



**By email only**

Robyn Daniell  
Ofgem  
9 Milbank  
London  
SW1P 9GE

20<sup>th</sup> January 2016

Dear Robyn,

**DCC Price Control Consultation: Regulatory Year 2014/15**

RWE npower welcomes the opportunity to respond to Ofgem's DCC Price Control Consultation for Regulatory Year 2014/15.

We are generally supportive of the approach Ofgem has taken in assessing DCC's costs, however, as expressed in our response to last year's Price Control consultation, we would like to see further scrutiny of the DCC's costs being undertaken and greater transparency. This will enable us to determine whether we fully agree with the reasons and evidence the DCC has provided to justify their additional costs. Please see below our response to your consultation questions.

**Question 1: What are your views on Ofgem's approach to assessing DCC's costs?**

In general, we support the approach adopted by Ofgem in assessing the DCC's costs as this follows the expected processes. It is also reassuring that Ofgem has noted an improvement in reporting from the DCC.

**Question 2: Do you have any suggestions on where Ofgem can improve their approach?**

RWE npower's view is that, due to re-planning (delays & change of scope) and re-baselining, we should not make the assumption that the LABP level of costs is still economic and efficient. Therefore, we would like to see Ofgem scrutinise all costs, regardless of whether they are within or below the LABP. The underlining reason for this is to ensure that, whilst costs are below forecast, maximum efficiencies are gained through improved "fit-for-purpose" processes.

Furthermore, greater understanding of the audit carried out by Ofgem may help Suppliers provide a fuller response to this question. We would hope, as part of the audit various tests have been conducted including:

- Testing year end accruals and provisions to ensure correct scrutiny and justification and;
- Testing of audit transactions to ensure efficient and economic use of resources is maintained at the same standard throughout the year.

We also believe that Ofgem should introduce salary benchmarking against programmes of a similar nature in terms of delivery. We understand that the DCC manages a range of service providers on a contractual basis and therefore salary benchmarking could be useful to assess value for money. One example that we know is close to such a model is that of Elexon and we think this may provide a useful point of comparison. This was also noted in our previous response to the DCC Price Control consultation.

It would be useful for Ofgem to share with stakeholders a breakdown of the costs that it feels are unreasonable. This will help stakeholders to understand various costs raised including increases and decreases, which will also aid future cost reviews.

**Question 3: What are your views on Ofgem's assessment of DCC's performance against IM7?**

We support that DCC's margin is linked to performance, however, where an Implementation Milestone (IM) is not met and the DCC cannot demonstrate to Ofgem good reason for the under-performance, we think that the DCC should not be able to recover the full margin back in future years. We recommend that a mechanism or scale could be potentially considered under which the DCC can recover part of the margin back. Likewise, if the DCC continually fails against IMs, which can impact Suppliers' cost base, we would like Ofgem to consider the option of penalties for such repeated failure.

**Question 4: What are your views on Ofgem's cost proposals?**

We agree with Ofgem's proposal that the DCC should seek greater accommodation efficiencies, which should not be limited by geographical area, but based on long-term need of the service.

We would like Ofgem to consider the appropriateness of Shared Services being linked to Internal Costs. Internal Costs have increased significantly, and we believe that a more reasonable assessment would be against activities and performance (i.e. IMs) of the DCC. We support Ofgem's recommendation that the DCC need to demonstrate value for money on shared service costs as outlined in the 2013/14 pricing consultation.

Furthermore, we believe that the DCC should provide far greater transparency in its charging statements and indicative budgets, especially on any changes. Currently, DCC gives a narrative explanation for each change, but does not specify the associated cost increase against each explanation.

**Question 5: Ofgem 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?**

RWE npower's financial team regularly engage with the DCC on financial matters through various mediums including webinars and bilateral meetings. Our Regulation team are also in contact with the DCC and we do believe that the DCC have an efficient and proactive team in place and have been helpful in resolving a number of queries. However, we would like to see greater detail and transparency around costs and changes, as we do not believe this justifies the increase in resource.

**Question 6: Ofgem 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?**

In relation to benchmarking, we would like to see the following:

- Benchmarking of internal recharges vs market rates
- Benchmarking of outsourced arrangements vs market rate
- The proportion & absolute FTE split of Permanent vs Contractor

We would like to see what evidence the DCC can provide for justification of payment above the upper quartile of benchmarks, should this be the case. i.e. how will this drive efficiency and value for money elsewhere in the business.

**Question 7: Ofgem 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?**

Other sources of data or potential comparators we can recommend for benchmarking against similar national infrastructure projects includes: Digital Switch Over, 800MHz Clearance (4G) and HS2 (set up costs).

**Question 8: Do you agree with Ofgem's approach to real price effects (RPEs)?**

We support Ofgem's suggestion to standardise Real Price Effects for roles.

**Question 9: What are your views on DCC's approach to the prudent estimate?**

It is understood that DCC are unable to bear debt and as such stakeholders are financing working capital requirements as well as paying for services provided.

We would recommend that:

1. Excess cash balances are invested short term to yield returns that are shared amongst contributors.
2. Normalised working capital be transparently communicated allowing for peaks.
3. Year-end return of excess cash over normalised position to contributors (with consideration of a mechanism to pay interest where Ofgem consider DCC's liquidity to be unreasonable high).
4. When Ofgem deem DCC to be fully established, the prudent estimate should cease.

We believe that payment of intercompany or related party re-charges should be assessed to ensure transactions are taking place on commercial credit terms.

**Question 10: Do you agree that Ofgem's allowed revenue proposals should take effect from April 2016?**

We are supportive of Ofgem's allowed revenue proposals taking effect from April 2016.

**Question 11: Do you agree with Ofgem's assessment against the criteria in the licence?**

We are supportive of Ofgem's assessment against the criteria in the licence.

**Question 12: What margin do you think should apply, 10% or 15%?**

Comparable benchmarking would suggest a fair and equitable margin for the DCC service of 6-10%. Given the lack of competition, we would be supportive of a margin within this range. Should it be at the higher end of the spectrum, we would hope sufficient justification is given to Ofgem to support the risk exposure the DCC faces above and beyond other IT projects in a similar environment.

**Question 13: Do you have any views on the rate of return methodology Ofgem have developed?**

Further information is required in terms of Ofgem's rate of return methodology to make an informed opinion.

If you would like to discuss our response, please contact Azeem Khan.

Yours sincerely



Azeem Khan  
Regulation  
E-mail: [Azeem.Khan@npower.com](mailto:Azeem.Khan@npower.com)  
Contact No: 07917 307729

RWE npower

2 Princes Way  
Solihull  
West Midlands  
B91 3ES

T +44(0)7917 307729  
I [www.rwenpower.com](http://www.rwenpower.com)

Registered office:  
RWE Npower plc  
Windmill Hill Business Park  
Whitehill Way  
Swindon  
Wiltshire SN5 6PB

Registered in England  
and Wales no. 3892782