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16 July 2024

RECCo response to Ofgem consultation

DCC Review Phase 2: Governance and Centralised Registration Service arrangements

We welcome the opportunity to respond to this consultation, DCC Review Phase 2: Governance and Centralised Registration Service. Our non-confidential response represents the views of the Retail Energy Code Company Ltd (RECCo) and is based on our role as operator of the Retail Energy Code (REC) and potential recipient of the Centralised Registration Service (CRS).

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 in the energy market whilst keeping positive consumer outcomes at our heart. 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 manage on behalf of REC Parties, including those which constitute the REC Code Manager. We would bring all of these attributes to our delivery of the CRS.

As proposed in Section 6 of the Consultation document¹ we fully support Ofgem’s view that there may be sufficient reason to transfer responsibility for the delivery of the CRS to RECCo for the following reasons.

The transfer of responsibility to RECCo will bring benefits including:

- Increased scrutiny of the service providers’ delivery to drive service improvements;
- Streamlined governance to enable decision making for Switching under the REC to become more effective;
- Synergies with other retail market services delivered by RECCo to provide a platform for change and contribute to the energy industry’s move to decarbonisation;
- Enhanced service delivery to enable benefits over and above those outlined in the Switching Outline Business Case to be realised, for example operational efficiencies in areas such as market entry; and
- Service improvements, by addressing operational issues with the Switching Operator role which currently cause difficulty and frustration for end users, for example, the incident management process and the delivery of change.

¹ Ofgem (2024), DCC Review Phase 2: Governance and Centralised Registration Service arrangements, Section 6, p. 69. https://www.ofgem.gov.uk/sites/default/files/2024-05/2024.05_Governance_and_switching_consultation_%28final%29.pdf

The transfer can be achieved with minimal, if any, impact on the service at the point of transfer. We have taken a risk-based and value chain analysis approach to defining how transition will work. This has enabled us to identify the most appropriate transition treatment for each component of the CRS and build key mitigations into the transition plan. We have already started to engage stakeholders in the transfer process through an Advisory Forum which we will run throughout the transition to enable users to engage in the development of the future Service Delivery Model and the transition plan and raise any concerns they may have.

Transferring the CRS in September 2025 will be optimal because it would take place before Market-wide Half Hourly Settlement goes live and de-risks the DCC Licence renewal process by allowing bidders to focus on their approach to delivering Smart Metering. The transfer also provides the best opportunity to separate the Switching service from Smart Metering and thus realise all that Ofgem and industry envisaged for the new faster, more reliable Switching service, including:

- Priority Services Register improvements through using better address data;
- An approach to address quality monitoring which focuses on the benefits to users arising from improved address quality;
- Reduction in the level of erroneous transfers;
- Better integration with Third Party Integrators;
- Data quality improvements through triangulation against an additional dataset; and
- Increased championing of Switching through supporting consumers to get the best deal by highlighting potential savings and publishing consumer focused information.

We have included a more detailed document providing supporting information on our approach to delivering the CRS and the transfer of the service from DCC to RECCo as an attachment to this letter.

We also support the review of DCC's governance arrangements. We have set out our detailed comments in the annex and note the potential for extending the approach to aligning governance with best practice for other licensees. While we support this in principle as it will lead to greater consistency and certainty, Ofgem should adhere to the principles of good regulation and consider the merits of each provision on a case-by-case basis, ensuring that each is necessary, proportionate and appropriately targeted while avoiding unintended consequences.

We are happy to discuss any of the points raised in this response.

Yours sincerely,

Sid Cox
Chief Executive Officer



Appendix

RECCo response to consultation questions 1 to 17

16 July 2024

Q1: 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.

Yes, we agree with the proposal for a majority independent board.

As the DCC is the monopoly provider of the communications network for smart metering, the importance of an independent board should not be underestimated. However, we also note that the DCC, like other central systems providers, is fundamentally different to normal commercial organisations insofar as its activities are heavily prescribed by both the DCC licence and the Smart Energy Code. Simplistically, the regulatory framework sets out what the company is required to do, while the board would have discretion over how. In practice these distinctions can often be blurred, and the findings to date of the DCC review have shown that many industry participants are seeking greater influence over the operation of the company, leading to Ofgem's proposals around its board composition and governance.

