



Governance and CRS arrangements

Smart DCC response

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1. Executive Summary

The Data Communications Company (DCC) welcomes the opportunity to contribute to Ofgem's review of our governance and incentive structures and the future of the switching service. We are committed to working with Ofgem to ensure a smooth transition to the Successor Licence and to enabling the DCC to utilise its full potential, leverage the value of its assets, and deliver societal and climate benefits as the digital spine of the energy system.

Governance arrangements

We are supportive of Ofgem's preferred model for the Successor Licence period of an Independent Board with an Independent Chair. An independent board will ensure that the interests of all stakeholder groups are represented rather than the views of one particular group being favoured. There is also a risk with a majority stakeholder board that conflicts of interest and different business models hamper effective decision making and the DCC's ability to make progress.

That said, the DCC is committed to ensuring that customer and consumer views are heard by the Board and factored into decision making. We therefore welcome the proposal that the future Board should have consumer advocacy and industry knowledge as part of its core skills set. In terms of customer engagement more broadly, Ofgem should consider the whole engagement landscape for the Successor Licence rather than taking decisions in relation to the different design elements. This will reduce the risk of overlap, tensions and overly burdensome requirements for industry and the DCC.

The DCC agrees with Ofgem's preferred approach to making appointments to the Board. Recruiting Sufficiently Independent Directors (SIDs) on the basis of their skills and experience will ensure that the Board is best placed to provide strategic direction and oversee the delivery of the DCC's objectives. Involving key stakeholders in the DCC Nominations Committee recruitment process will not only help secure their buy-in to the appointments, but also ensure that the individuals directors are seen as capable of representing their interests. Ofgem should also have a role in the DCC Nominations Committee appointment process, but this should be limited to ensuring that the Directors meet the licence requirements for independence and overall skills mix.

Incentives

If Ofgem designs DCC2 to be not for profit, then financial incentives will be impossible to implement and reliance on less effective reputational incentives will be necessary. A private sector model, with some potential to generate a return, would provide Ofgem with more effective mechanisms to incentivise performance. We are supportive of the proposal that the DCC continues to report on operational performance via the website but must reiterate that if customers and Ofgem wish to change the metrics against which we report, then this will take time and will incur additional cost if these measures are not already included in DCC's supply chain contracts.

Ofgem's proposal to move away from the existing customer engagement OPR assessment to a customer satisfaction survey is a sensible one and would provide the DCC with more immediate and relevant feedback which it can act upon.

As we have clearly stated many times before, whilst we agree that there should be an incentive regime based on an audit of the DCC's commercial performance, we do not agree that this should be against the NAO framework. This framework has been designed for the public sector and strict adherence to it by the DCC can lead to unnecessary activity and spend and does not always deliver the most cost-effective outcomes. Ofgem should look at alternative models better suited to the private sector.

The DCC does not support Ofgem's proposals for a business planning and cost efficiency incentive that sit outside the ex-ante price control regime. The assessment of the effectiveness of our business planning

and financial management will be an inherent part of the price control process and therefore the performance assessment regime going forwards. There is no need to duplicate this.

The DCC's REMCo already decides on the bonus and pay award arrangements for DCC staff based on a set of pre-agreed performance criteria, including how well the organisation has performed against its cost efficiency targets. We are supportive of an independent REMCo having responsibility for these decisions. However, it is not appropriate for bonuses and pay awards to only be reflective of, and funded via, cost savings as this has the potential to create perverse incentives and result in a loss of focus on the other important objectives that the DCC is accountable for. Bonus awards must reflect the entirety of individual and corporate performance from customer service to programme delivery and commercial management.

We strongly disagree with the proposal to allow stakeholders to deliver a vote of no confidence in the Board. This would create a power imbalance and a high degree of uncertainty. As well as deterring individuals from wanting to become Board members in the first place, it risks undermining the Board Directors' ability to deliver their fiduciary responsibilities if this mechanism is used injudiciously by stakeholders who wish to drive a particular decision or direction. There are a number of far more effective mechanisms for customers to make their views known to the DCC Board and for the Board to respond. For example, if Ofgem proceeds with its plan to introduce a Customer Satisfaction Survey then the Board could be required to respond formally to stakeholders and Ofgem setting out how they will act on the feedback.

Switching

We strongly disagree with Ofgem's proposal to move Switching¹ provision from DCC to RECCo. The service is delivering - we have delivered 27.5m successful switches and the service is available 99.9% of the time. The DCC has a clear path to reduce cost by a further 22%. Conversely, the benefits of a transition are unclear and unquantified. Based on the evidence that DCC has seen it will increase costs, decrease performance and service and add further complexity when the medium- and long-term desire is to achieve greater simplicity and clarity.

