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Action:	For Information

DCC Price Control Decision Regulatory Year 21/22

1. Purpose

This paper provides a summary of the Ofgem determination on DCC Price Control, Regulatory Year (RY21/22). A copy of the Ofgem decision can be found [here](#). The Panel is requested to note the content of this paper.

2. Background

Ofgem consulted on its proposals for DCC Price Control in November 2022. The SEC Panel provided its response in December 2022. Ofgem then published its final determination in February 2023. The following summary provides an overview of the final determination. A per question breakdown is provided in Annex 1 to this paper.

3. High Level Summary

Of the 19 questions in the November 22 Ofgem Price Control Consultation, the final position is summarised below:

Proposal Unchanged	Proposal Amended	Proposal Not Proceeding
15	4	0

The Panel response supported the proposed positions and suggested areas for further investigation. Ofgem has recognised these and has confirmed that DCC Impact Assessments and Working Capital Charges will be areas of focus for the Contract Management audit for RY22/23.

An area that has been amended is that of cost disallowed relating to programme delivery. Ofgem has revised down the amount of disallowance following further evidence from DCC, but the topic and actual value of the disallowance remain confidential.

Overall Ofgem has disallowed £6.803m in relation to External and Internal DCC costs for RY21/22 and £1.404m related to the Operational Performance Regime (OPR) incentives.

4. Recommendations

The Panel is requested to **NOTE** the contents of the paper.

Tim Newton

SECAS Team

13 March 2023

Attachments: – Annex 1 - Consultation Questions and Final Ofgem Determination

Annex 1 Consultation Questions and Final Ofgem Determination

Q1. External Costs programme delivery: What are your views on disallowing External Costs associated with programme delivery?

In its consultation Ofgem proposed a partial disallowance of External Costs associated with programme delivery in RY21/22 due to delays and increased costs.

Ofgem has determined it will proceed with the disallowance but revised down the amount following additional evidence provided by the DCC. The detail and final amount disallowed remains confidential.

As noted in the Panel response to the Ofgem consultation, it is disappointing that this area is not more transparent, given the impact of the DCC Service Provider failure falls to the DCC Users and ultimately Consumers. This point was noted by Ofgem in the determination.

Q2. External Costs - Communication Service Provider Central and South (CSP-C&S) Communication Hub Price Support and Working Capital Costs; What are your views on our proposal to remove from the forecasts all the costs associated with CSP-C&S price support from RY 22/23? Do you have any views on Working Capital Charges?

Ofgem proposed, to disallow all costs associated with CSP-C&S Communication Hub price support from RY22/23 onwards and reject the proportion of ECGS that arose from the temporary communication hub price increase.

Ofgem final determination remains unchanged from its proposed position.

Ofgem reports there was unanimous support from respondents to remove the forecast costs associated with price support, referencing the Panel comments in relation to future Communication Hub pricing. The DCC did not provide any representation or comment. Ofgem has therefore removed £4.400m from forecasts of costs associated with CSP-C&S price support.

Regards Working Capital Charges, Ofgem has confirmed this will be an area of focus in the RY22/23 Contract Management Audit, under the OPR.

Q3. Forecast External Costs; what are your views on our proposal to disallow 108.22m of forecast external costs?

Ofgem proposed to disallow forecast external costs, comprised of:

- £13.785m of forecasts costs on account of incorrect reporting; and
- £94.432m of forecast costs associated with DSP, CSP North, 3 SMETS1 Service Providers on account of insufficient justification.

Ofgem's final determination remains unchanged from its consultation position.

All respondents agreed with the proposal. The DCC did not address the question in its consultation response. Ofgem has therefore removed £108.22m of forecast costs. This was a position the Panel supported.

Q4. External Costs: Have you got any other views on External Costs?

In this question, Ofgem sought general views against External Costs. Respondents raised concerns with the quality of the DCC Impact Assessments, considering an 80% increase in DPS costs, in relation to SEC Modifications. The Panel called for the Contract Management audit to look more closely at this area. Ofgem have confirmed that the quality aspect of the DCC Impact Assessments will feature as an area of focus in the RY22/23 Contract Management audit.

