

By email only: DCCregulation@ofgem.gov.uk

3 January 2025

Dear Arno,

RECCo response to: DCC Price Control Regulatory Year 2023/24

We welcome the opportunity to respond to this consultation on the DCC Price Control for the Regulatory Year 2023/24. Our non-confidential response represents the views of the Retail Energy Code Company Ltd (RECCo) and is based on our role as managing the Retail Energy Code (REC) which governs the Retail Energy Market.

RECCo is a not-for-profit, corporate vehicle ensuring the proper, effective, and efficient implementation and ongoing management of the REC arrangements. We seek to promote trust, innovation and competition, whilst maintaining focus on positive consumer outcomes. Through the REC, the services we manage, and the programmes we run, we are dedicated to building a more effective and efficient energy market for the future. We are committed to ensuring that RECCo is an “*intelligent customer*”, ensuring efficacy and value-for-money of the services we procure and/or manage on behalf of REC Parties, including those which constitute the Central Registration Service, commonly referred to as the Switching systems.

We welcome Ofgem’s balanced review of the DCC price control submission and agree with the overall challenges to the costs submitted by DCC. We remain concerned about the continued escalation of smart meter rollout costs, which Ofgem has identified as 139% higher over the licence term compared to the DCC’s Licence Application Business Plan—an increase amounting to £3.44 billion. Additionally, DCC has forecasted total costs over the licence term to reach £5.904 billion. Greater oversight is urgently needed to address the lack of transparency surrounding DCC’s substantive costs and the ongoing year-on-year cost escalations compared to initial forecasts.

We address below the questions relating to the Switching Programme since the governance arrangements for this service transferred to the REC in April 2023.

Switching Programme

Question 20: What are your views on our proposed position on DCC’s costs associated with Switching?

We note that Ofgem is minded to accept DCC’s costs associated with the Switching Programme in 2023/24 as being economic and efficient, but to disallow DCC’s all forecast Internal and External Costs for Switching for RY24/25 and RY25/26 amounting to £29.953m in total, due to uncertainty and insufficient justification.

We have raised our concerns with DCC on the costs associated with the RY 2023/34 and specifically asked them to address the following matters:

1. Paragraph 7.5 in the price control document states that DCC incurred a total cost of £14.815m in RY2023-24. In October 2023 RECCo and DCC met to discuss the full year expected outturn for RY2023-24. Using the actual costs incurred for the first 6 months of RY2023-24 and a forecast for the remaining 6 months, DCC estimated an expected full year outturn of £13.0m. RECCo has asked DCC

for a breakdown and explanation for the £1.815m difference and why this was not expected in October 2023. At the time of writing, we have not received this analysis.

2. Paragraph 7.7 of the price control document mentions a change request (CR4967) valued at £3.1m, which is included in the external cost of £9.888m. This change spans the period immediately before and after RECCo assumed financial responsibility for CSS costs. However, RECCo has no record of this change request, or details of what it covers, beyond the description of a *Continuous Improvement Team* as described in the Ofgem document.

We have asked DCC whether the costs associated with this change request are included in the total £13.0m cost for RY23/24, and if not, where they are accounted for. Furthermore, as the Ofgem document states that the change was approved in May 2023—after the governance of such changes had transitioned from the Switching Programme to the operational governance of the REC—we have requested clarification from DCC on who approved the change and under what authority.

We share Ofgem's concern regarding the retrospective approval of this Change Request for resources that, by the time of approval, had presumably been in place for seven months. Additionally, we find no justification for the Christmas period being cited as a factor in the Change Request not being approved until May 2023.

3. Assuming the £3.1m results from the service provider's unilateral decision to introduce a Continuous Improvement Team following its own assessment of BAU resourcing requirements for Registration and Address Services we would make the following points:
 - a. Subject to the questions above, we have asked DCC to confirm why the costs for period November 22- March 23 (RY 2022-23) are included in its RY23/24 submission.
 - b. As RECCo did not take on financial responsibility for CRS costs until 01 April 2023 we cannot legitimately fund any costs prior to that date. Any pre-April 23 allowed costs should be recovered through the recovery mechanism applicable for that period.
 - c. Based on a straight allocation, we would expect c£1.1m to have been incurred November 22 to March 23 and therefore as a minimum to be appropriately recovered through the RY2022-23 funding mechanism. We have asked DCC to confirm this.

To date, we have not received a satisfactory explanation regarding our enquiries, and we remain concerned that DCC does not appear to have followed due process. This concern is further substantiated by Ofgem's query regarding why resources were allocated prior to any change request being signed. Additionally, we note that the auditors' assessment of DCC's adherence to SEC Modifications process indicates that DCC has consistently failed to meet the required timescales for both preliminary and full impact assessments. Cumulatively, these issues raise sufficient concern about the legitimacy of costs associated with the Change Proposal and, to the extent these may or may not relate to the additional £1.815m of cost recently communicated to us, whether REC Parties should be liable for them.

Notwithstanding our concerns about the legitimacy of the industry parties being exposed to costs that were not appropriately authorised, if Ofgem determines that any part of the costs associated with CR4967 should be recovered through the REC, we require that the full information relating to change and its authorisation be released or as a minimum shared with RECCo.

RECCo is not challenging the base cost of £13.0m which DCC had already confirmed to us in October 2023.

We note and support Ofgem's current position of being minded to disallow all forecast Internal and External Costs for Switching, with the budget instead being determined annually in line with REC governance. As part of the 2024 Ofgem assessment of the feasibility of transferring CRS responsibility to RECCo, we provided Ofgem with estimation of the cost of delivery of that service and estimated it to be c£12m. We are pleased to see DCC has replicated this within their future service projections. This has led DCC commit to a c£3m annual reduction in CSS delivery costs in the coming year and forecast for £2.5m reduction in the following two years. We are keen to see this come to fruition.

We would be happy to discuss any of the issues raised above.

Yours sincerely,

Jon Dixon
Director, Strategy and Development