A transition would also incur considerable cost to industry and therefore end consumers. The DCC is able to offer significant economies of scale in delivering services such as the system monitoring, 1st line response, release management and anomaly detection. Separating switching from smart metering has the potential to increase not only the costs of switching, but also the costs of delivering the smart metering network. It also runs counter to the move to consolidate central systems capability across the energy sector and instead drives fragmentation.

Ofgem should develop a robust impact assessment, which needs to include input from industry on the impact of a transition to them in terms of testing etc, and a detailed business case which quantifies both the costs and benefits of change. We would be very happy to work with RECCo, Ofgem and industry on any specific ideas for improvement in order to avoid a costly transition programme.

¹ Note in this response we have used the term 'Switching' to cover DCC's full range of responsibilities as switching provider and switching operator, including CRS, CSS, Address Management etc.

2. DCC's Detailed Response

The following section sets out the DCC response to each of the consultation questions.

a. DCC Board Composition (questions 1-4)

Question 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.

The DCC agrees that Ofgem's option 4 (majority independent model) is the most appropriate for the future DCC Board. This model is most closely aligned to the 2024 Corporate Governance Code which recommends that *"at least half the board, excluding the chair, should be non-executive directors whom the board considers to be independent"*.

The DCC agrees with Ofgem that there are inherent disadvantages in option 1 and 2. A Board that is majority Customer Directors or a plurality of Customer and Independent Directors, is not only non-compliant with UK Corporate Governance Code, but also carries significant risks around conflicts of interest.

Ofgem suggests that option 1 and 2 have advantages around greater accountability and transparency to its customers. However, this would run counter to Board Directors' fiduciary duties and the confidential nature of Board discussions. There is also a risk that a majority Customer Board would struggle to make decisions given their different business models and the competition within the sector.

As identified by Ofgem we consider that there is a risk of not achieving the right skills mix across the board if it is customer led. Under option 2, it is also unclear what the process would be for deciding which stakeholders should sit on the board.

Ofgem's option 3 proposes to split board powers between a shareholder-controlled board and an Alt-Han style industry forum representing DCC stakeholders. However, this could lead to confusion with respect to the role of Directors – Directors have statutory responsibility for a number of the matters which it is explicitly stated (or implicitly assumed) would be devolved to the industry forum.

In a scenario where Directors would not appear to have full control over strategy, financing etc, they may struggle to perform their fiduciary obligations and/or may be exposed to risk under insolvency laws where there is an insolvent winding up of DCC due to decisions taken by the industry forum over which the directors have no control.

Question 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 2024 Corporate Governance Code includes a list of rebuttable presumptions to define independence, with the board being able to make a determination on whether a director is independent or not providing it explains why it has formed that view.

However, the DCC believes there is benefit in there being a fixed definition of "Sufficiently Independent" in the Licence so that the test is clear and it can clearly be satisfied. A clear definition of independence would also give Ofgem clarity and certainty about whether the DCC is compliant or in breach of its Licence.

The definition in the Licence does not necessarily need to be consistent with the Corporate Governance Code as long as Ofgem is able to provide an informed view about how it has defined independence.

Question 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?

The DCC agrees that the Chair of the future DCC Board should meet the requirements for SIDs without exception.

Question 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?

The UK Corporate Governance Code does not prescribe the size or composition of a Board. If the Chair and majority of Directors are to be Independent, that may lead to the shareholder wanting to ensure they have the maximum number of Executive Directors and Shareholder Directors allowed under the Corporate Governance Code (49%). Although in a not-for-profit model, maybe the Shareholder would require less representation on the board.

b. Board appointment process and requirements (questions 5-9)

Question 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?

The DCC agrees with this proposed requirement. The 2024 Corporate Governance Code indicates "*The board and its committees should have a combination of skills, experience and knowledge.*" This proposal aligns with that principle. In addition to the core skills that Ofgem has identified for the Board, we would propose the following:

- Risk and audit
- Commercial procurement and contract management

In terms of implementation, the DCC favours option 2 - requiring the board as a whole to have the necessary skills/experience rather than each individual director as this is both more practical and more aligned with the 2024 Corporate Governance Code.

The skills requirements of the Board should be kept under review to ensure that they evolve as the DCC itself evolves and potential grows / changes in remit.

Question 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?

