Smart Metering Implementation Programme – Regulation
Department for Business, Energy & Industrial Strategy
Orchard 5, 1 Victoria Street
London
SW1H 0ET

Email to: smartmetering@beis.gov.uk

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Proposed changes to the DCC Licence to enable BEIS to set project incentives for DCC; and
Proposals to extend the date by which OFGEM may modify the OPR using its power of direction

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, storage, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

We remain committed to the DCC and the benefits that it will bring through providing a common, secure interface between Suppliers and enrolled smart meters. This will ensure that customers can benefit from a seamless smart service from all suppliers, while having confidence in both the DCC's provision of secure data, and in their smart metering systems.

Release 2.0 and SMETS1 Enrolment and Adoption are critical enablers for the rollout of smart metering, and the interoperability of meters that have been installed in the Foundation phase. As a monopoly service provider DCC needs to be appropriately incentivised to deliver, in a timely and cost effective manner, the outcomes that their stakeholders require in regards to these critical projects. While we support the proposal to create project incentives for DCC for Release 2.0 and SMETS1 Enrolment and Adoption, we have a number of concerns about the approach detailed in the consultation letter.

The Implementation Performance Regime (IPR) that has been used by BEIS to incentivise DCC to mobilise its operations to the go-live of Release 1.3 has not been successful. DCC go-live has been subject to continual delay, and DCC's costs, as well of those of other parties like ourselves, have escalated significantly. If BEIS are to determine the project incentives for DCC for Release 2.0 and SMETS1 Enrolment and Adoption lessons must be learnt from the IPR and applied, where appropriate, to any new incentive arrangements.

A well designed incentive regime should as a minimum:

- Engage stakeholders in its design and reflect their priorities – which means prioritising cost-effectiveness as well as timely delivery to an agreed set of quality standards.
- Be based on a plan that has been subject to fully independent assurance to ensure that it is realistic and achievable.
- Really motivate DCC to achieve the milestones that are critical to the successfully delivery of any project by placing a significant proportion of their margin at risk for failure to deliver – especially where this failure drives cost onto other parties.
- Incentivise ongoing performance as well as delivery – some of the margin associated with successfully delivery should be placed at risk if the new services delivered by a project are not robust and are unable to operate at scale in a timely manner.
- Avoid the creation of perverse incentives on DCC to deliver early against over-estimated milestones in order to secure additional margin, where there is no additional benefit to suppliers/consumers.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Ashley Pocock on 0 1342 413838, or myself.

I confirm that this letter and its attachment may be published on BEIS's website.

Yours sincerely,

Paul Delamare
Head of Customers Policy and Regulation

Attachment

Proposed changes to the DCC Licence to enable BEIS to set project incentives for DCC; and
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EDF Energy's response to your questions

i. Do you agree that BEIS, rather than Ofgem, should set the incentive regime that places DCC's Baseline Margin associated with the Release 2.0 and SMETS1 Enrolment and Adoption projects at risk (and any potential BEIS driven future projects)?

We recognise that BEIS are probably in the best position to determine the inventive regime associated with the Release 2.0 and SMETS1 Enrolment and Adoption projects. We do not, however, believe that the Implementation Performance Regime (IPR) used by BEIS to incentivise DCC to mobilise its operations to the go-live of Release 1.3 has delivered the right outcomes, and lessons must be learnt from this experience.

To date we have seen continual delay to the provision of DCC services accompanied by a significant escalation in costs, both for DCC and its Users. The reasons for this need to be fully understood and the lessons learnt, where appropriate, incorporated into any new incentive regime. We do not believe that the IPR has been successful in the way it has incentivised DCC to deliver Releases 1.2 and 1.3, and we would be concerned about any proposal to use a similar regime for any new major projects.