To the extent that the DCC board must fulfil the requirements placed upon it by the Smart Energy Code, which will in due course be managed by a Code Manager licensee, it will be important to ensure that the features of the DCC board and its decision making are commensurate with its actual functions (present and future). The model for the board should not be unduly influenced by considerations that are duplicative of, and better targeted upon reforms to the management of its foundational governance, the Smart Energy Code, simply because of the sequencing of those in-flight reforms.

Taken in isolation, we agree that the board decisions should be made without the risk of conflicts of interest that could arise from a majority of industry appointments (Option 1). Whilst the balance of independent and industry board members (as set out in Option 2) would offer certain advantages, we also agree that the inherent conflicts of interest could stymie effective decision making, effectively transposing to the board room the sort of trade-offs between interests that would more appropriately be undertaken transparently through code governance.

We note that Alt Han (Option 3) is a very different organisation to DCC, designed to enable suppliers to work together to deliver solutions to a relatively narrow scope of smart metering issues. As a result, the separation of decision-making between a shareholder-controlled board and an industry forum appears to work relatively well. We recognise that the potential disadvantages of this model as cited in the consultation, including duplication or gaps in responsibility and loss of overall strategic direction, may mean that it is unlikely to work for the much broader and financially significant activities of the DCC. However, as set out above, we consider that with all central service providers there is inevitably a separation of powers that risks duplication and tension between the governance of the company and that of the relevant industry code. The key is therefore not so much in the number or make-up of those separate institutions, but that the separation of powers is clear, complementary and holistic, providing for both a delegation of authority, and for checks and balances as appropriate.

The RECCo board is unique in the current landscape, with a wholly independent board that has successfully retained its members, recruited from a range of backgrounds and skill sets. We also note that the Elexon board also has a majority of independent board members. These models demonstrate that independent board models can operate successfully in the energy market. We note that this does not preclude the opportunity to appoint industry members to the board which would manage some of the risks highlighted with Option 4 with regards to the board lacking relevant industry experience. More fundamentally, the composition of the board does not of itself negate the need to ensure transparency and that stakeholder views are appropriately considered. For instance, we note the recent implementation of UNC modification 841¹ which changes the Central Data Service Provider budgeting process. At RECCo, we have taken account of this modification in revising our future RECCo budgeting process to demonstrate that not only do the board directors act independently, with rigour, hold the company executive to account, but they must also be seen to do so.

¹ UNC841: ['Introduction of cost efficiency and transparency requirements for the CDSP Budget, and revisions to DSC change processes'](#)

Q2: 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 support the proposals for the licence requirements on sufficiently independent directors to reflect the UK corporate governance code i.e. that they should not have been employed by the company or group in the last five years or have had a material business relationship with the company in the last three years, to provide assurance that the director is effectively independent. This would also appear to be consistent with and/or build upon the approach to sufficiently independent directors already set out in the DCC licence and for instance, the Electricity Distribution licence. We note that the code allows for the appointment of an independent director who does not meet the criteria where the board can provide a clear explanation for the appointment. We consider that this should be mirrored in the licence to allow some discretion for DCC to appoint board members and ensure that they are able to consider the most suitable candidates but to also demonstrate that they have considered the issue of independence.

We do not consider that it is appropriate for the Authority to be part of the appointment process beyond consenting to any reasonable exceptions to prescribed criteria, as this could potentially conflict with its judgement on issues that require the Authority's intervention. Oversight is best achieved when the regulator is sufficiently at arm's length to formulate opinions and judgements; providing input at selection may result in the blurring of these boundaries. The rules should be sufficiently clear for stakeholders to follow and where these are not followed, it will be for the Authority to review, and where necessary, issue a decision on whether the appointment is in breach of those requirements.

We note that the proposed energy code reform draft licence conditions for code managers include provisions similar to DCC's current requirements requiring that a sufficiently independent director must not have a material business relationship with the licensee, affiliate of the licensee or a party of the relevant code. We consider that for the reasons above the same requirements for sufficiently independent directors should also apply to the code manager licence.

Q3: 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 with Ofgem's proposal which again aligns better with the UK corporate governance code and builds confidence and trust in the Chair to be objective and to be a role model to other board members. However, we also consider that subject to the Chair meeting the criteria as a sufficiently independent director, their subsequent and technically separate appointment as Chair should be determined by the board, and ratified by stakeholders as appropriate, with no further direct involvement by Ofgem.

