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Dear Angelita

Proposals for DCC's role in developing a Centralised Registration Service and penalty interest proposals

Thank you for the opportunity to comment on your further thinking on the development of the Central Registration Service (CRS) and penalty interest proposals.

In relation to your questions:

Registration and switching arrangements – Chapter 2		
Q1	Do you agree with our proposed changes to LC15?	<p>No – we do not agree with the proposed changes to LC15 [please refer to our response to Q9].</p> <p>We note the removal of reference to the Data Transfer Services and its replacement with a new clause covering 'the communication and exchange of information between parties and the CRS' under the definition of the CRS in the latest proposed changes to LC15. 8.</p> <p>We welcome Ofgem's undertaking to review the communications arrangements with the CRS during the Blueprint Phase.</p>
Q2	Do you agree with the proposed considerations that we would expect DCC to take into account when seeking to meet its new objective?	<p>Yes.</p> <p>We agree that DCC's smart meter requirements in the Transition Objective (as defined in LC 13) take precedence until Completion of Implementation (as defined in LC 5) over the Interim Centralised Registration Service Objective.</p> <p>Also, we are comfortable with Ofgem leading and coordinating the design and documentation with support from the DCC and industry.</p> <p>However, we would reiterate as per our earlier July consultation response that it is our view that industry code modifications should be led</p>

		<p>by Ofgem as part of a significant code review and the changes to the legal text of each impacted code should be developed as part of such an initiative rather than the current two stage approach of developing the policy and then move into the modification processes of each impacted code. Should Ofgem's decision associated with the significant code review (Phase 3) support such an option, they should consider amending the approach as part of the SCR on reliable next day switching.</p> <p>We believe the impacted code administrators, including the DCC have a significant role to play in the process and as such should sit on the relevant working groups regarding code modifications as part of the CACoP principle 13 in conjunction with other impacted stakeholders.</p>
Recovery of costs – Chapter 3		
Q3	Do you agree with our proposed drafting amendments to the price control formula to allow the Authority to include ex-post and direct ex-ante arrangements as well as uncertainty, and incentive mechanisms?	<p>We agree that Ofgem needs to modify the charging formula to provide the framework for Ofgem to introduce new elements as the price control framework develops. We note that the mechanisms discussed in Table 2 (CRS Revenue term calculation) have been discussed in prior consultations and therefore need to be included in the calculation. We suggest that the Licence drafting for the CRSPCt term could be clarified as the phrase "<i>that maybe directed by the Authority</i>" does not provide appropriate clarity to the process for determining the value if the Authority fails to consult. We would suggest mimicking the wording in the other conditions which produces a zero value unless directed.</p>
Q4	Do you agree with the proposed timetable and process for agreeing the ex ante procurement costs as well any uncertainty and incentive mechanisms, were these to be used?	<p>Yes – we agree with the proposed timetable and process for agreeing the ex ante procurement costs as well any uncertainty and incentive mechanisms, were these to be used.</p> <p>We welcome Ofgem's clarification that the Commercial Workstream will discuss the transitional as well as the enduring price control framework and procurement strategy.</p>
Q5	Do you agree with the proposed changes to introduce a new defined term of Fundamental Registration Service Capability to ensure that DCC procures the CRS externally?	<p>Yes – we agree that the CRS capability should only be procured via competitive tender without exception to drive the most efficient and cost effective service. As such we also agree with the introduction of a new "Fundamental Registration Service Capability" and "CRS external cost" definitions.</p>
Licence and SEC Changes – Chapter 4		
Q6	Do you agree with the proposed changes to include CRS as a new service in the	Yes – we agree the CRS should be classified as a new service under the mandatory

	Mandatory Business Service requirements?	business for the transitional phase. We welcome Ofgem's clarification that the charging methodology for the Design Build, Test Phase and for live operations will be fully reviewed as part of the Switching Programme.
Q7	Do you have any views on the proposed consequential changes to the licence?	No.
Penalty interest proposals – Chapter 5		
Q8	Do you agree with our proposed amendment to the definition of Regulated Revenue in LC35?	We agree that this proposed amendment provides clarification of the Regulated Revenue definition.
Q9	Do you agree with the proposed drafting for the penalty interest rate and that it reflects the policy intent?	<p>We have reviewed the proposed mechanism and note the change in policy to modify the licence to allow the Authority "<i>to apply the penalty interest rate to only the portion of the over-recovery above the threshold which DCC did not justify through its reporting requirements</i>". This is a departure from the initial position and from other regulated parties which are subjected to penalty interest rates unless they are directed in exceptional circumstances. As written, the proposal potentially allows for a significant over/under recovery by the DCC. We think it would be helpful for Ofgem to set out the allowed circumstances and economic tests it would apply when considering the justification of over/under recovery. This would provide some clarity to the DCC and customers on the appropriate use of this mechanism and its distinction from the tolerance band. We suggest that Ofgem considers the two decisions on allowed recovery levels and tolerance levels together to ensure that the DCC are appropriately incentivised to limit charge volatility.</p> <p>In terms of the Licence drafting, we suggest that condition 36.17 does not achieve the stated objective. We suggest that it should be rewritten to ensure that the DCC are penalised at the appropriate rate unless the Authority accepts its reasons for the volatility.</p>

I hope these comments are helpful. Please do not hesitate to contact me if you want to follow up on any particular point.

Yours sincerely,

A handwritten signature in black ink, appearing to read "J Lawton".

John Lawton
Regulation Manager