Respondents also raised issues relating to the DCC over recovery of funds due to poor forecasting and a desire to move to an ex-ante Price Control regime. In response Ofgem note there is a penalty applied to the DCC for over recovery of funds and the regulatory framework consultation “DCC Review” is considering wider issues of Price Control model.

Q5. Internal Costs: What are your views on our proposals on DCC approach to benchmarking of staff remuneration for both contractor and permanent staff?

Ofgem proposed to disallow £0.047m of contractor costs in RY21/22 on the grounds of failure to demonstrate an efficient process when hiring above the market benchmark.

Ofgem final determination remain unchanged.

The Panel response called out issues of retention of key DCC Staff and corporate memory impacting decision making, and engagement with the Panel and its Sub Committees. These points were noted by Ofgem. Ofgem is also disappointed that the DCC has not undertaken a proper benchmarking exercise noting that comparison to Capita staff remuneration, is not an independent source.

Q6. Internal Costs: What are your views on our proposal to disallow costs associated with non-competitive procurements where we have not received satisfactory justification or evidence?

Ofgem proposed to disallow £3.095m.

Ofgem determined that following receipt of additional information that it would disallow £2.085m associated with non-competitive procurement and unsatisfactory justification and evidence.

Ofgem received additional evidence from the DCC resulting in revision of two non-competitive procurement exercises, based on some degree of external benchmarking. However, Ofgem notes that the DCC may not be consistently complying with its Licence. Ofgem notes it will continue to monitor this area closely. Ofgem has not gone as far as the suggestion in the Panel response for greater scrutiny in this area via the Contract Management audit.

Q7. Internal Costs: What are your views on our proposal to disallow costs of the Order Management System (OMS), Customer Engagement Portal (CEP) and the Executive Leadership Programme (ELP)?

Ofgem proposed to disallow £0.882m in RY21/22, £0.0395m in RY22/23.

The Ofgem decision remains unchanged.

The Panel supported the proposals. In response to Ofgem, the DCC provided additional evidence which Ofgem considered was not satisfactory to change its decision with regards to OMS and CEP. With regards to ELP, Ofgem noted that the DCC executive leaders should be well equipped to deliver activities, and requested the DCC look at what it is getting from Capita to ensure value for money from the Shared Service Charge.

Q8. Internal Costs: What are your views on our proposal to disallow costs directly associated with the Business Accuracy Programme?

Ofgem proposed to reject all cost associated with the Business Accuracy Programme (BAP) on grounds of insufficient evidence from the DCC.

The Ofgem decision remains unchanged.

The Panel supported the proposal noting the lack of governance oversight. Two other respondents noted the lack of information as to how benefits would be realised.

Despite further evidence from the DCC, Ofgem concluded that the BAP did not meet conditions in the DCC licence. Ofgem expects the DCC to ensure future projects are clearly defined and customers presented with robust cost benefit analysis.

Q9. Internal Costs: Shared Service Charges (SSC) – What are your views on our proposals on the Shared Service Charge?

Ofgem proposed to reject Shared Service Charges (SSC) non-resource costs as well as test lab activities.

Ofgem determined to maintain position and reject SSC non resource costs and test lab activities.

Ofgem agreed with stakeholder comments that SSC need to deliver value for money. The Panel requested that SSC be independently audited. Ofgem states it will continue to engage with the DCC to ensure SSC provides value for money.

Q10. Internal Costs – Electric Vehicle (EV) and additional products - What are your views on our proposal to disallow costs associated with the product management team, DCC's work on EVs and additional products?

Ofgem proposed disallowances and forecast costs for several projects including EV development work.

The Ofgem decision remains unchanged from the consulted position.

All respondents agreed with the Ofgem proposal. The DCC responded that Ofgem was not interpreting its Licence obligations correctly by not including expenditure in these areas as mandatory business, stating that work was undertaken following requests from government. Ofgem responded that the DCC should prepare a development plan identifying areas for future development. Further, that the DCC work resulting from government requests “should be proportionate to the request, with clarity around review and sign off for funding.”

Q11. Internal Forecast Costs - What are your views on our proposal to disallow forecast cost variances in RY22/23 and RY23/24 in the Corporate Management (including Policy and Markets team), Finance & People, and Operations cost centres, and the Network Evolution, SMETS1, and ECoS programmes; and all baseline forecast costs for RY24/25 onwards?