The DCC agrees that there should be a SID with consumer advocacy experience. This should be coupled with an explicit consumer-facing objective for the DCC set out in the Licence. This will ensure that the consumer advocacy SID will have a clear focus and the Board as a whole will need to consider this objective in its decision making and the development of the organisation's strategy.

Question 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?

The DCC agrees that Ofgem should have a role to play in the Board appointment process, but that this should be limited to option 1 'Right of Review' to provide assurance that Board appointments are licence compliant.

Any requirement to seek explicit approval from Ofgem to appoint particular individuals or for Ofgem to have a role in the selection of candidates would significantly lengthen the appointment process and could be seen as undermining the role of the Chair and wider Board in the selection of new Directors.

Question 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?

The DCC supports option 1 – the involvement of customers or stakeholders in the Nomination Committee during the appointment process. This will lend legitimacy to individual appointments and provide assurance to stakeholders that their interests are understood.

However, this process should be skills dependent i.e. the SEC Panel Chair should be involved in the appointment of an Industry Director, whereas an organisation such as Citizen's Advice should be involved in the appointment of a Consumer Director.

As Ofgem recognises, the other options it is consulting on (stakeholder consultation / voting on Board members) would be problematic for a number of reasons, not least they may restrict the pool of applicants, stakeholders may try to manipulate the appointment process and confidentiality requirements could skew the basis on which stakeholders are making judgments about individuals.

Question 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 DCC agrees that the DCC Chair should have proven Board-level experience in an organisation similar to the DCC. However, we would suggest that there are better tests of skills and experience than whether they have held this role in an organisation of similar size and standing as the DCC. Concepts such as complexity of operations, strategic position, financial flows, commercial management etc may be more appropriate.

In terms of Ofgem's role in the appointment of the Chair, as with other Directors, this should be limited to ensuring that the individual appointee meets the relevant licence requirements, rather than a direct role in the recruitment process. Representation on the nomination committee would put Ofgem in a difficult position if it also maintains a right to comment on any appointment proposal.

c. Incentivisation of DCC board, executive leadership and key staff (questions 10-13)

Question 10: What are your views on changes to the term of appointment of nonexecutive 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?

The DCC broadly agrees with this proposal as it is largely in line with the UK Corporate Governance Code. We already follow a 3-year appointment cycle. However, we have concerns about the total term of up to 9 years as we feel this is too long for a company such as DCC. The current DCC maximum limit for

appointments is 6 years which to date has served the Board well as it balances the need for continuity with the ability to bring in new perspectives and approaches. It also prevents Directors from losing their independence as a result of being in post too long.

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

System performance

We are supportive of Ofgem's proposal for the DCC to continue reporting against SEC-based targets and the publication of system performance data in an accessible format on the DCC website.

The measures against which the DCC reports will need to be easily understood by DCC customers and wider stakeholders to achieve the desired reputational effect on behaviour. However, as a general rule, the DCC cannot be incentivised against measures we have not included within our service provider contracts nor those we do not have full control over. If Ofgem and our customers wish to incentivise something that is not already in a service provider contract, then time and budget should be allowed for DCC to negotiate a change to the relevant contract. There will also need to be a baselining period for any new areas to be incentivised before targets can be set.

We will provide our views on the specific metrics we believe customers would benefit from being able to view via the DCC website and identify those that will encourage customer- and consumer-driven outcomes. We would be happy to discuss this further with Ofgem over the coming weeks.

For example, given system availability is a key metric for our customers we are looking at whether we can report on customer minutes lost at a device level. Through SEC modification proposal 242 (MP242), DCC is collaborating with customers on developing success-based customer-journey performance measures (as opposed to time-based ones), starting with the top seven business processes - Install & Commission, Pre-pay top Up, Pre-pay management, Firmware, Meter reads, Tarriff updates and Change of Supplier. This modification will allow our customers, and DCC, to better identify, understand and examine the impact of these business processes, with the aim of improving the service for end consumers. DCC is reporting on MP242 development as part of the progress reports submitted to Ofgem every six months. The next report is due in September 2024 where we will update Ofgem on the positive feedback from our customers in relation to the developing dashboard and further suggestions on how the business processes could be used as part of the future OPR.

Customer engagement

Any customer engagement metrics / assessment must ensure consistent scoring by all stakeholders, be clearly linked to performance criteria, and help the DCC to understand where it needs to take action to improve.

The DCC does not support Ofgem's option 1 – a continuation of the current approach to assessing the effectiveness of DCC's customer engagement. The DCC has previously expressed concern that the current process for capturing customer input is not robust. The questions are subjectively worded and likely to be interpreted differently by each customer. The scoring is also subjective with limited guidance on what the differences are between the different scores, and the number of responses from our wider customer base is small and unrepresentative (only 7 responses in RY23/24).

