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**DCC Price Control Consultation: Regulatory Year 2016/17**

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, storage, 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 supportive of most of the conclusions drawn by Ofgem.

We remain committed to the DCC and the benefits that it will bring by providing a common, interoperable and secure interface between Suppliers and enrolled smart meters. However, we must continue to 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 industry. We are therefore 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 lack of transparency and advanced notice that has been afforded to industry on these.

EDF Energy notes the significant increase in the level of DCC's costs since contract award, and in particular their being £781m or 42% higher over the licence term compared to DCC's forecast as part of the bid. We accept material variations will be necessary. However, these must remain subject to robust reporting and justification, in order to ensure economic and efficient costs are achieved.

We are concerned DCC continue to receive a proportion of savings from External Service Providers via the External Contract Gain Share, and question if this is appropriate going forward. It is the responsibility of the Authority, DCC and SEC Parties to minimise costs, which are ultimately recovered from consumers. It is not acceptable that Suppliers are paying DCC to find cost savings on which they receive a substantial proportion of the benefit. For these reasons Ofgem should consider revisiting the principle of External Cost Contract Gainshare.

We support of Ofgem's draft findings that DCC largely failed to meet IM9 and IM10, and as a result should have £4.702m removed from their Allowed Revenue under the Baseline margin Performance Adjustment.

It is not acceptable that DCC have failed to provide any evidence confirming the delivery of R1.3 in their Price Control Submission. Ofgem should continue to seek this information from DCC. Delays in achieving IM9 and 10 milestones resulted in increased costs to DCC Users, and ultimately consumers.

We are particularly concerned that the incentives put in place to encourage DCC's delivery of IM9 and IM10 were not sufficient to achieve the desired outcome.

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 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 2016/17**

**EDF Energy's response to your questions**

**Q1. What are your views on our proposal to consider External Costs as economic and efficient?**

It is difficult for EDF Energy to determine if External Costs were economic and efficient without a further breakdown of the charges associated with DCC's justification table in section 2.4 of the consultation. This information would be helpful in examining the cost breakdown based upon materiality against 'market pricing" for similar activities.

EDF Energy continues to be concerned by the increase in external costs over the licence term, in particular the 39% increase from RY15/16 forecast and the 96% increase from LABP.

With regard to figure 2.1 of section 2.2, we would observe that in regards to DSP there is an 80% variation in costs over the licence period compared to the RY15/16 forecast. In addition, CSP (N) has a 70% variation from the RY15/16 forecast. We suggest these variances require closer examination by Ofgem, as the material increases in charges may not be acceptable when considered against 'market pricing'.

We are also extremely concerned over the ongoing increased costs associated with implementation of CR160 (see figure 2.3 of section 2.4), which over the contract period amount a variation of £ from the RY15/16 forecast.

**Q2. Do you have any views on DCC's contract management performance?**

EDF Energy agrees with Ofgem's comments regarding the improvement in DCC demonstrating enhanced processes in managing their external contracts. However, they need to learn from the R1.2 / R1.3 experiences and ensure effective contract management are maintained and applied to R2.0 and Enrolment and Adoption.

We share other stakeholders' concerns regarding DCC's contract and change management. The instances where DCC decided to deviate from established procedures to enable work to continue at the pace required by their timelines were of particular concern. This should not be allowed to occur without the prior agreement of SEC Parties or the Authority.

We are also concerned that additional "integration" and in particular "test" and "readiness to scale" charges are being introduced after Release plans have been agreed. The addition of new test environments or changes to any of the current arrangements should be subject to an agreed business case / justification with SEC Parties and the Authority.

**Q3. What are your views on our proposals on DCC's Internal Costs?**

EDF Energy supports Ofgem's proposals to find £0.451m as an unacceptable payroll cost in RY 16 /17. DCC must provide sufficient justification as to why their operational contractor remuneration should be above the industry average.

We are also supportive of Ofgem's proposal to withhold £5.397m of forecast payroll costs for RYs 17/18 – 18/19 as unacceptable. In addition, we are in agreement with the proposal for beyond RY18/19 to find all proposed increases in payroll, related non-payroll costs and recruitment costs to be unacceptable. This amounts to £38.956m of forecast cost. Once again our agreement is on the understanding DCC will continue to not be able to provide sufficient information to support their claim.

We would welcome clarification of the movement of FTEs from current workload to new work, and how this reduces the need for additional resources.

With regard to Accommodation, we agree with Ofgem's proposal to accept RY16/17 as economic and efficient and to find £1.216m from RY17/18 to RY18/19 as unacceptable. In addition, we support the proposal that the entire variation in accommodation costs for RY19/20 and RY20/21 amounting to £2.733m is unacceptable. As a minimum, we would have expected DCC to have provided details of their business case to support their claim. This should outline savings to DCC Users.

Ofgem propose that in the majority of cases External Services related to SMKI, EOT, CRS and delivery of an interim Systems Integrator have been justified and explained. We would have liked to have seen confirmation that internal resources were not capable of undertaking some of this work.