Under company law the Chair is appointed on the same basis as other directors. Ofgem's historic interest in the chair role, including the requirement that they be independent, arose from the governance of the Panel – i.e., the change control of the industry code, not of the associated company. This was blurred in part due to the chair of Elexon traditionally fulfilling both roles, but the distinction is perhaps best illustrated in respect of National Grid, which was required to relinquish chairmanship of codes such as the Connection and Use of System Code, whereas Ofgem plays no role in the Chairmanship of the National Grid company. Those distinctions should be preserved for all corporate entities, including those established as a special purpose vehicle for the management of a particular industry code.

Q4: 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 that the size of the board and the number of executive members and shareholder representatives should be at the discretion of the nomination committee of the DCC to determine, based on the skills and experience it needs. However, we also consider that diversity on the board is essential, both in context of Diversity, Equity & Inclusion (DEI) but also to ensure that the board is representative of the interests of all stakeholders.

Q5: 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 setting requirements for the Board to possess expertise in core areas associated with the DCC licensed activities. This ensures that across Board members DCC has the skill set to undertake its role and discharge its responsibilities effectively. We agree that the core areas proposed cover the key requirements for DCC and agree that the Board as a whole should meet the requirements rather than allocating a core area to each Board member. This ensures that if a Board member resigns the company still has the capability to cover the core areas until a replacement is appointed. We do not consider that this will necessarily result in one or two Board members covering more than one core area but recognise that members can have more than one competency. This approach has worked well for RECCo with board members bringing multiple areas of overlapping expertise with them. We understand that this diversity of expertise is also consistent with the composition of GEMA.

Q6: 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?

We agree with the approach of having a consumer advocate on the board. We note the concerns raised that a board member acting as a direct consumer representative could risk a conflict of interest, however, we consider that having current knowledge of consumer issues and access to consumer data and analysis would be more useful to the DCC board than a member who had proven consumer advocacy experience. Moreover, including a consumer facing objective is likely to minimise the risk of a conflict and therefore we support Options 1 and 3.

In respect of the individual performing the consumer advocacy role, experience may be less pertinent than a current and detailed knowledge of relevant consumer issues. We also note that some other industries, such as those in the financial sector governed by the Financial Conduct Authority now have a Consumer Duty, and that companies subject to that duty generally have a consumer champion on their Board. Even in the absence of the wider adoption of a Consumer Duty, given the DCC's unique role in the market it may be appropriate to consider such a provision as part of its future licence.

Q7: 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 do not agree that Ofgem should have a substantive role in the Board appointment process for the reasons set out in our response to question two. We consider that DCC should be able to assess the needs of the Board and appoint its members to meet that assessment. Moreover, we consider that board appointments should be made in accordance with company law.

We do not consider that Ofgem's involvement in the appointment of Board members would be consistent with principles-based regulation, and could in the extreme pose a risk to Ofgem's ability to take effective enforcement action, i.e. if it had any prior knowledge of directors' intent. Moreover, there is a risk that board appointments could be delayed if Ofgem does not have the resources to undertake its role effectively. We note for instance that Ofgem has previously had a role in appointment of directors to the RECCo Board, which it stepped away from once RECCo was fully established. Similarly, we understand that Ofgem no longer has a role in appointing the Chair of Elexon.

We consider that the most appropriate and effective accountability framework would be for Ofgem and stakeholders to have a role in the removal of ineffective or conflicted directors from the board where appropriate.

Q8: 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?

We note Ofgem's concern that direct stakeholder representation on the board would carry a risk of conflicts of interest. We consider that having a majority of independent board directors will ensure that this risk is minimised while enabling the board to consider the implications on key stakeholders.

We support a role for stakeholders in the appointment process, though possibly limited to the closest proxy for typical shareholder approval of a board member. To that extent, we would support Option 3, whereby stakeholders vote to ratify the appointment of the board member. Option 3 is the approach currently used to select RECCo's independent Board members. It could also be complementary rather than mutually exclusive to the other options.

The Nominations Committee is typically a sub-committee of the Board. It may have access to commercially sensitive information, and certainly the personal information of candidates. We consider that the direct involvement of a stakeholder representative on the Nominations Committee may contradict the rationale for not having such a representative on the full Board and would introduce administrative hurdles that could hinder the effective and timely operation of the Nominations Committee. To the extent that the representative would be a minority voice, it is also possible that their involvement would be ineffectual. We consider that there would be much greater impact while avoiding these operational difficulties if the role of stakeholders was instead to shape the Terms of Reference of the Nominations Committee, for instance influencing the knowledge, skills and competencies that should be appointed. In exceptional circumstances, there may be a role for a stakeholder representative on an interviewing panel.

