

Energy UK Response to Ofgem Call for Evidence on DCC Regulatory Arrangements

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About Energy UK

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership. We represent the diverse nature of the UK's energy industry with our members delivering over 80% of both the UK's power generation and energy supply for the 28 million UK homes as well as businesses. The energy industry invests £13bn annually, delivers £31bn in gross value added on top of the £95bn in economic activity through its supply chain and interaction with other sectors, and supports 738,000 jobs in every corner of the country.

Introduction

Energy UK welcomes this opportunity to respond to the Ofgem [Call for Evidence](#) (CfE) for the review of regulatory arrangements for DCC. We look forward for further engagement with Ofgem over the coming months and throughout the next phases of the review. Our response is not confidential.

Our Response

The Ofgem CfE is seeking views on seven specific matters (as captured in Annex 1 of the [Ofgem letter](#)) to help agree and define the scope for the Ofgem review; the following table captures our specific suggestions for Ofgem consideration under each matter:

<i>The future role of a DCC, the scope of its objectives and of its authorised business post-2025 to support smart metering across GB</i>
<p>DCC's role since Licence award up to now has changed significantly; DCC is now in steady state¹ operation and therefore one area to consider within the scope of the review is how to appropriately manage and incentivise DCC in ensuring it delivers its core mandated business and provide value for money for DCC Users (DCC's customers).</p> <p>Linked to this would be consideration of the Price Control framework; there is an argument that the Ex-Post framework was the right framework when DCC was established (given the uncertainty that existed at contract award and in DCC's early years of operation). However, given DCC's current state of operation (i.e. steady state), now would be an appropriate time to assess whether we should consider a move to an Ex-Ante framework. This clearly would be a fundamental transition to support the future role of DCC between 2025 and 2040 and would align DCC to other existing regulated monopolies – there may also be learnings to consider from the RIIO approach for DNOs that can be taken into account to enhance the DCC framework. We also expect Ofgem as part of this review to consider and assess other potential vehicles to manage DCC as a monopoly business.</p> <p>To support this, some specific suggested actions could be considered for the DCC framework to help deliver the right outcomes for DCC Users (DCC's customers) and ultimately for consumers:</p> <ul style="list-style-type: none">• Developing a robust and ringfenced Ex-Ante Price Control, using a proven framework.• Updating the Smart Meter Communication Licence to reflect the new Price Control.

¹ Whilst the DCC (as a contract manager role) is in steady state, it is worth noting that from a wider DCC solution perspective, DCC delivery is not yet in a steady state in particular in relation to CSP North.

- Reframing the objectives in the DCC Licence to ensure delivery of cost-effective, reliable, and timely changes to the overall DCC solution, with DCC Users and their experience at the heart of the new arrangements.

We suggest that options are considered for improving DCC delivery post-2025 especially in respect of stronger DCC contract management of its Service Providers, focus on core business and delivering value for money for DCC Users.

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 could allow for this, but this must be under strict governance before DCC embarks on any such activities. It is really important that before DCC considers embarking on any such activities (i.e. offering additional services), DCC's customers should have a clear say on the type of services that DCC may choose to offer – it is DCC Users who will ultimately be paying for any such services. Therefore, it is important that the scope and extent of any additional services that DCC may offer has to be governed by SEC Panel and be subject to Ofgem approval. This must consider an appropriate business case and details on how the funding arrangements will ensure SEC Parties, especially Suppliers, are not the ones paying.

Additionally, it is fundamental that any DCC activity in this space does not distract DCC from delivery of its core mandated business, and it is also important that DCC is not seen to be competing with existing market players (especially Energy Suppliers) for any of these potential additional services. It is fundamental that prior to offering any additional services, DCC must ensure that its core services and associated deliverables / SLAs have to meet an agreed threshold to ensure that DCC Users are receiving the reliable services / deliverables at the right time, right cost, and quality. Any potential additional services that DCC chooses to offer should not have any adverse impact on DCC's core mandated business and should not use core mandated business to generate additional services. Furthermore, any new services should not be funded by Suppliers within the core services costs and we suggest that any additional revenue generated should cover some of the fixed costs that DCC Users currently pay as part of the core service costs.

