**126**	**120**	**0**

Scenario B

In this scenario (see figure 2 below), we also apply the same fungibility rules that Ofgem proposes and the same service family programme structure. The same three projects are forecasting limited overspends for the regulatory year against their allocated budget.

Like scenario A, there is no fungibility across service family programmes to utilise underspends to address overspends. The difference in this scenario is that the overall forecast at Accounting Period 6 is for total expenditure to exceed DCC's Allowed Revenue. This means that DCC can now access contingency funding by charging customers for the additional funding required to address areas of overspend.

Given that this scenario would provide a route to addressing the project overspend challenges, it indicates that the constraint on fungibility could create a perverse incentive to overspend against the overall cost envelope. This would enable access to contingency funding to address what would otherwise be unresolvable project funding challenges.

Figure 2 – Scenario B Total Forecast Expenditure is above Allowed Revenue

Cost Category	Service Family Programme	Sub-Category	Fungible	Annual Budget (£M)	Forecast at Accounting Period 6 (£M)	Actual Expenditure at Year End (£M)	Budget reallocated (£M)
External Cost	1	Project A	No	10	12	12	0
		Project B	No	10	8	8	0
		Project C	No	10	10	10	0
		Sub-Total		**30**	**30**	**30**	**0**
	2	Project D	No	10	10	10	0
		Project E	No	10	12	12	0
		Project F	No	10	10	10	0
		Sub-Total		**30**	**32**	**32**	**0**
	3	Project G	No	10	10	10	0
		Project H	No	10	10	10	0
		Project I	No	10	12	12	0
		Project J	No	10	8	8	0
		Sub-Total		**40**	**40**	**40**	0
Internal Costs		Resource	Yes	20	20	20	0
		Non resource	No	10	10	10	0
		Total		**130**	**132**	**132**	**0**

Scenario C

In this scenario (see figure 3 below), we have the same forecast expenditure profile at Accounting Period 6 as set out in scenario A. However, in this scenario fungibility is permitted within each service family programme. As a result, funding is reallocated between underspending and overspending projects within each programme.

The result is that each project is now funded to complete the activity required in year but total expenditure for the year is less than the allowed cost envelope. There has been no requirement to access additional funding from customers and there has been no delay to project activity – and the delivery of benefits to customers –as the permitted fungibility has been used to keep all projects on track.

Figure 3 – Scenario C Total Forecast Expenditure is below Allowed Revenue but fungibility is allowed

Cost Category	Service Family Programme	Sub-Category	Fungible	Annual Budget (£M)	Forecast at Accounting Period 6 (£M)	Actual Expenditure at Year End (£M)	Budget reallocated (£M)
External Cost	1	Project A	Yes	10	12	12	2
		Project B	Yes	10	8	8	-2
		Project C	Yes	10	10	10	
		Sub-Total		**30**	**30**	**30**	
	2	Project D	Yes	10	10	10	
		Project E	Yes	10	12	12	2
		Project F	Yes	10	8	8	-2
		Sub-Total		**30**	**30**	**30**	
	3	Project G	Yes	10	9	9	
		Project H	Yes	10	9	9	-1
		Project I	Yes	10	12	12	2
		Project J	Yes	10	8	8	-1
		Sub-Total		**40**	**38**	**38**	
Internal Costs		Resource	Yes	20	20	20	
		Non resource	No	10	8	8	
		Total		**130**	**126**	**126**	

DCC believes these scenarios help to demonstrate the principle of why fungibility within each service family programme should be permitted.

In its consultation, Ofgem sets out its view that DCC would have very little ability to flex its External Costs in response to challenges. DCC acknowledges that there would in practice be some operational or contractual constraints on DCC's ability to re-allocate funding, such as fixed contract costs or the need to fund the delivery of non-discretionary operational capabilities. Nevertheless, there are cases where DCC may be able to reduce lower priority activity or deliver activity for less than originally forecast in the business plan, with such underspends used to compensate for limited cost overruns in other projects within a service family programme.

As DCC continues to focus on cost efficiency, it is expecting to deliver over £10m of savings against the Annual Business Plan through commercial negotiations and optimising resource strategies. Examples of efficiencies in External Costs include challenging the application of indexation within contracts; negotiation of rebates where DCC has engaged a single supplier across multiple separate activities; application of financial penalties on third parties where key milestones have not been met; a focus on consolidating change into fewer releases to significantly reduce associated testing, release and management costs; and reviewing the use of consultancy support.

Ofgem also raises concerns about unchecked overspending on projects. DCC has built an internal controls suite that governs both contracting of new spend and review of actual spend to ensure that cost envelopes are not exceeded. DCC's Finance team oversees monthly controls and submits reporting to both the Executive Committee and the DCC Board. Nevertheless, there are some additional controls on expenditure which DCC suggests could be used to mitigate Ofgem's concerns.

Projects with a whole life value of over £10m require approval of a Green Book Business Case. Where the use of fungibility to address a project overspend looks likely to lead to a breach of the overall cost approval of such a business case, DCC could be required to submit a review note to the business case approving authorities setting out the reasons for the additional costs, a revised cost profile and assurance around future risks associated with the project. Such an approach would enable oversight of changes in expenditure on significant projects and re-approval of the revised project cost envelope.

In addition, we would expect that DCC would need to provide end of year reporting on the preceding regulatory year to Ofgem, as is currently the case for network companies under the ex ante RIIO framework. This would necessitate DCC setting out the approved allowance by cost category and the actual expenditure incurred for each. This would provide transparency of where under and overspends have occurred and allow Ofgem to follow up where it has concerns.

External Services. DCC also contends that greater fungibility should be allowed in the use of External Service funding, especially for consultancy support. As set out in our response to question 3, it will be possible in a multiyear price control process to identify precise requirements and forecast costs for some consultancy requirements, but there will be other requirements which emerge only after the business plan is submitted as new challenges arise that require the expert application of external knowledge to address project or programme challenges. It would therefore be unrealistic to expect that DCC should have identified in the business plan all instances in which such support may be required and the associated cost. It would also potentially be to the detriment of service delivery if there is no ability to direct consultancy funding to where it is most needed. This would follow a similar principle to Ofgem's proposal to allow resource funding to be reallocated to where it is needed most.

Cross-Year Fungibility. DCC also requests that Ofgem clarifies the extent to which fungibility of allowances will be allowed across different years of a price control period. If a project has run into challenges which lead to delays and the need to reschedule activity from the first to second year of a price control, DCC may accordingly look to reprofile underspend from the first to second year to re-align funding to activity. The aim would still be to deliver the project within the overall allowance provided for the two-year period, but the profile of expenditure would change. Such re-profiling would be administratively far more efficient than requesting additional allowance for the second year in a re-opener application, which would effectively mean reapproving allowances which had already been approved in the original ex ante determination but had not been consumed in the year of forecast.

While DCC recognises Ofgem's objective to improve the accuracy of DCC's cost forecasting, it does not believe that the low fungibility model proposed is in the best interest of customers and consumers because it risks delaying the delivery of service projects and benefits to customers, or even encouraging DCC to overspend the overall cost envelope so contingency funds can be accessed. There will inevitably be operational constraints on the degree of fungibility that can be applied in practice, but these constraints should determine how widely fungibility can be applied, rather than a regulatory decision to not allow additional fungibility as a point of principle, blocking better outcomes that could be achieved.

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?

Ofgem's proposals for contingency funding are designed to provide a mechanism to firstly mitigate the risk to DCC's cashflow position (i.e. ensure it has sufficient working capital) and secondly to account for minor cost overruns above the approved Allowed Revenue where it would not be practical or proportionate to re-open the price control.

DCC contends that these two challenges should be reviewed separately. Ensuring adequate working capital relates to the management of cashflow and liquidity and the challenge can be short-term in nature. Managing cost overruns is an enduring budget issue whereby the allowance will be breached.

Contingency for working capital

DCC applies a liquidity policy which establishes a target liquidity, around which a cash healthy range is set to determine when action is potentially needed to increase or decrease cash reserves through charging updates to maintain a healthy cash balance at bank for the business. This policy has been long established within DCC and performance against the healthy range target is reported to the DCC Board.

DCC considers adjustments to the range annually and a full review of the target liquidity and cash healthy range was conducted in RY23/24. That review sought advice from a well-established banking partner taking into account the characteristics of DCC's costs and charging mechanism. This advice has been provided to Ofgem under separate cover.

DCC believes that an efficient liquidity policy is critical to maintain strong corporate governance and good risk management. As part of the RY23/24 review of the cash healthy range, DCC compared its policy to other regulated utility entities. This demonstrated that DCC's policy as a percentage of revenue was lower than other regulated utilities.

Under this policy, DCC aims at all times to hold sufficient headroom in the form of accessible liquidity to cover near-term cash outflows and contractual headroom requirements. DCC's costs are not uniform over the course of a regulatory year with change programme costs and contractual milestone payments examples of costs which can lead to higher monthly outgoings in one month compared to another. DCC's liquidity is vital to ensure it can sustain cashflow if monthly outgoings are higher than income derived from customer charging.

DCC's current target is to maintain a liquidity ratio of 6% of Allowed Revenue (less Communication Hub costs[13]) with a range of 4-8% permitted in light of fluctuations in DCC's cost base and contractual payments. This range is what DCC terms its cash healthy range. The target constitutes well under a month of typical revenue.

DCC recognises that customers welcome a stable charging regime and as a result it aims to provide a stable forecast of costs for the regulatory year ahead with the charging statement only re-opened in-year if the expected differences between income and outgoings will lead to the company's liquidity position moving above or below the cash healthy range. Should the cash balance begin to exceed the cash healthy range, DCC would look to re-open the charging statement to return funds to customers.

If Ofgem were to propose any reduction in the cash healthy range, it would need to take account of the increased likelihood that DCC would need to move to far more dynamic charging than occurs at present with the potential for multiple in-year charging updates if a tighter liquidity policy is applied. This would be to the detriment of stable charging which has been a key underpinning objective of DCC's current approach.

DCC's liquidity requirements do not mean it has to overcharge customers beyond 100% of Allowed Revenue. If DCC opens a regulatory year with a cash balance in the cash healthy range, costs incurred are at or below the Allowed Revenue, and the monthly profile of income and outgoings is such that the cash position remains in the range across the year, there should be no requirement to request additional funding from customers. It is for this reason that the need for working capital should be reviewed as a distinct requirement from contingency funding above the Allowed Revenue.

At present, DCC's liquidity is provided almost exclusively through the retention of customer cash but DCC is considering flexing its policy to replace some of its current cash facility with competitively procured Revolving Credit Facilities. This would enable DCC to maintain or flex its liquidity policy whilst returning significant cash to customers. This will be the subject of future discussions with Ofgem in the context of the business handover arrangements for DCC2.

DCC maintains strong corporate governance and controls around its liquidity policy. DCC must maintain access to external capital markets with options to secure long-term funding for Communication Hub

[13] Comms Hub costs are equal to Comms Hub Device Revenue

purchases and programme spend, so it is vital that external funders can see evidence of a strong governance and controls framework and policies that sustain DCC's cashflows.

DCC's control framework ensures appropriate governance of spend against approved cost envelopes is applied across all categories of spend. The DCC Board approves an annual business plan which is set with reference to Allowed Revenue for each regulatory year. This annual plan is then updated quarterly to ensure that within year spend is on track to not exceed the approved plan. Detailed monthly reporting tracks spend against both resource and non-resource costs and is shared with all levels including the DCC Board.

Within the procurement of goods, services or additional resources (including any contractual amendments), the proposed spend needs to be confirmed as within the business plan, the costs included in an approved programme budget, or the business owner needs to confirm it is within their envelope of agreed costs. Therefore, irrespective of whether DCC holds the funds in its bank accounts to settle the invoices, DCC's controls are designed to ensure that a contract would not be signed, an order approved, or additional resources recruited if the costs cannot be covered within DCC's annual cost budget.

As DCC progresses through a regulatory year, it monitors its expected costs compared to Allowed Revenue. This ensures that where efficiencies have been achieved or changes to programme spend have led to costs below plan, DCC will take appropriate steps to issue updated charging statements to lower charges and return cash to customers.

With regards to DCC's cash management, DCC tracks cash held monthly against its annual plan and the level of cash held versus the cash healthy range is a key aspect of DCC Finance reports to the Board each month. The DCC Audit Committee annually signs off DCC as a Going Concern and related controls place reliance on DCC's liquidity policy along with Credit Cover and the availability of DCC's Corporate Bond.

DCC requests that Ofgem reviews our liquidity policy and the advice on which it is based and accepts DCC's current approach as the appropriate way to address working capital requirements. The proposal to set a 2% contingency on Allowed Revenue does not reflect the principal requirement which is for the business to maintain a cash healthy range at all times.

Contingency for cost overruns

DCC is concerned that there may be significant limitations on its ability to use the proposed contingency facility to address minor cost overruns.