We do not support Option 2. Whilst this has some similarities with Option 3, requiring DCC to consult **stakeholders** on the Board's selection of a new member, with any concerns being raised to Ofgem, it seems unwieldy and time intensive. The decision should appropriately rest with the Board, albeit with the checks and balances usually afforded to shareholders such that if there is a majority against an appointment for whatever reason, the Board's recommendation may be blocked. This would seem to be a better balance of due process and leave the substantive decision with those who have the appropriate knowledge and access to relevant information. As set out in Q7, we do not consider that Ofgem should have a direct role in the board appointments and Option 3 would better facilitate its arms' length oversight and without prejudice.

We do not consider that the adoption of Option 3 would preclude the Nominations Committee from seeking external support if circumstances require it, e.g., assisting in the assessment of a candidates technical or otherwise specialised competencies and knowledge, with which the Nominations Committee may not be familiar.

Q9: 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?

We agree with the proposal that the Chair should satisfy the independence requirements to avoid any perception of a conflict of interest, particularly where the Chair has a deciding vote in the case of a tie. We agree that the Chair should also have proven board level experience to ensure the effective running of the board.

We disagree with Ofgem's recommendation that it should have a role in the initial appointment of the Chair. For the reasons set out in our response to Q7 we consider that this could give rise to concerns about Ofgem's ability to enforce the DCC licence where Ofgem had a role in appointing the Chair.

Q10: 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?

We agree with the proposals to change the term of appointment of non-executive directors from six years to nine years. We note the UK corporate governance code recommends a maximum term of nine years with a performance review every three years and Ofgem's proposal to limit the initial term to three years would seem consistent with that. We also note that the proposals in the UK corporate governance code applies only for independent non-executive directors and Ofgem is seeking to apply this to all non-executive directors which we would support.

The code operates on a comply or explain basis and leaves the opportunity for companies to explain if they intend to retain independent non-executive directors for more than nine years. It seems appropriate for this opportunity to be extended for DCC, it provides incentives for the non-executive board members to deliver in order to be reappointed and is consistent with our response to Q8 for stakeholders to have a say or ratify the reappointment.

Q11: 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 with Ofgem's proposal to retain the OPR incentives as a reputational incentive, noting that the not-for-profit requirement on DCC will mean that it will no longer have a financial incentive through revenue at risk. Although it is difficult to determine how effective the reputational incentive will be, the retention of the incentive will enable stakeholders to compare DCC performance before and after the changes to its governance arrangements.

On customer engagement, we note that Ofgem has proposed two options. The first is to continue with an annual self-assessment and scoring by customers and the second is to commission a broader satisfaction survey. These are potentially complementary rather than mutually exclusive options, though overall we support Option 2 which provides a wider evaluation from stakeholders on DCC's performance. We consider that it is important that the survey should not be too restrictive and risk a perverse incentive for the company to focus on a narrow range of performance measures, to the detriment of measuring wider stakeholder satisfaction and insights on areas for improvements.

We would support a reputational business planning incentive focused on DCC provision of good quality plans, clearly identifying and justifying costs and identifying additional services it could provide demonstrating how these could benefit stakeholders.

We also support a cost management incentive, including a requirement for the DCC to publish a quarterly report, to demonstrate how it is performing against the ex-ante allowance. The reputational incentive could be an assessment from Ofgem on how it has performed and any issues DCC needs to address.

As covered in Q12, we think the reputational incentives could be effective especially if they are linked to the financial incentives of executives and key staff as set out below.

Q12: 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 consider that senior management and key staff bonuses should be linked to DCC's performance. The remuneration committee of independent directors should set bonus targets based on a balanced scorecard representing a range of performance metrics covering effective reputational, operational, programme, financial and stakeholder delivery based on the targets set for DCC on an annual (and longer term) basis.

We propose that the implementation of the scheme should not be prescriptive, but the remuneration committee should undertake an evaluation of the requirements of the reputational incentives and include any other performance metrics that the committee considers its senior management and key staff should deliver.

