



Making a positive difference
for energy consumers

Gwneud gwahaniaeth gwirioneddol
i ddefnyddwyr ynni

Sent by email only

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Dear Paul

DCC Consultation: Proposed changes to DCC's Implementation Milestones

We welcome the opportunity to respond to this consultation. Ofgem regulates the gas and electricity markets in Great Britain.¹ We have an important role in ensuring that the interests of consumers remain protected, both during the transition to smart metering and in the enduring framework. We also play a key role in monitoring and, where appropriate, enforcing compliance with new regulatory obligations relating to smart meters.

DCC's implementation performance regime is determined by DECC and set out in the licence.² Our role is to assess DCC's performance against the regime, as detailed in the licence. The current review of the implementation milestones (IMs) provides the opportunity to ensure that the criteria for each IM are clear and robust. This is important as it prevents any areas of ambiguity when we are assessing DCC's performance against the IM criteria in the licence. Our response to this consultation will therefore focus on clarity of the IM criteria.

Having carefully reviewed the proposed changes to the IMs there are some areas that we consider should be refined to ensure greater clarity when assessing DCC's performance. This response focuses on two main areas that we think could be further clarified. These are:

1. The tapering mechanism and incentives on DCC
2. External dependencies

¹ The Office of the Gas and Electricity Markets Authority (Ofgem) supports the Gas and Electricity Markets Authority ('the Authority') in its day to day work. In this consultation letter, 'we', 'Ofgem' and 'Authority' are often used interchangeably. We operate under the direction and governance of the Gas and Electricity Markets Authority. The Authority's powers and duties are provided under the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998, the utilities Act 2000 and the Energy Acts 2004, 2008, 2010 and 2011, and other statutes.

² The Smart Meter Communication Licences granted pursuant to Sections 7AB(2) and (4) of the Electricity Act 1989 and Sections 6(1A) and (1C) of the Gas Act 1986. This is referred to as 'the licence' throughout this letter.

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In addition to these, there are a number of minor points on which we consider further clarity should be provided. We will discuss these as part of our ongoing engagement with DCC and DECC.

The consultation set out initial views on IM11 only as the final criteria will be further defined once the work on constraints is completed. We would be pleased to review drafting of IM11 once this is further developed.

Tapering mechanism

DCC has proposed changes to the tapering model. Section 3.2 of the consultation explains how the new model will work. We understand the intent to be that the amount of margin retained by the licensee to reduce marginally each day that the IM remains unmet after its due date until it reaches a point where no margin remains. Three “elbow points” are proposed reflecting changes from a shallow, to steep, then back to a shallow, taper.

Our understanding is that the dates and time factors in the consultation only set out the elbow points. To ensure the intent of the tapering model is accurately reflected in the final licence drafting, additional detail will be required. We would be pleased to review this additional drafting before the change to the licence is directed. It is important that we have a common understanding of the parameters of the tapering mechanism so that our assessment of DCC’s revenue entitlement can be transparent, accurate and effective.

External dependencies point

DCC has proposed that the implementation performance regime explicitly recognises certain dependencies. It suggests that these additional dependencies be reflected in the licence.³ This list may be added to as part of future reviews of the IMs should further uncertainties beyond DCC’s control arise.⁴

We do not have any significant concerns with this prescriptive approach if there are known factors that are clearly outside of DCC’s control and influence that can be clearly specified in the licence. Given that the joint industry plan provides greater certainty than before, and that the list of external dependencies can be added to through future reviews, we think that external dependencies should be foreseeable and therefore can be described in the licence. Our expectation is that DCC should take every effort to insure that the licence remains up-to-date in advance of any implementation milestone.

We think that this approach provides an appropriate means of ensuring that uncertainties DCC does not have control over, which could have a material impact on the DCC, are reflected in this incentive scheme. However, we also note that the risk of not meeting an IM due to an external dependency has always existed. Our assumption is that this risk was taken into account by DCC during the licence applications process and is therefore already priced into the baseline margin. We expect DCC to manage reasonable risk and dependencies as part of its operations. The list of external dependencies should not seek to insulate DCC from the impact of external factors that DCC has an ability to influence for the

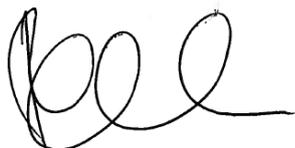
³ Either reflected in the criteria of each IM or as a single clause elsewhere in schedule 3 of the licence.

⁴ DECC has recently consulted on licence changes to allow further reviews of the IMs and to allow DECC to direct changes. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/416394/Annex_D_-_DCC_Licence_-_March_2015_Amendments_Conclusions_and_Consultation_.pdf

purpose of the IM regime. We think that any mechanism should be focussed on significant events and should not attempt to capture all external dependencies on DCC.

DCC indicated that it may publish responses to this consultation. We welcome this and confirm that we are content for this response to be published. In general, we encourage the timely publication of all non-confidential responses DCC receives. This will help ensure that the process of the IM review is transparent and robust.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Rob Church', with a stylized, cursive script.

Rob Church
Partner, Retail Markets