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Chris Harris
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5th February 2014

Dear Colin

Smart Metering DCC – charging 2014/15

Thanks for the opportunity to respond. Below is the response to three key questions.

Our response relates to the draft version of the Charging Statement as directed by the Ofgem link. We would be happy to comment on subsequent versions, there now being the Indicative Charging Statement updated version on the DCC website;

Supporting information – we ask that further consideration is given to the provision of supporting information to the Charging Statements. The model that has been provided is not of sufficient detail for suppliers to be able to fully understand how the DCC charges are being established. We would therefore ask that the model is further developed to include the finer level of detail required. Such an approach has been successfully developed in other areas of the industry, reducing the level of uncertainty and so ensuring effective and efficient processes are in place to understand and validate the Charging Statements.

Timely and transparent charges – To enable the industry to plan effectively (and ensure that its customer prices are based on accurate costs), the industry needs the provision of charges to be timely and transparent. In addition SEC Parties need to be able to fully understand the proposed charges, provide the necessary cover arrangements and be able to pay these charges within the extremely tight timescales that are being imposed. Further, it should be an expectation on the part of the DCC that the industry will continue to challenge certain aspects of the charges being levied in order better to understand them where further clarity may be required or potential ambiguity exists.

When the charging statement for 2013/14 was published by the DCC in November last year, the industry was totally unprepared for the amount, which seemed out of keeping with a reasonable expectation of costs incurred, with explanation that was materially inadequate. Indeed, the probity of “pay now dispute later” was put into question. Supplier Parties voiced their concerns at industry meetings, and our understanding is that some suppliers wrote directly to the DCC and to DECC to express their concern. It will therefore be important going forward for the DCC to address these concerns and take steps to ensure this does not happen again. We note that the DCC has now provided forecast views for its indicative budgetary requirements for the 2015 – 2016 and 2017 – 2018 Regulatory Years that are helpful for DCC Users.

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That said, as the DCC remains a regulated, monopoly provider of services we expect that moving forward we will see an increasingly transparent approach to the provision of charging statements, their content and that the industry will be provided with the breakdown of charging information that it requests in order for it to become (and remain) completely educated as to the role, function and costs of the DCC, it's service provider. We believe that in this way trust will be restored and the Programme can then progress on the solid foundation that is essential for success; and

On paragraph 32(4), we note the pragmatic approach that has been adopted in drafting the Baseline Margin aspect of the Charging Statement before a DECC Consultation on the subject has been concluded, but would ask that this approach should not set a precedent and that future changes should be undertaken following due process.

We would welcome the opportunity to discuss this with you.

Yours sincerely

A handwritten signature in black ink, appearing to read "Chris Harris".

Chris Harris
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Cc Mark Field



Does the Charging Statement: provide sufficient clarity on the charges that Service Users will face?

Whilst the Charging Statement provides the breadth of information required, it lacks the depth of detail required in some areas.

Whilst the Charging Statement provides the breadth of information required, in some aspects it lacks the depth of detail required in order for DCC Users to be able to fully understand the charges that they are being asked to pay. We have the following points of clarification that we ask are considered further:

Paragraphs 12 and 13 – we seek clarity around the sources of the data used to establish the size of the Charging Groups (EMSMSgt) as shown in table 2, page 3 and would like to understand the differences between the electricity and gas values as quoted for Charging Groups g1 and g4 and g3 and g5;

Paragraph 14 – We would like to see greater clarity as to how the Group Weighting Factors have been calculated. It may prove useful to have these drafted in the appropriate section of the SEC (Section K3) for future reference, for example;

Paragraph 17 – what is the impact on the fixed charges per charging group of counting export meters as import meters?

