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Consultation Response: Proposals to introduce a DCC switching performance incentive regime

We support the proposal to implement a performance incentive regime on the DCC regarding the switching services that it provides to the energy market.

We both receive services from the DCC switching service, as an electricity and gas distribution network operator, and, in the form of our EDRA/GDRA roles, provide services to them. This is a new relationship for the DCC to understand and manage. Experience to date suggests that it might take some time. We believe that this situation could be improved if the customer relationship management is made a greater priority in the incentive performance regime.

Developing constructive ways of working with industry parties is going to be key to the DCC providing a high level service from its switching operations both in the short term and further into the future as the industry looks to develop and evolve.

We would recommend that the percentage of margin for RY 23/24 is rebalanced from that proposed in the consultation. We suggest increasing the percentage that is applied to the Value For Money Measure from 20% to at least 50%.

This would provide the incentive for the DCC to invest time and resources into improving its relationship management with its customers and partners in the industry.

Responses to specific consultation questions:

Question 1: Do you support the establishment of the Switching Incentive Regime (SIR) in the Licence as the mechanism for assuring the Switching element of DCC's Price Control?

Yes, the use of the DCC for the provision of the central switching services is not something that the parties to the REC and users of the service can change. With such a monopoly service provision there is a need to incentivise the right behaviours and quality of service from the DCC.

Question 2: Do you agree in principle with the revocation and replacement of the May 2019 Direction, in the event that we establish the SIR?

Yes

Question 3: Do you agree with the definition of the four categories of measure identified that will constitute the SIR?

Yes, these seem a good broad set of criteria to use and suitable for the proposed use of an annual process to define specific measures.

Question 4: Do you agree with our proposal that DCC should be able to earn a margin somewhere in the range of 6 – 9% of its economically and efficiently incurred internal costs under the enduring Switching arrangements (equating to a range of 6.4 – 9.9% in terms of return on costs)?

Yes, we agree with the consultation assessment of the risks that DCC business incurs from operating the Switching Services for the industry. We also agree that the overall risks that it faces in providing these services are less than in the earlier phases of Faster Switching programme and are also less than that it is exposed to in providing smart metering services.

We would caution about reducing the incentives on the DCC to provide an acceptable level of service to the industry by too much. Experience to date has not provided comfort that the organisation is sufficiently motivated to deliver a good standard of service for its customers. Its focus is more often on delivering for Government and Ofgem, enhanced incentives that adjust this mindset should be a focus of the enduring DCC price control.

Question 5: Do you support either of the options we have identified for incentivising DCC's margin in the early post-go live period of Switching? Are there any other options you think should be considered?

We would prefer the second option suggested in the consultation, that 100% of the of DCC's allowed margin for the early post-go live period, is carried forward to be put at risk against future incentivisation criteria.

Judging the DCC against targets that it has already met doesn't seem to provide a relevant incentive.

Carrying this value over into 2023/24 will incentivise them to prepare for the new regime, especially the value for money measure, which is likely to provide the best incentive for them to provide a good service for users.

Question 6: Do you agree that the proposed Licence drafting appropriately reflects the policy intent of our proposal to establish the Switching Incentive Regime?

Yes, this seems a pragmatic approach.