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Dear Anna,

DCC Price Control Consultation RY19/20

Please see below Stark's response to the DCC Price Control for RY2019/20. Unfortunately, we are unable to provide a full response and instead share a summary of our views and concerns.

Total costs are disproportionate to service delivery

At the end of the original roll-out deadline, the DCC are operating just **17%** of the intended volume for double the cost¹. Total costs for RY2019/20 were **£495.1m²**, with just 4.1m smart meters on the DCC network at the end of RY2019/20 this equates to an annual cost per connected meter of **£123.8**. By comparison, the LABP forecast for RY2019/20 was **£202.4m** and assumed the roll-out would be complete by this point, with at least 50m meters operated by the DCC – giving an annual cost per connected meter of **£4**. This means that the annual cost per meter is currently **31 times greater** than the DCC's original competitive bid. This cannot be deemed as economic or efficient and is wholly unacceptable. Ofgem should seek to make further disallowances to bring total costs down.

"Innovation" costs are unjustified and detract from core service delivery

We welcome Ofgem's observation that "DCC's main focus should remain delivery of its core business"³ and agree that, considering the current state of the roll-out, now is not an "appropriate time for the growth of the Product Management team or the expansion of DCC's service offerings"⁴. It is clear DCC think otherwise. Expansion of the Product Management team means that the Corporate Management cost centre has double the resource than Commercial⁵. This suggests the DCC are prioritising business growth over contract management. The appointment of an "Innovation Director" and the fit out of Brabazon House compound this. There has been no engagement to confirm the demand exists to justify all this. As such, this is a firm example of the DCC expanding beyond what is economic and efficient.

Recommendations

There are wider performance and customer service issues not referenced here, which we will share during future engagement with Ofgem. Considering the above, we make the following recommendations:

- i. Amend the DCC's Licence to restrict activity to "Mandatory Business"⁶ only
- ii. Disallow all costs related to activities that are not "Mandatory Business"
- iii. Transition to a full ex-ante approach

¹ Stats on 22/12/20 were: 8,949,569 total Smart meters on DCC network (<https://www.smardcc.co.uk/>). 8.9m/53m = ~17%

² DCC Price Control Consultation RY 2019/20, Figure 1.1: Data Table, p18

³ DCC Price Control Consultation RY 2019/20, paragraph 3.63, p58

⁴ DCC Price Control Consultation RY 2019/20, paragraph 3.62, p58

⁵ DCC Price Control Consultation RY 2019/20, Table A2.2, Appendix 2, p113. Corporate Management = 54.84 FTE and Commercial = 24.05 FTE.

⁶ Smart Meter Communication Licence definition of "Mandatory Business" = (i) the Core Communication Services, (ii) the Elective Communication Services, and (iii) the Enabling Services, (iv) preparation for the Centralised Registration Service