Robyn Daniell
Smarter Metering
Ofgem
9 Millbank
London
SW1P 3GE

Email to: smartmetering@ofgem.gov.uk

12 January 2017

DCC Price Control Consultation: Regulatory Year 2015/16

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.

EDF Energy welcomes the opportunity to comment on the DCC Price Control Consultation, and is generally supportive of the approach 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 meters. However, we must stand on the side of the customer and ensure that the DCC is delivered economically and efficiently to minimise the impact on the customer's bill.

We recognise that, in assessing the DCC's costs, Ofgem will need to have access to more detailed and granular data than can be shared with the industry. Ttherefore, we are reliant on Ofgem to undertake the detailed assessment of DCC's costs and to reach a view on whether costs have been efficiently incurred or not. At the same time, we remain concerned at the continuing escalation in DCC costs and the level of transparency that has been afforded to industry on these.

EDF Energy remains concerned by the level of increase in the smart DCCs costs since contract award and in particular being £190m over the term of the licence. We accept material variations will be necessary. However, these must remain subject to robust reporting and justification to ensure economic and efficient costs are achieved.

We are supportive of Ofgem's view that a small proportion of DCC's costs have not been justified in 2015/16 in addition to £59.17m in DCCs forecast over the remaining period of the licence. Although we are sympathetic to DCC regarding specific resource expertise, we remain extremely concerned at the level of the increase to internal costs and reinforce the need for Ofgem to continue monitoring these closely.

We accept Ofgem's proposal to reduce the DCC Baseline Margin (BM) application primarily as a result of the DCCs FTE variation from LABP from £1.6m to £0.647m. However, we still consider a 15% BM to be too high and believe a figure closer to 8% -

EDF Energy
40 Grosvenor Place, Victoria
London SW1X 7EN
Tel +44 (0) 20 7752 2187

edfenergy.com

12% to be more appropriate. This would then be more in line with xoserve 9%, Gemserv 10.7% and Electralink 12%.

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 my colleague, Ashley Pocock, on 07875 112854, 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

DCC Price Control Consultation: Regulatory Year 2015/16

EDF Energy's response to your questions

CHAPTER: Three

Q1. What are your views on our cost proposals?

EDF Energy agrees with Ofgem's cost proposals and accepts the majority of the costs reported by DCC were economically and efficiently incurred. However, we are concerned by the level of increase in costs of £294m since contract award. This is £190m increase over the licence term. These levels of increase 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 in 2015/16 in addition to £59.17m in DCCs forecast over the remaining period of the licence. Although we are sympathetic to DCC regarding specific resource expertise, we remain extremely concerned at the level of the increase to internal costs and reinforce the need for Ofgem to continue monitoring these closely. In particular a 36% (£9.1m) increase in external costs in Regulatory Year (RY) 2015/16 compared to the RY 2014/15 forecast and the 123% (£19m) since the Licence Application Business Plan LABP.

CHAPTER: Four

Q2. What are your views on our assessment of DCC's application to adjust their baseline margin?

We accept Ofgem's proposal to reduce the DCC Baseline Margin (BM) application primarily as a result of the DCCs FTE variation from LABP from £1.6m to £0.647m. However, we still consider a 15% BM to be too high and believe a figure closer to 8% - 12% to be more appropriate. This would then be more in line with xoserve 9%, Gemserv 10.7% and Electralink 12%.

With regard to DCC's application for a gain share of 44%. Although we appreciate 44% includes the FSPs share as set out in their contractual arrangements, we believe this figure to be unacceptably high and recommend that this area is further reviewed.

CHAPTER: Five

Q3. What are your views on our assessment of DCC's performance against IM8?

We are in agreement with Ofgem's assessment that DCC were late in the delivery of (IM8) in the North region and fully support the proposal to disallow £53,462 from the Baseline Margin Implementation total (BMIT).

We are concerned Ofgem has identified some issues relating to DCC's contract management activity. Tight management of DSP/CSPs is crucial if we are to achieve a successful rollout of Smart Metering, and every effort must be made to ensure service provider activities are delivered in the most cost effective manner.

CHAPTER: Six

Q4. What are your views on DCC's voluntary reporting which explains its reasons for over recovery of revenue in RY15/16?

We support Ofgem's proposals regarding DCC voluntary reporting, including the introduction of a penalty interest regime. Both the over recovery figure of 110% of Allowed Revenue and the penalty interest rate of 3% above base rate appear reasonable.

Although EDF Energy is sympathetic to the explanations provided by DCC for over recovery, we agree further detail should be provided to assist Ofgem in making a fair determination.

We also share Ofgem's concerns regarding the time delay in returning over-recovered service charges to Service Users. Any unnecessary delay in returning charges to Service Users should incur interest charges upon the DCC.

EDF Energy
January 2017