Firstly, as set out in our response to Question 4, DCC's understanding is that the contingency facility can only be accessed if the overall level of expenditure is forecast to exceed 100% of Allowed Revenue. If that understanding is correct, it means contingency funding cannot be accessed to address localised overspends where the overall forecast is to spend less than or equal to the Allowed Revenue, and the inevitable consequence would be that customer benefits would be delayed or deferred.

Secondly, it is important to confirm that where actual costs under the proposed automatic adjustment mechanism are higher than forecast in the business plan they will not count as cost overruns that draw on contingency funding.

The automatic adjustment mechanism proposed by Ofgem is to enable automatic adjustment of DCC's allowance in the areas of inflation indexation, passthrough costs and volume changes that are difficult to forecast accurately but which have a standard cost per unit. These cost categories are by their nature not ones that DCC can control. The company has no control over inflationary pressures in the economy, passthrough costs by definition are ones that DCC cannot control, and it would be inappropriate for a customer-focused DCC to attempt to constrain customer demand for services which drive changes in the volume of activity required.

While DCC is not able to control these costs, it will provide its best forecast and we would expect both the proposed CCG and Ofgem itself to review the underpinning assumptions, and associated sensitivity analysis, before Ofgem sets its proposed allowance. Thereafter, DCC has no control over the level of additional allowance required if actual costs differ from the forecast.

If automatic cost adjustments are included within the contingency headroom on Allowed Revenue it would mean that uncontrollable cost variances would need to be accommodated within a fixed contingency facility, and they would stop being automatic adjustments at the point the cap on contingency funding is reached. If changes in these uncontrollable costs were to be higher than the contingency funding available, DCC would still need to pay them. In that event, DCC would face no choice but to constrain activity that Ofgem had agreed to fund in the allowance – and therefore constrain customer benefits – to offset higher than expected costs over which it has no control.

DCC therefore strongly believes that all changes to cost forecasts for inflation, passthrough and volumes captured in the automatic adjustments should not be included in the contingency facility. We acknowledge that it is fair to expect DCC to deliver its outputs at economic and efficient cost, but it would not be reasonable to expect DCC to potentially have to find headroom in its budget to offset variable costs which are challenging to forecast and over which it has no control.

Without clarity over the relationship between the automatic adjustment costs and the contingency facility, it is difficult to discern whether Ofgem's proposal could be of value in addressing minor cost overruns that are controllable by DCC itself. Nevertheless, this would be the purpose that DCC contends the contingency facility should be focused on, providing a limited mitigation to inaccuracies in DCC's forecasts for controllable costs in its first attempt at providing a costed ex ante business plan.

DCC agrees with Ofgem's proposal that contingency funding could provide useful headroom to make progress at limited cost in areas for which the bulk of the funding would need to be approved through a re-opener application. Given that the re-opener process is expected to run only once per annum, it would allow new proposals that are either not included in the initial business plan or miss an end of year re-opener window to progress while the next re-opener application or business plan is prepared. Such expenditure would by its nature be taking place ahead of formal approval of project costs, so DCC would be open to a cap being placed on the level of expenditure that could be incurred on any single initiative ahead of a re-opener or business plan approval.

DCC also agrees with Ofgem's proposal that any use of contingency funding for the purpose of cost overruns should be explained in the end of year re-opener application.

DCC would expect the contingency fund for cost overruns to be largely limited to advance work on re-opener applications which would require retrospective approval during the re-opener process, assuming that:

- Ofgem confirms that automatic cost adjustments sit outside of the contingency funding facility, and hence are truly automatic in nature;
- liquidity requirements would be addressed separately; and
- fungibility is expanded to include External Costs.

If Ofgem were to agree these planning assumptions, DCC would expect to be able to operate with a contingency of 2% as a precursor to using the proposed re-opener process.

Finally, there is a clear concern in Ofgem's consultation that DCC may look to accrue the full amount that can be charged through any contingency facility and then look to spend it in full as a default. DCC's preference would be to avoid the need to draw on contingency funding at all but should it be required, there are mitigations to the risk Ofgem identifies including:

- Ofgem's proposal that any use of contingency funding for the purpose of cost overruns should be explained in the end of year re-opener application as a prerequisite for the award of further funding.
- Use of contingency funding could be one of the measures assessed under the proposed cost management incentive.

Cash v Accruals

On the issue of cash v accruals-based reporting, DCC is supportive of the move to accruals for ex ante price controls. Accruals-based reporting presents a more accurate picture of the actual cost of delivering DCC's business, and it is right that as a maturing business it transitions on to what is a standard basis for accounting for all government departments and business. Accruals reporting is also the basis for DCC's internal management reporting, so the switch would streamline the process of regulatory reporting of forecast costs. As Ofgem highlights, DCC would still prepare a net cash requirement as part of its RIGS submission, highlighting the business's cashflow and it would continue to present a cash-based view of requirements for the Indicative Charging Statement forecasts which are published and discussed with customers in the Quarterly Finance Forum to underpin the charging statement.

Where the design, build and test elements of major programmes are financed, there will be an additional benefit of reporting on an accruals basis. The full programme costs occurring in the period will be shown, reflecting the relevant milestone costs. However, under a cash basis, only the financing costs will be shown in the period and given that the financing arrangements are for longer periods (typically DCC finances major programme design, build, test activities over 5 years from actual drawdown) than the proposed length of the plan, it will be hard to correlate the in-year cost presented versus the underlying cost of the programme in the period. Moving to accruals-based reporting will allow DCC to show the full programme cost more easily and give greater transparency to customers and other stakeholders in the proposed business plan.

The example below at figure 4 illustrates the difference in reporting between cash and accruals accounting for a large programme over the period 2023 - 2028. The main benefit of presenting the accruals accounting view is that it reflects the true design, build and test elements of programme costs as they are incurred as part of the overall programme, whereas under the cash view this reflects the financing accounting values i.e. the spreading of the drawdowns over typically a 5 year period and therefore not the true costs associated to the programme activity occurred in any given year. Under the accruals view, the financing costs only relate to the interest elements of the milestone activity financed. In this illustration the total 2023-2028 values are not equal as there continues to be a residual financed cost in 2029.

Figure 4 – Cash vs. Accruals reporting for a large programme example

Cash View	2023	2024	2025	2026	2027	2028	Total
External (Design, Build & Test) Costs	16	11	24	28	28	25	**132**
Total	**16**	**11**	**24**	**28**	**28**	**25**	**132**

Accruals View	2023	2024	2025	2026	2027	2028	Total
External (Design, Build & Test) Costs	16	58	46	-	-	-	**120**
Financing (Interest Only) Costs		3	4	4	3	2	**16**
Total	**16**	**61**	**50**	**4**	**3**	**2**	**136**

Note: Delta between Total Costs is due to Financing Repayments continuing beyond RY2028 in Cash View

If the move to accruals-based reporting is agreed, Ofgem will need to consider how it is implemented. DCC is still to submit three further rounds of ex post price control submissions (RY24/25, RY25/26, RY26/27) and the RIGS template for these submissions is currently cash-based.

DCC's view is that it would be sensible to maintain the same programme structure and cash-based reporting for the ex post RIGS submissions because of the need to compare costs to the baseline and the need to support calculations relating to Baseline Margin Adjustment.

DCC proposes that the first ex ante business plan (i.e. the one proposed for April 2026-March 2028) should be prepared on a service family structure aligned to the groupings of projects DCC2 uses to deliver services to customers and should present costs on an accruals basis. Historic costs would need to be re-stated on an accruals basis to provide a coherent time series across actual and forecast costs.

Once the final ex post submission is completed for RY26/27, we would expect that all future RIGS submissions would be based on a service family and accruals basis.

If the principle of transitioning to accruals-based cost reporting is agreed, there will inevitably be details to work through as part of that process. DCC's principal concern as indicated in figure 5 below, is that two of the ex post price control submissions will follow the ex ante business plan submission. It will therefore be important to reconcile any ex ante and ex post forecasts covering the same year (e.g. RY26/27) and to ensure that there is clarity around which process Ofgem uses to disallow future forecast costs; DCC would expect that forecast costs which have been deemed to be justified, economic and efficient as part of the ex ante determination process would not subsequently be disallowed through a later ex post price control review of forecast costs (i.e. RY25/26 or RY26/27) so long as those forecasts align to the ex ante determination.

Figure 5 – Timetable for submission of remaining ex post price control submissions and the first ex ante business plan

* Spring 27: Final Ex Post Consultation, Summer 27: Final Ex Post Decision

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

DCC welcomes the uncertainty mechanism framework that Ofgem has set out although there are key points of clarification which need to be worked through on the operation of the individual uncertainty mechanisms.

<u>Drivers of Cost Uncertainty</u>

Ofgem sets out a comprehensive list of factors which drive cost uncertainty and DCC welcomes the broad scope that is set out.

<u>Code Changes</u>. DCC agrees that it is important to recognise that code changes, whether SEC or Retail Energy Code (REC) modifications, can lead to additional costs after the ex ante business plan is submitted. SEC and REC modifications are released twice a year, and it is therefore possible that there could be five release processes in the two and half years after the initial ex ante business plan is submitted. If future ex ante price controls are longer this number could be even higher.

SEC and REC modification costs can cumulatively amount to several million pounds in each release. While DCC will endeavour to set out any SEC/REC release costs for which it has approved costs in its business plan there will be other modifications which it is either not aware of at that point or has not fully scoped and costed. These costs should therefore be covered by the proposed re-opener processes.

Contract Award/Extension. DCC agrees with Ofgem that it is likely there will be contract awards or extensions, for which there is insufficient certainty at the business plan submission stage. As proposed by Ofgem in the consultation, DCC will set out forecast costs for future contracts in the business plan, based on the latest approved costs in the relevant business case. In some instances, such as where a contract is expected to be awarded in the second year of the price control, the costs available at the business plan submission stage may be estimates. Subsequent market engagement may reveal the cost to contract to be lower or higher than estimated, requiring an adjustment to allowances.

New Customer Requirements. To be a customer responsive business, this is a particularly important area to get right as changes in customer demand can be challenging to forecast. As Ofgem indicates, changes in the pattern of smart meter uptake and communication hub orders will impact the cost base. There remain large numbers of properties which are yet to have a smart meter installed and DCC is about to commence work with the energy suppliers to undertake a huge programme of work to replace 2G/3G communication hubs with 4G replacements. While DCC will include profiles for such activity in its planning assumptions for the ex ante business plan, there will need to be a means to adjust allowances to take account of differences between forecast and actual volumes. Likewise, DCC has witnessed a huge increase in demand for data transfer activity driven by customer demand in recent years. DCC will include forecasts for future demand in the business plan, but it will be necessary to adjust allowances to reflect divergence from the forecast, especially where contracts scale to changes in volume. Such volume-related changes are potential candidates for use of the proposed volume-driver in the automatic adjustment mechanism.

New Technological Requirements. DCC agrees that it is important that provision is made for the costs of technology upgrades which are not known about at the point of business plan submission. As Ofgem highlights, DCC could face additional costs after this point, such as where suppliers require DCC to accept a technology refresh or software upgrade. Access to funding through the re-opener processes will address these costs.

New Regulatory Requirements. It is important to make provision to change allowances that relate to regulatory (or indeed legal or government policy) requirements which are not known at the point the ex ante business plan is submitted. The review into the Smart Meter Implementation Programme that is due this year, and Ofgem's own consultation into the Future Role of DCC, are two potential sources of change in the requirements placed upon DCC, which DCC may not be able to cost in time for the business plan submission. Should Ofgem or the Government decide that DCC's role should evolve, it would be important that DCC's funding could be adjusted in a timely manner to avoid delaying policy implementation. As Ofgem points out there are also wider regulations such as the Network and Information Systems Regulations 2018 covering cyber security requirements which DCC would need to respond to if updated. DCC must be able to adapt to new legal, regulatory or government policy requirements, and it must be able to request additional funding where they drive additional costs during the price control period.

Changes in Programme Assumptions. The development process on technology programmes is one which can involve working from low maturity levels. As a result, it may be necessary to adopt new assumptions or adapt to unforeseen challenges as DCC works through the stages of development. Where such issues arise, it is important that DCC can adequately fund the necessary change in activities during the price control, particularly testing and assurance, so new technology can be accepted and successfully integrated on to an important national infrastructure network. Not funding such activity could have significant implications for the integrity of the network and the timely delivery of service improvements or enhancements.

Technical Issues. DCC views it as important that there is provision for costs relating to technical issues which have not been foreseen in the ex ante business plan. In the first instance, DCC will always look to rely on the terms of its contracts to address issues arising, but there may be operational incidents that are not covered by the scope of contracts for which additional funding is required. Where such incidents occur, it is important that timely additional funding can be provided and DCC believes that such issues are strong candidates for use of the proposed emergency re-opener.