Given these concerns, and the lack of consistency around the level at which our customer organisations agree the responses, it is unclear how representative the feedback is and how it should be prioritised.

The DCC therefore supports option 2 – the introduction of a customer satisfaction survey - if it enables us to capture the views of a more representative sample of customers and provides more in-depth

responses to elicit more detailed and meaningful feedback. We would welcome the opportunity to work with Ofgem on the detail of the survey and the approach to implementation as it is developed.

The DCC's preference would be for a research company to carry out the customer satisfaction survey. Utilising the expertise of an independent research company to design the survey would make the process as impartial as possible and maximise the insight for DCC in driving improvement.

Alternatively, the DCC could develop its Customer Experience platform (currently Qualtrics) to incorporate the Customer Satisfaction (C-SAT) functionality needed. While this could save some costs on research design, additional resource is still likely to be needed to develop the platform, and this approach would not deliver the same level of independence as an external research company.

The current OPR approach of surveying customers annually is not frequent enough for the DCC to take timely action in response or build an ongoing picture of whether improvements are having the desired impact. We would recommend that C-SAT surveying is undertaken quarterly, or at least bi-annually to enable closer monitoring of customer sentiment.

It is currently unclear what role a customer challenge group, as proposed under the new ex-ante price control model, would play in relation to any customer-based incentives. Ofgem should consider the customer engagement approach as a whole in the Successor Licence to avoid overcrowding and potential contradiction in asks of the DCC.

We ask that Ofgem reconsider its position that the DCC should be "obliged to act on feedback received". Whilst we support the principle of DCC being obliged to take account of and consider feedback from customers, there may be good reasons why some customers' views are not taken forward (for example, where DCC is limited by cost or commercial constraints or where they directly contradict each other). The wording of any obligation should therefore be carefully considered to emphasise reasonable actionable insight to reduce the risk of unforeseen constraints or conflicts this could pose to DCC's operation as a business.

Ofgem will also need consider the affordability of any customer engagement incentive and how these costs will be recovered.

Contract management

The DCC is supportive of Ofgem's proposal to maintain the current annual assessment by an independent auditor for all contract management activities within the current scope. However, we don't believe that the modified NAO framework should continue to be used as the basis for assessment as this is primarily aimed at the public sector and as a result its rigid application in the DCC can lead to suboptimal procurement outcomes that are uneconomic and inefficient. The scoring and feedback from the audits to date has been ambiguous, making it difficult for the DCC to respond and take action. The DCC therefore suggests that Ofgem considers a number of alternative frameworks that are more applicable to private sector procurement policies and strategies and should cover the entire procurement lifecycle, not just the initial RFP / award.

We are supportive of Ofgem's proposal for the auditor to provide recommendations on any areas of improvement which the DCC would then need to demonstrate to Ofgem that it had taken action to address. In addition to the reputational repercussions, we would welcome clarification on whether Ofgem is considering any further implications for the DCC in relation to contract management.

It was confirmed in the last Ofgem OPR guidance decision that the Business Handover Plan (BHP) would be incorporated into the contract management audit. We would welcome further clarity on what this will entail in addition to checking that DCC contracts have robust novation clauses built into them.

Ofgem's decisions in this area will also need to be considered as part of future design requirements within upcoming tenders, for example the data room requirements, as potential bidders will need to know what they could be held to account for.

Switching and programme incentives

We note that no proposals were made in this consultation in relation to incentives for the switching service or programmes (also referred to as Baseline Margin Project Performance Adjustment or BMPPA).

Our view is that while the customer engagement aspect of the current Switching Incentive Regime works well, the systems aspect is not fit for purpose. It is important that any incentive regime sets challenging but achievable targets to ensure they remain effective at incentivising performance. We look forward to receiving the decision on our proposals to improve the switching system incentives (this has been proposed through REC change proposal R0092).

We would welcome further discussions on whether and/or how programme incentives (or BMPPA schemes) may feature in the incentives framework in the future.

Business planning and cost management

The DCC does not consider there to be a need for the introduction of a specific business planning or cost management incentive. The ex-ante price control process, as long as there is a clear process and guidance from Ofgem, will de facto ensure that the DCC's business plans are robust and our costs effectively managed. Business Plan Incentives similar to those in RIIO are not directly replicable for the DCC, as the DCC will be a non for profit monopoly.

