



## **Ofgem Consultation – DCC Price Control Consultation: Regulatory Year 2014/15**

### **Response from E.ON**

#### **General Comments**

As an energy Supplier we incur charges from the DCC and are obliged via the Smart Energy Code and our licence to pay these.

We are not in a position to understand the true nature of the costs that the DCC faces, the profit margins they make and the management decisions they have made in delivering services to us.

We therefore rely on Ofgem to ensure that the costs that the DCC incurs and is allowed to charge to us are reasonable and justifiable. We therefore look for evidence that Ofgem is being thorough in its approach and outcomes.

This consultation exercise presents us with good evidence to suggest that this activity is being undertaken by Ofgem. We were pleased to see that the detailed level of information about the DCC continues to be provided and that this is presented in an easy to understand manner.

The use this year of an external financial forensic auditing company is welcome, as is the accompanying publication of a redacted version of their report.

Due to the lack of information available to us regarding the DCC we are not in a position to comment upon the accuracy of Ofgem's findings however there are some specific points that are mentioned in the consultation that we would agree with from our experience of interacting with the DCC as one of their stakeholders.

*"DCC may find it difficult to justify that procuring services from its parent company is the most economic and efficient outcome if it does not improve its ability to evidence its process and governance arrangements" –*

We would agree with this statement and would like to see greater visibility provided to stakeholders when the DCC is procuring services on behalf of the industry.

There will always remain a specific risk around the use of shared services with their parent company and it is clear from this consultation that they need to undertake more work in this area to ensure that they can prove that costs are being efficiently incurred. We were reassured to see that some of the proposals with regard to the removal of forecast and incurred costs supported this.

*"Ultimately there is a lack of clarity over DCC's overall risk management approach and how risks relating to costs are being managed."*



Our experience with the DCC confirms that this view is accurate. Since the 2014/15 year we note that the DCC has added to its management team and hopefully this may start to address this issue. It is an area where we have concern and we are therefore reassured that Ofgem will be monitoring this area closely.

We expected the DCC to request a margin adjustment and the detail provided within the consultation regarding the assessment that Ofgem has undertaken on this request is reassuring.

It is difficult to assess what the true risk to a business such as the DCC actually is from the activities it undertakes.

Understanding what levels of margin would be appropriate is therefore difficult but we reassured to see Ofgem is challenging the DCC's proposals. For the margin adjustment we believe that Ofgem's assessment of an appropriate level is more acceptable than that proposed by the DCC. We agree with Ofgem that the arguments they put forward for the enhanced risk presented from the two new contracts (SMKI and Parse and Correlate services) are not clear to see. Both of these services would seem very similar to the other services that they are delivering and do not appear to present any additional risks to their business.

We would like to see the current level of Ofgem oversight and engagement of the DCC continue in the future.

### **Responses to consultation questions:**

#### ***Question 1: What are your views on our approach to assessing DCC's costs?***

The approach seems thorough and rigorous; it was good to see the use of external auditors this year to enhance the level of scrutiny of DCC costs.

#### ***Question 2: Do you have any suggestions on where we can improve our approach?***

No

#### ***Question 3: What are your views on our assessment of DCC's performance against the IM7?***

The DCC's completion of IM7 was judged by DECC rather than ourselves. We understand that this was provided and therefore we agree with your assessment.

#### ***Question 4: What are your views on our cost proposals?***

We do not have access to the relevant information to provide an assessment of the proposals that are set out in the consultation. However from the evidence provided it seems a reasonable set of conclusions have been made and the proposals therefore would seem valid.



***Question 5: We are interested in feedback from stakeholders and industry parties on DCC's external engagement. What were your experiences of engaging with DCC in regulatory year 2014/15?***

We found the external engagement from the DCC during 2014/15 to be variable. Some individuals were very good at engaging with us and trying to develop a good working business relationship.

Our operational contacts do a good job and are always very helpful, as are those involved in special projects (e.g. in setting DCC strategic objectives, enrolment and adoption and switching reform project).

Institutionally however we did have issues with the DCC. There was a clear lack of communication between their different teams which hampered the overall service that they provided to us.

Our most significant issue was a corporate lack of recognition that we were their ultimate customers rather than just a stakeholder to be kept informed at an appropriate point in time regarding their activities.

We recognise that the DCC is trying to address this issue but more work is needed in this area.

***Question 6: We welcome views on DCC's benchmarking methodology, including on what you consider the appropriate percentile is that DCC should use when carrying out benchmarking, and approach to benchmarking benefits?***

No comments to make.

***Question 7: We are looking for ways to further benchmark DCC costs. What other sources of data or potential comparators can you recommend for subsets of DCC costs?***

No comments to make.

***Question 8: Do you agree with our approach to real price effects (RPEs)?***

No comments to make.

***Question 9: What are your views on DCC's approach to the prudent estimate?***

We agree that the action proposed to be taken by Ofgem in this area is justified and that the evidence from 2014/15 clearly supports action.

***Question 10: Do you agree that our proposals should take effect from April 2015/16?***

Yes this would seem sensible.

***Question 11: Do you agree with our assessment against the criteria in the licence?***



Yes, we agree with Ofgem's views regarding the assessment of the criteria in the DCC licence. It is difficult to understand that the additional services that they have undertaken

***Question 12: What margin do you think should apply, 10% or 15%?***

We agree with the Ofgem assessment that a 10% margin rate is more applicable.

***Question 13: Do you have any views on the rate of return methodology we have developed?***

No comments to make.