Inflation. It is vital that appropriate mechanisms are put in place to minimise forecasting risk around general and sector-specific inflation. One of the key lessons for RIIO-2 from the RIIO-1 ex ante price control was the need to minimise inflation forecasting error through the use of indexation. Ofgem's proposal to apply CPIH[14] indexation as a default to address general inflation is therefore welcome as is the proposal to utilise the automatic adjustment mechanism and end of year re-openers to address sector-specific inflation.

Force Majeure External Factors. Ofgem identifies force majeure type events such as insolvency, supply chain disruption and Covid-19 which could impact DCC's operations and would require additional funding not identified in the ex ante business plan. DCC agrees such events are ones which could drive additional costs after business plan approval, based on experience in recent years. Covid-19 was clearly highly disruptive to operations across many types of business and DCC would need to be able to respond appropriately to any other sudden pandemic. DCC has also had recent experience of supply chain disruption caused by company insolvency, such as in RY21/22 when DCC had to take action to transition away quickly from a failing supplier.

Types of Cost Affected by Uncertainty

DCC welcomes the analysis Ofgem has provided of the types of cost which may require uncertainty mechanism funding, although we disagree with Ofgem's assessment on corporate overhead costs.

Corporate Overheads. Ofgem asserts that there is low risk associated with corporate overhead costs which should be predictable and manageable. As a result, it does not envisage the need for uncertainty mechanisms to provide for changes to them. While the rationale is understandable, DCC disagrees with Ofgem's analysis because there is current evidence that DCC is potentially facing unforeseen costs relating to new regulatory requirements for the business handover to DCC2. This includes establishing new financial and HR systems and processes which can be run independently of DCC's current parent company, Capita. If the ex ante price control framework operated now, these costs would not have been foreseen in the business plan. DCC contends therefore that Ofgem should leave open the possibility of requesting additional corporate overhead funding through uncertainty mechanisms.

In addition, it may be necessary, as Ofgem itself indicates, to seek additional funding in the end of year re-opener application if the inflationary impact of proposed wage changes or use of professional services is forecast to be higher than the rate of CPIH indexation.

Cost to Operate- External Costs. DCC agrees that cost to operate should be more stable than costs of change as it represents the delivery of business as usual services. That said, there is a clear requirement to ensure that the types of costs associated with the drivers of cost change covered in table 3.2 of the consultation are appropriately covered. DCC agrees therefore that Ofgem is right to note the need to address the impact of inflation, and changes in assumptions driven by technological requirements, technical issues, changes in volumes driven by customer requirement and force majeure events. In addition, it may be necessary to request additional funding in relation to a contract award event where the contract is replacing an existing service, but the forecast costs are higher than were expected at the point the business plan was submitted. DCC should also be able to request additional funding if regulatory, legal or policy requirements affecting business as usual services drive higher cost in their delivery.

Cost to Operate - Internal Costs. DCC agrees with Ofgem's assessment that inflation and force majeure should be the primary drivers of changes to business as usual internal costs, although it should be noted

[14] CPIH stands for Consumer Prices Index (CPI) including owner-occupiers' housing costs

that depending on the scale of changes required in cost to operate External Costs there may be a corresponding impact on internal resourcing required to respond to the change event.

Cost to Change – External Costs. DCC agrees with Ofgem's assessment of where access to uncertainty mechanisms may be required to support cost of change for External Costs. SEC or REC modification proposals may lead to additional costs which have not been foreseen in the submitted business plan, so it is important that additional funding can be accessed to support their timely delivery. Where new regulatory, legal or government policy requirements drive changes to the scope of services offered, which may first be reflected in licence or code changes, it is important that DCC should be able to respond in a timely manner without waiting for the next price control cycle to request funding. As Ofgem identifies, it may also be necessary to provide additional funding to support the delivery of programme changes as assumptions become more mature and delivery of the proposed service is de-risked. Lastly, where DCC has identified estimated costs for new contracted services in the business plan, it may find that actual rates offered by tenderers differ from those assumptions and the delta in cost would need to be addressed in-period.

Cost to Change – Internal Costs. DCC agrees with Ofgem's assessment that internal costs may need to adjust to corresponding changes in the external service cost base, where internal co-ordination and oversight of the changes is required.

Ofgem's Uncertainty Mechanism Proposals

Ofgem sets out proposals for three types of uncertainty mechanisms to address the factors which may drive cost change in-period and the types of cost affected – an automatic adjustment mechanism, an end of year re-opener and an emergency re-opener.

Ofgem's proposed automatic adjustment mechanism appears to be a blend of three different types of uncertainty mechanism:

- Indexation – Ofgem indicates that where DCC can provide evidence of a different indexation to CPIH in its contracts then these will be included in automatic adjustment arrangements.
- Passthrough – Ofgem indicates that passthrough costs over which DCC has no control, and which must be recovered in full, should be included.
- Volume-Driver – Ofgem indicates that it will include pre-agreed volume-sensitive costs where a unit price and a link to a specific factor can be determined.

Indexation. DCC welcomes the proposal to include inflation indexation where a different inflation rate to CPIH is included in its contracts. DCC has multiple contracts which operate on CPI or RPI[15] indexation rather than CPIH. DCC has sent information on the contracts which operate under different indexation arrangements to CPIH under separate cover to Ofgem. It is important to note that the effective date from which indexation applies varies by contract, which will need to be considered in establishing automatic adjustment arrangements.

Passthrough Costs. Under the current ex post price control arrangements, the following costs are categorised as Passthrough Costs:

- Licensee fee paid by the Licensee
- Payments to Alt Han Company
- Payments by the Licensee to SECCo Ltd.

[15] Retail Price Index

Collectively these costs were £29.9m in RY23/24 but they are expected to increase in future years as Alt Han Company and SECCo Ltd administrative costs increase.

DCC has also been in discussions with DESNZ about future charging for the fitting of 4G communication hubs to replace 2G/3G hubs ahead of 2G/3G sunsetting. DCC's understanding is that DESNZ's preference is for these costs to be classed as passthrough costs as DCC will have no control over the fitting process. DCC agrees with this classification and would welcome confirmation from Ofgem that it intends they should be classified this way in the ex ante RIGS template.

Currently, DCC incurs fixed communication hub charges on behalf of suppliers, which are categorised as External Costs. As with the communication hub fitting charge, DCC has no control over these costs. DCC proposes that these costs should also be considered as a candidate for reclassification to passthrough costs. If Ofgem chooses not to classify communication hub charges as passthrough costs, it will be important that they are classified as volume-sensitive costs over which DCC has no control and funded through the volume driver mechanism.

Volume drivers. DCC's welcomes Ofgem's proposals to include volume-sensitive costs in the automatic adjustment mechanism, which is important for both DCC and customers in addressing forecasting risk on volatile costs which are driven by changes in demand.

Volume variation in DCC's service delivery model occurs in the following principal areas:

- Numbers of meters installed
- Number of communication hubs on the network
- Number of messages to/from smart meters
- Size of messages to/from smart meters
- Incident / service request volumes related to service desk provision
- Numbers of users of software licences
- Cloud platform capacity
- Mandatory security/software updates and technology refresh activities where DCC carries the financial risk

DCC addresses this variation through three different types of contracts:

Contract Type	Explanation	Example
Defined Capacity	DCC has paid for a defined capacity and to exceed this we need to invoke a contractual Change Request (CR).	SMETS1 service provided by DXC. If transactions per second exceed a defined capacity, this necessitates additional physical infrastructure and software configuration, for which DCC is required to raise a CR. This type of CR (in simple terms) will increase the system capacity to deal with the traffic volume. Typically, it will have an upfront cost (hardware/ effort) and an enduring uplift in run costs.
Purchased Capacity	DCC has paid for a defined capacity for a set price but can exceed this capacity under pre-	Vodafone IOC/ FOC SMETS 1 contract; whereby, network access charges are charged per SIM. Data usage and SIM bundles are included in the negotiated

Contract Type	Explanation	Example
	specified charging arrangements without a formal contract CR.	price. Usage beyond this allocation is charged at a fixed rate per SMS.
Unit Cost	DCC has secured a price against a specific unit of measure.	Toshiba for communications hubs; Atlassian and NetCompany for software licences.

One variable may have an impact on several contracts. For example, if - due to customer demand - the number of communication hubs increases, it can drive a change in several costs and contracts:

- As part of a unit cost contract for communication hubs, the number of units and therefore costs increase (communication hub unit cost is incurred directly by industry).
- Additional communication hubs increase network traffic both in terms of requests and the volume of data. This might be managed within purchased capacity contracts, or it may result in capacity limits being exceeded and additional costs incurred.
- Network security is supported by physical assets called Hard Security Modules (HSMs) that are located in data centres that protect communications data through various cryptographic functions. Each HSM can handle a maximum amount of traffic, therefore as network traffic increases, it necessitates an increase in the number of HSMs to maintain the same security standards. In this case, a CR is required to be raised against a defined capacity contract to increase the number of HSMs.

Using customer insight and planning assumptions, DCC generates capacity plans on a quarterly basis. These plans enable operational teams and suppliers to undertake impact assessments to determine if the existing capacity in the system is sufficient. Where it is not, then DCC takes action to ensure the system/network is scaled appropriately to ensure frontline service continuity. It should be noted that the accuracy of the capacity plan – and therefore cost variability forecast - is determined by the accuracy of customer forecasting.

It would be helpful for Ofgem to confirm that the automatic adjustment mechanism will in fact constitute use of these three different types of uncertainty mechanism, which will then provide a clear basis for subsequent engagement on the precise details of how they will each operate and the preparation of associated guidance.

It will also be important to understand clearly how Ofgem expects to treat variable costs associated with indexation, passthrough costs and volume sensitive costs when setting the ex ante allowance. Given that the baseline allowance will be reflected in the charging statement, it will be important to ensure that the initial allowances for each of these cost types are realistic. An unrealistically low allowance will merely mean charges will need to be amended quickly. Equally DCC recognises that Ofgem will be conscious of the need to avoid over-funding the baseline allowance.

DCC proposes that in submitting its ex ante costed business plan it should set out realistic costing assumptions for indexation, passthrough costs and volume-sensitive costs, which would be scrutinised by customers through Ofgem's proposed CCG. Assuming the CCG and Ofgem agree these assumptions, Ofgem would provide allowances for the associated cost and there would then need to be appropriate mechanisms in place to adjust allowances and charging in-period.

For instance, on inflation indexation DCC might use the latest CPI or RPI forecast at the point the business plan is submitted to underpin the forecast impact of CPI or RPI-indexation on relevant contracts. For each type of passthrough cost it would set out clear planning assumptions to underpin the forecast costs, as happens in the RIIO ex ante process. For volume-sensitive costs, DCC would set out the forecast volume for each volume-variable cost with evidence to underpin the chosen volume. DCC would also provide sensitivity analysis to provide a range of viable volumes that might be incurred over the course of the price control period. This would enable Ofgem to fund a specific volume in the baseline allowance, with the adjustment mechanism used to adjust the allowance as actual volume data is reported in-period. Ofgem and DCC would need to agree the frequency of reporting on actual volumes.

It is important in an ex ante framework that Ofgem does not completely disallow forecast costs related to volume uncertainty, as a zero upfront variable allowance would in effect mean that DCC is unable to undertake any volume of activity that is not included in the fixed cost base. Agreeing a realistic volume as set out in the business plan and agreed with the CCG provides a basis for funding activity and a sensible charging regime to customers. Should volumes turn out to be higher, the allowance can be adjusted and DCC would adjust customer charging – this might be at the end of the year for the year ahead if DCC is able to remain within its cash healthy range (see question 5) or in-year if not.

DCC welcomes Ofgem's proposals to introduce an end of year re-opener and a separate emergency re-opener process. Our detailed comments on these re-openers are provided in response to question 7.

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?

DCC welcomes Ofgem's intention to put in place an end of year re-opener process to enable adjustments to allowances. DCC requests confirmation that if future price controls are to last for longer than two years the end of year re-opener is made available at the end of every year regulatory year except the last (as requirements for the following year would be addressed through submission of a new business plan).

DCC agrees that all the types of new cost identified as potential triggers for use of the end-of-year re-opener are potentially appropriate but notes that in some cases such as code changes, technological requirements, technical issues and potentially contract award the use of the emergency re-opener may be more appropriate to avoid delays in progressing high priority changes on the network. Likewise, changes in customer requirements which are driven by variations in demand may be best addressed through use of the volume driver in the automatic adjustment mechanism.

DCC is broadly content with the proposed timing of the re-opener process with a set window towards the end of Quarter 3, although it notes the timetable may be challenging on first use given that preparation of the re-opener application is expected to overlap with the Business Transfer to DCC2 (this is covered in more detail under question 16).

The proposal to apply a set window for applications is important, as it enables resourcing to be planned to align to Ofgem's process. As Ofgem will need to consult with the CCG and put its decision on the re-opener application out for consultation, DCC would welcome confirmation that it can complete the whole re-opener process within the proposed three month period; it will be important that additional funding can be allocated at the start of the regulatory year to fund new activity.