We do not believe that the proposed arrangements should set a precedent and that BEIS should determine the incentive regime for any future projects beyond Release 2.0 and SMETS1 Enrolment and Adoption. The fact that BEIS appear to be the only party with the knowledge to be able to set an appropriate inventive regime indicates a deficiency in the transfer of knowledge and responsibility to Ofgem, who should, as the independent regulator, be the body making such monopoly incentive determinations. While BEIS might own the determination of the new inventive regimes, they must engage Ofgem closely in this process, and ensure any incentives are aligned with the principles underpinning the ongoing Operational Performance Regime (OPR).

We do not believe that delivery and ongoing operation should be covered by separate incentive regimes in the way envisioned in the consultation. A project can only be regarded as successful if is not only delivered to the relevant success criteria, but if the ongoing operation of that new functionality also delivers the services and service levels required to support the rollout and operation of smart metering at scale. If new functionality does not deliver the right level of service, despite being delivered to time and quality, then the margin associated with that delivery should be placed at risk as a consequence. We have experienced instances where parties are incentivised to deliver a product, but are not liable for the ongoing performances of the product that they have delivered. Costs escalate as fixes are applied post go-live to achieve the performance and stability that should have been achieved from the outset.

ii. Do you agree with our proposed framework for introducing the new incentives? Please provide details of your views.

We have a number of concerns about the proposed framework for introducing the new incentives.

We do not believe that the framework provides sufficient opportunities for industry parties to provide feedback into the process. The first mention of industry engagement is when BEIS would be required to consult DCC and SEC Parties on any proposed incentive schemes. Given the escalating cost of DCC, and the increasing cost burden on customers, we believe that those parties that will be paying for any additional margin should be engaged in this process from the very beginning, not only when key decisions have already been made.

We are concerned by the proposal for incentivisation of DCC to deliver earlier than planned on specific milestones. This would incentivise uncertainty within a plan, which then drives cost onto other industry parties. Our internal delivery for any release would be aligned with the published milestones in any plan; it is highly unlikely that early achievement of a milestone by DCC is going to enable us to accelerate our development without incurring additional costs. A plan needs to have milestones that are realistic, achievable and fixed – anything that provides uncertainty around a delivery date, whether this is earlier or later than a planned date, would be an issue.

Consideration should be given as to how DCC can be incentivised to ensure that they are delivering any project in the most cost-effective way, and delivering maximum value for Users. Every opportunity should be sought to minimise costs while ensuring that robust outcomes that support the rollout and operation of smart meters are achieved. While DCC's costs are subject to Ofgem oversight, it is not clear that the price control process is really driving costs down as far as possible. Any new incentive regime should give consideration as to how DCC can be rewarded for demonstrating that they have taken all reasonable steps to reduce costs as far as possible, without impacting on quality.

The framework does not reference how any plan and associated scheme would be assured. As well as consultation with industry, robust and truly independent assurance of any scheme should be undertaken to ensure that the plan is realistic and that the incentive scheme is designed in a way that ensures that quality deliverables are achieved at the lowest possible cost.

iii Do you agree with our proposal to extend the date by which the Ofgem must develop and implement the OPR using its powers of direction? Please provide details of your views.

We do not agree with the proposal to extend the date by which Ofgem must develop the OPR as set out in the consultation. What the consultation does not make clear is what interim incentive regime would be in place between now and the date of the proposed extension, and how stable such an arrangement would be. We are concerned by the impact that any lack of certainty regarding the operational performance that DCC needs to achieve in this period might have on the effective installation and operation of smart meters as part of the rollout.

Our preference would be to have a stable version of the OPR for each release, and for incremental changes to be made to that OPR as required as a result of any changes to services or performance that result from any release. We believe that it is possible to implement a stable baseline for the OPR for Release 1.3 within the original timescales set out in the licence. Any additional functionality that is delivered as part of subsequent releases should be assessed to determine whether it should be within the scope of the OPR. If this is the case, then relevant additional measures should be included in the OPR to ensure that functionality delivers the right level of performance to DCC Users.

iii. Do you have any comments on the proposed legal drafting in Annex B?

We have not identified any issues with the proposed legal drafting in Annex B.

EDF Energy
August 2017