



Ofgem Consultation – DCC Price Control Consultation

Response from E.ON

General Comments

As a future user of services and as a Supplier we are obligated to pay the charges that are levied by the DCC. These charges form part of the costs that we pass onto our customers. It is therefore in our customer's interests that the DCC's costs are efficient, equitable and justifiable.

We have been concerned to date about the lack of transparency with regard to the DCC's costs. We expect the clarity and detail of the DCC cost information provided to increase as they become more familiar with their new role and the expectations of stakeholders from them.

The financial model for the DCC Licence places Ofgem as the key party in ensuring that costs are appropriately justified and that remedial action is taken if necessary.

We were therefore pleased to see from this consultation that Ofgem had undertaken a thorough and rigorous assessment of the first year of the DCC's operations.

The amendments suggested to the DCC allowed revenue seem fair and we agree with the decision not to allow the DCC to make any increased margins at this point in time.

The consultation contained an excellent level of detail and explanation of the DCC's costs. This helps us to understand the situation better and is therefore welcome.

The action proposed to be taken by Ofgem reassures us that the DCC's costs will be kept under scrutiny and our customers will not incur higher costs than they should from the deployment of smart meters.

Responses to consultation questions:

Question 1: What are your views on our approach to assessing DCC's costs? And do you have any suggestions on where we can improve our approach?

The approach adopted by Ofgem for this initial assessment of the DCC costs seems reasonable. We were concerned to hear that the DCC had not provided particularly robust reporting to Ofgem but assume that this may be a result of this being the first regulatory year where it was required to provide information.

As the DCC evolves and expands its activities it will be important for it to provide relevant and accurate information to Ofgem to ensure that it is able to undertake a proper review of its activities. This would be particularly true of the 'shared costs' component of DCC costs which we would envisage may be an area of ongoing contention.

Question 2: What are your views on our assessment of DCC's performance against the IMs?

Timely and accurate publication by the DCC of documentation is important to allow us to develop our systems and business processes to interact with them and to manage SMETS 2 meters. The inclusion of key



milestones within the DCC Licence to produce these documents is therefore useful in incentivising the right behaviour from the DCC.

We agree with Ofgem's view that the Implementation Milestone 5 (the DSP interface specifications) was not completed on time and therefore the performance penalty described in the DCC Licence should be applied.

Question 3: Do you have any observations from the current incentive framework which can inform early thinking on developing an enduring framework?

The current DCC incentive mechanism is appropriate for the activity that it is undertaking. Having specified milestones to achieve by certain dates ensures that the DCC is focused on the delivery of services to help in the deployment of smart meters.

Once services are fully established and the DCC is providing steady state services it would be worth reviewing the incentive regime to see whether it is delivering the type of service that is in the best interests of the DCC's customers.

Question 4: What are your views on our proposal?

We believe that these are fair and appropriate. The costs which it is proposed the DCC be disallowed are justified as they relate to costs that we believe should have been foreseen during the Licence award process.

We have been particularly frustrated by the DCC's initial lack of resourcing in the finance and regulatory areas. It was clear from early engagement, even before the Licence was awarded, with industry stakeholders that we would want to see detailed financial reporting.

It was also clear from the initial Smart Energy Code (SEC) consultations that there were a significant number of SEC Subsidiary documents that the DCC would be required to draft. It was therefore disappointing to see initially that the DCC had not resourced these areas appropriately and had been forced to incur costs in an inefficient manner to rectify this.

Question 5: Do you have any views on how the methodologies used for networks could be applied to DCC in future?

The RIIO methodologies used for the price control of network companies may have a future role with the DCC. However at the moment, at this stage of the DCC evolution, we do not think that they are sensible as they may introduce too much complexity to the process.

The current process is designed to drive behaviours that encourage the delivery of services to defined timescales. Until these services are in place and working then it is sensible to continue with them.

Question 6: We are looking for ways to benchmark DCC costs. What other sources of data or potential comparators can you recommend for subsets of DCC costs

The Office of National Statistics (ONS) Annual Survey of Hours and Earnings (ASHE) is a useful source of information when assessing the salaries of the DCC staff. We therefore do not have any specific concerns with the use of this by Ofgem in their assessment.



The information provided in the survey can however be quite general and therefore it may be more appropriate to use a specialist HR reward consultancy. They should be able to provide a more targeted benchmark of similar organisations in both the private and public sector.

Other HR information sources that may provide additional insight to that obtained by the ONS include Xpert HR or Croner Solutions.

Question 7: What are your views on DCC's approach to the prudent estimate?

During the pre-Licence award stage we supported the concept of certainty of DCC costs in dialogue with DECC. This allows Suppliers to more accurately manage their estimates of underlying costs when considering the energy prices they charge to their customers. This continues to be our view.

During the initial stages of the DCC life it was perhaps to be expected that the prudent estimate they would use would be relatively high due to the high number of potential unexpected events.

However we would not wish to see this feature of the DCC price control be abused and therefore would request that Ofgem keeps a particularly vigilant oversight of this. If thought necessary we would support amendments to the DCC price control and Licence should they be necessary to remove this feature at future time.

Question 8: Do you agree that our proposals should take affect from April 2015/16?

Yes, including the adjustments in 2015/16 will see these reflected in the costs to DCC users as soon as is possible.

The DCC has recently published its final charges for 2015/2016 and therefore we assume that this will require an adjustment and a further publication of charges.

In future years it would be preferable if the timing of Ofgem's assessment of DCC costs and the determination on any adjustments could align with the final date with which the DCC is obliged to publish its revised annual charges. This would assist the DCC in producing accurate charging statements. For users of its services it would help to ensure a more accurate understanding in advance of what the DCC costs would be.

Question 9: Do you agree with our assessment against the criteria in the licence?

Yes, we are not convinced that the additional services undertaken by the DCC to date are outside what was originally considered that they would provide. Therefore they do not meet the criteria set out in the DCC Licence to trigger an increase in allowed margin.

It would also be wrong to set a precedent just 6 months into the DCC Licence award of allowing for such a large increase in the margin adjustment.

Question 10: What are your views on our longer term strategy of moving towards a more ex ante price control? How might this be achieved?

Moving to an ex ante price control might be achievable once the DCCs services are fully established and operating at a steady state for a period of time.



This price control only covered the first 6 months of the DCC services and didn't have an opportunity to test how well they perform in procuring and delivering new services. A vital part of the service that the DCC is designed to perform.

The next few years should provide Ofgem with the opportunity to test the DCC on this aspect of its service provision, as well as managing significant contract issues and delivering actual services. At this point it would then be appropriate to consider amending the nature of the price control process.

The format and detail of the reporting within this consultation from Ofgem starts to show how the enduring price control could be reported to DCC stakeholders. We believe that this is an excellent start and forms the basis of how future years DCC price control could be reported.