To enable a smooth process, it is also important that Ofgem provides comprehensive, structured re-opener guidance alongside the licence, so DCC is clear on the required content and format of the application.

On the basis that contingency funding can be utilised to support initial work related to a re-opener application, DCC is also content with Ofgem's proposal that all re-opener funding should be based on the budgeted approach. This will provide the necessary reassurance to customers that there are firm controls in place for the prior approval of additional funding beyond the allowance funded in the ex ante determination.

The major risk with the end of year re-opener process is that it provides a single annual window for applications for additional funding. While in many instances this should be sufficient to meet requirements, there is the possibility that the re-opener window would be missed for high priority activity, because the need for additional funding is identified, scoped and calculated too late to support an application.

This could potentially be the case for SEC/REC modifications which are released twice annually or where DCC needs to address urgent technological requirements and technical issues. While DCC would always aim to minimise recourse to the emergency re-opener we request that such time-critical activities are considered appropriate for its use where DCC can demonstrate that the end-of year re-opener will not provide additional funding in time to meet delivery expectations. One option, in line with our aim to be a customer responsive business, could be for customers to be able to indicate through the SEC/REC processes whether they would prefer funding being released through the emergency re-opener, so that benefits could be delivered more promptly.

The challenge of timely access to additional funding is compounded by Ofgem's low fungibility proposal (see our comments on question 4) which means there will be less discretion to use available underspend to address urgent, high priority issues such as technological requirements and technical issues. As set out in our response to question 4, DCC's understanding is that it could only access contingency funding if it forecasts to overspend its allowance in total.

Given our timing concerns, the inclusion of an emergency re-opener mechanism is also welcomed by DCC. It will provide scope for the rapid adjustment of funding in the event of an unforeseen challenge which needs to be addressed immediately. DCC agrees that force majeure events should be dealt with using this mechanism, but there may also be a requirement to respond to major technical issues using this facility, such as a major outage on the network or cybersecurity incident. DCC also views it as important that this re-opener could be triggered if a high-priority SEC/REC modification requires funding and the end of year re-opener window is not imminent, or where the requirement for a technological update is notified to DCC too late for it to be included in an end-of-year re-opener but it must proceed quickly. Lastly, there may be instances where quotes on new contracts differ to such a degree from the estimates provided in the ex ante business plan that additional funding must be sought quickly.

The process outlined for triggering the emergency re-opener appears sensible with flexibility to apply at any time across the price control period. DCC welcomes Ofgem's willingness to respond quickly to determine changes to Allowed Revenue in response to an emergency re-opener application, and with rapid decision-making vital to the effective use of this mechanism it will be important that clear guidance is issued on the format and content of the re-opener application so DCC is able to get it right first time.

Lastly, DCC welcomes Ofgem's intent to apply no materiality threshold to either re-opener mechanisms. This is important to avoid potentially high-priority activity being delayed because the necessary funding cannot be accessed and is prudent given there is no reference data from previous re-opener applications to assess. There will be an opportunity to assess whether a materiality threshold would be sensible for future price controls once evidence is gathered from the first price control process.

c. Financial incentives (questions 8-11)

Summary

Not-for-profit for all Authorised Business

- We support all of DCC's Authorised Business under the Successor Licence being on a not-for-profit basis.

Ring-fenced funding

- We support the proposal for DCC to be able to apply for ring-fenced funding to enable development of innovative services as a crucial enabler for DCC providing greater public value (for example in addressing fuel poverty through the use of smart meter date).
- On commercial services, DCC's view is that using the DCC network for third party benefit should only be considered if they do not put at risk core service delivery, and demonstrably provide a net overall benefit to DCC customers.

Efficiency Incentives

- We support the removal of the current ECGS mechanism and its replacement with an open-ended efficiency incentive applying to both internal and external costs as part of a balanced scorecard for financial incentives on staff; we would be open to this incentive being introduced for the first ex ante cycle, sooner than Ofgem are currently considering.

Other Incentives

- We support customer satisfaction and performance and delivery measures being part of the Targeted Incentive Model.
- We recognise Ofgem's decision to introduce Business Planning and Cost Management incentives; we think further work is needed on the Cost Management measure to avoid unintended consequences.
- We note and agree Ofgem's intention to withdraw the contracting incentive and instead set expectations that the DCC Board will follow up on required actions.
- We would be supportive of the continuation of a switching incentive as part of the targeted incentive model.
- We note that the current lack of incentives for programme management is a gap in the framework for the Successor Licensee and that there is a need to ensure stakeholder alignment on whether there should be programme management incentives, and if so their nature.
- We welcome Ofgem's recognition that it would not be appropriate for Ofgem to set DCC's remuneration policy, which should remain the role of the Remuneration Committee.

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

We strongly support the consultation proposal that all DCC's Authorised Business under the Successor Licence should be carried out on a not-for-profit basis.

While, in principle, both for-profit and not-for-profit regulatory regimes can deliver good outcomes for customers and consumers, we agree that a part for-profit and part not-for-profit arrangement would create misaligned incentives that would not be conducive to achieving good outcomes for customers and consumers.

We therefore confirm the position that we have previously advocated in our engagement with stakeholders that DCC2 should operate on a fully not-for-profit basis for all Authorised Business.

We agree that consequently the Baseline Margin mechanism should not be included in the Successor Licence – including removing the Baseline Margin and Baseline Margin Performance Adjustment terms from the Allowed Revenue formula, and the Baseline Margin Adjustment and Baseline Margin Performance Adjustment conditions.

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?

We welcome the opportunity to comment on this question in advance of Ofgem providing further details of its thinking in the forthcoming consultation on the Future Role of DCC.

In our view, it would be helpful to consider 'commercial services' and 'innovative services' separately, rather than together, as they are likely to raise different issues. We first consider innovative services, and then turn to commercial services.

a) Innovative services

We are conscious that the phrase 'innovative services' could be interpreted in different ways. In the context of a purpose-driven DCC, we are interpreting it as relating to new or additional services with the primary purpose of delivering public policy objectives; for example, accelerating and de-risking delivery of Net Zero and helping to address fuel poverty and vulnerability. We strongly believe that there is potential for greater public value to be extracted from the smart metering network, smart meter data and the DCC in support of these or other Government and regulatory policy objectives such as growth.

However, this potential is highly unlikely to be realised without exploratory and development work – and DCC having access to appropriate funding is a pre-requisite for this. Indeed, recent experience has demonstrated that 'seed' funding is inevitably required to explore and develop propositions with the potential to deliver greater public value. Three examples of this are set out below.

1. Addressing fuel poverty through using smart meter system data

Over the past two years, rapid increases in energy prices have contributed to an unprecedented cost of living crisis and increase in fuel poverty. New measures and services have arisen in response, but their reach and impact remain insufficient. Government policy strongly advocates using data to better identify and target groups and individuals in need of support to improve consumer outcomes.

In response, DCC has been working to increase access to smart meter 'System Data[16]' to help improve the identification of fuel-poor households and enable targeted support to households most in need. Anonymised smart meter system data relating to pre-payment meter transactions, low credit alerts, emergency credits, and self-disconnections can help identify fuel poor households more cost-effectively and improve the overall deployment of fuel poverty support schemes.

DCC previously shared smart metering system data as part of a project to support fuel poor households through data integration and AI, funded by Innovate UK through Ofgem's Modernising Energy Data Applications (MEDApps) competition[17]. This, first of a kind, project involved using data from cross-sectoral sources to develop an algorithmic model aimed at identifying geographic areas

[16] System data is meta data about the transactions that take place over the network – for example the number of pre-payment meter transactions - as opposed to the value of the transactions themselves
[17] UKRI announces net zero-driven energy data application winners – UKRI

at greatest risk of fuel poverty. Hidden pockets of fuel poverty were identified, enabling better targeted support and improving the uptake of energy efficiency schemes.

With Ofgem approval[18] and support from several energy suppliers, we are now collaborating with diverse organisations, including charities, universities and local authorities, who will use anonymised smart meter system data in carefully controlled ways to improve the accuracy and efficacy of fuel poverty intervention schemes.

Key activities carried out by DCC in this initiative include a data privacy impact assessment and developing robust licencing of data access, curation and anonymisation of data, technical advice and stakeholder engagement. Activities have been funded through our participation in projects funded by Innovate UK (MEDApps) and Ofgem's Strategic Innovation Fund.

2. Automatic Asset Registration

The transition to Net Zero will require the rapid uptake of Low Carbon Technologies (LCTs) such as solar photovoltaic systems, battery storage and heat pumps – this creates both opportunities and risks for the energy system. One challenge is a lack of visibility of LCT assets, which creates difficulties with grid management and investment planning for Distribution Network Operators and other stakeholders.

To help overcome this challenge, DCC was funded in 2022 to join a consortium of industry partners led by an Australian technology provider GreenSync and the Energy Systems Catapult as part of Phase 1 (feasibility study) of the Automatic Asset Registration Programme. The Programme has now completed Phase 2 (solution development) with Phase 3 (further development and stakeholder consultation) underway and concluding in March 2025.

The proposed solution will enable LCTs to be securely and automatically registered and data about those assets and their performance to be passed between market participants. A Central Asset Register will store the relevant data related to a registered LCT, with data made available to industry to support a wide range of use cases.

The capabilities and requirements needed to operate a GB-wide Central Asset Register have many similarities with DCC's operation of the smart metering system, including security, technical operations, procurement, cost recovery and the regulatory environment.

A key role for DCC during the innovation project has been to provide advice across these areas, as well as exploring how best to incorporate Retail Energy Location address and Meter Point Administration Number (MPAN) datasets into the solution. DCC has also consulted with stakeholders across industry to determine their use cases and requirements for a Central Asset Register of LCTs. We are now working with project partners and industry stakeholders to establish how best to transition from the proof of concept to a live service.

3. Consumer Consent Solution

We recognise that improving transparency and confidence for consumers in engaging with new services that require access to their data, including smart meter data, will help improve uptake and deliver better outcomes for consumers. DCC has been supportive of Ofgem's intention to enable the development of a consumer consent solution.

[18] Consent granted to DCC under Conditions 9 and 10 of the Smart Meter Communication Licence, and Section M4.3 of the Smart Energy Code - August 2023 | Ofgem

In consulting on this, Ofgem acknowledged that Smart DCC is likely to be involved in the consent solution. We identified that our involvement will be significant given the need to ensure data integrity and security, underscored by the complexity of the smart metering infrastructure.

Having been named by Ofgem as a potential delivery body, we have supported this initiative by undertaking work as requested, including developing an outline proposal including vision, consumer journey considerations and a potential implementation approach. We are now developing outline costings for a minimum viable product.

DCC has delivered this activity at Ofgem's request with input and resources from its core business but without a formal mandate from Ofgem to do so. With appropriate innovation funding and a clearer mandate, DCC could provide effective and more comprehensive support to this type of innovation. This would provide greater clarity for our customers on the scope and cost of our involvement and offer Ofgem an effective mechanism through which we can support – and Ofgem could encourage us to support – early-stage activities.

These examples demonstrate the potential to provide greater public value from smart metering data, the network and DCC's capabilities. However, we note that while it has been possible to make some progress towards realising this potential under the current arrangements, the current framework has constrained the degree and pace at which additional public value propositions can be developed. Much of our work to develop greater public value has had to be undertaken through competitively securing innovation funding from the Government and Ofgem. While we envisage this source of funding will continue to make an important contribution, reliance on this as the main mechanism to take forward activity to deliver greater public value through innovation has meant we have not made as much or as rapid progress as we could have done.

This is for several reasons. Firstly, it has restricted activities to the scope set by the funders of a specific challenge or requirement, rather than enabling DCC to pursue opportunities we can see through our insights as having the potential to benefit consumers and industry. In addition, many Government-sponsored innovation projects require matched funding, which we have been unable to provide, and we have been unable to lead innovation funding bids. For example, DCC was recently asked to participate as a full partner in the 'Accelerating Trustworthy AI programme', but in the absence of a ring-fenced fund such as proposed in the consultation we were unable to do so as the maximum funding from Government was capped at 70% of total project costs. An additional constraint has been that the scale of funding that we are able to bring in has been restricted to less than £500k/year. This is because the current licence structure does not contain a suitable mechanism for incoming revenue of this type. Whilst we have managed to navigate this with support from Ofgem through use of the Minimal Services mechanism, the turnover threshold - whilst sufficient for initial feasibility studies - does not cover opportunities to scale up services to provide greater benefit.

In the future ex ante framework, we see appropriately flexible access to funding for innovative services as a crucial enabler to unlocking the potential to provide greater public value. We therefore strongly support the proposal for DCC to be able to seek funding for exploratory work for innovative services, and to enable DCC to identify, bid for and provide the matched funding needed to fully participate in Government-sponsored innovation projects, through a ringfenced budget in the business plan.