Paragraph 24 – It would be helpful to include more examples so that all charging groups are included. The example used here is not particularly helpful, as it would be unlikely for there to be both a Distributor and a Supply in the same legal entity/SEC party;

Paragraph 25 – We seek further clarification around the Service User Codes and would also ask that the worked example also covers other scenarios, for example:

- Suppliers with both import and export;
- For Distributors; and
- Transporters

Paragraph 28 – With regard to the pass through costs noted in the third bullet point, further clarification will help as to the annual fee that the DCC is required to pay to the Authority or at least a breakdown of the likely costs that the DCC is liable for. Further, we would appreciate clarification around SECCo charges and whether or not DCC Users are expected to pay these directly to SECCo or whether they form part of the pass-through costs from the DCC;

Paragraph 29 – Further clarification would be helpful as to how and why the Retail Price Index (RPI) is applied to Internal, pass-through costs and baseline margin and to obtain assurances that the proposed approach does not introduce an element of double-counting of this provision. For example, SEC costs have been set by the SEC Panel, and will include a provision for RPI, therefore we do not see any need for the DCC to apply an allowance for indexation to these costs. RPI is generally regarded as an upper bound index.

Paragraphs 31 and 32(1) – whilst we appreciate the clarification provided in 32(1) as



to the deployment of resources we ask that further cost breakdowns are provided to clearly demonstrate the total spend for the internal costs so that the industry can better understand where the proposed £18.6m, plus contingent £5.5m costs fall. Further, it would be helpful to understand how contingent costs have been calculated as these seem to be running high at around 33% for both internal and external costs. This is particularly important when consideration is given to the fact that a further prudent estimate of £7.6m has also been added. In order to provide the industry with the transparency that it is looking for we would ask that any descriptive narrative that is provided is also accompanied by the associated/ estimated costs;

Paragraph 32(5) c) – It would be helpful to understand the given number of concurrent Service Users envisaged by the DCC when estimating the testing Software Licence costs that will be included within the Fixed Costs. Further, we are not sure as to the value of referencing other contracts, namely the External Service Provider Contracts, by way of an explanation for a particular charge where those Contracts will not be made available. Whilst we understand the arguments around commercial sensitivity we ask that consideration is given to providing the necessary contextual information to support a particular cost element that should be possible without exposing the detail of a Service Providers business model. Indeed we anticipate that this line of argument will no longer be necessary, as the tender process has now long been completed and contracts awarded. Further it would be helpful to understand where the oversight and management of these Contracts is to sit, for example the SEC Panel?

Paragraphs 37, 38 and 39 - We would welcome the early visibility of any proposed Explicit Charges and believe that it is appropriate that this can be best achieved through the SEC Panel. The industry will require the what, why and when elements of these additional charges to be clearly defined and openly discussed; and Paragraph 45 - Where there is known to be uncertainty around any of the costs or revenues presented, it would be useful for the DCC to recognise this uncertainty by indicating the potential range. It is envisaged that a similar approach to that adopted by Distribution Network Operators (DNOs) could be utilised when providing their indicative charging statements. The details of this approach are covered in the Distribution and Connection Use of System Agreement (DCUSA) v5.13, Schedule 2, Table 2, page 505. This approach will be very beneficial when publishing indicative Charging Statements and Budgets, allowing Suppliers to better analyse and forecast the impacts of these figures.

Is the Charging Statement in a coherent and easy to navigate format?

We support the format as drafted and believe it to be complete in terms of the items covered. However, we believe that further detail is necessary in order to provide the clarity that is required for DCC Users.

We believe that further detail is required in some aspects in order to provide a clear and transparent charging statement.

Whilst we agree that the current format of the Charging Statement is straight-forward and easy to follow we do have further considerations and points of clarification that we have highlighted above.



Is the DCC Charging Statement accurate in all material respects?

We require further, more detailed, information in order to establish the accuracy of the information provided.

In general, whilst there remains a requirement for further detail in some areas of the Charging Statement, in order for Suppliers to understand fully the charges that they are being asked to pay, it is not possible to confirm the accuracy (or otherwise) of the information provided.

However, on one point in particular, we would be grateful for some clarity as we expect to be able to align any revenue collection back to any associated assumptions. This is particularly true for this submission, for example, as the aggregation of export meters within the import meter charging groups (as explained in the second bullet point in paragraph 13) needs to be accompanied by information to correctly identify the proportion of that charging group that this represents and the 'per meter' charges that have been applied. Otherwise we will not be able to obtain any confidence in the revenue recovery or any potential over/under recovery that may transpire.