Ayena Gupta
DCC Oversight and Regulatory Review
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

Email to: DCCregulation@ofgem.gov.uk

20 December 2022

Dear Ayena

Consultation on proposals to introduce a DCC Switching performance incentive regime

EDF is the UK's largest producer of low carbon electricity. EDF operates low carbon nuclear power stations and is building the first of a new generation of nuclear plants. EDF also has a large and growing portfolio of renewables, including onshore, offshore wind and solar generation, and energy storage. With around six million electricity and gas customer accounts, including residential and business users, EDF aims to help Britain achieve net zero by building a smarter energy future that will support delivery of net zero carbon emissions, including through digital innovations and new customer offerings that encourage the transition to low carbon electric transport and heating.

We welcome the opportunity to respond to this consultation on a Switching performance incentive regime for DCC. The switching services provided by DCC are critical to the effective operation of the retail energy market, and the consumer experience of that market. The introduction of an incentive regime that places 100% of DCC's margin at risk will help ensure those services meet the needs of the parties that use them.

Our experience of DCC's customer engagement since go live has been poor. We therefore welcome the inclusion of a customer engagement element within the proposed incentive regime, and hope that it will drive DCC to address their current deficiencies in this area.

While DCC should be able to earn a fair margin for the provision of switching services, the sums that DCC are seeking to achieve are inappropriate, especially considering the ongoing energy price crisis. We welcome Ofgem's proposals to award a margin level below that and encourage Ofgem to ensure the cost burden on consumers is minimised.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Paul Saker or myself.

I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely

Denise Willis
Senior Manager of Industry Change

Attachment

Consultation on proposals to introduce a DCC Switching performance incentive regime

EDF's response to your questions

Q1. 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.

Given the criticality of the switching services that DCC provides to the retail energy market under the conditions of its licence, and to the consumer experience of that market, it is vital that high levels of performance are achieved. A well-designed Switching Incentive Regime (SIR) that places the whole of DCC's margin for the provision of switching services at risk should help to drive DCC towards the levels of performance that we and our customers need them to provide.

Q2. Do you agree in principle with the revocation and replacement of the May 2019 Direction, in the event that we establish the SIR?

Yes.

Q3. Do you agree with the definition of the four categories of measure identified that will constitute the SIR?

Yes, we agree with the four categories that will constitute the SIR.

We agree that operational performance (evaluated using the Service User Measure) is the most important factor in delivery of the switching services, as it has the most direct impact on the users of those services and their customers. A weighting of 80% is appropriate for that measure.

We welcome the inclusion of the Value for Money Measure, and the proposed 20% weighting. Unfortunately, our experience of DCC's engagement in the post-go live period has been poor; we hope that placing part of DCC's margin at risk will help to drive improvements in this area.

Our main area of concern is DCC's Service Management. We have found communication to be poor where we have raised incidents with the Switching Service Desk, with the information provided in response to incidents frequently unacceptable or requiring further clarification. While the Switching Operator Issues Forum has been established to enable user issues to be raised and discussed, there is too much focus on system performance and not enough on the operational issues that service users are experiencing. We also find the knowledge resources on the Service Management Portal (ServiceNow) to be quite limited, and difficult to interpret and use. In contrast to the REC Code Manager, who undertakes continual improvement for the REC Portal, DCC doesn't have any means of gathering user feedback for its Service Management Portal.

DCC needs to improve the engagement with the users of its switching services to understand and address their concerns. Placing a portion of its margin at risk based on user satisfaction should increase DCC's focus in this area.

Q4. 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, however we would expect to see the level of margin being set at the lower end of this range i.e. around 6%.

There is no justification for the margin levels being proposed by DCC, which are noted to be in the region of 9% to 13%. Amid an ongoing energy price crisis, and with energy suppliers currently permitted to earn a maximum margin of 1.9% under the price cap on energy supplied to their customers, we must ensure that all costs being passed on to consumers are affordable and fully justified.

We agree that DCC should receive a fair margin for their role in switching. Given the stable nature of the switching services they provide and the current climate in the energy market, we regard a margin in the region of 6% as a fair return.

Q5. 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 support option 2, and incentivising DCC's margin in the early post- go live period using the Switching Incentive Regime that is implemented as a result of this consultation.

If the Switching Incentive Regime is implemented broadly as proposed in this consultation and based on the performance metrics proposed in REC change R0025, option 2 will mean that DCC's margin will be assessed using the service levels defined in the REC during the post-go live period. Placing the margin for provision of these services at risk using the relevant service levels defined in the REC is a fair and appropriate approach. DCC should have been seeking to achieve its service levels in that period, or looking to change them though the REC change process if they did not believe them to be appropriate.

We do not support option 1. Under this option there is no relationship between the performance measures that would be used to determine DCC's margin and the performance levels that we and other parties will have experienced as the users of DCC's switching services in the post-go live period.

Q6. Do you agree that the proposed Licence drafting appropriately reflects the policy intent of our proposal to establish the Switching Incentive Regime?

Yes.

We have not identified any issues with the proposed Licence drafting.

EDF
December 2022