Energy UK

The voice of the energy industry

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Submitted via email to: switchingprogramme@ofgem.gov.uk

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Consultation on draft DCC business case for DCC activities during the Transitional Phase of the Switching Programme AND **Draft direction on margin and incentives for DCC's role within the Transitional Phase of the Switching Programme**

Dear Natasha,

Energy UK is the main trade association for the energy industry, with over 90 members; representing energy generators and suppliers of all sizes. Our members supply gas and electricity and provide network services to both the domestic and non-domestic market. Energy UK members own over 90% of electricity generation capacity in the UK market and supply 26 million homes and 5 million businesses, contributing over £25 billion to the UK economy each year. The industry employs 619,000 people across the length and breadth of the UK, not just in the South East, contributing £83bn to the economy and paying over £6bn annually in tax.

Energy UK strongly believes in promoting competitive energy markets that produce good outcomes for consumers. In this context, we are committed to working with Government, regulators, consumer groups and our members to develop reforms which enhance consumer trust and effective engagement. At the same time, Energy UK believes in a stable and predictable regulatory regime that fosters innovation, market entry and growth, bringing benefits to consumers and helping provide the certainty that is needed to encourage investment and enhance the competitiveness of the UK economy.

These high-level principles underpin Energy UK's response to Ofgem's consultations on the draft DCC business case for DCC activities during the Transitional Phase of the Switching Programme and the draft direction on margin and incentives for DCC's role within the Transitional Phase of the Switching Programme. This is a high-level industry view. We anticipate that individual Energy UK members will respond with answers to the detailed questions posed in both consultation documents.

The total currently estimated approximate charge to industry over the lifetime of the programme is £25.6 million (excluding margin). While it is difficult to comment conclusively on the DCC's proposed costs in the absence of a single agreed programme plan and an understanding of Ofgem's final preferred reform package, the estimated costs represent a significant charge to industry for the DCC contributing to the design of the Central Registration System (CRS) and procuring Relevant Service Capability to deliver the CRS. Energy UK notes that independent consultants Cartesian, on behalf of Ofcom, recently estimated that it would only cost circa £10 – 12 million to build and implement a brand new Communication Channel for telecoms switching.[1] The cost of the DCC will ultimately be recovered from all customers' electricity and gas bills. Ofgem should, therefore, ensure that the costs set out in the business case represent a competitive price for the DCC's deliverables, especially given the DCC's monopoly position.

[1] https://www.ofcom.org.uk/__data/assets/pdf_file/0018/72018/cartesian-report.pdf

In particular, Energy UK members have questions around the DCCs proposed use of contingency and management reserves and the inclusion of these in overheads and margin calculations. £3.5 million for contingency and £2.7 million in management reserves over four years of the programme adds 35% to the DCC's base costs. Furthermore, including the contingency and management reserve costs in the calculation for overheads and margin mean the DCC will cost customers a further £1.8 million. As a point of principle, the DCC should be adequately incentivised to mitigate any risks of overrun / overspend rather than being paid up front for known risks.

In reviewing the DCC's business case, it is also key that Ofgem learn the lessons from previous industry change programmes. It is vital the Ofgem switching programme is able to closely hold the DCC to account for the timely and cost-effective delivery of its roles and responsibilities. To this end, it is important that a strong incentives regime is put in place by Ofgem. We therefore, welcome Ofgem's proposal that appropriate parts of the DCC's margin is placed at risk based on its ability to achieve certain delivery milestones to a required quality by a set date.

I hope you find our comments helpful, should you have any questions please do not hesitate to contact me directly on 020 7747 2965 or at daniel.alchin@energy-uk.org.uk. Energy UK and our members are always willing to discuss with Ofgem ways in which we can work together for the benefit of consumers and the industry.

Yours sincerely,

Dan Alchin
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