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Mr Rob Salter-Church
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By email to: robbyn.daniell@ofgem.gov.uk

21 February 2017

Dear Rob

Further consultation on DCC Baseline Margin adjustment RY2015/16

Thank you for providing the opportunity to respond to your consultation on DCC's application for a Baseline Margin adjustment in respect of regulatory year 2015/16. This constitutes the response of Smart DCC Ltd, as licensee.

Firstly, DCC would like to welcome the manner in which Ofgem has shown itself willing to consider the arguments presented by DCC in response to its original consultation on the Initial Proposals for the 2015/16 DCC Price Control.

We are pleased that Ofgem has recognised the scope for interpretation which exists in the licence and guidance, as currently written, and has responded accordingly.

However, DCC remains of the view that the element of our application, which Ofgem has rejected, has the same merits as the rest of the claim and hence should be accepted.

In the attachment to this response, we have restated our analysis of how our forecast costs for 2015/16 were driven by the drivers of change presented in our 2014/15 baseline margin application, namely:

- Change driven by the evolution of the DCC solution through the design and development process
- Change to timing and complexity of externalities - GBCS and requirements of the SEC

Furthermore, we would be disappointed if Ofgem sustained its current position in respect of this part of our claim. Had we applied for this adjustment in 2014/15, based on the forecast cost alone, then our claim for margin would have been in excess of £250k more than the subsequent actual costs justified. Hence we

maintain that our approach of only applying for margin based on actual costs is inherently more prudent and hence beneficial to our customers and end-consumers.

We accept that the carry-forward of margin adjustments from year-to-year and the right to claim adjustments at the point they become certain has the potential to add complexity to the application process and the ongoing accounting. It places an obligation on DCC to make it clear where these year-on-year effects are being observed.

Hence, as Ofgem has acknowledged the requirement to clarify the guidance and other relevant documents, such as our Licence, we would recommend also the addition of a tracking template to record the year-by-year accumulation of adjustments, and perhaps also to signal our expectation of claims in future years.

If you have any questions regarding the contents of this letter and attachment, please do not hesitate to contact me.

Yours Sincerely



Helen Fleming
Director of Policy

Cc: Robyn Daniell, Ofgem

Attached:

2017 02 21 DCC BM Adjust Cons Response Annex FINAL – supporting spreadsheet