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By Email Only

16 July 2024

Dear Jakub,

OVO response to Ofgem's consultation on DCC Review Phase 2: Governance and Switching

Thank you for the opportunity to respond to this consultation. We welcome Ofgem's review on the policy elements of the new DCC Licence.

We believe it is vitally important that Ofgem takes a strategic view and considers what the DCC and its future activities are trying to achieve in the round, particularly as the retail market evolves to support the delivery of net zero at the lowest possible cost.

The future energy landscape and DCC's role in delivering key services

The energy landscape that DCC operates in is continuing to evolve, and this will undoubtedly impact the regulatory arrangements that are needed for a future model and licence. Central to any development of the new models for DCC must be a consideration of the strategic purpose and future DCC services that will form the scope of the new regulatory arrangements.

DCC is currently working on changes to implement Market-wide Half Hourly Settlement (MHHS) and support the new Settlement regime; to deliver these changes, DCC is implementing changes to their network capacity (c. £12m) to support the increase in data traffic.

As we look ahead, there are several industry workstreams that seek to introduce changes with delivery timescales over the next three years, where DCC is being directly engaged with or may be impacted by:

- Data Sharing in a Digital Future - Consumer Consent
- DESNZ's thinking on what a "digital spine" for the energy system means, and how DCC fits into that vision
- Future sharing and accessibility of Tariff data under the Smart Secure Electricity Systems (SSES) Programme
- Energy Code Reform - consolidation of Codes and establishing licensed Code Managers and Centralised Systems
- Centralised Registration Service - the potential transfer from DCC to the Retail Energy Code, delivered by RECCo.

We would encourage Ofgem to produce a clear roadmap of changes, with priorities and dependencies, and how this fits into the strategic objectives of a future DCC. We would be happy to participate in industry roundtables to help create such a roadmap. Having a clear roadmap that is well understood and supported by stakeholders becomes critical when developing any tender specification, and attracting bidders, depending on the timing of the delivery of these changes and the length of the extension for the existing DCC Licence.

Existing DCC Services and performance

It is essential that there is a stable and robust DCC system and set of Services, yet the level of faults and capacity issues that persist to this day is still unacceptably high. We note that although there have been improvements in the number of 'minutes lost' during 2024, DCC is still to deliver the expected changes that will increase the level of performance to an acceptable level and there are too many outages and incidents linked to upgrades and maintenance; DCC must deliver a system that can operate with minimal outages and resulting impacts on suppliers and consumers.

Alongside this, the existing DCC infrastructure must be considered given that it has aged-out and needs improvements to make it fit for purpose. Our understanding is that any re-platforming has a delivery date of 2027 at the earliest; with the following elements still lacking clarity:

- Proposed solution with clear direction on the transition and continuation of DCC Services
- Financing of the programme in terms of costs and how this will be funded, noting that there has been no sight of the business case from DCC
- How this will be managed and governed - Ofgem previously indicated in extending the DCC licence beyond September 2025, by 12 to 36 months, that their preferred option is to have as short a timeframe as possible

OVO strongly believes that the communications for the management and maintenance of Smart meters and devices by Suppliers to complete their duties must be the priority of DCC

core services. We view that potential new services in an innovative area, such as data sharing, should only be evaluated once the DCC technology improvements are delivered in 2027 and core services are performing to an acceptable standard. Any new elements should also feed into the DCC roadmap of changes that must be considered when assessing the future DCC licence and regulatory arrangements.

Future DCC and the different models for ownership and governance

We note Ofgem's "minded to" position on taking forward the DCC on a not-for-profit basis. However in our view, this decision cannot be taken in isolation from the broader strategic roadmap. In our view a "for profit" model could be part of the solution for a reformed DCC, depending on the model eventually chosen; it feels premature to take this option off the table.