We recognise that customer support for a ring-fenced fund would be required through the business planning process. Through the costed ex ante business plan, DCC would look to propose areas for exploration and development, and the intended policy outcomes, and seek feedback from the CCG.

If a ring-fenced allowance was awarded, DCC would commit to providing regular updates on how funding was being utilised, setting out the benefits to customers and consumers. It is highly likely that the process of exploring and developing innovative services will identify ways to deliver the intended outcomes more effectively, so to maximise public value, DCC would need to retain flexibility to adapt how funding was used.

If innovative services developed in this way demonstrated that they could provide public value efficiently and effectively, government or Ofgem could then consider whether they should become mandated services (i.e. Additional Mandatory Business services) in the future. This may require more substantial funding to develop a proposition that would work at scale; in this case we would anticipate developing a business case to demonstrate customer benefits and seek additional funding through the appropriate mechanism.

In developing the policy framework for a ring-fenced fund to support the development of innovative services, Ofgem may wish to draw on lessons from existing mechanisms such as the Network Innovation Allowance available to network companies through the RIIO price control framework. Such mechanisms enable a relatively modest allowance (for example 0.3% of allowed revenue in the RIIO ED2 Final Determinations) that can be spent flexibly on innovation projects that meet defined criteria, which could include having the potential to facilitate the energy system transition and/or benefit consumers in vulnerable situations.

We also note that while funding for the development of innovative services is a critical enabler, a supportive regulatory environment for innovation is also important. This could, for example, involve the use of ‘regulatory sandboxes’ to trial and test innovative propositions.

A further point related to innovation that Ofgem may wish to consider is the future of Elective Communication Services (ECS). The current ECS mechanism enables innovation and supports the creation of new products and services by allowing an individual DCC customer (or prospective customer) to request the development of new message types for their exclusive benefit for an initial period. Development costs are recovered from the requesting customer, with contributions from any subsequent customers wishing to use the new service after the initial period of exclusivity.

Our view is that a mechanism like ECS in the Successor Licence could be an important driver of innovation for the benefit of consumers. However, as the current ECS mechanism has had limited uptake to date, it would be appropriate to consider whether the details of the mechanism should be revised. For example, consideration could be given to broadening the scope of the mechanism beyond new message types, and to extending the period of exclusivity beyond the current six months to make the mechanism more attractive to customers.

For the avoidance of doubt, if an ECS mechanism were included in the Successor Licence, our view is that it should be operated by DCC on a not-for-profit basis, as with all other aspects of Authorised Business.

b) Commercial services

The term ‘commercial services’ could be subject to different interpretations. For the purposes of this response, we interpret it as relating to services where the primary motivation is financial gain.

Firstly, we reiterate our view that under the Successor Licence, DCC should operate on a fully not-for-profit basis, and therefore should not be delivering services for the financial benefit of DCC. However, if as suggested in the consultation, the proceeds from any commercially viable services flowed back to DCC’s customers, then commercial services for the financial benefit of third parties might be in the interests of DCC customers (and ultimately consumers) by reducing the net cost to DCC customers of mandatory services - provided that those proceeds exceeded all DCC costs associated with the provision of those services, including any development costs.

We would though urge some caution in considering the potential for the DCC network to be used for the delivery of commercial services for the benefit of third parties. The fundamental purpose of the network will remain the reliable, secure and efficient delivery of core mandatory services. This should not be compromised by any potential commercial services, either through competition for network capacity or loss of management/operational focus.

A further point to consider is which party funds the development costs that are likely to be needed for viable commercial services. One option would be for DCC customers to request that DCC funds development costs via the ring-fenced fund envisaged in the consultation. This would require DCC customers to be reasonably confident that providing development funding has a realistic prospect of providing them with a net overall benefit.

An alternative, as suggested in the consultation, is allowing a (commercial) third-party investor to fund (or co-fund) the development of services. However, a commercially motivated third-party investor would legitimately expect an appropriate risk-adjusted return on their investment, which would reduce the potential net overall benefit to DCC customers. Additional caution may be appropriate if a third-party investor is a shareholder in DCC, given the potential risk of shareholder investment to develop commercial services inappropriately influencing DCC's decision-making and diverting management and operational focus away from core mandatory business.

In our view, commercial services using the DCC network for third party benefit should only be considered if they do not put at risk core service delivery, and demonstrably provide a net overall benefit to DCC customers.

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?

We have set out our views on this question below, taking each aspect in turn.

a. ECGS mechanism

Although the current ECGS mechanism has provided substantial benefits to customers, we agree with Ofgem's proposal to remove it. As Ofgem noted in the RY23/24 ex post Draft Determination, DCC has secured cost reductions of £276.7m through the ECGS from savings in Fundamental Service Provider contracts, Communications Hubs financing and DCC's test labs between RY15/16 and RY23/24, but we recognise that the current ECGS mechanism does not translate well into a not-for-profit model.

We do though believe that as a matter of principle it is important for our customers and consumers that DCC should be incentivised to continually seek cost efficiencies. Our view is that ECGS should be replaced with a mechanism that incentivises DCC to seek savings across all its activities, over and above those incorporated into the approved business plan. A key question is when such an incentive should be introduced, and we provide further comments on this below.

b. Considerations for open-ended or stretch efficiency targets for a future cost control cycle

As a matter of regulatory principle, our view is that it would be appropriate for DCC to have an ongoing incentive to seek efficiency savings across all its activities, including both internal and external costs.

Through the business planning process, DCC will challenge itself to become more efficient. Even after the conclusion of the ex ante determination process, we will still seek to identify further measures that were not included in the business plan which could result in cost savings. We anticipate our customers will also expect to see cost efficiencies beyond those in the business plan, as is the case in the RIIO framework.

Our view is that at this stage, an open-ended efficiency incentive would be more appropriate than a pre-defined stretch target, because of the difficulty Ofgem notes in appropriately calibrating a pre-defined target when there is no track record of DCC operating under an ex ante framework – a difficulty heightened by DCC2 inheriting a business plan produced by DCC1. A mis-calibrated target would risk unintended consequences – either having little impact by not being sufficiently stretching, or if too stringent placing DCC2 under excessive pressure to reduce costs, putting at risk current and future delivery for customers.

We therefore would support Ofgem's option C to introduce open-ended targets for both external and internal costs.

We agree that if efficiency incentives are applied in the not-for-profit model these incentives could be implemented as a financial incentive on senior management and staff. We comment more specifically on the targeted incentive model in response to Question 11. In that situation, it would be important to ensure that financial incentives on staff are set on a 'balanced scorecard' basis, with achievement of cost savings balanced with other organisational objectives. We would therefore support option C2 for both external and internal costs.

We would not support option C1 (or the corresponding option B1), which would involve the ringfencing of a small portion of savings to be distributed among eligible employees in the form of a bonus or otherwise reinvested in the organisation for the benefit of the employees at the discretion of the Board. As noted in the consultation, this could result in disproportionate focus on cost cutting at the expense of quality of service, which would go against a balanced scorecard approach.

c. What other mechanisms or approaches could be effective to drive cost efficiencies?

If Ofgem and stakeholders agree with our view that it is in principle right that DCC should have an ongoing efficiency incentive, then a key question is when this incentive should be introduced.

We recognise that there is a regulatory judgement to be made on whether to introduce efficiency incentives within the first ex ante price control cycle, which would mean DCC2 inheriting targets it had not been involved in developing. The alternative would be to defer their introduction to the second ex ante price control cycle, for which DCC2 would be fully responsible.

We would however be open to an ongoing efficiency incentive being introduced sooner than Ofgem are proposing, for example to take effect from April 2027, to provide the benefits to customers of this incentive sooner. As noted in our response to Question 11, if this is taken forward, careful consideration will be needed on how to ensure this operated coherently alongside a cost management incentive.

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?

In responding to this consultation question, we have taken into account the decisions Ofgem published on 17 January 2025 on the DCC Review Phase 2 Governance arrangements[19]. In this decision, Ofgem confirmed that a targeted incentive model would be introduced for DCC's executives and staff to link reputational incentives and financial incentives.

We welcome Ofgem's recognition that it would not be appropriate for Ofgem to set DCC's remuneration policy, which should remain the responsibility of the Remuneration Committee, subject to the requirement for DCC to submit the remuneration policy to Ofgem for approval. We would though welcome clarity from Ofgem on whether it is likely to have a view on the relative importance, and therefore weighting, of component parts of the target incentive model, or whether Ofgem views this as a matter for DCC's Remuneration Committee.

An overarching observation is that regardless of which specific measures are included in the overall incentive package, there is a strong need for careful calibration of targets for the first ex ante price control cycle. This will be crucial to mitigate the risk of unintended consequences from incentives either not being sufficiently stretching or being overly stringent.

[19] DCC Review Phase 2: Governance arrangements - conclusions | Ofgem

Regarding the measures to be considered as part of a targeted incentive model, we comment in the order covered in the consultation document.

Customer Satisfaction

We agree with the proposal to include customer satisfaction as a measure, and we welcome the governance consultation decision[20] that the current OPR Customer Engagement measure will be reformed into a broader customer satisfaction survey to be carried out at least once every two regulatory years with assurance from an independent third party. We also recognise the importance of acting in a timely manner on feedback from this survey and commit to doing so.

Whilst we recognise that Ofgem is proposing that the regulatory measure would not take effect until the second regulatory year following the Business Transfer Date, we have already been developing thinking on customer satisfaction surveys – both to gain actionable feedback from our customers and to provide insights into the future development of the regulatory measure. In February 2025, we are launching a pilot survey, which will include questions on both Customer Satisfaction and Net Promoter Score. We have been pleased by the interest from our customers in participating in this survey, which is on an entirely voluntary basis; customers have been engaged through subcommittees, bilateral discussions, and monthly service reviews. The pilot phase will run until August 2025 and will be used to develop and refine our approach, working closely with customers. We will keep Ofgem updated on the progress of the pilot and share insights we gain from it, which we hope will be helpful for development of the regulatory measure.

Performance and Delivery

We also agree with the proposal to include performance and delivery measures, and we welcome Ofgem's corresponding decision in the governance consultation decision[21]. These measures are important for our customers and are integral in incentivising DCC to continue to deliver a high-quality service.

In considering future performance and delivery measures, it is important to note that DCC can only be performance managed against measures that are fully within DCC's control to achieve, which Ofgem has recognised in response to changes to the systems aspect of the OPR.

We have also been working closely with our customers in developing a new suite of success-based customer journey performance measures through MP242[22] and understanding which of the business processes are most important to them. This process is providing a valuable steer in understanding what measures could form part of an enduring performance and delivery scheme in the future and we will continue to keep Ofgem updated on this work as it progresses.

Business planning and cost management

We note that in the governance consultation decision[23] Ofgem confirmed that it would be proceeding with incentives linked to DCC's production and delivery of the ex ante business plan. In this consultation Ofgem proposes that the business planning incentive should take effect from DCC2's submission of its first business plan for the period from April 2028, and the cost management incentive should take effect from April 2027.

We agree that these measures should only take effect for DCC2 and should not apply to DCC1, given the overall principle that DCC1's incentive framework should remain unchanged for the remainder of its time operating the Authorised Business.

[20] DCC Review Phase 2: Governance arrangements - conclusions | Ofgem
[21] Ibid.
[22] MP 242 Change to Operational Metrics to Measure on Success - Smart Energy Code
[23] Ibid.

In relation to DCC2, while we have previously expressed doubts about the additional value provided by these specific incentive measures, we recognise that a factor underlying Ofgem's decision to proceed is that we have not yet been able to provide Ofgem and stakeholders with full confidence in DCC's ability to produce a business plan that is of good quality with robust cost forecasts, and that DCC is capable of managing its budget and delivering to an agreed business plan.

In this context, we commit to working constructively with Ofgem and stakeholders to build this confidence, reducing the perceived need in the future for these specific incentive measures – which we suggest are best viewed as being transitional measures related to the introduction and bedding in of the new ex ante framework, but not necessarily enduring features of that framework.

For a business planning incentive for DCC2's first ex ante business plan to be impactful, there will need to be clarity in the Business Planning Guidance for the second business plan cycle on Ofgem's expectations for a good business plan; this should incorporate learning points from the first ex ante business plan cycle.

Regarding a cost management incentive to apply to DCC2 from 2027/28, we welcome Ofgem's intention (set out in the governance consultation decision) that this mechanism would not be unduly burdensome and that it would not involve DCC publishing revisions of indicative charging statements or 3-year budgets every three months.

We do though see a risk in assessing and directly incentivising financial performance against approved business plan budgets on a quarterly basis, which might inadvertently lead to a narrow management focus on outturn spend matching budgets rather than on taking the appropriate management decisions to ensure good 'in the round' outcomes for customers and consumers. These appropriate management decisions to deliver positive customer outcomes may involve an in-year, or even between year, departure from the business plan forecasts to rephase or reprioritise delivery (either bringing activity forwards or backwards) in the light of new information or customer preferences.

