

DCC Phase 2 – process for determination of Allowed Revenue consultation

Energy UK response

6 February 2025

Energy UK welcomes Ofgem's consultation. The below represents our response.

Managing risk and uncertainty

We agree it is unlikely that DCC's Allowed Revenue will perfectly match its forecasts and cost envelope.

Ofgem is proposing to allow DCC to recover up to 2% from its customers over its annual Allowed Revenue, alongside three Uncertainty Mechanisms:

- Automatic adjustments to account for Passthrough or volume sensitive costs agreed at the business planning stage.
- An end-of-year reopener, which would enable DCC's Allowed Revenue to be amended for the following Regulatory Year where costs have arisen that could not be reasonably anticipated.
- An emergency reopener to account for external shocks.

Energy UK broadly supports Ofgem's approach. Members agree that 2% seems like a broadly appropriate contingency level for Ofgem to allow DCC, but notes that using this margin should not be considered a default approach, and Ofgem should take action if this becomes the case.

Members note the level of code modifications has driven higher than anticipated costs in the past - particularly those relating to high budget items - and ask Ofgem for clarity on how this will work within an annual reopener process. A suggestion from members to address risk here is to consider code modifications in the round, rather than solely the year they're implemented. The introduction of a strategic direction statement could also be helpful in predicting costs.

Financial incentives

Energy UK has not in the past specified whether DCC should be a for-profit or not-for-profit entity, and notes that member opinions vary on this aspect of the framework. Therefore Energy UK will not advocate for a specific approach to areas of business to which a not-for-profit approach should apply.

Customer satisfaction is currently at the top of Ofgem's list of reputational incentive measures, but Energy UK notes that performance and value is what leads to high levels of customer satisfaction and suggests that these measures should be the priority.

Energy UK members support Ofgem ringfencing any funding being allocated to develop any non-core products and services.

Customer engagement

Members note that the key to effective decision making is good governance, and this requires parties who understand the ecosystem and those who manage it to be able to participate in the same discussions. Members note the current complex web of governance has limited industry's ability to do this in the past.

While a customer challenge group is a good idea in principle, we note that the existing smart metering programme governance structure could be used more effectively to achieve the same aims, and that this would be in fact be a preferential option to adding another layer to the existing governance landscape. Smart Energy Code governance (SEC panel and SEC operations groups in particular) could incorporate such discussions as it brings together well informed experts but has not in the past been allowed scope to be impactful in terms of DCC decision making.