DCC performance and accountability are key to suppliers' ability to deliver on their own regulatory obligations. With performance and accountability in mind, if Ofgem chooses to run a competitive tender, it is extremely important to have a number of bidders to ensure a truly competitive process with the best value outcome. We are concerned that a "not for profit" arrangement will not result in multiple bidders engaging in this process, and would encourage Ofgem to undertake market testing before proceeding down this route. Our assessment of the proposed governance in this consultation leads to the following concerns and uncertainty:

- Unclear as to how the incentives and penalties will drive the required performance improvements and there is a lack of competitive tension
- Funding parties will want some flexibility and direct influence over the Board and company direction
- This approach is unlikely to attract bidders with the needed expertise in Technology Outsourcing
- It appears that the "not for profit" will be taking on a lot of risk, and it is unclear how this will be compensated, if not through profit yielding a return on capital at risk

Furthermore, we believe that a detailed consideration is required to determine what is needed from a future DCC to ensure a fundamental evolution of the arrangements. We consider that more work is needed to define and detail the specification for any tender, in order to secure a successful outcome.

Finally, we would like to work with Ofgem to help assess the pros and cons of different models and, critically, to help specify the performance criteria under any arrangement. OVO would be willing to commit resource and specific insight into what works, what needs to change and what needs to be in scope of a future DCC.

Our detailed responses to the consultation questions are provided in the below Appendix. We would be happy to discuss our response further, and should you have any questions

please contact policy@ovoenergy.com.

Kind regards,

Samantha Cannons
Regulation Manager, OVO

Appendix - OVO detailed responses to questions

DCC Board Composition

1. What are your views on the presented options for the future DCC board composition? Do you agree with our analysis that Option 4 (majority independent model) is the most appropriate to take forward? Please state your reasoning.

As set out in our cover letter, we believe that there needs to be further discussion and engagement with industry to develop the thinking on the required models for the future DCC. Therefore this consultation is potentially premature, and should be re-visited once the broader assessment of the tender specification and pros and cons of any possible model has been completed.

With a future board arrangement proposal that is currently an independent majority, without direct representation from persons affiliated with DCC's service providers or customers, we foresee the following issues:

- The board needs to be responsive to and allow for direct influence from funding parties
- Recognition that this is a starting point for the DCC board and that the processes must be responsive to and have the agility to address concerns as they occur

2. What are your views on the current and proposed Licence requirements on Sufficiently Independent Directors? Do you agree that one or more of the current Licence-imposed Independence Requirements may be relaxed in favour of more discretion afforded to the Board?

The relaxation of the time restrictions in relation to the Independence Requirements, to give more discretion to the Board, seems reasonable. These can remain in line with limitations currently imposed by the DCC Licence (12 months).

3. Do you agree with our proposal that the Chair of the future DCC board should meet the requirements on 'Sufficiently Independent Directors' without exception?

We support the independence of the Chair of the future DCC board, noting that this may present challenges in securing the necessary applicants.

4. What are your views on our analysis and proposal not to introduce additional requirements or restrictions on the size of the future Board and on the number of executive members and shareholder representatives?

We are supportive of not changing the existing DCC Licence and to remain with the current requirements where there are no restrictions on the size of the future Board.

Board appointment process and requirements

5. Do you agree with a possible requirement on the Board to possess expertise in certain core areas? Do you agree with the areas we have identified? What are your views on the implementation options?

We are broadly supportive of the identified expertise in certain core areas. However, we believe this should also ensure that there is focus on decreasing expenditure and increasing performance. The approach to enabling flexibility of board appointments appears to be a balanced approach.

6. Do you agree with our proposal to represent consumer voice via a requirement on the appointment of a Sufficiently Independent Director with consumer advocacy experience?

Yes, we agree with the appointment of an individual with relevant consumer advocacy experience, and knowledge of the wider energy environment.

7. What are your views on Ofgem's role in the Board appointment process? Do you agree with our proposal that the Authority could have a role in the appointment process of non-executive directors? Which option would provide the most appropriate and effective accountability framework, and why?

Our view is that 'Option 1: The Authority's right of review' is sufficient to provide an effective accountability framework. This would provide an appropriate level of oversight, whilst ensuring that any potential recruitment is not adversely affected.

8. What are your views on the role of DCC customers and other stakeholders in the Board appointment process? Do you agree with our proposal to provide representation for DCC customers on the Nomination Committee? What should be the role of an industry representative in such an arrangement?