Greater clarity is needed on the management of over- and underspends in a not for profit model. The DCC agrees with Ofgem that it should stand to benefit from any cost efficiencies it delivers during each price control period, but these benefits should be shared with its customers. However, a not for profit shareholder cannot bear the risk of any overspends.

The DCC does not agree that there is a requirement for additional quarterly financial reporting to Ofgem. This would create an unacceptable regulatory burden for both the DCC and Ofgem, especially if DCC continues to be required to publish indicative charging statement and 3-year budgets every three months. Any financial reporting should be against the ex-ante price control submission and should be on an annual (or maximum 6 monthly) cycle.

Question 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.

The DCC is supportive of the proposal for direct financial incentivisation of the executive leadership and staff. To attract and retain the quality of staff with the key skills needed to operate the Smart Metering platform effectively, it is critical that the DCC is able to offer an efficient yet competitive reward package.

The DCC currently benchmarks all roles, using independently sourced pay data. The DCC has a policy of paying at market median with tight controls that do not let us exceed this. It is commonplace to offer performance related bonuses and as DCC do not offer long-term incentive plans (LTIPs), the performance related bonus is a contractual and critical part of the reward offer.

Bonuses and pay awards are made at the discretion of the RemCo and are based on individual and organisational performance against an agreed set of criteria, including delivery of core programmes, network performance, customer satisfaction and cost efficiency.

RemCo should be chaired by the Chairman (who will be independent in future) and attended by at least one other independent NED. We believe the RemCo (as is the case in other organisations), should continue to establish the pay policy (including eligibility), set performance measures for DCC staff and decide on Corporate and Executive level performance.

We believe bonuses should continue to be determined by the outturn against corporate and individual performance criteria, as is common practice in many organisations. This drives a critical focus on the priorities most important to the business and our customers. These criteria need to cover the full range of DCC objectives and not just be limited to the delivery of cost efficiencies.

Therefore, the DCC does not agree that bonuses should be funded by savings delivered against the ex-ante price control submission. Ofgem's proposed approach would not only create perverse incentives with the risk of budget inflation, but a continued focus on cost savings is unsustainable in the long term and detrimental to DCC's future performance. It could also present significant risk in DCC's ability to attract and retain the skills needed to deliver against its obligations.

Salary and bonus costs are integral to running any company and therefore, it is our view, that these should continue to be a part of DCC's core funding.

Question 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?

The DCC does not support Ofgem's proposal to grant stakeholders a power to issue a vote of 'no confidence' in the Board. It would create a power imbalance and a high degree of uncertainty. As well as deterring individuals from wanting to become Board members in the first place, it risks undermining the Board Directors' ability to deliver their fiduciary responsibilities if this mechanism is misused by stakeholders who wish to drive a particular decision.

There are a number of other mechanisms which stakeholders and Ofgem could make any concerns about the DCC's performance known to the Board:

- The ex-ante price control submission will require consultation and engagement with customers on the forward work plan and DCC costs
- The newly proposed Customer Challenge Board that will have a direct route into Ofgem to provide feedback on how the DCC has reflected and responded to stakeholder views
- The SEC Panel and its associated governance groups
- The newly proposed customer satisfaction survey – the DCC Board could be required to respond annually in writing to stakeholders (and Ofgem) on the outcomes of the survey and how it will address them

d. Interim changes to governance (questions 14-15)

Question 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?

The DCC supports Ofgem's proposals for priority changes during the Licence Extension period. We agree that Ofgem should focus on reaching an agreement with the DCC in the first instance, rather than looking at Licence modifications as a means of implementation.

The appointment of a SID as the successor to the current Chair (following the expiry of the current Chair's term) and the appointment of a SID with consumer advocacy experience can be made before the end of 2025 i.e. in the first few months of the extension period. This should be done using the existing

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appointments process. We agree that Ofgem should leave at DCC's discretion whether this SID appointment should be made as part of, or in an addition to, its planned timeline for (re)appointment of non-executive Board members.

In terms of enhanced stakeholder engagement with the DCC Board, there are several constraints around how this can be delivered – commercial confidentiality and Directors' fiduciary responsibilities must be respected – however, we could consider quarterly bilateral meetings between the SEC Panel Chair and DCC Chairman and a regular stakeholder feedback / engagement item on the Board agenda.

The DCC agrees that Ofgem should have oversight of the development and delivery of the Business Handover Plan and that this is best done via its role in a joint governance group to be created for the purposes of overseeing the implementation of the BHP. Details of the membership and terms of reference of the group are subject to Ofgem approval.

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

The DCC agrees that it is vital for the purposes of continuity and stability that the SIDs who are on the Board of DCC1 at the point of business transition should be invited to join the Board of DCC2.

