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DCC Price Control Consultation: Regulatory Year 2014/15

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

We welcome the opportunity to comment on the DCC Price Control Consultation, and are generally supportive of the approach being taken by Ofgem.

We remain committed to the DCC and the benefits that it will bring by providing a common, secure interface between Suppliers and enrolled smart meters. This will ensure that customers can benefit from a seamless smart service from all Suppliers, while having confidence that the DCC is providing security for their data and their smart meter. We must also stand on the side of the customer and ensure that the DCC is delivered economically and efficiently to minimise the impact on the customer bill.

We remain concerned that DCC costs continue to escalate since contract award in 2013, and note that the £350m of savings announced by DECC have disappeared as a result of scope and project creep. We recognise that Ofgem has access to more detailed and granular data than is available to industry. We therefore encourage Ofgem to ensure that these costs increases are in the interests of consumers, reasonable and appropriate. We are reliant on Ofgem undertaking a detailed assessment of DCC's costs and to reach a view on whether costs have been efficiently incurred or not.

We believe tight controls must remain in place to ensure the DCC remains committed to their Licence Application Business Plan (LABP). We accept material variations will be necessary; however, these should be subject to robust reporting and justification to ensure economic and efficient costs were achieved. We also believe that the DCC should be incentivised to ensure their stakeholders are informed of any developments in their plan as soon as possible. This could either be through a stakeholder satisfaction survey combined with a metric on DCC charging forecast stability. We remain concerned that DCC still has a tendency to only consider DECC as their key stakeholder and for cost increases only to become visible with the publication of charges for the year. We do not believe that this represents reasonable practice and will result in Suppliers and hence customers incurring costs that could be avoided.

We also believe that any Baseline Margin Adjustments should continue to be closely monitored in order to protect customers and ensure they are fully justified. If there is evidence of continued opportunistic requests for amendments to Baseline Margin, Ofgem should consider applying an incentive mechanism to these.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Ashley Pocock on 01293 766853, or myself.

I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely,

Paul Delamare
Head of Customers Policy and Regulation

Attachment

Monitoring suppliers' smart meter roll-out activities

EDF Energy's response to your questions

CHAPTER: Two

Q1: What are your views on our approach to assessing DCC's costs?

EDF Energy is generally supportive of the approach Ofgem is taking to assess DCC costs. Close management of expenditure is essential if customers are to obtain value for money. The DCC must continue to fully explain and justify all areas of potential additional expenditure in addition to providing evidence to demonstrate the industry is getting value for money in all cases.

We were concerned to note that for the period of review covering the regulatory year from 1 April 2014 until 31 March 2015, Ofgem identified examples to the sum of £409,000 where DCC had not provided sufficient evidence to the level of detail required. This is in addition to a further £11.721m which has not currently been justified by the DCC as being economic.

Following the changes to Regulatory Instructions and Guidance (RIG) resulting from last year's Price Control review, it is disappointing that additional modifications may be necessary if we are to encourage the DCC to provide necessary detailed information.

Q2: Do you have any suggestions on where we can improve our approach?

We recognise the efforts that Ofgem has already made to assist the DCC in providing the level of detail required to review their submission; in particular, the forensic audit review of processes and DCC's controls over cost variance.

Without reviewing the RIG documentation in detail, it is difficult to comment on any potential improvements. However, we think that Ofgem should consider providing the DCC with worked examples clearly setting out the level of detail required. Additionally, a preliminary meeting could be held with DCC to provide initial feedback on their submission and cost justifications. The meeting could also be used to explain, where appropriate, the additional information and evidence required.

As Ofgem moves closer to the ex ante model, similar to the approach taken for gas and electricity networks, we feel there may be lessons to be learnt on the manner in which they provide ex ante price control information to ensure costs are economic and efficient.

CHAPTER: Three

Q3: What are your views on our assessment of DCC's performance against the IM7?

We accept Ofgem's recommendation that the DCC has achieved the criteria to meet Implementation Milestone 7. At the same time, we are concerned with the observations that DCC appears to be applying its procurement and risk management processes inconsistently. Having already achieved six interim milestones, DCC should by now be fully aware of the process to be followed and the level of supporting evidence required to obtain acceptance of milestone completion.

We fully support the need for a review of DCC processes, including procurement and supporting evidence to ensure DCC fully meets RIG requirements. Our recommendations in Question 2 above should assist in consistency being achieved.