Q13: What are your views on the proposal to grant stakeholders the power to issue a (non-binding) motion of “no confidence”, its objective and determining requirements? If implemented, what should be the methodology for a qualified majority and distribution of votes among stakeholders?

We note that Ofgem propose a mechanism to grant stakeholders powers to issue a motion of no confidence only if there is no industry representative on the board. While we would support industry representation on the board, we do not consider that this should of itself determine whether a motion of no confidence should also be allowed. As noted elsewhere, it is difficult to ensure that the interest of all stakeholders is aligned, and the relative satisfaction or otherwise of any representative on the board is not necessary indicative of stakeholders as a whole.

We support the proposal for the DCC to be accountable to its stakeholders by creating the opportunity for a no confidence vote. What is unclear from the proposal is whether stakeholders would issue a motion of no confidence in DCC as a whole or in specific members of the board including the chair. The latter option is potentially less destabilising but in practice it may be difficult for a stakeholder to attribute failure to a specific individual.

We would support Option 1 for a single vote for each DCC customer within a minimum threshold as the simplest option which gives smaller parties an equal say if they had concerns about DCC’s performance. This is similar to the current arrangements for the RECCo board which requires the support of at least 75% of all parties who cast a vote.

Q14: 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?

We agree that there may be benefits to appointing an independent chair and an independent director who can act as a consumer representative in order to effect good practice during the period of the extension of the current smart meter communication licence. We also see the merits of inviting stakeholders to attend board meetings as appropriate but acknowledging that the DCC board will need opportunities for confidential discussion as well.

We agree that Business Handover is critical and therefore support the rationale for Ofgem’s proposals to temporarily maintain an observer role on the DCC Board. However, we also agree that such observer status is not a legally defined position, and that the involvement of Ofgem in board discussions could create a legal risk. Whilst these risks are not defined, we assume this could include the fettering of Ofgem’s discretion, and potentially prejudicing any regulatory action that could appropriately stem from any determination of the board at which they were present. Whilst we do not agree that such an observer role is without precedent, for instance RECCo has benefited from an Ofgem observer at its board meetings from its inception, this does require a degree of discretion on both parts, with observers excusing themselves and otherwise being asked to leave for particular agenda items.

More specifically, in the absence of a clear role for the observer or indeed clear expectations of the Board in respect of Business Handover, we agree that the oversight of business handover planning and implementation would be more effectively undertaken by an appropriately constituted joint group, whose governance can stem from clear Terms of Reference underpinned by agreement or legal instruments such as transitional licence and/or code obligations. Such programme governance has worked effectively elsewhere, such as the implementation of the Switching Programme.

Q15: 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 agree on the principle of potentially retaining current independent directors on the board of DCC2, but we consider that any such directors must be genuinely independent and, in line with the UK corporate governance code recommendation, that there should be an opportunity for an appraisal of their role including a report on ‘the specific reasons why their contribution is, and continues to be, important to the company’s long-term sustainable success’.

Q16: Do you agree with our proposal that it would be appropriate to remove provision of Centralised Registration Service (CRS) from the DCC Licence and transfer the obligation to the Retail Energy Code (REC) to be delivered by RECCo?

We fully support this proposal. We believe that the transfer of the CRS to RECCo will deliver significant benefits to consumers, industry, and CRS users over time. The transfer will allow for the further alignment of the delivery of Switching with the strategic aims of Ofgem and the REC, and the delivery of other retail market services.

Rationale for the Transfer

There is a clear rationale for both separating the organisational delivery of Switching and Smart Metering by transferring the responsibility for Switching to RECCo, and for separating them at this time.

Switching would be a significant element of the retail market services delivered by RECCo whereas it is only a small element, approximately 5%, of the service required from DCC through its Licence. Placing responsibility for the CRS with RECCo, as a mature organisation with a demonstrated track record of successfully transferring and managing retail market services, would deliver significant benefits to industry and consumers.

The continuing link between Switching and Smart Metering increases the complexity associated with any future transfer of the Smart Meter Communication Licence ('the DCC Licence'). This raises a risk that the operation of the CRS may be impacted by any potential transfer of the the DCC Licence, with resulting potential negative outcomes for users and consumers arising from resource constraints as DCC responds to the re-procurement exercise and any potential transfer of responsibility, as well as the potential lack of understanding of Switching that a Successor Licencee might have.

