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29 January 2016

Dear Sir/Madam,

Thank you for the opportunity to comment on the 17 December 2015 document, *Proposals for DCC's role in developing a Centralised Registration Service and penalty interest proposals*. We set out our response below.

**Question 1: Do you agree with our proposed changes to LC15?**

We share the concerns expressed by other respondents that the DCC does not currently have the required expertise or experience to lead on documenting the design of the CRS. We do not think that it is efficient and cost effective for them to obtain such expertise to take on such a role. We agree that DCC should be part of the Design Team in the Switching programme, that will design and document the CRS arrangements.

It is important that there is confidence from stakeholders in the process for moving from the design and documentation of the arrangements to documentation (whether a specification or other documentation) that is fit for purpose as part of a commercial procurement exercise: these review arrangements should be the subject of consultation once developed with DCC.

We agree that Ofgem should lead the work and be able to direct the DCC, including to require a cessation of work by them (please see comment below on the power to direct).

We agree that the DCC should not raise code modifications.

On the specific drafting of LC15, we have the following points:

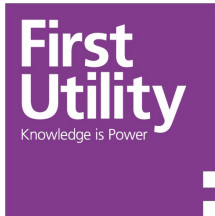
- We have concerns about the scope of LC15, taking the licensee up to and including the procurement of the CRS (LC15.2). It follows that we do not

think it is appropriate to include “procuring Relevant Service Capability to deliver and operate a Centralised Registration Service ...” as proposed in LC 15(4)(c) as this stage, in particular as an objective to be achieved. This appears to take the licensee’s role beyond “support for the development of the CRS” (paragraph 2.5 of the document refers) into a full procurement process and the case for this does not appear to us to be fully made out.

- The DCC’s “duty to contribute to” remains broad in scope and does not provide a great deal of clarification with the specific strand of the Interim Objective, in particular as this is not an exhaustive element, but this is perhaps inherent in as the role of the DCC (and indeed others) evolves (paragraph 2.3 in Appendix 2.2 refers). This does appear to be in contrast to the specificity requested by DCC (paragraph 2.18 of the main document refers) which highlights the need for transparency from Ofgem as to its requirements (as the Design Authority but also as the various Teams’ leads) and from the DCC as to whether its actions are meeting expectations, so that the transitional costs can be tracked. A mismatch in roles, perhaps hinted at by the difference in approach from Ofgem and DCC, cannot lead to uncertainty of delivery and cost shocks.
- The Authority’s power to direct (which we agree with as a principle) does not appear to be specified sufficiently in LC15.6, which refers to direction by way of the obligation on the licensee. We agree that the Authority’s power to direct should include the power to direct that the licensee cease work as directed.
- We have not reviewed the drafting in detail but have noted some typographical and referencing errors which no doubt will be addressed in any final modification (in particular, the sub-clause numbering in LC15.9 is inconsistent (using a “(b)” not “(ii)”, which causes confusion with the cross-reference in the definition of “Switching Programme”).

**Question 2: Do you agree with the proposed considerations that we would expect DCC to take into account when seeking to meet its new objective?**

We do not have any comments on the proposed considerations.



**Question 3: 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?**

We do have concerns about the approach to the price control formula for the procurement aspects. These concerns, in summary, centre around it being too early to include these costs (noting the timing for modification and direction lead times).

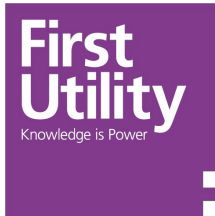
**Question 4: Do you agree with the proposed timetable and process for agreeing the ex ante procurement costs as well any uncertainty and incentive mechanisms, were these to be used?**

We are aware of the overall programme timing for faster switching, but notwithstanding, the proposed timetable is very ambitious, taking into account the various separate and interconnected input aspects for both the transitional price control and procurement strategy. It appears to provide for no contingency up-front, and only indicative timing around the formal change processes. It would be prudent to work through a counterfactual where the up-front development work slips, not just for the impact on price controls but overall.