Whilst we continue to have concerns that there is no direct representation from DCC funding parties on the DCC Board, we agree that there should be the ability to input directly into the appointment process. Therefore, the proposal to provide representation for DCC customers on the Nomination Committee. We believe this could be achieved through the involvement of the SEC Panel.

9. What are your views on our proposals for an additional requirement on the Chair's experience and Ofgem's role in the initial appointment of the Chair? In what other way should the appointment process for the Chair be different to that of other DCC Board members?

It is important that the DCC Board Chair should have a proven Board-level experience in an organisation of similar size and standing as DCC. In addition, we believe it is crucial that they have demonstrable experience of companies that specialise in Communications Services, Technology Outsourcing and Contract Management.

We agree that Ofgem can be consulted on the appointment of at least the initial Chair of the Board however they should stay short of a direct role in the selection process.

Incentivisation of DCC Board and executive

10. What are your views on changes to the term of appointment of non-executive directors? Do you agree with our proposals to limit the initial term of appointment for non-executive directors to 3 years, and to allow for up to two reappointments with the total term limited to a maximum of 9 years?

Ofgem's view of the best way to incentivise non-executive directors, specifically Sufficiently Independent Directors, is by setting the term of appointment such that it attracts, and retains, persons of good calibre but allows for retirement in case of poor performance. We do not believe that the initial term of appointment of 3 years provides the level of responsiveness required to drive performance, particularly given that there is no associated remuneration above a fee and expenses. We strongly view that a robust mechanism is required to ensure that poor performance can be speedily addressed for independent directors.

11. What are your views on the identified reputational incentives and associated enhanced regulatory requirements? How effective do you believe these incentives can be?

As set out in our cover letter, we believe that there needs to be further discussion and engagement with industry to develop the thinking on the required models for the future DCC. Therefore this consultation is potentially premature, and should be re-visited once the broader assessment of the tender specification and pros and cons of any possible model has been completed.

12. What are your views on direct financial incentivisation of executive leadership and key staff? What would make those incentives effective?

Please consider their interlink with the reputational incentives.

Nil response - refer to cover letter.

13. What are your views on the proposal to grant stakeholders the power to issue a (non-binding) motion of "no confidence", its objective and requirements? If implemented, what should be the methodology for determining a qualified majority and distribution of votes among stakeholders?

Nil response - refer to cover letter.

Interim changes to governance

14. Do you agree with the identified priority areas of interim changes? Are there other governance changes that should be implemented in the Licence extension period?

We agree with the identified priority areas of interim changes during the DCC Licence extension period.

15. What are your views on the possible retention of current Sufficiently Independent Directors on the Board of DCC2? What provisions may need to apply to facilitate this?

To provide a degree of continuity of expertise at the Board level and to allow for future staggered appointment of Sufficiently Independent Directors, we agree that it seems appropriate to enable the possible retention.

Centralised Registration Service (CRS)

16. Do you agree with our proposal that it would be appropriate to remove provision of the Centralised Registration Service (CRS) from the DCC Licence and transfer the obligation to the Retail Energy Code (REC) to be delivered by RECCo?

We understand the principle of transferring the Centralised Registration Service from the DCC Licence to the Retail Energy Code to be delivered by RECCo.

Any transition of these services and technology would need to be risk-free and ensure that ongoing operational activities are not affected, with a continuation of services without impact to Smart and Switching.

There should be no additional change-cost to suppliers for this without there being a clear benefits case for customers, given that costs will be passed through to consumers.

17. What are your views on the considerations we have identified under option 1?

We believe that these considerations seem fairly comprehensive and cover the scope of a future transition of the switching services. We fully support an independent oversight and assurance regime and agree that this should align with an existing mechanism within REC governance.

In terms of the contract transfers that may be required, it must be stressed that the orderly transition has to include consideration of Smart to ensure there is no detriment to existing services. We also consider this to extend to the statement on knowledge retention and the possibility of DCC staff transferring to RECCo; it is our understanding that there is a combined team that supports both Smart and CRS, therefore any transfer of resources must not impact Smart support.

The process for technical transition and its potential impacts, including the time, cost and security implications, must include a full cost benefit analysis to enable robust assessment and decision-making, ahead of any approval to proceed.