

## **Ofgem consultations regarding the Smart DCCs Price Control 2015/16 and Operational Performance Regime – December 2016**

Energy UK welcomes the opportunity to respond to the above consultations. This response is not confidential.

### **DCC Price Control 2015/16**

Collectively, Energy UK's members are the single biggest contributors to the funding of the Smart DCC's costs, and it is important to note that these costs will eventually be borne by consumers. It is therefore essential that Ofgem has the relevant tools to ensure that there is a very tight financial control over Smart DCC's costs, that costs are scrutinised to provide assurance to industry that its costs have been efficiently incurred, and that where Ofgem deems that the Smart DCC has over-spent, or incurred unnecessary or inefficient costs, that those costs are quickly passed back to DCC Users in the form of rebates. The proposals set out in the Operational Performance Regime, and proposals for the 2015/16 Price Control provide a welcomed assurance that Ofgem is focusing on ensuring that costs are being monitored and scrutinised, and that there is an appropriate performance regime to take forward to ensure that a quality service is being provided by the Smart DCC as we move into a BAU operational state.

In terms of the Smart DCC's costs, Energy UK and its members are concerned by the level of increase in the Smart DCC's costs since contract award, now £294m higher than at the time of contract award, and £190m higher than last year's forecast over the licence term. This level of increase further reinforces the important role Ofgem must continue to play in ensuring all costs incurred by the Smart DCC are pertinent, and efficiently incurred.

Energy UK welcomes Ofgem's view that a small proportion of Smart DCC's costs have not been justified in 2015/16 in addition to £59.17m in Smart DCC's forecast over the remaining period of the licence. Whilst Energy UK and its members are sympathetic to the need for Smart DCC to bring in specific resource expertise, we remain concerned at the level of the increase to internal costs which reinforces the need for Ofgem to continue monitoring these costs closely moving forward.

Finally, Energy UK's members have raised concerns in relation to the previous Regulatory Year forecasts provided by Smart DCC. The examples below are particularly concerning:

- The 36% (£9.1m) increase in external costs incurred during the 2015/15 Regulatory Year, compared to the 2014/15 Regulatory Year forecast;
- The 123% (£19m) increase of Internal Costs incurred since the Licence Application Business Plan was submitted;
- and the 93% (£142.1m) increase in the forecast of Internal Costs over the Licence Period, since the Licence Application Business Plan was submitted.

Whilst Energy UK fully appreciates that Smart DCC is providing a forecast for the year ahead, and how difficult this might be for a programme of this scale, the large increases comparing forecast to actuals indicates that Smart DCC does need to improve the way in which it forecasts its costs for future years.

### **DCC Operational Performance Regime proposals**

In terms of the proposals associated with the Operational Performance Regime, the five key areas of focus appear sensible at this stage. Whilst Energy UK welcomes the recognition from Ofgem that it will consider including additional metrics aimed at incentivising the Smart DCCs ongoing



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performance, our members would support the inclusion of a metric associated with the Smart DCCs contribution towards the progression of SEC Modifications and wider essential industry change.

One of the key frustrations for Energy UK's members at present is the Smart DCCs ability to make timely and accurate contributions to the modifications currently being progressed via the SEC Modifications process. Whilst we accept that the Smart DCC and its service providers have needed to concentrate efforts on Go-Live activities, their ability to provide necessary information such as Impact Assessments for the current SEC Modifications has been disappointing, and is clearly preventing the SEC Modifications process from operating effectively.

This same frustration is also evident in terms of the work being progressed for the delivery of Dual Band Communications Hubs (DBCHs), where despite escalation via the DBCH Project Board, the relevant Impact Assessments from the Smart DCCs service providers have yet to be provided.

With this in mind, Energy UK would urge Ofgem to consider the inclusion of a metric that measures Smart DCCs effectiveness in its contributions to SEC Modifications and wider industry change.

Should you wish to discuss any aspect of this response with Energy UK, either in isolation, or with our members collectively, please do not hesitate to contact me directly.

Yours sincerely,  
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