Taking this into account, we have some concerns with providing for the procurement process within the Interim Objective at this stage and for considering the structure of *ex ante* procurement price controls at this stage (albeit with the ability to rely on an ex-post arrangement if needed). It follows that in our view, it is too early to provide for a revenue term and possible mechanisms (paragraph 3.21 refers), even if the values are to be added subsequently.

Whilst we agree with the principle that the CRS capability should only be procured via competitive tender, it does not necessarily follow that the current process, created as noted for Smart metering, is the most fit-for-purpose for the CRS (including providing for “Fundamental Registration Service Capability”). It may be useful to enable the Commercial Group, as part of the work on the procurement strategy, to consider whether this approach is appropriate and potentially whether behavioural requirements and other mechanisms are more appropriately located in the licence rather than in other instruments in the CRS context.

For completeness, we assume that DCC representation on EDAG would not be able to participate in or be privy to documents from and discussions on outputs from the Commercial Group as a general rule. However, given the various



technical documents and specifications will form the basis for the specification(s) to be included in any procurement process, there are touch points between the procurement strategy (i.e. what is needed on the technical, systems and process side to minimise issues during the procurement process) where it would be efficient to have their input. As Ofgem note, these “appropriate review arrangements” are important to ensure that the documentation is fit for its ultimate purpose (paragraph 2.10 refers).

**Question 5: 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?**

We agree with the principle that the CRS be procured externally but consider that it is too early to provide for the specifics of that procurement by way of licence changes, including by the use of this defined term, pending further work on the procurement strategy.

**Question 6: Do you agree with the proposed changes to include CRS as a new service in the Mandatory Business Service requirements?**

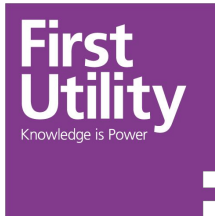
We agree that a clear separation is required between Smart and CRS costs. However, we acknowledge that there is potential for economies of scope through the use of shared services in the DCC organisation. We agree therefore with the proposal that a new Mandatory Business Service is formed to achieve this. We believe that all costs must be accounted for separately between Smart and CRS including a shared services cost split in areas such as HR and Finance.

We agree that the introduction of a CRS Mandatory Business Service should not impact on the Smart programme in any way. We agree with the proposed change to LC15 to ensure this priority is maintained in case of conflict (as set out at LC15.3).

Please note our comments on the scope of LC15: in principle, the amendment at LC6.5(d) is agreed, save that as noted, we do not consider that LC15 should cover an interim stage including the full procurement exercise.

**Question 7: Do you have any views on the proposed consequential changes to the licence?**

We agree with the proposed license changes to LC1 (please however see our response to question 4 however with regard to “Fundamental Registration



Service Capability”), LC6, LC22 and LC 30 (save with regard to the regulated revenue definitions/price control terms for the reasons set out in this letter but not including the changes to remove any inconsistencies - paragraph 5.4 refers).

We would like to see the DCC update the documents referred to by LC24 within a defined time period rather than waiting for the next review date.

We also agree that the LC36 license changes provide the DCC with a route to recover the CRS costs without the need to amend the SEC.

**Question 8: Do you agree with our proposed amendment to the definition of Regulated Revenue in LC35?**

Please see our response to questions 4 and 7 above.

**Question 9: Do you agree with the proposed drafting for the penalty interest rate and that it reflects the policy intent?**

It is essential that the DCC be subject to appropriate incentives to ensure that its forecasting and charging are reasonable and efficient. It is very difficult for suppliers, on behalf of their customers, to manage cost shocks and overcharging. We agree with the principle that the Authority should be able to direct the payment of penalty interest in the event of overcharging but have no specific comments on the drafting.

Should you have any questions regarding this information please do not hesitate to contact me directly.

Yours sincerely,

Jeremy Guard  
Senior Industry Codes Manager