Our Guiding Principle for Operating the CRS

Our guiding principle for operating the CRS is:

"To operate, maintain and improve a high-quality and reliable Switching service that consistently meets the evolving needs of the retail energy industry, delivering value for money for consumers and industry"

A key component of this is that the service consistently meets the needs of the retail energy industry. This will require both the service and the technology that underpins it to be flexible and able to respond to the demands placed on it as the industry continues to evolve. The foundation on which that flexibility is built must be a highly reliable service. While quantitative elements such as availability and successful switches are critical to the success of Switching, qualitative elements, including management of the service via the Switching Operator role, must also be delivered.

This principle recognises that a high-quality service delivers both financial and non-financial, direct and indirect benefits that are of critical importance to both consumers and industry.

The Benefits for Users, Industry and Consumers of RECCo Delivering the CRS

There are several key advantages of RECCo taking responsibility for the CRS, many of which were outlined in Ofgem's consultation document. These include:

Increased Scrutiny

The current delivery model does not allow RECCo to have any direct scrutiny over the CRS service providers. When the service provider contracts are novated to RECCo this situation will change. RECCo has demonstrated with other services that we take the opportunity to scrutinise in detail our service providers' delivery and drive service improvements.

Streamlined Governance

The current governance model is confusing with shared responsibilities between Ofgem and RECCo. The lack of commercial contracts does not allow the same level of control over service delivery that we have with our service providers. Separating Switching and Smart Metering will enable Switching to be governed under the same streamlined governance model and direct commercial controls that operate for RECCo's other retail services. This will enable decision-making for Switching under the REC to become more effective.

Synergies

Transfer of the responsibility for the CRS to RECCo will bring greater opportunities to realise synergies between the delivery of Switching and other retail market services under RECCo such as the unified control of data. It will also allow us to provide a consistent user experience and implement a service enhancement roadmap which is aligned across the entire retail market and a single technology roadmap and forward work plan to deliver cost efficient and unified digital and technological advancements across the entire service portfolio.

Enhanced Service Delivery

Transfer of the responsibility for the CRS to RECCo will enable benefits over and above those outlined in the Switching Outline Business Case to be realised, for example operational efficiencies in areas such as market entry.

Service Improvement

There are some well recognised operational issues with the Switching Operator role at present which cause difficulty and frustration for end users. These include the incident management process and the delivery of change. With RECCo taking responsibility for the delivery of the CRS these issues can be addressed through improved communications and a more streamlined change process. We will then make full use of the provisions in the service provider contracts to drive a formal process for the continuous improvement of service delivery.

The Transition from DCC to RECCo

We have developed a clear approach for the transition of the CRS from DCC to RECCo which will take place over a Transition Period of 9 to 12 months starting from Ofgem's decision and ending with completion of the handover. This will be followed by a period of enhanced service monitoring.

We have taken a risk-based and value chain analysis approach to understanding how transition will work. This approach has enabled us to gain a full understanding of the components which comprise the CRS, identify the most appropriate transition treatment for each component and build key mitigations into the transition plan.

Our transition plan has been developed using the following key principle:

"Users will experience minimal, if any, impact to the service at the point of transfer".

To achieve this, we will not make significant changes to the systems and processes that underpin the operation of the CRS during the Transition Period and will continue to use all the current CRS Service Providers to maintain continuity of service to industry and end consumers. Then, once we are certain a stable transition has been completed we will look to improve the service. To that end, we will work with REC Parties, CSS Users, existing CRS Service Providers, and the wider stakeholder community to create a Service Enhancement Roadmap that will ensure significant improvements to the CRS considering the views and feedback from industry.

The REC Board will monitor the progress and success of the transition plan against a set of Critical Success Factors which reflect the need to deliver a user-focused and efficient CRS.

The Service Delivery Model

We have given considerable thought to how the CRS will be governed, managed, enabled, and operated post transition. We have defined a proposed Service Delivery Model (SDM) and will consult with Ofgem and the industry over the coming months, prior to a formal decision being made.

The SDM defines the proposed structures and stakeholders involved in delivering the service across governance, management, delivery and support from across RECCo.

The development of the SDM is aligned with our key transition principle of ensuring users experience minimal, if any, impact to the service at the point of transfer. This supports de-risking transition and reducing the likelihood of any negative impacts on users, industry, and consumers at the point of transfer. Accordingly, we are considering a number of options for resourcing the operation of the CRS including:

- Transitioning relevant DCC staff under TUPE;
- Using current RECCo staff;

- Recruiting additional staff into RECCo; or
- Leveraging the skills and capabilities of the REC Code Manager.

