

Tuesday, July 16, 2024

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Dear Jakub,

Utilita welcome this consultation on the future arrangements for the governance of the Data Communications Company and Centralised Registration Service. This licence renewal is one of the most critical events to occur within the smart metering programme to date and any changes must be carefully considered to ensure that the resultant infrastructure is both operationally and economically efficient. This is especially important given the length of the contract being awarded, as we only have an opportunity to make these changes once every 12-18 years.

The DCC and its Service Providers are tasked with providing the infrastructure that allows smart meters to communicate. This infrastructure delivers a pre-defined service, which stems from licenses and ancillary industry codes. The established network is one funded by Energy Suppliers and Network Parties, with costs ultimately being passed on to customers.

It is with this purpose and funding mechanism in mind that we propose an approach to DCC governance outside of the options presented in this consultation. The DCC is not a typical board run entity. Its core service is one mandated by and derived from an issued license, rather than being an independently developed and marketed product. Their financial arrangements are also different, as the DCC pass through their costs to other organisations.

We therefore question the applicability of a traditional board structure. The consultation lays out the advantages and disadvantages of various board compositions. It is our opinion that the considerations presented are all contingent on an understanding of the DCC and its purpose which does not align with how its core operational smart metering services are derived and funded.

It is with this in mind that we propose a split in the existing responsibilities of the DCC into two distinct elements, with separate governance and funding arrangements for each element. Stakeholders are best placed to assist with the DCC's governance of the **core smart-metering communications network service**. Whereas any service elements which **sit outside this core scope** can be governed by the models presented by Ofgem in this consultation.

This split in governance arrangements allows the operation of the communications network to fall under the remit of those mandated to utilise it as a core part of their business. These stakeholders already possess the relevant Industry and customer advocacy expertise required and have a direct and vested interest in ensuring the network is stable, robust, and economically efficient.

We strongly disagree with Ofgem's assumed risk that an industry-led model would trend towards cost cutting at the detriment to network performance. Consistent and repeated industry action over the last decade should demonstrate that Industry is focused on improving service levels. This can be evidenced by constant calls for network improvement at various SEC and DESNZ forums, leading to initiatives such as the Scaling and Optimisation plan, network expansion projects and many service enhancing SEC Modifications. Parties have been consistent in voicing their desire to improve service levels and reduce costs, as this is in the best interests of all customers.

This split in governance also allows the innovation, evolution, and ancillary services that the DCC is currently responsible for to potentially be folded into a more appropriate entity at Ofgem's discretion and for new funding arrangements to be implemented. The financing arrangements for this entity can also be adjusted to ensure it is exposed to the financial and economic incentives necessary for it to operate effectively.

In conclusion and summary:

- 1) We believe Industry would be better served by separating the DCC's current obligations into two distinct elements:
 - i) the operation of the core communications network, and
 - ii) the provision of all other elements – including innovation and evolution initiatives

and that these should be governed by separate entities

- 2) The board based model has not worked to date, and the presented models look to continue this trend. A different perspective must be taken to ensure a model that is fit for purpose is implemented.
- 3) A stakeholder-led model for the delivery of core smart metering communication services would seek to provide customer benefits through increasing service levels while reducing costs, but the end goal is a robust and stable network to support our core business.

We would be happy to discuss any of these points in further detail as required, and once again thank Ofgem for the opportunity to contribute to this critical time of change.

Yours sincerely,

by email only

Kevin Clark

Utilita Energy Limited

Further Commentary

Board Composition Options

Examining the options presented in more depth, we agree with the presented risks, especially the conflict of interests outlined in options 1 & 2 and find the lack of customer representation in a position to provide direct input on direction and operation an unacceptable compromise that forces an unworkable model into place simply because the structure already exists.

While Option 3 recognises the issues highlighted and provides a resolution to them, in our experience, the model also adds an unacceptable level of dysfunctional governance hand off between the Industry forum and board, which can often add several months to any decision between the initial presentation to the forum, queries and concerns being raised and resolved and parties given sufficient time to gather internal views before being ready to vote on the issue.

Option 4 also recognises the issues highlighted and provides an alternate method of resolution and is only viable because of the risk of conflict of interest. We also agree with the risks presented and find that the risk of being unable to attract Sufficiently Independent Directors with the appropriate skills and experience is an unacceptable one, as this leaves Industry without a voice in the direction of the network, as there is no direct representation and appropriate independent representation is lacking.

We also note that, of the four board structure options presented, only one remains viable due to a risk of conflict of interests from non-independent Board members. This should not mean that the only option left over by default becomes the model progressed, but instead recognised as a sign that we must approach the governance of the DCC from a different perspective.