

Commercial Workstream DCC Business Case

EDAG
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ofgem

Content

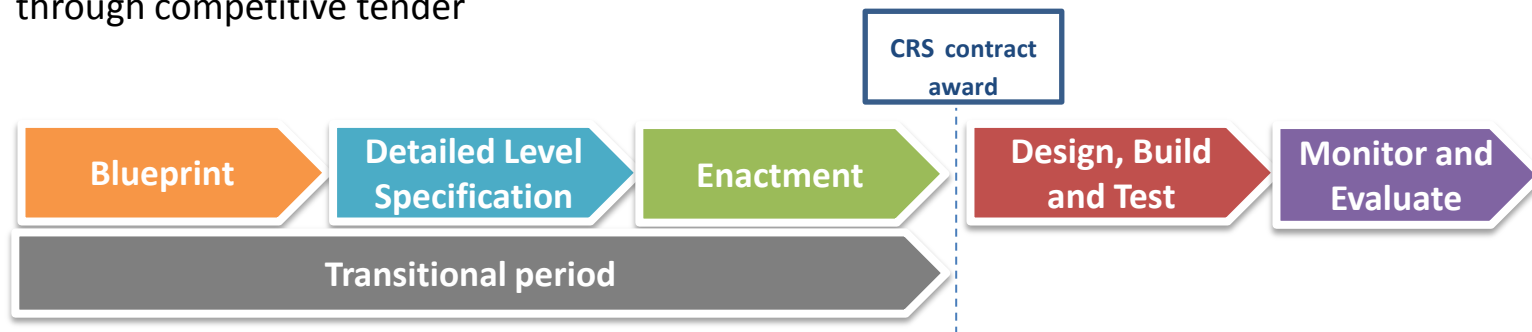
- **Overview of Business Case and process**
- **Feedback from User Group**
- **Roles & Responsibilities**
- **Overview of DCC Business Case key sections** – requirements, scenarios, managing change, monitoring & updating, stakeholder engagement
- **Next steps**

Aims

- **Update on process and progress to date**
- **Seek input on key sections of the business case** – do requirements meet delivery expectations, are the drivers for the materiality threshold reasonable, are the triggers and processes for updating the business case appropriate and transparent, are monitoring proposals sufficient?
- **Welcome views from EDAG on incentives and the areas these could be applied to**

Approach for transitional period

- Proposed in our December statutory consultation to operate an ex-post price control in the transitional phase
- We are keen to drive behaviours of transparency and proactive risk-management of DCC's activities and costs
- An "ex-post plus" approach will be used to promote these disciplines within an overall ex-post mechanism for allowing costs:
 - A business case for DCC's activities and costs
 - Additional regular reporting
- A similar price control approach was used for National Grid's EMR preparatory role
- We consulted on operating the framework in the transitional phase of the programme
- The price control operated for later phases will be developed through the CWS and consulted on in the Blueprint phase
- The license obligations for DCC to support the Switching programme were set out in the May 2016 modification
 - LC15: contribute to the design of the CRS and switching arrangements and to procure Relevant Service Capability to deliver the CRS
 - LC16: the Relevant Service Capability (Fundamental Registration Service Capability) must be procured through competitive tender



Overview

- The baseline DCC business case (separate to the business case for the Switching programme to be prepared by Ofgem) will set out DCC's planned approach and costs for activities in support of the Switching Programme up to the point of Centralised Registration Service contract signature
- This business case will form the baseline for the application of an ex post plus price control approach. It will also form the baseline for monitoring DCC's delivery against its plans

Key steps in the process

- DCC has developed the Business Case with input from stakeholders (Commercial UG, EDAG)
- DCC's Business Case to be scrutinised by Ofgem and updated by DCC
- Ofgem to consult end- 2016
 - DCC's Business Case
 - Ofgem's margin and incentives proposals
- Ofgem to publish summary of stakeholder views and direct DCC's margin and incentives (early 2017)
- DCC to publish its Baseline Business Case (pre- April 2017 after DB1 is reached)

User group input & feedback to date

- Commercial User Group consulted on draft sections of the business case
- Feedback has been positive
- Key areas of input to date have included debate around incentives, governance / cost control mechanisms and RAID

Review

- Where possible, the User Group will have the opportunity to review any new or revised sections of the business case before first submission by DCC to Ofgem
- User Group has shown specific interest in forward sight of the Solution and overview Costs and drivers

- This business case sets out DCC's forecast activities; costs; margin and incentives relating to the activities it will undertake during the Transitional phase of the Switching Programme
- Activities and the associated costs, margin and incentives during the Design, Build and Test and Operational phases are not included within the scope of this business case
- Within these bounds, the business case covers all DCC activities in support of the Switching Programme, including contributing to the design of the new registration and switching arrangements, contributing to the identification of requirements for the CRS and procuring the Fundamental Registration Service Capability to deliver the CRS

DCC's licence conditions have been elaborated into a set of products and activities. These are documented within a Product Breakdown Structure and traced back to licence conditions and other regulatory sources through a requirements traceability matrix.

