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DCC Price Control Consultation: Regulatory Year 2015/16

Dear Robyn,

Thank you for your letter inviting comments on the issues covered in the Regulatory Year 2015/16 document on DCC Price Control.

We support the majority of the cost proposals put forward by the consultation, however we find the DCC Price Control process opaque and without further insight into the information it is difficult to validate Ofgem's approach, analysis or proposed decisions resulting from the process. Our consultation response is therefore caveated accordingly.

We consider the DCC's proposed baseline margin adjustment of 15% high and question the need for such an adjustment at this point in time. We agree with Ofgem's assessment that the DCC have not met the IM8 deadline, however we do not believe the penalties imposed on the DCC adequately reflects its failure to meet its commercial milestones. We have concerns that the DCC Price Control process is weak in terms of a deterrent and have worries that additional costs will simply be passed on over to the user community. We also feel that historically the DCC has tried to recover missed milestone payments and this further undermines having the objectives as an incentive. We support Ofgem's penalty interest regime however have a few concerns regarding the practical implementation of this penalty.

To conclude, whilst we agree with the majority of Ofgem's proposals, we believe the baseline margin increased proposed is being set too high for this point in time and do not think the penalties faced by the DCC for failing to meet deadlines are adequate. We therefore set out our comments to the consultation below and hope Ofgem will take this into account when reaching their decision.

I hope our comments are helpful. Please contact me if you need any further explanation or detail. We would be happy to discuss them further with you

Yours sincerely,

Cissy Edathanal

Regulation

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Npower's Response to Ofgem's DCC Price Control Consultation: Regulatory Year 2015/16.

CHAPTER: Three

Question 1: What are your views on our cost proposals?

Npower find it encouraging that Ofgem have identified £0.696m in RY2015/16 and £52.336m of the baseline forecast costs as unacceptable and inefficient costs.

Resourcing and Accommodation: We have noted that the majority of the unacceptable costs lie within the DCC's defined resource costs which Ofgem considers the DCC's responsibility to manage efficiently. The efficient management of accommodation costs are also considered the DCC's responsibility. However, these are both elements which required cost correction in the previous year as well. Therefore, we have concerns surrounding the DCC's ability to efficiently and effectively manage these costs and raise the need for Ofgem to put in measures to ensure this does not become an ongoing issue.

IT Services: Npower fully agrees and supports the principle that 'consumers should not have to pay twice for the DCC's services'. However, we believe that this principle should extend beyond just IT services and include other cost elements such as the additional costs potentially incurred by the DCC's Service Providers.

Shared Service Charge: Our main concern around this proposal stems from the use of DCC's analysis as a base to set the cap of £18.512m. We believe that as this upper limit has derived from DCC's analysis, it does not provide an independent view. In addition, we believe there is a need to communicate explicitly the additional activities that the DCC are now undertaking which were initially excluded from the Licence Application Business Plan.

Finally, Npower feels that we are not currently in a position to be able to fully support or disagree with Ofgem's view that the majority of the £190m cost increases specified over the licence term have or will be incurred economically or efficiently as we are not privy to the underlying and supporting information. We appreciate that a proportion of those costs lie within the contracts that the DCC has brokered with its Service Providers and that this information may be considered commercially sensitive however we believe that additional information could be provided to provide clarity and aid our understanding.

CHAPTER: Four

Question 2: What are your views on our assessment of DCC's application to adjust their baseline margin?

Npower considers a 15% baseline margin adjustment high as this will be the second year running that such an increase has been allowed. We believe further information is needed pertaining to the need for such a sizable adjustment at this point in time. For example, the feasibility assessment for adoption and enrolment with these provisions have been included in the DCC's Charging and Budget Statements and the much larger costs of adoption and enrolment themselves are covered separately and are currently being consulted on.

It is our understanding that the baseline margin adjustment mechanism was included in the Licence to recognise uncertainty; Therefore, we raise the issue as to why do the DCC need to additionally apply the Prudent Estimate to its Charging Statements to cover uncertainty?

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External Contract Gain Share : We currently have no information to support or refute Ofgem's proposal to adjust the ECGS term by £2.911m. Under the assumption that the adjustment is less than the cost saving and therefore a net reduction, we are supportive as there is a benefit to the end consumers. In order to fully assess the approach undertaken by Ofgem, we would require more information We understand that some of this information might be commercially sensitive and as such, feel that barring access to the information itself, we would like to gain greater visibility to the methodology used by Ofgem when considering these proposals.

CHAPTER: Five

Question 3: What are your views on our assessment of DCC's performance against IM8?

We consider that the DCC did not meet the IM8b milestone for SIT in the Northern region as these dates were moved on a number of occasions to meet new DCC re-planned deadlines and time-scales, and that the penalty levied is small in comparison to the overall impact to the Programme and the Test Participants who were relying on the milestone performance. We therefore do not consider that disallowing £53,462 in any way constitutes a financial penalty on the DCC. We believe that if the cost of poor performance remains low this may provide perverse incentives. We argue that a larger penalty which proportionately reflects the impact of failure to deliver on the Test Participants and Programme needs to be considered.

CHAPTER: six

Question 4: What are your views on DCC's voluntary reporting which explains its reasons for over recovery of revenue in RY15/16?

We agree with and support Ofgem's penalty interest regime however we would like some additional information as to the probability of the DCC over-recovering by greater than 110%, how the 3% penalty would be applied and ultimately who would bear the cost of this penalty.

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