We agree with Ofgem's expectations set out in the governance consultation decision that if DCC identifies a risk of overspend, it should proactively engage customers on the associated trade-offs (for example, descoping or delaying an activity versus applying for additional funding) and we will consider further the appropriate way to do this.

In light of these points, the detailed design of the cost management incentive will need care to mitigate the risk of unintended consequences from a mechanistically applied incentive comparing outturn financial performance against budget. We would welcome the opportunity to work with Ofgem and customers on the detailed design of this incentive. To support this, we will develop further thinking to share with Ofgem and customers on how unintended consequences could be avoided while supporting Ofgem's aim to incentivise DCC not to exceed the approved budget without a strong justification. We will also consider how it should align with the uncertainty mechanisms in the ex ante framework.

Contract management

We agree with the removal of contract management from the target financial incentive mechanism and for the DCC Board to be responsible for actioning the audit findings and follow up activities.

Switching Incentive

We note that Ofgem has suggested the switching incentive regime could be included in the targeted incentive model. DCC is supportive of the continuation of incentives relating to DCC's operation of the switching service and would welcome further information on how this could be included and measured.

Other areas to consider for incentives

Efficiency Incentives

As we have noted in our answer to Question 10, we can see a principled argument for including an open-ended efficiency incentive for DCC2 in the first ex ante price control cycle, rather than delaying such an incentive to the second cycle, to provide an incentive for DCC2 to seek additional efficiencies above and beyond the approved business plan as soon as it had operational control of DCC.

If ongoing efficiency incentives were brought forward to the first ex ante price control cycle (for example, taking effect from 2027/28), then careful thought would be needed on how this should sit alongside a cost management incentive. If both mechanisms apply simultaneously, then care would be needed to avoid unintended consequences and to ensure that together they coherently incentivise good outcomes for customers and consumers.

Programme-based incentives

We note that neither the current consultation nor the governance consultation decision refers to programme-based incentives for DCC2 – these are currently a significant component of DCC's overall incentivisation package.

Although we recognise that the move to a not-for-profit framework means that the current mechanisms would not be appropriate for DCC2, the lack of incentives directly related to major programmes would appear to be a gap in the current framework for DCC2; we are conscious of current discussions involving DESNZ regarding potential incentivisation of programmes which will extend beyond the Business Transfer Date. Whatever the outcome on this point, it will be important to achieve stakeholder alignment so that DCC2 is clear on the expectations it is being incentivised to deliver and that all incentives are compatible with the not-for-profit framework under which financial penalty-based incentives are not possible.

d. Customer engagement (questions 12-15)

Summary

Establishment of Customer Challenge Group

- DCC supports the principle of establishing a customer group as we recognise the benefit of expert input and scrutiny to ensure we develop the best possible plan to deliver the needs of our customers.
- We would recommend Ofgem establishes a group in line with Option B in the consultation which would align to the established Customer Engagement Group (CEG)/ISG model used in other regulated utilities, rather than establishing a Challenge Group (Option C) – a model which is no longer used in RIIO.
- It will be essential to clearly set the work of the group in the overall context of DCC's broader customer engagement so that its work complements, rather than duplicates, activity that takes place in other fora. A review of DCC's current customer engagement landscape as part of the design work for the group would be beneficial.

Group Membership

- DCC would support a core member-only approach with a suitable balance between customers and subject matter experts who are able to review how DCC intends to conduct its business. This will support understanding of the business plan, and the timeliness and quality of feedback to DCC.
- Given the outputs the Group is expected to deliver through to the end of 2026, it will be important to ensure stability of membership throughout the whole period.

Scope of the Group

- DCC supports the high-level areas of focus but believes it is important not to overly focus on cost to the detriment of other aspects.
- It will be important to define the level of scrutiny the Group is expected to carry out, and to ensure the Group does not replicate customer engagement activity that DCC will already have conducted.
- As with ISGs in other sectors, DCC would welcome the ability to develop direct senior engagement with the Group to deliver customer insight, strong feedback processes and foster an open working relationship.

Outputs

- DCC supports the proposal for the Group to produce a report on DCC's business plan, and agrees that the Group should review Ofgem's Draft Determination and potentially review DCC's re-opener application.

Evaluation

- Regardless of Ofgem's confirmed approach, we would recommend that the effectiveness of the chosen model is reviewed following delivery of the Final Determination. This would provide an opportunity to reflect on any lessons and adapt the approach taken on customer engagement activity for the second ex ante business plan, which is likely to start in the second half of 2026.

DCC prioritises customer input to our planning and decision-making as evidenced by consistent improvement in DCC's customer engagement scores in recent years[24]. DCC currently delivers extensive engagement on a broad range of matters impacting customers across the full lifecycle of our services. As part of this, DCC runs a specific annual process for gathering customer feedback to support development of its Business Development Plan through an early engagement workshop at the beginning of the process, which is followed by formal consultation period in May ahead of publishing the new plan each July.

We recognise the gaps in customer engagement identified by Ofgem and support the need for greater visibility for our customers of DCC's internal cost drivers, which we will address through our enhanced engagement process to develop the ex ante business plan.

DCC acknowledges the rationale for setting up a customer group to review its business plan, but it will be important to ensure the approach taken recognises the context for the Group's work:

- There are already multiple fora in which DCC engages customers on its plans, and it is important that the new customer group is established in a way which delivers a more coherent overall approach to customer engagement. We would recommend DCC's current customer engagement landscape is reviewed as part of the design work for any additional group. For example, the establishment of the Customer Group, a separate SEC Finance sub-committee and the continued running of DCC's Quarterly Finance Forum could result in overlap of information being requested by each group and a lack of clarity of the role and decision rights of each group.
- DCC is itself planning to undertake extensive customer engagement to support development of its business plan so the group's work should complement this activity, rather than duplicate it.
- Enhanced engagement will provide greater transparency of DCC's plans and costs but there will be limitations to the level of cost certainty that DCC can provide owing to the inherent risk associated with ex ante forecasting.

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?

As Ofgem recognises in the consultation, there are different ways to improve the level of customer engagement currently offered by DCC to support development and scrutiny of DCC's ex ante business plan, and each offers potential strengths and drawbacks.

DCC supports the proposal to set up a customer group but our preference would be for a similar model to Option B in the consultation, which would establish a group along the lines of a CEG or ISG as seen in RIIO price controls for network companies. We believe this would offer benefits that would not be delivered by Ofgem's preferred approach of setting up a CCG (Option C).

As noted in the consultation, Option B draws upon a tried and tested approach from other parts of the energy sector which ensures customer feedback is gathered, assessed and business plans scrutinised. By following an established, rather than bespoke, approach it would bring benefits in ease of understanding of the Group's purpose for all involved. It would also be possible to build on experience from other groups which already fulfil this role, providing the opportunity to learn from their processes to develop the Group's workplan. In so doing, it would potentially speed up the establishment and onboarding of the Group and create an effective plan to deliver the challenge and scrutiny DCC's business plan will require.

Critically, because the Group's role would be focused on advising the company's Executive and Board, it would fill a strategic gap in DCC's customer engagement and would create an open environment in which DCC could share the challenges it is facing and receive feedback from an independent group to help strengthen its plan. This 'critical friend' function is a key benefit that is not delivered by an 'auditor' type

[24] DCC Price control Decision: RY2020/21; DCC Price Control Decision Regulatory Year 2021/22 | Ofgem; DCC Price Control decision: regulatory year 2022 to 2023 | Ofgem

role reporting to Ofgem that the now-disbanded RIIO Challenge Group played, and which Ofgem is now proposing for DCC.

We do however recognise that with the tight timetable Ofgem is working to, a pragmatic approach may be required for the establishment of the first iteration of a representative customer group, and we will work within whichever model Ofgem chooses for this first ex ante business plan review process.

Whether Ofgem confirms its intention to proceed with a CCG model or the alternative ISG approach, we would recommend that the effectiveness of the chosen model is reviewed following delivery of the Final Determination. This would provide an opportunity to reflect on any lessons and adapt the approach taken to customer engagement activity for the second ex ante business plan, which will likely start in the second half of 2026 under Ofgem's current implementation assumptions.

We would also highlight that in the event SECCo seeks to bid to become the Successor Licensee for the Smart Meter Communication Licence, as is contemplated in the recent consultation by DESNZ[25], visibility of DCC's proposed business plan between July and October 2025 would create a conflict of interest scenario should the search for a Successor Licensee progress through a competitive process. This conflict of interest would need to be managed by Ofgem.

If the Group is set up under the SEC, a clear distinction should also be made between the role of the Group and the role of SEC Panel, its other sub-committees and SECCo Board.

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

DCC would expect the membership of the customer group to align to the purpose and role that it is expected to fill. Customer representation will ensure that the group is able to review whether the business plan meets customer requirements and allow informed discussion of potential trade-offs within the plan. However, more specialist skills are likely to be required where the group is expected to scrutinise the detail of how outputs are to be delivered, including economic regulation, cost scrutiny, contract management and procurement. It is important therefore that the proposed terms of reference for the group are agreed swiftly so the composition of the group can be aligned to the intended outputs.

It is helpful to review lessons from other parts of the energy sector where customer groups have been established. In the CEG/ISG model that is used in the RIIO price controls, a review of a sample of current terms of reference indicates that most of these groups employ a core member-only approach, with expertise drawn from key areas relevant to the business plan being scrutinised, as well as customer representation.

We believe a core member-only approach would provide greater depth of understanding, and consistency of voice within the group. The challenge with a blended core and non-core membership model is that some members would develop a greater understanding of the business plan, with others potentially struggling to understand the context within which their input is requested. This runs the risk of a membership hierarchy developing which could unduly influence the Group narrative, with specialist knowledge potentially not being given due account in the Group's deliberations. It is also more likely that relevant expertise would be available when required if it is included in the core membership, rather than needing to be sourced on an ad hoc basis. These factors are all particularly important for a group which is expected to be asked to operate for an intense, short period of time (e.g. three-month scrutiny period), and which requires deep understanding to effectively discharge its responsibilities (e.g. assessing forecast cost or re-opener applications).

[25] DESNZ – Consultation on modifications to the DCC Licence and the SEC to provide for a SECCo subsidiary that could seek to become the successor DCC Licence holder - Smart Energy Code

The current core membership is proposed to be DCC customers only, with additional experts as non-core. Whilst DCC recognise the importance of gaining direct feedback from our customers, and already do so through our current engagement approach, we believe expert input to enable thorough, informed scrutiny of our business plan is critical to the Group's success. This expertise should be held within the core membership of the Group. We believe some of the expertise required could be drawn from DCC's customer base, but we expect other areas of expertise, such as regulatory economics and cyber security may need to be drawn from outside the customer base. To ensure the Group membership collectively holds the required skills, experience and expertise, we suggest these requirements are documented to inform the recruitment of Group members.

An alternative approach in which the input of non-core expert membership is at the discretion of the Chair risks expert input not being sought or limited in its scope and impact. For example, experts in economic analysis are likely to be required to conduct the level of cost scrutiny outlined in paragraph 5.35 of the consultation. We believe such expertise would be critical to effective scrutiny of the plan, and proposals to draw this from non-core membership risks there being insufficient capability within the Group to support Ofgem in assuring the baseline level of costs to be approved for the price control period.

With respect to customer representation, large energy supplier representation is currently weighted more heavily (three representatives) than Distribution Network Operators, small suppliers and Other Users who are each proposed to have one representative, with the option to operate on a rota basis. We remain concerned that this will limit diversity of viewpoints within the Group and may not reflect the evolving distribution of network use across customer groups. We recommend Ofgem considers balancing the representation across each customer segment and add experts from relevant disciplines to the core membership. It is also an opportunity to draw on wider expertise from outside the core customer base including academia and consumer representative bodies.

We recommend Ofgem removes the option of representation by rota which will hinder the Group's speed of work and disrupt the development of a shared understanding of the business plan. At any time, but particularly when planning for highly intensive activity in a three-month period encompassing the Summer holiday season, consistency of members is critical to avoid time wasted on revisiting initial briefings or previous discussions. Whilst we recognise the option of rota-based representation may be an attempt to lessen the burden on organisations, we feel strongly that this risks the efficiency and effectiveness of the Group - an issue highlighted in feedback on the RIIO-2 CCG which noted the "importance of all members dedicating sufficient time and resource to engage in the process" [26].

DCC would support a model in which members remain unchanged as a minimum for the initial business plan review, and they should confirm their time commitment for the three month period (July to September) at the point they are elected. This would increase the likelihood of a well-informed, highly credible Group able to provide real challenge and high value feedback on DCCs business plan.

