Review of the DCC licence arrangements call for evidence

E.ON response (March 2021)

Thank you for the opportunity to comment on Ofgem's call for evidence in respect of DCC licence arrangements. Please note that this response is on behalf of both E.ON and npower.

Our comments below are structured around the topics requested in the Ofgem consultation document.

1. The indicative timetable

The first part of the review process is scheduled to be completed by Autumn 2021. However, given the amount of industry change upcoming in 2021/22, it is our view that this consultation timetable needs to be accelerated and bought forward.

2. The future role of a DCC, the scope of its objectives and of its authorised business post-2025 to support smart metering across GB

Smart metering and the services, products and customer engagement it facilitates remains a key part of the critical national infrastructure landscape and an enabler of the Government's "net zero by 2050" objectives, including the decentralisation, digitalisation and decarbonisation of the energy network and UKPLC. Therefore, the DCC in its current organisational form, or any future successor needs to provide cost effective, value for money, consistent and reliable services, which suppliers can count on with confidence. It needs to enable positive consumer engagement and handle the required changes in behaviour at an individual and societal level.

3. The extent to which the regulatory framework should enable DCC to offer additional services to the broader energy sector, and to non-energy sector users, and the potential nature of such services

The regulatory framework should not allow the DCC to offer additional services to the broader energy sector or wider non-energy sectors, until such a time that it (DCC) consistently and reliably delivers on its current core obligations. It is disappointing to see the DCC repeatedly showcasing its ambitions for solution innovations through its annual Business Development Plan, when DCC Users are having to rely on core end-to-end services that are unstable or require further improvements (e.g. CSP-N).

We firmly believe that the DCC must be required to deliver on its existing commitments and the significant industry programmes which it has involvement in over the 2021-25 window, before any innovation activity is progressed. Given the likely costs involved in the DCC designing, implementing and operating any additional non-core or innovation solutions, we firmly believe that the DCC must be required to explain its cost recovery and risk acceptance models before any significant work on additional services is progressed. While the DCC has been repeatedly asked to provide more information on this topic through BEIS and SEC industry fora, no information has been forthcoming. On this basis, we believe that service innovation for the broader energy sector and non-energy sector must be included in the scope of this review.

Additionally, given the complexity and scale of the Faster Switching programme, we believe that this should also be included within the scope of this review.

4. The extent to which DCC should deliver its services through contracted service providers or directly itself

Regardless of the mix between direct and contracted service provider delivery, we would expect DCC to be able to demonstrate delivery of value for money services by benchmarking:

- Different DCC service areas (e.g. SMETS2 services in the different CSP regions and SMETS1 enrolled and adopted services for each cohort).
- Against comparative external service providers (e.g. mobile communication service providers, etc.).

We note that the DCC is advocating further service disaggregation, most notably in its Network Evolution and Next Generation Communication Hub programmes. While this may provide some initial upfront procurement savings, it is entirely conceivable that the ongoing service operation, testing, maintenance and other aspects may be significantly more expensive. As a number of impacts will be incurred by DCC Users either directly (e.g. through additional device testing or DCC service outages), or alternatively through recharging (e.g. additional DCC run costs or headcount), we believe that the DCC's strategy and approach in this area should form part of this Ofgem review.

5. The effectiveness of the current regulatory framework and enduring governance structures in ensuring DCC meets its objectives and provides value for money. We invite evidence in support of alternative approaches which could drive performance in the future

Governance arrangements can be further improved and strengthened, with one option being the adoption of best practice from other industry arrangements or wider industries.

In the past, Ofgem has been reluctant to intervene and its primary involvement appears to have been annually via the DCC Price Control consultation process. This Price Control process is ultimately a retrospective review of DCC's performance, its costs and the various cost overruns it has incurred. While Ofgem has taken decisions to disallow certain DCC costs, these decisions do not seem to drive the appropriate improvements in DCC's subsequent performance. Key industry programmes (e.g. SMETS1 Enrolment and Adoption and the Next Generation Communication Hub programmes) have been subject to repeated re-planning, delay and cost overruns which impact DCC Users directly, or indirectly through the DCC recharge.

The regulatory framework should be such that Ofgem can take more timely and decisive actions where there is evidence of mismanagement or poor performance within the DCC's programme delivery or operational activities. This is vital to ensure that the DCC's repeated over-commitment and under-delivery is appropriately tackled.

6. The key aspects of DCC's business that stakeholders consider crucial to their own activities in the present and future energy market over the timeframe to 2040

Smart meters are the enabler for many other technologies needed to reach net zero (for example, flexibility and DSR); as well as generally better energy efficiency. The DCC is absolutely critical to enabling suppliers to be able to offer these technologies to their customers.

Customers need to become more actively engaged with their energy supply in order to make the decisions that are needed to decarbonise their heating and reduce their usage, on the way to net zero. Responding positively to a smart meter and then deciding to make the next steps of energy

efficiency is crucial; heat pumps and other innovations will not happen if their experience of the smart meter journey is a poor one.

We also consider that the timeframe to 2040 is too lengthy a period to assess and define frameworks for. On this basis, we suggest limiting the review to the next 5 or 10 years. Maintaining a focus on the 2025 to 2030 / 2035 timeframe will ensure DCC is focussed on the mid-term activities it has a critical role in supporting or delivering.

7. DCC's role in enabling the transition to net-zero by 2050

While we expect the DCC services to be a key contributing factor in the transition to net-zero, it will also be part of a number of other initiatives which all need to align and combine to deliver the overall solutions. These initiatives need to be defined by BEIS/Ofgem/Industry, and we would expect any roles assigned to the DCC to be clearly scoped and subject to competitive tender.

8. Optimal arrangements for DCC's compliance, cost control, and incentive regimes, among others.

It is important that the DCC is driven to deliver improvements in underperforming areas, as well as incentivising continued stable performance in the other, better performing areas. It is essential that the incentive mechanisms available to the DCC do not result in the DCC focussing its attentions solely on better performing areas, where incentives can be easily secured.

We would propose that assessments are undertaken quarterly with a smaller incentive, and that the performance status be reset after the end of each quarter to ensure focus on all areas continuously. This would help avoid unintended consequences from materialising.