This will need the support of the Successor Licensee, and the Directors will also need to agree to take on a Directorship on the DCC2 Board. Therefore, this expectation should be considered in the evaluation and appointment of the Successor Licensee, as a clear requirement in RFP and, to the extent it is practical, in the Successor Licence itself.

e. Centralised Registration Service – Switching (questions 16-17)

Question 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?

Summary

The DCC is strongly opposed to the transition of the Switching Service to RECCo. The DCC designed the Switching Service so that it could be separated from DCC and Smart Metering. However, transitioning the service still represents an unnecessary cost for, and risk to, GB consumers and a distraction from important programmes such as Half Hourly Settlement (HHS).

Ofgem's strategic case for moving Switching to RECCo is extremely weak and there is, as yet no economic case. Our expectation is that it will be very difficult to develop a positive NPV business case given the already low cost of the service and the need to absorb any transition costs.

Prior to any decision, we believe it is essential for:

- DCC, RECCo, Ofgem and other relevant parties to conduct a feasibility study. This would test the 'devil in the detail' of the technical, service and security transition, to enable RECCo to clearly understand the capabilities it needs to develop and to allow all parties to develop accurate costs. This study would also develop a transition strategy, identifying how any transition could optimally be achieved in tandem with DSP and other procurements and enabling staff to support DCC live operations prior to transfer to RECCo.
- Ofgem to publish clear and objective evaluation criteria on which the decision will be made
- Ofgem to develop an evidence-based economic case/impact assessment based on cost input from the above exercise. Unless it demonstrates a clear positive NPV then the Switching Service should remain with the DCC.

The benefits of Switching remaining with the DCC

The service is delivering: Switching is essential to the smooth running of the retail energy market. Our 24/7 service has delivered an excellent performance with 99.99% availability and 99.99% of all switches being successful. There is a trusted team who understand Switching, can rapidly address issues and who are respected by customers. Switching is a complex suite of systems and processes providing a national service; the DCC has the appropriate scale and capabilities to deliver and to continually improve the service. RECCo's core purpose is as a code manager, and it is not clear why they should be able to deliver the Switching service any better than DCC.

DCC is already driving significant cost reduction through re-procurement and operational efficiencies:

For 23/24, the service was delivered at a cost of £13.5m, which was 19% below budget. We have successfully re-procured some external services, with cost reductions in excess of 40% and we have identified potential improvements to yield an overall cost reduction of 24% by end 28/29.

Co-delivery of Smart and Switching enables efficiencies and enhanced functionality: DCC runs blended teams managing both Smart and Switching, driving significant efficiencies in, for example, the provision of 24/7 support. This provides significant efficiency and resilience. Switching benefits considerably from DCC's established capabilities in areas such as security management, 24/7 operation and major incident pre-emption and management. RECCo will need to build many of these capabilities.

Co-delivery provides a platform for the future. The government has plans for enhanced switching, including the potential move to next day switching. DCC's knowledge and the provision of a stable platform provide a sound basis for this.

Ofgem's case

Stakeholder support for de-coupling/distinctive services: We understand that three companies supported de-coupling Switching, including one energy supplier. This represents 4.5% of the supplier community for whom Switching is critical. We urge Ofgem to seek the widest possible input from users of the Switching Service. Whilst we recognise there are differences between Switching and Smart, we believe the commonalities are far greater. For example, they are both complex national services comprising extensive IT and process capabilities; both require 24/7 operation; both have rigorous security requirements; both are highly dependent upon, and share versions of, the core market MPxN and address data. Co-delivery delivers efficiency benefits from these commonalities.

Streamline operations, improve service provider accountability, delivery of operational improvements: DCC uses the same broad operational approach as for Smart. This has been streamlined through 7 years of actively working with customers. It is not clear what streamlining could be achieved through RECCo management or why these operational services would be delivered better outside of DCC. DCC would be very happy to engage with any ideas for improvement and implement where appropriate, avoiding the cost and risk of a major transition.

Service provider accountability is absolutely fundamental to the DCC. Given the scale, cost and criticality of delivering Smart, DCC strenuously holds service providers to account. It is unclear how or why RECCo would be better placed to do this.

Streamlined Governance and Accountability: The DCC recognises that, given its near-CNI status, its decision-making and rigorous governance may be more than the Switching Service requires. However, Switching itself is a highly secure national system and given that it will retain key interfaces with the DSP/ECOS any changes will still need to be reviewed through the Smart Metering governance. In order to minimise and manage the risks and impacts of change to both services and customers, there will need to be ongoing co-ordination of Switching and Smart releases – this will require shared governance and decision-making.