Ofgem indicates the Group will be asked to respond to its Draft Determination on DCC's business plan, as well as a role in reviewing any re-opener application from DCC during the price control period. This implies the Group will need to be able to operate between July 2025 and Quarter 1 2027 as a minimum. It will be important for the Group to retain consistency of membership through these phases so it can provide high-quality advice to Ofgem and avoid the need to engage in time-consuming onboarding processes ahead of each new set of outputs owing to frequent changes in membership.

Question 14: What is your view on the presented considerations for the scope, focus and responsibilities of the Group?

DCC supports the three primary focus areas outlined in the consultation – Quality, Engagement and Cost – and the detailed focal points outlined in paragraph 5.35. DCC is aware that cost will be a key concern for

[26] Future Systems and Network Regulation Core Document page 28

customers and Ofgem, but it will be important that a balanced approach to assessment of the business plan is taken and that time is afforded for equally important aspects such as alignment of activities to strategic priorities, adapting to the changing energy and social context, and customer concerns. DCC is keen that the process of engagement with the Group helps validate that we are focused on the right priorities and that our planned activities are supported by our customers.

As highlighted in our response to question 16, DCC will need to have sufficient time to reflect on the Group's feedback so it is important that the scope of scrutiny expected of the Group is realistic given the limited period proposed for it to complete its feedback and for DCC to subsequently assess options, revise its business plan and undertake necessary assurance and governance processes ahead of final submission.

We believe that it is important to clarify the depth of scrutiny Ofgem expects the Group to carry out. DCC expects to provide the Group with full access to all elements of the draft business plan, but if Ofgem expects the Group to be able to request supplementary material this will require more time and resource to support the Group's work. Given the limited time available, DCC's view is that it would be sensible to limit the scope of review to business plan documents only, which would enable the Group to be able to provide valuable feedback within the three month window. It is also important to ensure there is a focused clarification process, so DCC can provide timely feedback to the Group.

To achieve the scrutiny required, the Group may require access to more granular and commercially sensitive information than we would be able to provide to our full customer base. If that is the case, and assuming the Group operates under the SEC and follows the Panel Information Policy, we would expect it to conduct business under Red classification due to the nature of the information being reviewed.

To ensure the Group focuses on addressing the gaps in customer engagement that Ofgem have identified, we believe it will be important to confirm it is not expected to re-assess or disagree with costs and requirements that have already been engaged on, and agreed to, through DCC's existing direct engagement processes with customers and through SEC governance. For instance, where DCC has previously engaged customers on a Green Book business case and already received a DESNZ non-objection, we would suggest the Group's Terms of Reference make clear that cost profiles for such business cases do not require re-assessment. Similarly, any other investments or requirements already in receipt of support through industry governance should not be re-assessed by the Group.

We note in paragraph 5.21 of the consultation that Ofgem expects the Group to induce "discussions between DCC and customers on the trade-offs between the scope of services to be procured and delivered and their cost".

DCC is already planning to undertake our own detailed engagement with our customers to develop the business plan ahead of submitting it to the CCG for review - an approach similar to that taken by other businesses operating under ex ante regulatory frameworks. This engagement is designed to address gaps raised by our customers and identified by Ofgem, such as the need to engage more clearly on DCC's Internal Costs and smaller value, customer-impacting procurements. It will be important, therefore, to ensure that the Group's remit regarding further interaction with customers builds on activity already carried out by DCC, rather than replicating it.

Finally, DCC looks forward to the Group's feedback on our ex ante business plan but the ultimate decision on the contents of the plan must remain with the DCC Board.

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

We support the Group's primary output being a report and suggest the contents mirror reports produced by established CEGs/ISGs.

To ensure the final report sent to Ofgem is factually correct, we would suggest the draft Group report is shared with DCC for factual accuracy checking only, before being shared with Ofgem and published. As is the case for CEGs/ISGs, DCC would support the report being made publicly available.

Ofgem indicates the Group will be asked to response to its Draft Determination on DCC's business plan, as well as reviewing any re-opener application from DCC during the price control period. DCC would support the Group in delivering these outputs, but again we highlight the importance of maintaining a consistent and informed membership to enable these processes to run effectively.

e. Implementation considerations (question 16)

Summary

Ofgem's Proposal

- Ofgem's proposal is for DCC1 to prepare the first ex ante business plan for the period April 2026-March 2028.
- The Business Transfer from DCC1 to DCC2 is currently forecast to occur by the end of 2026, so this plan will cover expenditure by both DCC1 and DCC2.
- Ofgem will issue an ex ante determination on the allowance resulting from the business plan, but DCC1 will continue to operate under ex post arrangements and will still have to complete an ex post submission for RY26/27.
- DCC2 will operate under purely ex ante arrangements.

Timetable

- Ofgem expects DCC to submit its draft business plan to a CCG by 30 June 2025, and its final business plan to Ofgem by 30 September 2025.
- There is a high risk that Ofgem's timetable for publishing its regulatory framework and business plan guidance will lead to a very compressed timetable for DCC to align its draft business plan to requirements.
- Ofgem's proposal for DCC to engage the CCG on its draft plan for three months is much shorter than DCC's customers want and allows very little time for DCC to adjust its plan to feedback.
- Ofgem is proposing to complete its ex ante determinations in less than six months, but it has never completed ex post determinations in less than seven months, presenting further risk of slippage.

Price Control transition arrangements

- Ofgem's plan involves regulatory overlap between ex ante and ex post processes for the period April 2026 to the Business Transfer Date.
- The regulatory allowance for RY26/27 will need to be split across two licensees, which is novel. It creates significant complexity in calculating the allowance for each party.
- It is not clear how the ex ante determination mitigates risk to DCC1 as all its costs in RY26/27 will still be subject to retrospective disallowance.
- Ofgem's proposals create a spike in regulatory workload around the time of business transfer.

Proposed Way Ahead

- We have concerns about Ofgem's preferred option (option A – i.e. ex ante starting on 1 April 26) and we believe Ofgem's alternative option for the first ex ante business plan to start from the Business Transfer Date, and thereby avoid an overlap between ex post and ex ante processes, carries far more benefit and much less risk.

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?

Context

Ofgem is clear that the Business Transfer from DCC1 to DCC2 should happen before the end of 2026. The current planning assumption is the end November 2026 albeit the date will not be confirmed until after the appointment of the Successor Licensee. In this context, Ofgem is proposing that the ex ante framework, which is the subject of the consultation, should only commence from the Business Transfer Date and apply only to DCC2, with DCC1 continuing to operate under the current ex post framework.

However, Ofgem is also proposing that DCC1 should produce an ex ante costed business plan for the two-year period starting in April 2026. This means that:

- Two licenced entities (DCC1 under ex post and DCC2 under ex ante) will incur expenditure during the period covered by DCC's first Business Plan;
- The proposed business plan will cover eight-nine months when DCC1 will still be running DCC; and
- DCC1 will prepare the business plan for the first 15-16 months of DCC2's licence period.

The proposed implementation plan raises several concerns, some of which relate to the timetable for the business plan submission and Ofgem's ex ante determination, and others which relate to the complex arrangements for transition from ex post to ex ante price control arrangements. We have outlined herein our views on these concerns, as well as a proposed approach to address them.

The Submission and Determination Timetable

The timetable for submission of DCC's ex ante business plan and Ofgem's ex ante determination can be split into three phases, each of which faces significant practical challenges:

- Preparation of DCC's draft business plan
- Engagement with the CCG
- Timetable for Ofgem's ex ante determinations

<u>Preparation of DCC's Draft Business Plan</u>. Ofgem proposes that DCC should submit its draft business plan to the CCG by 30 June 2025. While the final business plan will not be submitted until 30 September 2025, DCC will aim to provide the CCG with a mature draft version of the plan which has been subject to suitable governance and assurance, so the feedback process is credible. That governance and assurance process will take several weeks.

Prior to undertaking internal governance and assurance processes, DCC would expect to satisfy itself that the proposed draft business plan is aligned to the key pillars of Ofgem's regulatory framework, namely its Phase 1 Decision, its Phase 2 Decision on Switching and Governance Arrangements, its Phase 2 Decision on the Process for Determination of Allowed Revenue and its Phase 2 Decision on the Future Role of DCC. It would also need to satisfy itself that the draft business plan is aligned to Ofgem's Final Business Plan Guidance and uses the agreed RIGS template that results from Ofgem's planned RIGS consultation in Q1 2025.

Timely publication of Ofgem's Decision on this consultation and its Final Business Guidance and RIGS instructions is vital as these documents will dictate the content of the plan. It is important that Ofgem operates on similar principles to the RIIO price controls and affords DCC sufficient time to align the draft business plan to the price control requirements and for subsequent governance and assurance processes to be completed. If DCC is to meet the timetable for submission to the CCG, it would require Ofgem to provide final versions of these documents by the end of March 2025.

It is already clear that there is no prospect of the Future Role decision being available in a similar timeframe and we expect to have to caveat the submitted draft business plan to reflect it has not taken account of Ofgem's decisions on the Future Role of DCC which affect the scope of services in the business plan period. If there are delays to the publication of the Phase 2 Decision on the Process for Determination of Allowed Revenue and the Final Business Guidance, we would have to provide a similar caveat to the effect that there may be aspects of the regulatory framework and business plan guidance which are not yet fully reflected in the document.

The inability to reflect Ofgem's decision on the Future Role of DCC is clearly sub-optimal as both this decision and Ofgem's decision on the proposed ex ante framework are due to come into effect when DCC2 becomes the licensee. We remain convinced that we could provide additional public value through our future role evolving to play a greater role in delivering regulatory and government policy objectives such as facilitating the net zero transition and addressing affordability and fuel poverty, but it would not be appropriate for us to incorporate this into our business planning in advance of Ofgem's consultation and subsequent decisions on DCC's Future Role.

<u>Engagement with the CCG.</u> The second challenge relates to the timetable for engagement with the proposed CCG. Ofgem envisages DCC working with the CCG to support its review of the draft business plan from 1 July 2025 with DCC taking onboard the Group's feedback and submitting a final business plan to Ofgem by no later than 30 September 2025. This three month window for engagement with the CCG is extremely tight considering:

- the Group is not yet established and will be performing this role for the first time;
- the period of engagement overlaps with a busy regulatory period including submission of DCC's ex post price control submission for RY24/25, publication of DCC's Business Development Plan, and DCC's Annual Report;
- the Summer holiday season falls during this period; and
- DCC will need time to reflect on the Group's feedback, assess options, revise its plan and undertake the necessary governance and assurance processes ahead of final submission. For DCC to be able to reflect the Group's feedback in its final business plan, it would need a minimum of six weeks between the feedback and the final plan, and ideally longer.

There is no prospect of bringing the submission date for the draft business plan forward, given that DCC is itself awaiting decisions and guidance from Ofgem to inform its plan. DCC will, however, endeavour to support the onboarding process of the CCG ahead of 1 July 2025 with a view to ensuring the group is able to begin its business plan review process straight away.

A longer process for CCG review of the draft business plan is in our view required and that implies a review of the timetable for delivery of Ofgem's determination on ex ante allowances.

<u>Timetable for Ofgem's ex ante determinations</u>. It is regulatory good practice in ex ante price controls for determinations to be published sufficiently ahead of the relevant period such that the affected companies can adjust their plans to the outcome of the determination.

As a minimum, DCC would expect the ex ante final determination to be published no later than March 2026 and ideally before then. However, this is likely to be extremely challenging. Ofgem currently takes seven months to deliver its final determination on DCC's ex post price control submissions, so Ofgem would need to complete its first ex ante price control review faster than it has completed any ex post determination process. There is also a risk that timetable pressure bears more consequence in a multiyear ex ante process where the allowances under consideration are larger than a single year ex post price control process.

Eight-week consultations on ex post price control reviews have been standard since the start of DCC's licence. As this will be the first planning cycle under the new ex ante framework and the determination will cover a two-year period rather than one, it is essential that this consultation length be maintained. A shorter consultation period would be a step away from current practice and would create a risk that DCC would have insufficient time to fully review the consequences of Ofgem's proposed determination under a new framework.

Whilst DCC is committed to working with Ofgem to deliver its objectives, it is very concerned about the overall risk to the delivery of a credible first ex ante regulatory process given the challenges Ofgem faces across the three phases of the proposed timetable, and the consequential impact of delays in one phase for subsequent phases of activity.

Price Control Transition Arrangements

In its consultation, Ofgem makes clear that the proposed ex ante arrangements will only apply to DCC2 and that DCC1 will continue to be subject to the existing ex post price control obligations and incentive regime. Nevertheless, under Ofgem's preferred option, DCC1 would be asked to prepare a two-year business plan from April 2026-March 2028 against which Ofgem would set its ex ante determination. The Business Transfer Date is yet to be confirmed, but under current planning assumptions the first eight-nine months of this period would see DCC1 still running DCC under ex post arrangements, and after the transfer DCC2 would take over operating under ex ante arrangements.

