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Dear Jakub

DCC Review Phase 2: Governance and Centralised Registration Service arrangements

BUUK Infrastructure (BUUK) welcomes the opportunity to respond to the consultation regarding improvements to the future regulation and governance of the DCC.

Overview of our business

BUUK Infrastructure (BUUK) is the leading UK multi-utility infrastructure investor, working across Great Britain and competing against incumbent utility companies. Our initial interest in utilities began with ownership of regulated gas networks and we have gradually expanded our portfolio into other utility sectors including electricity, fibre, water, wastewater, and heat. We are ready to invest in solutions to support the transition to net zero applying our experience of delivering utility infrastructure and we believe our credentials mean we are well-placed to do this.

Our IDNO electricity distribution networks business supplies over 800,000 domestic customers, the majority of which have smart meters installed in their properties. We were the first IDNO business to become a DCC User and to take advantage of the benefits that smart meters provide in enhancing our customer service provision.

Summary of BUUK views

We are not convinced that the preferred option for the future structure of the DCC Board is optimal and believe that a model in which users of the DCC services have a greater direct involvement would be beneficial.

We do recognise the effort that Ofgem has taken in this consultation to assess the benefits and challenges of different options. We believe this to be comprehensive and fair although we believe that some of the challenges set out for options 1 and 2 are more easily resolved than is suggested in the consultation.

If option 4 for the DCC board structure is to be used it is important that people with sufficient understanding of the business needs of DCC customers are included. Evidence from the implementation of RECCo demonstrates the value that this will bring.

We support the transition of the Central Registration Services (CRS) from the DCC to REC. This was the original policy intent and only couldn't be achieved as the REC was not

established in time to make this viable. We agree with all the conclusions within the consultation as to why this is a preferable outcome.

There is a risk that, in transitioning the service, there may be a temporary reduction in the quality of CRS service standards. Much of this risk will be associated with resources and commitment from the DCC in ensuring the smooth transfer of systems, contracts and key person.

To mitigate this risk we would like to see an appropriate level of oversight from Ofgem and measures in place to ensure that the DCC is incentivised to deliver a positive outcome.

Alex Travell
Head of Regulation

Responses to consultation questions:

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.

We understand the analysis Ofgem has undertaken into the options and agree with the pros and cons that arise from each. We disagree that option 4 is better than option 1 (or 2, but we agree that this would be more complex to implement), and that the issues that arise from this model could not be addressed as easily as those for option 4, including the ability of Directors to understand the need to balance decisions that may create conflict between the DCC Licence obligations and the needs of its customers. In practice these should not often, if ever, materialise as the needs of the DCC customers should form the basis of the DCC licence.

Option 4 risks disenfranchising the users of the DCC service. It risks continuing the unhelpful divide between the DCC and its customers and continuing the mistrust that currently exists.

We appreciate that we have yet to see Ofgem's proposals for addressing some of these concerns via incentive mechanisms as these will be set out in the forthcoming consultation on the future of the DCC. However we remain sceptical that these alone will be sufficient to address the current issues.

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?

We agree that option 3, to allow the Board to exercise its own judgement in relation to the appointment of Sufficiently Independent Directors, is preferable.

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?

Yes, we agree that this should be changed to align with the requirements proposed for Sufficiently Independent Directors. This aligns with the UK Corporate Governance Code and would be an improvement over the current arrangements.

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 agree with the analysis and conclusion that the size of the DCC Board does not need to be prescribed and that it should be left to the DCC to determine this, based on the requirements that are expected and from it and required by the new the licence (e.g. percentage of independent directors and energy sector knowledge).

Board Appointments***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 agree with most of the areas identified although we do not see a logic for including consumer advocacy. We understood the reason for the inclusion of this requirement in the formation of the RECCo Board. The remit of the REC results in it having more direct impacts upon consumers and how they experience the energy market.

DCC's remit is more technical and it does not interact directly with consumers but instead provides services to those organisations who do. Having experience of the GB energy market will provide an adequate level of understanding of the potential impacts on energy consumers via the impact the DCC has on the market participants.

We would therefore recommend removing this requirement and keeping the core areas of experience. We believe it is especially important to include experience of the GB energy market. The recognition of a requirement to understand energy supply and distribution is welcome. It may be relevant to include other sectors of the market in the future if they grow to become a large customer base for the DCC.

The current focus of the DCC management is too heavily biased towards communication technology and greater focus should be on understanding the energy market, who are the customers of DCC services. Including this as a requirement on the Board should start to help address this shortcoming.

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?

For the reasons set out in our response to question 5, we do not feel that this is required. Option 3 to have a consumer facing objective in the DCC licence is a preferable mechanism for delivering the outcomes that are intended from this proposal. It will provide a broader focus for the DCC as an organisation in its operational activities and embed a cultural change.

A more limited approach, via a Non-Executive Director (NED) Board appointment, is likely to have a less substantial impact on how the organisation behaves. It is also likely that finding suitable good Board candidates that meet the criteria will be challenging.

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?

We agree that Ofgem should have a role in the selection of DCC NED Board member. Our preference is for option 2 as this would ensure that Ofgem maintains an engagement in the DCC governance and performance.

We appreciate the challenging volume of different commitments that regulators experience. There is an enduring risk that the appointment of non-executive directors to the DCC Board becomes a lower priority activity.

If option 1 were to be used, the time allocated to DCC governance oversight by Ofgem might deteriorate in the future. Option 2 should mitigate this risk to some extent and is therefore our preference.

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?