Areas of the Business Case that DCC will lead on include:

Design

- Produce some of the Blueprint design products and activities according to the product descriptions that are already in place
- Lead on the development of the technical specification for CRS procurement (during the DLS and Enactment phases)
- Update the technical specification and CRS contract/s to align to the final design baseline

Delivery

- Produce some of the Blueprint delivery products and activities (product descriptions are in place)
- Iterate these Blueprint products following consultation
- Lead on the translation of test and transition strategies and plans into a clear set of requirements for bidders for the CRS solution/solution components
- Lead on the detailed transition and test products for CRS elements of the switching solution in mobilising for DBT

Commercial

- Deliver the CRS procurement (including all associated products)
- Draft the CRS contract

DCC's costs include:

- Staff costs for permanent DCC staff
- Contracted consultancy support – for shorter term requirements and where this approach delivers value for money
- Specialist support costs (e.g. legal)
- Use of central DCC services (e.g. HR, IT)
- Minimal non-staff costs
- Overhead - levied at 9.5% of DCC's internal costs and is in line with other Capita contracts
- Shared SMIP DCC resource (where economically efficient and not compromising SMIP delivery)

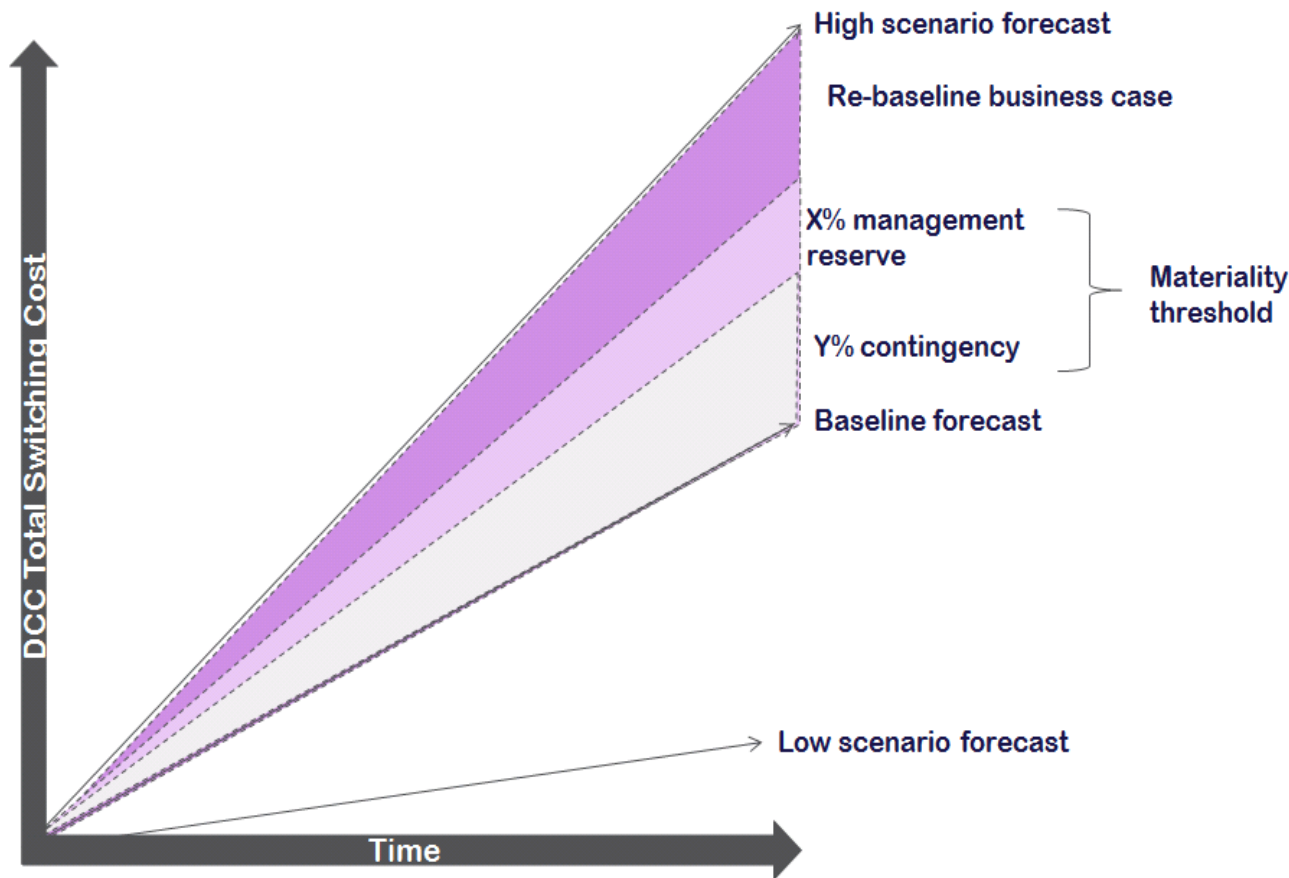
DCC costs are all generated directly from an MS Project programme plan.