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

We do not have strong views either way on this at this stage but we note the fundamental principle that needs to underpin this. Independent of the approach chosen by DCC to deliver its services (either via contracted Service Providers or directly by DCC), it is important that any DCC delivery must be underpinned by improvement in deliverables and the approach to delivery by having stronger contract management of Service Providers, focus on core business / services and delivering value for money for DCC Users. The extent to which DCC should deliver its services has to be governed by SEC Panel and be subject to Ofgem approval.

DCC must consider the Return on Investment and conduct a clear Cost Benefits Analysis to support decision making in contracting Service Providers vs. DCC delivering services itself. Consideration should also be given to the length of the Service Providers contract period and the importance of DCC developing (and managing) its own Service Provider contracts. A key aspect of this which must improve is ensuring transparency to DCC Users on these contracts, especially given the known issues e.g. for CSP North. Additionally, other key areas to consider could be:

- Assessing whether a 15-year period (2025 – 2040) is an appropriate way forward, for example should the period be shorter i.e. 10 years or even 8 years in line with the RIIO framework for DNOs.
- Putting in place a mid-period review for the DCC Licence.
- Looking at whether the Service Providers' contracts should be aligned to the same period of the DCC Licence within the new Price Control framework or consider a re-tender of the Service Providers' contracts within the new Price Control framework.

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

In respect of the effectiveness of the current regulatory framework, as noted earlier in our response, given DCC is now in steady state operation, it would be prudent to consider whether the time is now right to transition to an Ex-Ante framework given the continued industry concerns on DCC costs. Linked to this, in respect of driving DCC performance in the future, it may be prudent to consider an introduction of some form of a Guaranteed Standards of Performance for DCC within the regulatory framework – this would help ensure the impacts on DCC Users (DCC's customers) as well as consumers are at the heart of DCC's thinking and delivery approach.

In respect of the effectiveness of current Enduring Governance structures, our understanding from our members is that these remain fit for purpose; however, they are sometimes undermined by DCC's ability to provide timely and comprehensive information (including impact assessment) to the various groups. It would also be helpful to understand from BEIS on the likely timing for when SMIP Transition Governance will cease to exist, e.g. will it continue into 2025.

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

We expect our members to provide specific points on this to Ofgem. From an Energy UK perspective, we expect the key themes to be as follows: ensuring DCC delivers on its mandated business at the required (high) quality, the right time and at the right costs / value for money – DCC's delivery should be sustainable and reliable in order to meet the scope of the requirements and its DCC Users' needs. Reframing the objectives in the DCC Licence would be key to this as already mentioned earlier in our response.

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

We believe DCC has an important role to play, but this role has to be focused on supporting DCC Users to deliver a market wide and effective smart rollout and have confidence in the network which supports smart, given that smart metering is the key enabler for Net Zero. DCC could play a role providing thought-leadership, evaluating DCC's role in supporting the energy transition and what DCC can potentially do additionally, but DCC should not act without industry agreement and this should not come at the cost of impacting DCC's core mandated services to DCC Users. Furthermore, DCC's activities in this space must be subject to strict governance by SEC Panel and approval by Ofgem – key here is control of scope and costs and therefore this needs to be underpinned by fit for purpose business cases from DCC. Additionally, it is our expectation that DCC's support to DCC Users on enabling the Net Zero transition would be linked to use of DCC's existing infrastructure / solution and the data it has access to (subject to any data privacy provision).

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

As noted earlier in our response, given DCC is now in steady state operation, it would be prudent to consider whether the time is now right to transition to an Ex-Ante framework. This is the key area for consideration especially given the work done on development of the OPR between Ofgem and the SEC Panel. In addition, this could be further supplemented by considering a suggestion for having a nominated Supplier representative sitting as a non-executive director on the DCC Board.