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DCC Oversight and Regulatory Review
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21 December 2022

Dear Ayena

Consultation on proposals to introduce a DCC Switching performance incentive regime

Thank you for the opportunity to respond to your consultation on the proposals to introduce a performance incentive regime for DCC in its roles in the enduring Switching arrangements. The DCC play an important role in Switching and the DCC must work collaboratively with other REC parties (such as DNOs in our provision of the Electricity Enquiry Service and Electricity Retail Data Service) to provide an efficient, value for money service for energy customers.

We are supportive of using incentive mechanisms to drive improved performance in terms of efficiency and customer service. These mechanisms must be appropriately designed and targeted to achieve the desired outcomes. Ofgem notes that the proposed Switching Incentive Regime (SIR) incentivises DCC to deliver a high-quality service by placing 100% of its allowed margin each year at risk against performance indicators which we support. It is also notable that the Ofgem includes 100% of the DCC's margin in the price control assumptions with proposed negative adjustments based upon various performance metrics. We suggest that incentives should be asymmetric and result in penalties for non-delivery of the levels of service required, with only upside for exceeding the codified levels of service, built into the DCC's business as usual structures. The incentive reward for any upside should be linked to the whole system benefit of any exceeding of incentive balance points (i.e. the upside should be calibrated using customer benefits). Extra reward should only be available for extra performance. In the case of the SIR, all incentive incomes are deemed to be collected at the start of the price control, with only negative adjustments. We would suggest that Ofgem could introduce a different mechanism to both reward and penalise performance.

For the 2023/24 SIR, the proposal to include the two separate measures (a Service User Measure – SUM and a Value for Money Measure -VMM) is appropriate but there are issues with both the definitions and the proposed percentages. The definition of VMM is inconsistent with its title as it describes its customer engagement with its stakeholders in its Switching roles (rather than its cost efficiency or value created for customers). We would suggest that this measure is renamed to reflect the intended purpose of effective DCC stakeholder engagement to improve switching performance, such as a Stakeholder Engagement Incentive (SEI)

As noted above, we are also concerned the proposed split of the two metrics. Ofgem's proposed 80% SUM:20% VMM weighting does not place the appropriate balance between the two measures to

improve switching stakeholder engagement. The SUM mechanism, which will be administered through the REC Performance Assurance Framework, requires the DCC to achieve a baselined level of SLA performance, rather than improve performance for the benefit of customers. In other words, 80% of the total SIR will be exposed to the DCC achieving the minimum level of performance acceptable before any penalties become due.   We would suggest that the 80% weighting of the SUM should be reduced to a maximum of 70% as the incentive, as it stands, will reward the DCC for achieving its SLAs (i.e. the minimum level of acceptable performance).

We would recommend that the weighting of the VMM should be increased to incentivise DCC to improve on its customer engagement activities as overall, we believe this has an increased probability of improving switching performance overall for consumers. The SEC Panel and Smart Energy Code (SEC) parties have raised concerns at the recent Ofgem price control stakeholder event held in December 2022, that largely SEC party feedback is ignored or not addresses by the DCC. This pattern of poor customer engagement is now being transferred over from the DCC's smart metering services to the DCC's switching services. In our response to Ofgem's price control RY21/22 consultation, we have provided an example regarding the DCC' poor customer engagement regarding their DCC Address Management Quality Plan. The DCC's central role as the CSS provider is different to their central role as the DCC network provider. With the former the key to success will be reliant upon the DCC working collaboratively with all REC service providers (not just DNOs as Electricity Retail Data Agents (ERDA)) and the most effective mechanism to incentivise this would be through the SIR. We would suggest a minimum of 30% weighting in this area to encourage appropriate and effective engagement to improve switching performance.

In terms of rates of return, Ofgem states that the proposed margin of 6 – 9% of its internal costs is based upon the calculation methodology (set out in Ofgem's November 2016 consultation on DCC's margin on the Transition phase of Switching). Whilst it is notable that the range is lower than the DCC Baseline Margin of 15% on its Smart Metering business and the 12% DCC's Switching margin for its role in the Transition Phase, we would note that Ofgem has not benchmarked these returns against other BAU activities/businesses. The range of 6-9% exceeds those in other low risk utilities and Ofgem should ensure that the rate of return is reflective of the current market conditions and other regulatory returns (noting that 100% of the SIR margin will be included in base revenues with reductions to be made based upon performance).

Finally, in our response to Ofgem's DCC review Phase 1 consultation we are recommending that Ofgem investigate separating out the core DCC mandatory services which includes into individual licences each independently competitively tendered – to better promote competition, encourage innovation and improve cost efficiency for customers.

Please feel free to contact me if you have any questions

Yours sincerely

Bryan Heap
Regulatory Contract Manager