



Consultation: Consultation on the draft DCC Business Case for DCC activities during the Transitional Phase of the Switching Programme

Response from E.ON

General Comments

We appreciate the transparency from Ofgem regarding the switching programme in general and this consultation continues this approach which we welcome.

There is a significant amount of detail provided with this consultation and we appreciate that the process of discussion and refinement between the DCC and Ofgem is an ongoing process and therefore we are seeing a snapshot in time here.

The DCC appears to be proposing a different approach to the phasing of the activity in the transition part of the project from that suggested by Ofgem. This is a concern for us as it presents a degree of uncertainty when planning when we will need to be ready to implement these reforms. We encourage a speedy resolution and the production of a revised plan which we would appreciate the opportunity to comment upon before it is finalised.

The total project costs proposed by the DCC are considerable considering the scope of the switching project (between £14m and £29m between now and 2019).

The transitional phase will only see the DCC responsible for the refinement of specifications and a procurement exercise to award the contracts for the development of new IT systems (key deliverables being: 1. CRS technical specifications 2. CRS tender packs and 3. Contract award recommendation reports).

DCC seem to suggest that they need a full time team of 35 people for 2 years to deliver these aspects of the project. This seems excessive although it wasn't clear from the business case document how much of this resource would be for supporting the development of Ofgem's business case and helping Ofgem with the development of design products.



It may be that there is a degree of overlap in the Ofgem project costs and those proposed by the DCC in the next phase. We trust that Ofgem will scrutinise the DCC plans in detail including an assessment of whether their proposed costs will deliver value for money for the consumer.

Consultation Question:

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 delivery can be assessed?

The business case appeared clear regarding what the key deliverables from the DCC would be in the transitional phase (1. CRS technical specifications 2. CRS tender packs and 3. Contract award recommendation reports). It was also clear as to what the proposed total costs for the DCC might be.

It wasn't particularly clear as to why they felt the number of people specified was actually needed to deliver the outcomes in the next phase for each scenario.

Our perspective on DCC's role in the transition phase of the project is more aligned to their 'low scenario' although we appreciate that they would like to gain certainty from Ofgem regarding the exact nature of activities that they would be involved in and therefore were attempting to provide helpful information to them.

We note the DCC's reluctance to include any incentives upon its performance in the next phase of the project. We do not agree with this assessment and believe that the DCC needs to be appropriately incentivised to deliver an outcome that is aligned with the industry and energy consumer's best interests. We therefore support Ofgem's insistence that these be included.

A time based incentive for the delivery of successful contractual arrangements with service providers is within the direct control of the DCC and as such should be a key measure for them. We do not support their view that they are not in control of this activity as it is clear from their own plan that they would be tasked with its delivery.

We feel it would also be useful for the Stakeholder Satisfaction incentive to have financial consequences for the DCC rather than purely reputational as they suggest. Since inception the DCC has struggled to develop a positive stakeholder image and has been accused of concentrating on specific relevant stakeholders to it (BEIS and Ofgem) at the expense of the users of its service. It is therefore appropriate that this area be incentivised in a way that will result in a behavioural change from the DCC.



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?*

We didn't feel that we understood why the DCC felt that such a significant amount of work would be required from them nor why they felt the original plan from Ofgem was untenable.

The counter proposal from the DCC for the transition phase appears to add a significant period of time into the project plan which will increase overall costs and delay the time it takes to deliver the benefits.

We are concerned that there is an inherent incentive upon the DCC for some phases of the project to take as long as possible and that this should be managed in an appropriate way by Ofgem.

Question 3. *For those activities that Ofgem is proposing should be carried out by DCC but could be carried out by other parties have the correct activities been assigned to DCC or would other industry partners be better placed to take these on?*

There are some activities that potentially could be undertaken by parties other than the DCC within the next phase of the project.

However there are advantages in having all activities undertaken by a single service provider. These include less management overhead from Ofgem in managing multiple contractors and there being less chance for conflict and disagreement between parties tasked with delivering aspects of the programme. Ultimately there should also be economies that can be realised from having one service provider.

The counter argument is that individual providers may be able to provide specific services more efficiently than DCC.

A solution to this issue should be available within current commercial framework by asking the DCC to tender for specific aspects of the project. A decision on whether to allow the DCC to undertake a part of the activity directly or to request that it be tendered to a 3rd party is something which Ofgem could maintain control over as part of its programme management function.

Question 4. *Should the management reserve and contingency be included within the upfront charges on industry and that is the justification for this?*

The split of management reserve and contingency by the DCC was slightly confusing for us.



Both are contingencies and the management of new requirements to the programme should be via an appropriate change control process rather than via an inflated contingency provision.

Including a contingency charge in the upfront costs from the DCC is reasonable as it helps with our budget planning process. What is more concerning is the perceived level of risk and therefore contingency that the DCC is suggesting. We believe that this is difficult to justify and explain considering the nature of the switching programme and the scope of the transition phase of work. Unlike the existing smart metering work the switching project is an evolution of existing systems and business processes. Although there are challenges to all programmes we do not expect those of this programme to be as significant as that experience in the smart metering programme. We therefore feel that over level of contingency should be lower.

The key risk to the DCC would appear to be regulatory risk which is something that Ofgem as programme managers should be in a good place to mitigate.

We note that DCC appears to be developing a track record of asking for significant amounts for its projects and holding cash sums. This risk adverse approach may have been understandable as the organisation was established and for the first phases of the smart metering programme where there were a significant number of uncertainties but it is not clear that this is justified now and for the switching programme.

The action that Ofgem has taken regarding interest charges for the DCC is aimed at stopping this practice but from the evidence from this business case proposal it doesn't seem to have affected the organisations approach.