CHAPTER: Four

Q4: What are your views on our cost proposals?

We agree with Ofgem's cost proposals and accept the majority of the costs reported by DCC were economically and efficiently incurred. We are concerned by the level of increase in costs since contract award. The increases seen to date further reinforce the important role Ofgem must continue to play in ensuring all costs are pertinent.

We are supportive of Ofgem's view that a small proportion of DCC's costs have not been justified.

Q5: We are interested in feedback from stakeholders and industry parties on DCC's external engagement. What were your experiences of engaging with DCC in regulatory year 2014/15?

Over the course of 2014/15 the DCC has undertaken a wide range of external engagement, including bilateral meetings. We have found these very constructive and provided a considerable amount of useful information; however, we believe DCC should undertake further work to ensure that there are no shocks when DCC charging statements are published. In particular, we were disappointed that the most recent charging statement included an unexpected increase in DCC costs for Regulatory Year 2016/17. This was a backwards step for what would have been a positive year for stakeholder engagement. We also believe significant improvement is required in the area of their industry financial Webinars which add no additional value over the presentation which is issued in advance. We continue to believe that the DCC should adopt a face to face approach as has been embraced by the gas and electricity networks, and do not understand why the DCC would not wish to adopt a similar approach.

Q6: We welcome views on DCC's benchmarking methodology, including on what you consider the appropriate percentile is that DCC should use when carrying out benchmarking, and approach to benchmarking benefits?

We are fully supportive of the benchmarking methodology exercises carried out by both Ofgem and DCC. However, we understand and accept Ofgem's observations regarding percentiles, calculating benefits and benchmarking of contractors.

Q7: We are looking for ways to further benchmark DCC costs. What other sources of data or potential comparators can you recommend for subsets of DCC costs?

A comparison could be made of service costs for similar services provided in other countries where smart metering has already been introduced or where other large change projects have been implemented e.g. 4G and Swannick air traffic system. This should provide a good starting point for benchmarking costs.

Q8: Do you agree with our approach to real price effects (RPEs)?

EDF Energy is in general agreement with Ofgem's approach for a consistent approach to RPE and agrees with the proposal to reduce RPE for a number of DCC generalist roles.

We accept the RIIO methodology will assist DCC in taking account of the impact of inflation (RPI) over time. This will also assist in the DCC moving closer to a Distribution Network type of price control methodology.

Once again, we are concerned DCC have failed to provide sufficient evidence for why RPE would be higher for a number of their generalist roles. We do however, accept a number of the DCC generalist roles may differ from those analysed under RIIO.

CHAPTER: Five

Q9: What are your views on DCC's approach to the prudent estimate?

EDF Energy accepts the DCC's approach to the prudent estimates and support Ofgem's continued comparison of cost variations to the LABP. At the same time, we would note that the prudent estimate constitutes a free loan from customers to the DCC, as such we believe Ofgem should continue to closely monitor this to ensure it remains reasonable as the DCC moves from delivery to operational stability and benefits realisation.

In order for Users to make provision for DCC costs, we would prefer full visibility of costs including those which are uncertain. We do not wish to receive invoices for areas not accounted for in our financial budget. We would prefer indicative budgets and charging statements to be as accurate as possible and not contain any lower price control forecasts.

Q10: Do you agree that our proposals should take affect from April 2015/16?

EDF Energy agrees the proposals should take effect from April 2016, as users have already prepared their financial plans for this period.

CHAPTER: Six

Q11: Do you agree with our assessment against the criteria in the licence?

We agree with Ofgem's assessment against the criteria in the licence. It should remain unchanged unless stronger justification is provided against the licence criteria.

Q12: What margin do you think should apply, 10% or 15%?

EDF Energy agrees with the concept of the baseline margin adjustment which recognises the uncertainty when the Licence was granted. It compensates for material changes over the nature and risk of the DCC Mandatory Business over time.

We also accept during 2014/15 the DCC have had to accept changes to the baseline of requirements which could impact their rate of return.

We are in agreement with Ofgem's proposal to increase the baseline margin rate to 10% which results in a baseline margin adjustment of £0.322m. We support their approach to the two variants relating to resource volumes and SMKI/P&C.

Q13: Do you have any views on the rate of return methodology we have developed?

We agree with the rate of return methodology followed by Ofgem. In particular the comparison against different type companies which have similarities with the DCC. This should provide a good benchmark for assessing DCC baseline margin adjustment rate.

EDF Energy
January 2016