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Re: Call for evidence – Review of DCC regulatory arrangements

Dear Leigh,

We welcome the early engagement in this project and appreciate the opportunity to help shape the scope of this important review.

Whilst we appreciate this review is in its infancy, we would encourage you to engage with the Panel and its sub committees whenever possible so you can utilise the expertise and experience of members to ensure the project delivers a successful outcome. In particular the SEC 'Strategic Working Group' will focus on this as part of their 'Strategic Roadmap' and the opportunity to improve and enhance the Services and benefits delivered to DCC Users and Consumers.

Below we have set out some initial thoughts against the areas highlighted in your call for evidence. These are only initial considerations. So, as noted above, we would welcome any engagement to discuss further, help shape the scope or support the wider project.

- **The objectives and mandatory business of DCC post-2025;**

The DCC was established to act as a contract manager for the Smart Metering infrastructure. We do not believe this fundamental purpose has changed and therefore DCC's focus should be on delivering an economic and effective infrastructure by the proactive and efficient management and assurance of their service providers. We believe there would be benefit in better definition of DCC's core contract management function to ensure performance.

The objectives should also extend to include seeking to reduce the cost and time of delivering change to that infrastructure and in seeking to implement efficiencies/improvements where possible. However, it should be noted that any improvements must be progressed and implemented under clear and robust governance.

The delivery of continuous improvement and its association with reducing the overall cost of DCC Services is a key objective established as part of the Government Impact Assessment, and enshrined in the DCC Licence, and it is paramount that this fundamental goal is clearly reflected in post-2025 arrangements.

- **The extent to which the regulatory framework should enable DCC to offer additional services and the potential nature of such services**

The DCC should be able to offer additional services. However, before such services are offered a clear funding model for new services, including proper oversight, business justification and benefits realisation, must be in place. There must be certainty that there are no cross subsidies

from the core services so that focus remains on the core functions being delivered to an acceptable level of service. We believe Ofgem should maintain right of approval for any additional services that the DCC may provide and would expect due consideration in ensuring whether or not any other services offered by the DCC offset the costs of the Smart Metering infrastructure.

Where Parties wish to innovate, the DCC should look to support them in an economic way, without cross-subsidisation from other Service providers, and perhaps with suitable testing environments or sandbox facility. Consideration could be given to licence obligations to support Party innovation.

However, DCC's position as a monopoly provider should not be overlooked. There needs to be continuous checks and balance to ensure other potential service providers are not at a competitive disadvantage or that consumers are overlooked.

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

As noted above, the DCC was created to be an entity that managed contracts of service providers who deliver the smart metering infrastructure. Over time an increasing number of services are being provided directly by the DCC rather than through contracts with service providers. However, the regulatory framework has not evolved alongside this change in DCC activities. It should be ensured that the regulatory framework accurately reflects the scope of DCC activities as changes may occur.

Where it can be proven that it is the most cost effective and efficient way to deliver a service, there is support for DCC to undertake the function. However, there needs to be proper governance in place. The current framework is not designed to measure the performance of the DCC in such a way, and therefore consideration needs to be given over how to ensure any services implemented by the DCC "in house" are being delivered to quality and at value for money. Equally, there needs to be a clear business case equating to a reduction in cost or increase in efficiency for DCC to provide such services in the first instance. The evolution of the DCC's role from contract manager to part service provider has happened with no clear rationale or engagement with the Users who fund the arrangements. This should not be the case going forwards.

As the DCC moves to deliver more services internally, consideration must be given to the commercial risk undertaken by the DCC. Currently, the DCC is a low risk model with the bulk of financial risk being met by SEC Parties. Whilst this model may have been appropriate at the inception of the DCC, the evolving functions it provides must be met by evolving regulation and appropriate accountability of risk.

- **The effectiveness of the current regulatory framework and enduring governance structures in ensuring DCC meets its objectives and provides value for money**

We do not believe the current framework is effective. The DCC was created to manage contracts, yet contract management is one of the key areas of concern that Users have. Costs are high and yet transparency and User satisfaction is low; mainly due to the number of performance issues with the service, and the delays and costs associated with delivering change.

Imminent changes to the Operational Performance Regime should help introduce the right measures and incentives to improve the current framework. However, more could be done to make the DCC accountable to the SEC Panel as a representative of Users. The Panel should be

seen as a decision-making body on the critical path rather than an afterthought or a hinderance. This is perhaps symptomatic of the licence not providing the Panel with sufficient powers to influence the DCC or emphasis on DCC complying with their obligations in the SEC.

The regulatory framework would also be more effective if obligations on DCC under the L13/16 provisions extended to any and all projects the DCC embark upon, and that oversight of such projects go via the SEC Panel to ensure User support and value for money.

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

In order to provide such a role the DCC needs to become more cost effective and efficient so that transition to net-zero can happen using the existing infrastructure. If the costs and pace of change remain unacceptable then innovation will happen outside of the DCC forcing new infrastructures to be created at additional cost and effort.

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

One of the most crucial changes that needs to occur to the regulatory framework is the creation of an ex-ante price control. The current ex-post price control does not provide sufficient oversight or accountability of DCC spend. Expenditures are incurred with little or no engagement or oversight, and there is no transparency to Users.

The current price control regime does not provide sufficient incentive to ensure the services are economic. Whilst we appreciate that Ofgem can disallow DCC margin where it is believed costs were not appropriate, it is Users who have already incurred those costs. Noting after the event that the costs should not have been incurred does not reimburse the Parties and only reduces DCC margin in a certain area.

This is further amplified by other examples of where DCC can increase its margins without risk, undermining the explicit responsibility to reduce the costs to users, such as the 'share-gain' principle, which allows DCC to recover costs regardless of outcome, and a substantial share of any savings achieved.

It would be far more efficient and effective to introduce an annual budget setting out expected spend that must be issued for approval. This would help ensure costs are acceptable and appropriate before they occur. This is the approach for other areas of the industry. Price Control would be most effective if it used both elements of ex-ante and ex-post review. This would ensure Users, who fund the infrastructure, can help allocate proportionate spend to the most appropriate areas and there is a satisfactory audit of spending by Ofgem after the event.

The SEC panel regards the review of DCC regulatory arrangements as a critical event in the lifecycle of the Smart Energy Code, and a key opportunity to address current short-comings and improve the quality and sustainability of the DCC Service to meet the current and evolving needs of SEC parties. To this end, the SEC panel will continue to review and will develop a 'White Paper' on the subject, for submission to Ofgem as part of its considerations.

If you would like to discuss this further, please do not hesitate to contact myself or the SECAS team on 020 7090 7755 or SECAS@gemserv.com.

Yours sincerely,



Peter Davies

SEC Panel Chair