



By email only

Tricia Quinn
Ofgem
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Dear Tricia,

DCC Price Control Consultation

npower welcomes the opportunity to respond to the Ofgem consultation on the DCC Price Control Consultation. We are generally supportive of the approach Ofgem have taken in assessing DCC's costs, however, we would like to see further scrutiny of the DCC's costs being undertaken, and greater transparency regarding the DCC's costs being provided, in order to enable us to determine whether we fully agree that the DCC has put forward reasonable grounds and sufficient evidence to justify their additional costs. We therefore provide our response to this consultation based on the process followed and not the financial values resulting from Ofgem's Price Control review. Please see below our response to your consultation questions.

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

We support the approach adopted by Ofgem in assessing the DCC's costs as this follows the expected processes. Whilst we understand the need for Ofgem to be involved in the detail of a pricing review it will also be a requirement of subsequent price control reviews to understand how changes to the DCC's cost base change over time, what effect this has on prices, how these changes are managed and how they are reflected in their pricing structure. Ofgem are the only entity able to set the DCC costs in the context of the DECC Impact Assessment, we therefore suggest Ofgem (together with appropriate DECC support) establish how the price control review compares to the DECC Impact Assessment and continue to carry out such a comparison in future years. With regard to the bench-marking of salaries, we understand that the DCC manages a range of service providers on a contractual basis, as such the only other example that we know of that is close to such a model is that of Elexon and we think this may provide a useful point of comparison.

With regard to potential areas where the approach adopted by Ofgem could be improved we have the following comments:

- We note that Ofgem has challenged day rates for DCC activities, however we believe that this challenge could be further improved if consideration was also given to the length of time allocated to activities and whether this is appropriate/economic/efficient
- Greater transparency regarding DCC costs, including the provision of more detailed breakdowns, would be helpful. For example, further information regarding the SMKI and Security Increases would be useful in order to enable Parties to determine whether such increases are justified.

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

The DCC has only met 5 out of the 6 milestones and therefore sacrificed part of their IM payment. You have expressed that the DCC can earn this back provided IM12 (Commencement of Initial Operational Services) is achieved and to the required standard. Therefore, we would like to have confirmation once IM12 has been achieved and expect this to be imposed on the 2016/17 charges. We are also concerned that there is a lack of incentive on the DCC to achieve milestones within the original timescales provided, particularly if they are able to earn payments previously lost by achieving other milestones.

Nevertheless, we understand and agree that the process as specified in DCC LC 38 Part B and the associated Schedule 3 has been followed when assessing the DCC's delivery of the first 6 implementation milestones. We are pleased to see the rigorous application of the assessment criteria and note that this process has identified shortfalls in terms of delivery timescales and the DCC's approval process which we are assuming the DCC must now address.

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

It would be useful for industry participants to be able to clearly understand the lessons learnt from this initial Price Control review and how these will be incorporated into subsequent reviews.

Once a decision has been made with regard to the DCC re-planning consultation, it is imperative that the implications of the DCC re-planning consultation upon future IM Milestones is clearly understood, particularly how subsequent IMs (IM7 – IM11), including those associated with testing, will be amended, how these will be monitored and what affect this is likely to have on all industry participants in terms of any of their associated deliverables or obligations. Where future proposed amendments are suggested by the DCC with regard to their remaining IMs we would ask that due process is rigorously adopted and monitored. Lack of full industry consultation on such issues can potentially lead to Programme instability, with associated increases to costs and implementation timescales.

Question 4: What are your views on Ofgem's proposal?

We understand and support Ofgem's proposals with regard to disallowing certain costs aspects for the reasons provided in Chapter 4. In assessing the DCC's costs it has been stated that cost comparisons to Licence Application Business Plan (LABP) have increased by £71m over the contract period and that £20m of this can be accounted for by costs associated with activities that were excluded from the LABP such as SMKI and Parse and Correlate contracts etc. Whilst we accept that the additional £51m increase has been considered by Ofgem as economically and efficiently incurred, it would be helpful for further clarity to understand exactly where these additional costs have been/ will be incurred. Also, we would have expected increases in the salary budget to have been largely predictable and therefore included in the original cost estimate/bid.

Question 5: Do you have any views on how the RIIO price control approach could be applied to DCC in future?

We believe that the RIIO price control framework should provide the DCC, similar to other regulated entities, the opportunity to fully justify its business plan and the benefits to consumers of any required investment/innovation. This would seem a sensible approach when assessing the DCC's costs in its next price control and we would particularly welcome the wide

stakeholder engagement that would be required as well as the opportunity to feed our customers views into the business planning process.

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

With regard to the bench-marking of salaries, we understand that the DCC manages a range of service providers on a contractual basis. As such we appreciate that there may not be another directly comparable model available for comparison purposes, however we believe that there may be benefit in reviewing the Elexon model to determine whether this could be used for comparison purposes.

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

We understand that the DCC's prudent estimate approach is the result of the combination of the fact that the DCC can not hold debt and that suppliers have, in previous consultations, asked for transparency of and the ability to forecast DCC charges. This request from Suppliers has been interpreted by the DCC as a requirement to provide 'fixed' monthly charges. Prudent estimates are therefore used by the DCC to provide the necessary 'buffer' between expected and actual costs. The basis for the calculation of these prudent estimates however is unclear.

We agree with Ofgem's observation that an over-estimate for 2013/14 of £6m does not appear to be 'prudent' and is much higher than expected and welcome Ofgem's continued monitoring of this aspect of the DCC's price control. Also, we believe that the prudent estimate should not be enduring. Therefore, we would expect the prudent estimate to fall away altogether once the set-up costs are realised.

Question 8: Do you agree that the Ofgem proposals should take effect from April 2015/16?

We agree that the Ofgem proposals should take effect from April 2015/2016.

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

We support Ofgem's assessment of the DCC's proposed BM adjustment against the criteria as set out in the licence.

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?

As the DCC is still at a relatively early stage of development we believe that it is both prudent and essential to establish systems and process that remain both flexible and transparent to all interested parties and stakeholders. This must include timely and open consultations. Whilst we understand and support Ofgem's longer-term view to introduce an ex-ante approach to the DCC Price Control review process we suggest that, particularly during the earlier stages of DCC development, an element of an ex-post approach also remains as we believe that such a balanced approach would best facilitate the identification of cost effectiveness and efficiency and it would be helpful for there to be some method of ensuring that costs still remain predictable. We would also expect that any ex-post adjustment would be made with sufficient notice to the market to avoid undue volatility. We suggest that any additional costs be recovered in the second revenue year following their identification. This will ensure that the market can be confident of the price signals the DCC gives without undue adjustment. Going forward, we require a further breakdown of the DCC costs and the increases in order to determine the benefits this will have for us and for our customers.

If you would like to discuss our response, please contact the following individuals:

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