All resource rates will be justified through benchmarking

This section identifies the key areas of uncertainty that are likely to affect DCC costs in relation to its activities during the Transitional Phase

- Baseline, high & low scenarios have been developed to illustrate how these factors may affect DCC's activities and the associated costs
- Key drivers of uncertainty include – Ofgem programme timescales, Ofgem's definition of DCC's scope, CRS solution uncertainty
- A high scenario example would include where DCC is currently only contributing to a product but may be asked to lead
- A low scenario example would be where DCC are currently assuming 3 separate procurement projects but it is possible to run as only 1
- The potential cost impact (an increase or decrease) has been captured in the Risks and Opportunities sections of the RAID which feeds into the cost model

To provide transparency to stakeholders on changes to DCC costs relating to the Switching Programme a Materiality Threshold has been set. This acts as the trigger point for a review of the DCC Business Case and reactive updates as required



Contingency: weighted cost allowance based on the estimated cost impact of each of the scenario variations. Also includes a weighted allowance for the likely cost impact of quantified risks materialising

Management reserve: Cost allowance for unforeseen change based on a proportion of the cost base to reflect the level of uncertainty

The materiality threshold also provides an appropriate cost tolerance within which DCC can manage risk and scope change

Principles behind materiality threshold

Proportionality – the materiality threshold should be proportionate to the size of the cost base to which it is applied, ensuring the cost incurred in administering the change is not higher than the cost of change itself

Uncertainty – the materiality threshold should provide flexibility for DCC to manage change within an appropriate tolerance

Transparency – the materiality thresholds should provide industry stakeholders with transparency on material changes to DCC costs and provide clarity on how and when stakeholders will be engaged

Simplicity – the arrangements relating to materiality thresholds should operate and be reported in a way that can be easily understood by all parties.

- DCC may occasionally be required to update and re-publish the DCC Switching Business Case
- The purpose of re-baselining the Business Case is to reflect material changes in the scope, activities or assumptions that underpin the original baseline Business Case
- This is in order to provide a revised set of forecast DCC costs and associated materiality thresholds during the Transitional Phase
 - Planned updates to the DCC switching business case will occur at key milestones
 - Reactive updates happen by exception as materiality thresholds are exceeded

Reactive updates

- Ofgem will consider whether an update to the DCC business case is required based on certain conditions e.g.:
 - Whether total forecast costs are expected to exceed the total materiality threshold
 - Whether this continues to be the case over several monthly reporting periods
 - Whether incurred costs repeatedly exceed baseline costs
 - Proximity to next planned update
- If required, Ofgem will instruct DCC to update the DCC Switching Business Case
- Ofgem will share the updates made by DCC with industry stakeholders and convene and chair a forum to consult with stakeholders
- Ofgem will then provide its own feedback and a summary of stakeholder feedback to DCC
- There will not be a formal consultation on any update to the Business Case, other than in exceptional circumstances

Ex post price control reporting

- DCC is required to justify its expenditure on the Switching Programme through its annual ex post price control reporting

Monthly financial reporting

- DCC will report to Ofgem monthly on its financial performance against the original baseline DCC Switching Business Case and, where applicable, the latest revised baseline Business Case
- Ofgem will not approve the monthly report, but it will be an opportunity for Ofgem to set out any major concerns as they emerge
- These meetings will also allow a decision on whether to trigger an update to the DCC Switching Business Case based on the conditions defined in the Materiality Thresholds section

Delivery reporting

- DCC will report on its delivery progress to the programme
- This will include reporting on DCC's progress against its delivery plan, on the timeliness, scope and quality of delivery and key risks and issues affecting DCC delivery

Reporting to industry stakeholders

- DCC will provide regular updates on its activities and costs to Ofgem and stakeholders through the Programme governance
- Ofgem programme decisions will likely be a key driver of changes to costs and Ofgem will communicate changes in DCC's role and scope to industry through programme governance
- DCC will provide monthly updates to industry stakeholders on its delivery against the DCC Switching Business Case via regular programme governance forums - tbc but may be the Switching Programme Delivery Group (SPDG)
- These updates will cover:
 - explanation of any variance from baseline costs within the materiality threshold
 - explanation of any costs exceeding the materiality threshold
 - notification if Ofgem has instructed DCC to update and republish the Business Case

Coming up...

Business Case and Price Control

30th August

- Summary of DCC Business Case presented to Switching Programme Board
- Following submission by DCC, Ofgem to review DCC Business Case and Margin & Incentives through September with continual feedback to DCC
- Updates and proposals to be shared with EDAG and Programme Board in September / October

Procurement

15th September EDAG meeting

- Full review of Procurement Framework

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