In line with the transition principle, the resourcing options will be assessed based on complying with legislation, their ability to minimise the impact on users at the point of transfer, de-risking the delivery of the transition and delivering value for money for the industry.

To support a smooth transition and mitigate against the risk of negatively impacting users at the point of transfer, we will maintain the current CRS structure used by DCC to deliver the CSS which delineates the delivery into the CSS Provider, the Switching Operator Role and the Certificate Authority. The underlying technology and systems which underpin the operation of the CRS will also continue under RECCo. This will be achieved through the novation of the relevant CRS Service Provider contracts.

Q17: What are your views on the considerations we have identified under option 1?

We have taken all the considerations which Ofgem has identified in the consultation document into account in the development of the transition plan and the proposed SDM and we believe that they can all be satisfactorily addressed.

Assurance

The delivery of RECCo's existing services is assured under a governance model which provides independent oversight and assurance through the REC Board and the REC Performance Assurance Board, both of which have members who are independent of RECCo. Bringing the delivery of CRS by RECCo into this model will allow the same level of independent oversight and assurance that is proving satisfactory for industry and stakeholders.

Economies of scale and scope

Transferring the delivery of CRS to RECCo will provide opportunities to deliver economies of scale and scope through the leveraging of RECCo's own existing services and those of the REC Code Manager. For example, we will make use of the existing approach to REC Service Management and the current REC Change Management process to support the delivery of CRS. In addition, the REC Code Manager interacts with several key elements in the delivery of the CRS and these roles will potentially be expanded to take advantage of additional economies of scale and scope.

Contract transfer

We have a demonstrable track record of novating service contracts in the retail market, for example, for Retail Code Consolidation, the Electricity Enquiry Service, the Gas Enquiry Service, and Switching Go Live. We will leverage this experience when novating the CRS Service Provider contracts. When they were agreed, these contracts were required to be capable of being novated and, under the DCC Licence, DCC must make appropriate provision for the transfer or novation of all Relevant Business Assets in relation to the CRS. This will support the smooth transition of the service. We will also work with DCC to build on DCC's relationship with the CRS service providers to ensure a smooth handover of relationship and responsibility.

Contract procurement timeline

Except for the contract for the Systems Integrator (SI), which is currently being procured by DCC, none of the other CRS Service Provider contracts have a hard expiry date prior to 2027. RECCo has line of sight over the current SI contract procurement activities. The major contracts also have the provision for two separate 12-month extensions. This provides further contingency beyond 2027 and allows RECCo sufficient time to inherit a stable service at the point of transfer and then identify potential service improvements before future re-procurements need to commence.

Knowledge retention

Much of the activity associated with the delivery of the CRS is already documented in the REC and the lower level operational documentation and service designs. We will carry out a review of this information as part of the transition arrangements and use it to ensure that all staff involved in future delivery are fully trained. In addition, we have a dual approach to knowledge retention. Firstly, we have commenced discussions with the DCC to identify staff that would potentially transfer to RECCo under TUPE legislation and therefore carry over their institutional knowledge. Secondly, where TUPE is not an appropriate option, we have built provision for knowledge transfer into our transition plan. This will include shadowing three months in advance of the handover and the provision by DCC of in-depth handover documentation. It should also be recognised that the REC Code Manager is already engaged with several elements of the operation of the CRS, and we will leverage their knowledge and understanding in any future operation of the CRS under RECCo.

Impacts of transition

Our intention, reflected in our risk-based approach and transition planning, is to ensure that the impact on users, consumers, and industry is minimal, if any. The main services including hosting of the CSS, system and component integration, Switching Service Management System and Certificate Authority, will all be transferred via contract novation. To mitigate any required changes to the processes and personnel following transfer we have begun facilitating the Switching Stakeholder Advisory Forum (SSAF). The membership of the SSAF includes all categories of user. The SSAF will be used to advise on and review the detailed development of the proposed SDM and the transition plan. We will also produce regular communications to users throughout the transition period to ensure they are fully aware of any changes. Over time, the SSAF will migrate to a CRS Users Forum to provide industry with a voice and input into future enhancements to the CRS.