We agree with Ofgem's proposal to find £1.167m in RY 16/17 as an unacceptable cost for the System Integration function. We also support Ofgem's proposal to find £6.98m worth of forecast costs as unacceptable for DCC's external services linked to their ATG (Automated testing of GBCS) and SMKI contracts. DCC should seek to charge non-funding parties such as Manufacturers to utilise such services.

With regard to Service Management, we question Ofgem's proposal that DCC's Service management costs incurred in RY 2016/17 are economic and efficient bearing in mind they are considering a further delay to the SMETS2 rollout.

If DCC fail to provide a robust Service Management forecast, we support Ofgem's proposal to disallow £4.435m of costs

We have a concern that Shared Services may not represent value for money. Capita should not associate new work with business development, and should not charge SEC parties with these costs. They should be treated separately, with individual impact assessments.

EDF Energy supports Ofgem's proposal to disallow the Shared Services charge (0.091m) associated within the switching programme.

We are in agreement with Ofgem's proposal to find forecast costs beyond RY16/17 unacceptable on the grounds described; that an accurate forecast can only be determined after the first full year of the ex-post plus price control arrangements.

**Q4. What are your views on our assessment of DCC's performance against IM9 and 10?**

EDF Energy are supportive of Ofgem's draft findings that DCC largely failed to meet IM9 and IM10 and as a result should have £4.702m removed from their Allowed Revenue under the Baseline margin Performance Adjustment.

We do not think it is acceptable that DCC have not provided any evidence confirming the delivery of R1.3 in their Price Control Submission. Ofgem should continue to seek this information from DCC. Delays in achieving IM9 and 10 milestones resulted in increased costs to DCC Users and ultimately consumers.

We are particularly concerned that the incentives put in place to encourage DCC's delivery of IM9 and IM10 we not sufficient to achieve the desired outcome. Everyone including SEC Parties, Ofgem and DCC must learn from the experiences of R1.2 and R1.3 to determine whether changes are needed to the OPR if we are to avoid similar issues with R2 and Enrolment and Adoption.

EDF Energy has a concern that "DCC-Live" dates have little meaning in terms of DCC's capability to support mass rollout. The DCC systems have been 'live' for some time but it is clear that they are not sufficiently stable to support significant volumes of SMETS installations.

**Q5. What are your views on our assessment of DCC's application to adjust their baseline margin?**

EDF Energy has number of concerns relating to DCC's application to adjust their baseline margin.

We would like to see confirmation that DCC's margin, including any adjustment, are truly 100% at risk, bearing in mind some of the activities lack areas where success can be measured e.g. SMETS1 work.

We suggest there is a need to separate some of the five areas identified in Section 4.7 of the consultation from core services. Ofgem should consider if some of these areas should be attached to baseline activities, with costs borne by SEC Parties.

For each of the 5 areas identified, DCC should provide evidence of:

- How we measure success, how we determine what is achieved and whether a risk matrix is in place?
- What are the measures for SMETS1 work? Are there any milestones, measures, KPIs or Interim Milestones on which DCC could be judged?

- With regard to the Centralised Switching Programme, why are DCC Users being asked to pay for something that may not happen?

We are in basic agreement with Ofgem's proposal to amend DCC's application to an adjustment of £5.134m between RY17/18 and RY18/19. However, Ofgem may wish to carry our further analysis following our comments above to see if a further adjustment should be applied.

**Q6. What are you views on out assessment of DCC's application for External Cost Contract Gainshare?**

Whilst we understand DCC are currently entitled to receive an External Contract Gain Share, we question if this is appropriate going forward. Surely, DCC should constantly be looking for ways to make cost savings from external service providers which should all be passed on to consumers.

We believe it is the responsibility of the Authority and SEC parties to reduce the costs which can be passed on to consumers. For these reasons Ofgem should consider revisiting the principle of External Cost Contract Gainshare. It does not seem acceptable that we are paying DCC to find cost savings of which they receive a substantial proportion.

For the reasons set out above we cannot support Ofgem's proposal to adjust the ECGS term by a total of £3.261m between RY18/19

**Q7. What are your views on DCC's reporting which explains its reasons for over recovery of revenue in RY16/17?**

The licence requires DCC to make all reasonable steps to secure that its regulated revenue does not exceed a prudent estimate of Allowed Revenue, regulated Revenue and Charging Statement. A clear penalty regime was put in place to stop this from happening.

Following further information provided by the DCC, Ofgem should respond to each of bullet points in Section 5.6.We do not believe they are acceptable as each of them could be better managed e.g. how do pass through costs apply as DCC is not incurring any costs?

For these reasons we do not agree with Ofgem's proposal that DCC has provided sufficient explanation why regulated Revenue exceeds Allowed Revenue in RY16/17. DCC have clearly exceeded the 110% threshold, therefore, the penalty regime should be applied.

We fully support Ofgem's proposal concerning the size of the correction factor (over recovery) for RY16/17 and agree this should be returned to Users in the form of lower charges at the earliest opportunity.

**EDF Energy**
**December 2017**