

Ayena Gupta
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Dear Ayena,

DCC PRICE CONTROL CONSULTATION: REGULATORY YEAR 23/24

Thank you for the opportunity to respond to this consultation on the DCC's Price Control for Regulatory Year 2023/24. The consultation represents a valuable opportunity to engage and provide feedback on the DCC's pricing framework, costs and ensuring this aligns with stakeholders' expectations on how the DCC should operate.

We also welcome Ofgem's consultation on the proposals for the design of an ex ante control regime for determination of Allowed Revenue which we have consistently advocated.

As we have emphasised in our responses in previous years, we remain deeply concerned about the DCC's ongoing inability to manage its costs within the parameters of its projected forecasts, even after eleven years of operation. This persistent issue has resulted in a significant increase in forecast costs of £5.9bn over the licence term. Additionally, we note the DCC's reported costs for RY2023/24 were 15% above forecasts. These trends indicate a troubling lack of cost control and predictability raising serious questions about the DCC's processes. This lack of cost control flows through into consumer bills at a time when there is a significant focus on the cost of energy to end consumers, many of whom struggle to pay their bills.

We welcome Ofgem's proposals to disallow costs that it has determined the DCC has failed to adequately justify. We also commend Ofgem's decision to amend the Baseline Margin Adjustment mechanism and substantially reduce the DCC's application.

However, we disagree with Ofgem's determination that the DCC has met all its system performance targets. It is critical to ensure that targets accurately reflect the operational realities and expectations placed on the DCC. There is a need for greater transparency to ensure that performance assessments align with the broader goals of efficiency, reliability, and value for stakeholders. We look forward to further engagement with Ofgem on these important matters.

As in previous years, absent any visibility of the DCC's own regulatory submission, we do not feel particularly well placed to comment on Ofgem's proposals, and for that

reason have not responded individually to each of the questions posed in the consultation. Although we offer the following comments/observations, we will essentially defer to Ofgem's judgement where it has recommended disallowance on the grounds that costs have not demonstrably been economically and efficiently incurred.

External Costs

While we agree with Ofgem's disallowance of certain costs as unacceptable, we have significant concerns regarding the justification and management of certain external costs which we consider unacceptable. These findings underscore fundamental shortcomings in DCC's governance and financial accountability.

- **SMETS1 Service stabilisation:** The SMETS1 migration programme is almost completed. As such, we would expect the DCC to have significant expertise in managing any operational issues identified with the migration. We also disagree with the DCC's explanation that the list of issues identified in 2022 had "not decreased as rapidly as might be expected due to further 'hidden' issues within the system". We expect a more robust explanation as the statement does not mean anything and suggests a lack of understanding of key business matters that impact costs. We also disagree with the proposed 50% cost disallowance and would suggest a total disallowance of these costs as we do not believe that parties should be responsible for the under-delivery or poor performance of DCC service providers.

Internal Costs

While we recognise the DCC may have provided sufficient justification for some of these costs, we are concerned about the pattern of disallowing costs in similar areas as in previous years. The fact that the disallowances are driven by the same type of inefficiencies and cost overruns as in previous years suggests a pattern of recurring issues. This indicates that DCC has not taken sufficient corrective actions to address these issues despite historical awareness of these problems.

- **Operations:** we are concerned that there may be an operational focus misalignment in the DCC. It appears the DCC is overly focused on innovation and exploratory activities at the expense of its core mandate. The emphasis on innovation without clear mandated requirements or stakeholder demand raises questions about these expenses. It is our expectation (which we have expressed to the DCC previously) that the DCC focuses on the delivery of the mandatory business which is not yet at the standard of stakeholder expectations before exploring additional areas of activity. Innovation and future-focused initiatives, while important, must not come at the expense of addressing existing service deficiencies. We are also concerned about the continued increased headcount and a return to reliance on external contractors for BAU activities which contributes to higher charges for stakeholders without ensuring sustainable improvements to DCC's capabilities. It is also particularly disappointing that the DCC has not submitted to Ofgem any business cases showing that it has followed its own hiring policy.
- **Network Evolution Charge:** we note the increased costs of £6.583m in the 4G CH/N programme. This is particularly worrisome when the RY23/24 submission mirrors what was in the RY22/23 submission. The reported similarity in activities coupled with a substantial variance in costs, raises serious questions about DCC's accountability to stakeholders and we support the disallowance of the

increased costs subject to any additional evidence provided by the DCC to justify the costs.

- **Non-resource cost management:** Ofgem's observation of services procured via direct awards which potentially breach procurement obligations is highly concerning and we welcome Ofgem's scrutiny of the process. We note Ofgem's stance not to propose disallowances this year due to the need for further evidence from the DCC, however, we expect Ofgem to follow through on its intention to monitor these issues closely and, where found to be in breach, apply the appropriate sanctions.

Performance Incentives

We do not agree with Ofgem's minded-to proposal to allow the DCC to retain the full margin associated with the system performance incentive. In this consultation, Ofgem has acknowledged that the DCC has fallen short of stakeholder expectations which makes the proposal to permit the DCC to retain its full margin both surprising and difficult to justify. Furthermore, we note the DCC reported two Category 2 major incidents in October 2024 raising additional concerns about its processes.

In summary, subject to the above, we broadly support Ofgem's approach to this price control. I trust you will find this response helpful but should you wish to discuss any aspect of it, please do not hesitate to get in touch.

Yours sincerely,



Richard Sweet
Director of Regulatory Policy