Ofgem proposes that industry would have greater influence if Switching was managed by RECCo. However, several changes will be put in place under DCC2, for example an ex-ante price control process, an independent Board with industry expertise and potentially a new Customer Challenge Board. All of these will enhance industry's influence.

Ofgem notes that RECCo could hold service providers directly to account. As noted earlier, the DCC manages a number of large-scale service provider contracts and holds its supply chain to account. This benefit is therefore already being realised.

Enhanced Service Efficiency and Quality (address management): The DCC currently undertakes address management with a team of two to four FTEs depending on load. RECCo has no capabilities in this area and there is no evidence that RECCo could deliver a better-quality service more efficiently. Even if RECCo could deliver this more efficiently, the cost savings would be negligible compared to the scale of the transition programme. DCC staff currently have the ability to look across DSP, ECOS and CRS in resolving any issues. Separating systems would remove this benefit and may introduce the need for cross-organisation resolution.

Cost Savings and Incident Management (not for profit; efficiency; re-procurement; incident management): With the move to not for profit in the Successor Licence Period, there will be limited opportunity to realise savings from margin reduction before then (circa £100k), less if the transition programme overruns. The saving is negligible compared to the transition costs and risks. Further, any transition programme would require DCC to undertake additional work which would be eligible for margin, which could potentially exceed the savings.

As noted earlier, the DCC seeks to continually improve its processes which are essential to the effective and efficient delivery of Smart and it is unclear why RECCo could do this better - Ofgem offer no evidence to support this.

As also noted earlier, contract re-procurements are a fundamental part of the DCC's core business. The DCC is already driving efficiencies in excess of 40% in some current procurements and it is unclear why RECCo would be better placed to do this.

Efficient and effective management of incidents is critical to the delivery of the near-CNI smart metering service and the DCC has established processes and engagement mechanisms, operating on a 24/7 basis. RECCo does not currently have 24/7 capabilities or services at anywhere near the scale that Switching requires and there is no evidence to suggest that RECCo could manage incidents more effectively and at lower cost than the DCC. The DCC would be very happy to engage with RECCo, customers and Ofgem on any ideas for improvement, avoiding the cost and risk of a major transition.

The DCC is currently subject to rigorous management by RECCo and a performance management regime, that incentivises us to deliver an efficient and effective service. If Switching were to transfer, either Ofgem would need to develop a new performance management regime, or RECCo would be monitored by its own Performance Assurance Board, which is unlikely to provide equivalent incentivisation.

Transition programme

We believe it is essential that the DCC, RECCo and Ofgem conduct a joint feasibility study to ensure that, if Ofgem progress with a transfer, there is a solid basis for the transition programme. The DCC has undertaken some limited work to start to identify the necessary transition activities. Our current view is set out below:

- **Core systems/live operation/in-life change:** the DCC and Ofgem designed Switching so that it could be separable from Smart Metering and the core contracts novatable from the DCC to another organisation. Hence, there is limited transition activity required in this area. However, the DSP and

ECOS will now be dependent on an external interface from the CRS and vice versa, which yields some commercial complexity.

- **Disaster Recovery (DR):** service provision and contracts for the core switching estate can move simply, but the DCC has some unique knowledge that would need to transfer to RECCo. The DR approach for security and service management may be more complex.
- **Security:** The DCC currently fulfils the roles of Registration Authority (RA), Policy Authority (PA), Issuing authority (IA) and Certificate authority (CA). RECCo would need to develop capabilities to take on all these roles. All current certificates would need to be revoked and RECCo would need to issue new certificates. Industry testing would need to be undertaken. In addition, the DCC currently provides anomaly detection and reporting to the SEC. RECCo would need to develop these capabilities and agree how reporting under the SEC would work going forwards.
- **Service:** The DCC runs a 24/7 operation. First and second line support and associated IT support are all outsourced with novatable contracts and these could move to RECCo. But the DCC itself has extensive Switching service capability; typically this sits with staff who work across both Smart Metering and Switching and who may therefore not be eligible to transfer to RECCo. RECCo would need to build 24/7 capabilities and support and receive DCC knowledge transfer. There may be some need for limited industry testing to ensure alignment with the new service provision.
- **Address management:** DCC has a team of two to four undertaking address management. RECCo has no capabilities in this area and would need to transfer staff and/or develop their own capabilities.

This only considers the DCC to RECCo service transition and does not consider work to be undertaken by other parties, for example, work by Ofgem on licences and codes or the impact on system users.