Ofgem proposed disallowances in forecasts across several teams and cost centres and programmes.

The Ofgem position remains unchanged following consultation.

The Panel and other respondents supported the proposal. In its decision, Ofgem notes it has not received suitable justification for the creation of the Policy and Markets team. Further insufficient evidence was provided to substantiate the forecast costs in the other cost centres and programme areas.

Q12. Performance Incentives - What are your views on our proposed position on DCC's System Performance?

The DCC missed its System Performance Targets per OPR. Ofgem proposed a £0.531m Baseline Margin reduction.

The Ofgem position remains unchanged post consultation.

The Panel response provided an overview of system issues throughout the RY21/22. Other respondents drew out similar concerns of system performance and reporting. Ofgem note in its decision that the DCC has followed the correct procedure in reporting but following consultation. Ofgem have determined there is insufficient evidence to change the consulted position.

Q13. Performance Incentives – What are your views on our proposed position on DCC Contract Management?

Ofgem proposed a £0.338m reduction in margin because of the auditor report.

The Ofgem position remains unchanged post consultation.

RY21/22 was the first year an Independent Audit of DCC Contract Management functions was undertaken. Panel response agreed with the Ofgem proposal, and no responses disagreed with the position reached by Ofgem. The Panel response further called out a number of areas for consideration and inclusion in the next RY audit. Ofgem have noted concerns and expect this RY audit to provide a more in-depth review. Additionally, Ofgem has consulted recently on the [Audit scoring framework](#). A decision is expected by end of March 2023.

Q14. Performance Incentives – What are your views on our proposed position on DCC Customer Engagement?

Ofgem proposed a margin reduction of £0.535m.

The Ofgem position remains unchanged post consultation.

Eight responses were received, 5 agreed with the Panel position that the overall assessment score should be in line with the Panel assessment. Ofgem has determined that there is not enough additional evidence to alter the score. Ofgem notes it expects to see improvement in DCC customer engagement to justify increases in its strategic customer engagement team and calls on the DCC to provide more information on how this team will benefit industry,

Q15. Baseline Margin - What are your views on our assessment of DCC application to adjust its Baseline Margin?

Ofgem proposed adjusting DCC Baseline Margin by £6.969m for RY21/22 and RY 23/24.

Following consultation, Ofgem has revised upwards the adjustment to £7.435m.

The Panel agreed with the original proposed action. However, Ofgem has received additional information from DCC to satisfy an upwards adjustment in the Baseline Margin.

Q16. External Contract Gain Share – What are your views on our assessment of DCC application to adjust ECGS?

Ofgem proposed an £11.89m adjustment in relation to Communication Hub financing and test lab services; and reject a £23.18m ECGS adjustment to forecasted test lab services and £0.03m temporary Communication Hub increase.

The Ofgem position remains unchanged following consultation.

Respondents, including the Panel, were supportive of the proposals. Ofgem notes that it is disappointed that the DCC is not being more open with Users regards Communication Hub pricing despite commercial sensitivities. Ofgem also note that Test Lab services will be considered in the round as a commercial opportunity when considering DCC Licence review.

Q17 – Switching Programme - What are your views on our proposed position on DCC's costs associated with the Switching Programme and Question 18: What are your views on our assessment of Delivery Milestone 4 of the Switching Programme?

Ofgem proposed disallowances of forecasts and corresponding margins.

The Ofgem position remains unchanged following consultation.

The Switching Programme is outside the remit of SEC Governance and Panel provided no views.

Q19. What are your views on our proposal on DCC over recovery of revenue?

Ofgem proposed to apply penalty interest rate on the basis that insufficient justification from DCC had been received.

The Ofgem position remains unchanged.

The Panel supported the proposal as did most respondents. Ofgem have reviewed the DCC's additional evidence and partially accept reasons for under spend, but disagreed with argument from the DCC that the penalty interest rate should not be applied. Th Panel raised concerns as to the time it takes for monies to be returned to Parties, following over recovery. Ofgem has said it will review the frequency with which cash is returned.