While DCC firmly supports the transition to an ex ante framework, it sees some significant challenges relating to price control transition resulting from Ofgem's proposals.

A Split Regulatory Allowance Between Two Licensed Entities. Under Ofgem's proposals, its ex ante determination on the business plan will set out allowances for RY26/27 and RY27/28. During this period, control of DCC is expected to be transferred from one licensee to another (although the exact timing of that transfer is not expected to be confirmed until Q1 2026 after the business plan will have been submitted), so two different licensed entities will in effect have to share a single regulatory allowance. Based on Ofgem's current proposal, there would be no certainty ahead of the price control period as to the exact levels of allowance each party would be expected to expend.

A single regulatory allowance to be shared by two licensed entities is highly unusual regulatory practice and creates significant difficulties in determining the allocation of the allowance and managing the variances that arise through delivery. The principal reason the issue arises is because a fixed date for when Ofgem expects the Business Transfer Date to occur has not been confirmed yet, and the result is a highly complex plan for price control transition. If Ofgem is to maintain its preferred implementation plan, DCC would favour distinct ex ante allowances for each licensee to avoid in-period ambiguity over the target cost of delivering outputs and would urge further discussions with Ofgem on how this might be achieved.

Process for Splitting the Allowance. Under current assumptions, it is expected that the first eight-nine months of the ex ante allowance for RY26/27 will cover a period when DCC1 will run DCC. While DCC1 will be subject to ex post arrangements until the Business Transfer Date, it will in effect consume part of the ex ante allowance for RY26/27 which Ofgem sets out in its ex ante determination. That is to say, DCC2's ex ante allowance for RY26/27 will be calculated on the basis of the total allowance for RY26/27 less what DCC1 would be expected to have spent during its period of control.

Ofgem has indicated it proposes to calculate DCC2's allowance for RY26/27 based on pro rata consumption of the allowance. If the Business Transfer Date were to occur at the end of the eighth month (November 2026), DCC2 would be expected to have a budget of one-third of the original allowance awarded for the year. This creates problems in splitting the allowance, for which no clear solution is proposed in the consultation.

Firstly, a pro rata allowance calculation is not reflective of DCC's typical annual expenditure profile which will alter according to requirements of its change programmes and variable contract spend. DCC may be able to offer a more detailed profile of proposed expenditure in its business plan, but this would represent a forecast and there would still be a risk that the actual profile of expenditure alters in-year.

Secondly, there is a risk that activity will be deferred or delayed from the period when DCC1 runs DCC to when DCC2 takes over (or even brought forward into the period DCC1 is in charge). This change in planning assumptions would need to be mirrored by a corresponding movement in the expenditure profile for the regulatory year. It is not clear though what mechanism Ofgem is proposing should be used to deliver this. Further work is required by Ofgem to set out how it would ensure funding is realigned to any change in the in-year profile of planned expenditure. DCC2 will need to be able to make any additional payments required to maintain Mandatory Services resulting from changes in the profile of in-year expenditure.

Ofgem refers in the consultation to the need to determine the amount of over/under-recovery to be transferred to DCC2. As set out above, Ofgem needs to develop its methodology on how it would achieve this. Given that the ex post price control process for RY26/27 is unlikely to complete until late Summer 2027, which will be halfway through RY27/28, it is also not clear how Ofgem would deliver timely redistribution of any allowances to DCC2. Notification of a change in allowance as late as this would make it challenging to commit the additional funds before the end of the regulatory year.

We also expect DCC1 will need to be able to incur costs after the Business Transfer Date, particularly in relation to the preparation of the RY26/27 ex post price control submission, support to Ofgem's review process and financial close out activity for DCC1. The specifics of how such costs will be addressed in the price control regulatory regime will need to be clarified by Ofgem.

It is also important that revisions to the current licence make it clear how the process of allocating and reviewing a single allowance across two licensed entities in a single regulatory year will be delivered.

<u>Ex Post Assessment for DCC1</u>. Ofgem has indicated that DCC1's 'pro rata' element of the ex ante allowance for RY26/27 would form a reference forecast against which DCC1's final ex post price control submission for RY26/27 will be assessed. Noting the challenges around the use of a pro rata methodology and the potential need for the re-profiling of expenditure in-year, it is not clear that this reference forecast would represent a fair basis for assessing DCC1's expenditure. In any case, Ofgem has stressed in its consultation (paragraph 6.7) that 'all costs will continue to subject to ex post assessment and capable of being disallowed by Ofgem'.

If Ofgem is to proceed with its current proposals, DCC1 will fund the preparation of the first ex ante business plan and face retrospective cost disallowance risk in so doing, but the ex ante determination will afford it no protection from retrospective cost disallowance. The beneficiary of the ex ante process is solely DCC2.

If Ofgem opts to move from cash to accruals cost forecasting and reporting for the ex ante framework, an approach which DCC supports, it would be helpful for Ofgem to confirm how it will use the ex ante business plan as a reference forecast for DCC1's costs given that the ex post price control process is based on cash reporting.

<u>Timing of the First Re-opener Window</u>. In chapter 3 of the consultation, Ofgem sets out its intention to provide an end of year re-opener window at the end of Q3 RY26/27. DCC2 will therefore be required to submit its re-opener application almost immediately after the proposed Business Transfer Date. While there is scope to mitigate this through DCC1 and DCC2 working together in the lead up to the handover, it does not give the new licensee sufficient time to orientate itself to the business before applying for any additional funds.

It is also worth noting that DCC typically finalises its charging statement for the following regulatory year by the end of each December to set customer expectations for future charges. The re-opener application would be expected to adjust allowances for that period by the end of the following March. Under Ofgem's proposed budgeted approach DCC would not be able to charge customers for costs associated with the re-opener application until Ofgem has determined the efficient costs to be awarded, which would require the charging statement to be amended early in the next regulatory year to adjust to the outcome of the re-opener process.

Spike in Regulatory Activity. Under Ofgem's current planning assumptions, there appears to be a significant spike in regulatory activity which coincides with the business transfer from DCC1 to DCC2 (see appendix 1). This includes the completion of the RY25/26 ex post price control process, preparation of DCC1's RY26/27 ex post price control submission, the end of year re-opener process for the first ex ante business plan, and activity required to prepare the second ex ante business plan which will need to be submitted to the CCG and Ofgem in 2027. It poses a risk to the effective transition from one licensee to the other, and that regulatory activity will be the focus of the new licensee in its first few months.

DCC Proposal

Given the significant challenges associated with Ofgem's preferred timetable for implementation of the ex ante regime, and the complexity it creates around the transition from ex post to ex ante arrangements, we have considered carefully the alternative options which Ofgem has put forward in its consultation. DCC believes there are strong grounds for Ofgem to take forward **Option B** (which would require Ofgem to commit to a date for the Business Transfer by the end of 2025).

Price Control transition. If Ofgem were to commit to a Business Transfer Date, it would be possible to avoid the complexity associated with overlapping ex post and ex ante processes. In this scenario we would expect:

- The first ex ante business plan would cover the period from the Business Transfer Date until March 2028 (or 2029) (we believe it would be sensible to consider a longer period than 16 months in the first plan to reduce regulatory burden);
- DCC1 would still prepare the first ex ante business plan but there could be scope for DC2 to be involved in the final sign off of the plan before its submission to Ofgem or responding to Ofgem's draft determination;
- DCC1 would continue to operate under the current ex post arrangements until the Business Transfer Date, and it would not be affected by ex ante arrangements at all;
- There would be no end of year re-opener window in Q3 2026; and
- If the first ex ante business plan were to run to March 2029, the second ex ante business plan would not need to be submitted to Ofgem until 2028.

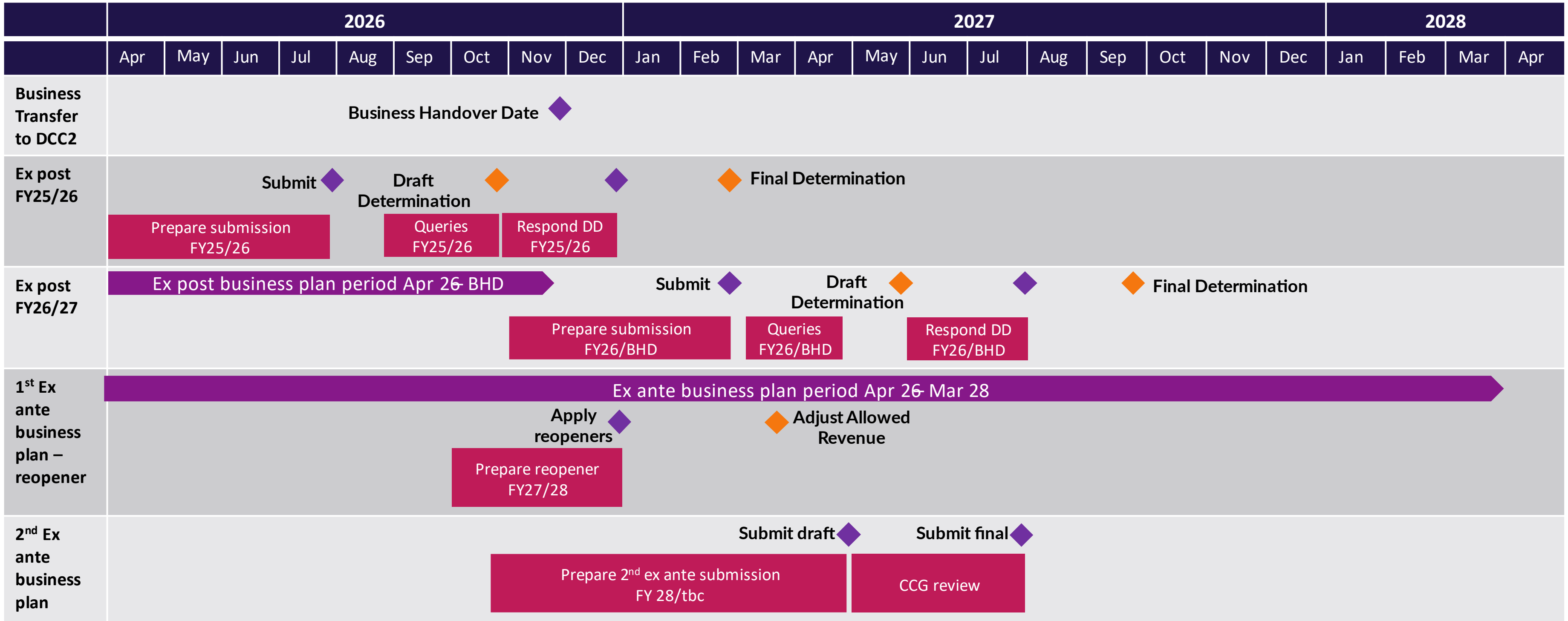
DCC sees significant benefits in this approach:

- Alignment of Framework and Outputs. In this scenario, the ex ante framework and the ex ante business plan both commence from the Business Transfer Date, rather than the business plan period commencing ahead of the ex ante regulatory framework.
- Clarity of Regulatory Process. DCC1 would only be subject to ex post arrangements and DCC2 would be subject to the ex ante framework, so there would be clarity for both licensees over the regulatory terms under which they operate.
- No split allowance. There would be no requirement for the two licensees to share a single regulatory allowance for RY26/27 thereby avoiding a novel arrangement for splitting an allowance between two regulated licensees, and the potential tensions that could arise between the licensees during the process.
- Reduced peak of regulatory workload. In this scenario, there would be a reduced regulatory workload associated with price control transition as we would assume the first re-opener window in Q3 2026 would be deferred to the next year. If the first ex ante price control period ran from the Business Transfer Date to March 2029 it would also postpone the work associated with preparation of the second ex ante business plan thereby allowing DCC2 to focus on the operation of the business in the first months after the transfer. See Appendix 2 for a visual presentation of the impact.

Impact on the Business Plan and Determination Timetable. As set out above, there is a wide range of risks to Ofgem's proposed timetable for submission of DCC's first ex ante business plan and Ofgem's ex ante determination, which may affect the quality of the outputs and the credibility of the ex ante regulatory process. If Ofgem were to agree to proceed with Option B it would afford more time for all three phases (potentially eight months or more) allowing Ofgem to issue the underpinning regulatory framework and business plan guidance documents sufficiently ahead of the draft business plan submission date, provide more time for the business plan scrutiny process carried out by the CCG and additional time for Ofgem to complete the ex ante determinations.

We believe there is limited benefit derived from Ofgem's preferred option A given the significant challenges and complexities and Option B offers clear benefits that are not delivered by Option A. The key to enabling the benefits that Option B offers will be a set timetable for the Business Transfer and DCC will offer all the support Ofgem requires to help agree this.

Appendix 1 – Price Control Regulatory Activity Required by DCC1 and DCC2 in RY26/27 under Ofgem's Option A



Appendix 2 - Price Control Regulatory Activity Required by DCC1 and DCC2 under Option B