Overall, including the feasibility stage, we estimate the transition programme will take c. 12-15 months. The timetable and detail of the transition activities would need to be refined through the feasibility study.

Question 17: What are your views on the considerations we have identified under Option 1?

Assurance: As mentioned above the DCC is currently subject to rigorous management by RECCo and a performance management regime, that incentivises us to deliver an efficient and effective service. If Switching were to transfer, either Ofgem would need to develop a new performance management regime, or RECCo would be monitored by its own Performance Assurance Board, which may not provide equivalent incentivisation. The DCC recommend that a new performance/assurance regime is put in place.

We also note that the DCC currently undertakes Competent Independent Organisation (CIO) assurance for Switching and recommend that RECCo should continue with this in the event of a transfer.

Any transition programme should be subject to appropriate independent external assurance.

Economies of scale: In general, the DCC runs the Switching service as an integrated operation with Smart Metering. This is a highly efficient and effective approach, enabling for example 24/7 support, and also providing considerable resilience in terms of knowledge retention. Removing Switching will create significant diseconomies of scale. We do not have visibility of RECCo's operations and hence cannot comment on their potential for efficiencies; this should be part of Ofgem's business case and Ofgem should satisfy themselves that any RECCo economies significantly outweigh DCC diseconomies.

Contract transfer: We agree that existing External Service Provider contracts would need to be novated to RECCo and would work closely with RECCo to ensure that this was successful in the event of a transfer.

Contract procurement timeline: Ensuring contract procurements could be efficiently and effectively managed in the event of a transfer would be an important part of any transition strategy. The DCC

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currently has several major procurements in train, in particular the DSP re-procurement and conversion to a microservices approach. The DCC has also recently re-procured the Switching SI contract and help desk at significantly reduced cost. These would all need to form part of any plan.

The DCC would also need to consider a standstill on releases for Switching, the DSP, ECOS and potentially other systems, to ensure a stable environment for transfer.

We note we do not believe September 2025 is achievable as a transfer date, given Ofgem's need to develop a business case and impact assessment for further consultation and make licence and code changes; the need for RECCo to build relevant capabilities; for the transfer to occur and for any industry testing to be undertaken to test new security and service environments.

Knowledge Retention: We agree the DCC has excellent experience, expertise and knowledge in running the Switching service and it would be vital not to lose this in the event of any transfer. We would work closely with RECCo to endeavour to transfer and retain knowledge.

Impacts of transition: We agree with Ofgem that there are risks to the transition and also subsequent risks in live operation and it is extremely important that these are identified, managed and assessed to protect GB consumers. The DCC has initially identified the following risks:

Transition

- **Complexity of transition:** technical, service or security complexities are identified at a detailed level, which will increase the complexity of transition and hence increase costs and delay transition;
- **RECCo capabilities:** there is more work needed than planned to build RECCo capabilities, particularly in security and service support, increasing costs and delaying transition;
- **Ofgem timeline:** the timeline for policy consultation, business case development and consultation, licence and code changes is challenging and may overrun. Issues with this timeline delay the start of any transition programme. These issues delay the programme and increase costs;
- **Timeline/ex ante regime:** the transition programme is delayed, meaning DCC has to continue to run Switching in the new ex ante regime, necessitating a change in the submission, increasing DCC and Ofgem costs and disrupting the critical start to ex ante.
- **Delays to releases:** new releases on Switching and DSP delayed due to need for standstill period to ensure smooth transfer.

Enduring

- **Security threats:** RECCo's relative immaturity in security management increases the risk of cyber-attacks and threats to GB consumers and/or indirect attacks on the DSP through the interface;
- **Service performance:** a limited number of DCC staff are eligible to transfer to RECCo, resulting in a loss of knowledge, negatively impacting the delivery of the service and supplier's ability to meet their 5-day performance commitment;
- **Cost issues:** RECCo do not realise cost efficiencies and the DCC diseconomies of scale undermine the business case;
- **Re-procurements:** RECCo's lack of buying power relative to the DCC and lack of detailed knowledge of switching mean they secure worse terms on re-procurement than the DCC;
- **DSP/CRS misalignment:** Interface issues between CRS and DSP result in them becoming misaligned, necessitating major rectification.
- **RECCo performance:** the lack of a rigorous performance and incentive regime, mean RECCo is not incentivised to deliver service excellence in the same way as the DCC does.

If Ofgem decide to proceed with transferring the Switching Service, then the DCC would work closely with RECCo and Ofgem to identify, mitigate and manage risks.