If option 4 is selected rather than our preferred options 1 or 2 then we are not convinced that any of these options are required. The appointment of the Board members in this option is an issue for Ofgem to oversee and ensure is working as expected.

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?

The proposals align with the processes used in other similar not for profit industry organisations to appoint a Chair and therefore seem reasonable.

Option 2 is an improvement to the current process and would ensure that Ofgem is more actively involved in the decision making process when finding a suitable candidate. This would be more efficient and lead to less risk in the process from a potential rejection. Something which would be both administratively costly for the DCC and disruptive to the functioning of the Board.

Board Incentivisation

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?

This seems a sensible approach, balancing the potential need for change with the ability to maintain good people on the Board. Ensuring that the appointment process for new NED Board members is staggered and that all NEDs are not replaced at the same time should ensure continuity on the Board and help ensure it functions well.

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

We agree that the move to a not for profit basis for the DCC would necessitate a change in the way that DCC's performance is judged and rewarded. It is an opportunity to improve the transparency and accountability of the DCC and the proposals to focus on enhanced reporting is a good idea.

A reformed customer satisfaction survey (option 2) approach is also a good idea. It would be logical to align this with similar proposals that will be needed for the proposed new licenced code managers. This would have a number of benefits including aligning performance measurement between similar organisations allowing benchmarking and would be more efficient for Ofgem and industry parties.

An independent review of DCC's contract management performance is a good idea combined with greater transparency on how recommendations are going to be implemented.

The suggested improvements and enhancements to the DCC business planning and cost management is welcome. How an incentive in this area would work was not entirely clear. Measures discussed seem more about the ex-ante price control allowance process than an incentive on ensuring that the DCC and its Board deliver a good performance in the process.

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.

We agree with the comments made in the consultation that the remuneration of the future DCC's executive leadership team should be linked to its performance for its customers.

How this can be achieved is a detailed matter and one probably best left for the remuneration committee to determine. Implementing a too rigid regime in the DCC licence would not be sensible as it would introduce a lack of flexibility and may restrict the ability to respond to changing market conditions.

This issue will apply when Ofgem look to implement the Energy Code Reforms and are considering how to incentivise the performance of the new licenced code manager executive teams.

We would suggest that this specific issue be looked at holistically by Ofgem and a guidance document be produced. Obvious candidates for incentivisation include linked annual performance bonus payments to customer satisfaction surveys and to the delivery of required service level performance.

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?

We understand the logic of implementing this option in the new DCC Licence. To be effective it would need to have a significant role for Ofgem in overseeing the process and ensuring that the rectification action is implemented. Without this there is the risk that the process will be seen as ineffectual and would not be used by DCC customers.

Option 4 would be our preference. It is similar to option 1 with regard to benefits but aligns with processes already used in the SEC. It would therefore provide a coherent approach to governance in the area of smart metering.

Interim Governance Changes

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?

Yes, ensuring there is a transition to good independent Board Chair and for Ofgem to have greater oversight of the Business Handover Planning are both good ideas from the

perspective of a DCC customer with an interest in ensuring that their service remains good during a time of corporate transition.

We are not convinced of the need for a consumer advocacy board director and therefore do not see the value of including one now in the DCC Board.

There would be greater value in appointing an independent energy sector NED Board member as the key risk during the transition period is from a degradation of services for DCC users and having someone considering this would be useful.

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?

We are not convinced that this is useful. Our assumption is that a new entity will be appointed with the DCC Licence and this company will have a Board made up of the required Directors decided by the outcome of this consultation process.

It isn't clear that the same set of current directors would necessarily meet the requirements of the new DCC Board or that they would want to be involved with the new organisation.

There will also be procedural matters for the existing DCC company that will need to be completed after the licence transfer and therefore their experience is probably better maintained within this organisation.

There would be no restriction on the individuals applying for positions on the new DCC Board if they so wished.

What will be more relevant in the hand over between DCC and DCC 2 will be ensuring some of the key executive staff transition. Their knowledge of the business is likely to be critical to ensure that services do not deteriorate. We assume that this issue will be addressed in the detailed business hand-over planning between the new and old DCC.

Centralised Registration Service arrangements

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?

Yes, removing the obligation on the DCC to provide the CRS will allow it to focus its efforts on the provision of supporting services for smart metering. The CRS activity has been a distraction for DCC management and now has less attention than it should have.

Moving the service to REC and allowing them to directly manage the CRS service providers will make governance and performance management clearer and more effective.

We agree that the ongoing Energy Code reforms do not impact this proposal and they should be implemented as soon as possible.

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

We believe that the assurance of the CRS service providers will be improved by moving their responsibility to REC. This will create clear lines of accountability between the service providers and the PAB enabling better contractual performance.

One area that we believe will need clarification is in the definition of the CSS Provider in the REC. At the moment this is described as being the DCC. Moving the switching services to the REC will require the CSS definition to be amended and updated.

Currently there are a number of obligations on the CSS within the REC to undertake specific tasks (e.g. REC Schedule 29 Address Management). The current performance assurance of the CSS is undertaken by REC and the PAB. If the REC takes on the role of the CSS it is unclear as to how the PAB would provide assurance when potentially this would be against itself.

We therefore feel that as part of the transition of the services from the DCC to REC there needs to be a review of the REC code documentation to determine whether consequential changes to the obligations on the CSS are required.

We believe that the issues of transition are valid to highlight and should all be considered in the project to implement these reforms. REC should be tasked with leading the project and DCC required to support the transition, potentially requiring specific time limited new licence obligations on them to be overseen and enforced by Ofgem.