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Dear Rachel,

Response to consultation on Draft DCC Business Case for DCC activities during the Transitional Phase of the Switching Programme

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The DCC will play a central role in ensuring the successful delivery of the switching programme. We welcome the publication of the business case in order to better understand the DCC's costs for the transitional phase of the programme.These costs (£25.6m) are not insignificant, and will ultimately be borne by consumers. As such the DCC must carry out its work in an economic and efficient way, while maintaining the confidence and support of key stakeholders in the project. We look forward to separately responding to Ofgem's proposals on the margin and incentives.

Question 1 – Is DCC's approach, as outlined in the business case, clear enough about how DCC will account for activities it is asked to undertake and how delivery can be assessed? If not how could this be improved?

The Requirements Traceability Matrix and the Product Breakdown Structure set out in clear detail the deliverables that the DCC will be required to deliver. The proposed regular financial reporting and separate progress reporting for Ofgem sounds robust. The associated stakeholder reporting also appears comprehensive. Our experience of other programmes would suggest that this progress reporting should be flexible and may need to be adapted to suit certain stages of the programme. For example, the regularity of reporting may need to increase or decrease, depending on the level of activity and the number of dependencies on other stakeholders. In addition to DCC reporting on progress, we would expect Ofgem to provide their own analysis of progress through a programme dashboard and/or other updates. This will allow stakeholders to clearly understand any differences of view between Ofgem and DCC. This would continue the approach taken during the Blueprint Phase where Ofgem has highlighted differences over the programme timeline and margin proposals.

Question 2 – Are the business case's structure and base assumptions clear enough to use in setting a realistic programme budget and forecast charges as part of the ex post plus regime? What can be done to address any concerns?

The structure and base assumptions are clear. However it is difficult to set a realistic programme budget given the level of given uncertainty over the scope of the DCC's role due to pending design and delivery decisions (as well as other uncertainties). As such it is clear that the charges set out are likely to change over the coming year as these decisions are taken. We understand that this is currently accounted for in the high level of contingency (which the DCC have set out that they expect the contingency to be spent in full) and management reserve. The risks accounted for in the contingency are set out in the RAIDO, which provides the probability of risks before mitigation. DCC and Ofgem are in a position to mitigate some of these risks and should set out how they plan to do so. For example, one risk with the greatest cost attached is that the DCC is unable to achieve permanent resource targets and therefore uses more temporary resource. We would expect DCC to have clear plans in place to mitigate this risk, using lessons learned from SMIP. Ofgem will be able to mitigate these by making timely decisions following the RFI and the consultation on the preferred outcome. This should mean that as the business case is updated in future uncertainty around the expectations of the DCC are reduced, allowing costs to be reduced and transferred from the contingency to the base DCC costs. This will give more certainty on the costs that industry (and ultimately consumers) will pay for the DCC's work.

As acknowledged in the cover letter, the business case is based on a different, longer timeline than that contained in Ofgem's Programme Plan. The letter sets out these timelines will be reconciled by the time that the business case is baselined, but that this could result in changes to DCC costs. If there is a material increase in costs Ofgem should engage with industry again, either through formal consultation or the Switching Programme Delivery Group or other fora.

Question 3 – For those activities that Ofgem is proposing to should be carried out by DCC but could be carried out by other parties (i.e non-core activities not relating to procurement and development of the technical specification) have the correct activities been assigned to DCC or would other industry partners be better placed to take these on? If so, which activities, which industry partners and why would they be better placed?

Not answered.

Question 4 - Should the management reserve and contingency (Section 11.4) be included within the upfront charges on industry and what is the justification for this? Does the level of management reserve feel appropriate for the Switching Programme, taking into account the type, scale and actuality of potential unknowns?

The management reserve is intended to account for activities which are not included in the within the business case. In the case of minor changes, it may be appropriate for the upfront charges to include a reserve to cover these costs. However, more major changes resulting from policy change will require a consultation process and re-baselining of the business plan. Given this, it does not seem appropriate for the proposed management reserve to be collected upfront.

It is difficult to assess whether the level of the management reserve is appropriate given that the business case says this is based on benchmarks but does not give further details. Not including all of the proposed management reserve in the upfront charges could mitigate concerns over the level of the reserve.

It is not clear what impact (if any) excluding some, or all, of the management reserve from the upfront costs would have on the level of the materiality threshold, currently proposed at 35%. This appears high, and we consider that it would be appropriate to require a re-baselined business case at a lower level of cost increase. As such, we would recommend that only the portion of the management reserve related to minor changes is included in the materiality threshold (as major changes will in and of themselves require the business case to be revisited).

Yours sincerely,

Alexander Belsham-Harris

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