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CONSULTATION ON:

- 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.

Dear Mr Duncan Stone,

I refer to the above mentioned consultation letter dated the 21st July 2017 and would like to thank you for the opportunity to respond. There are some comments that we would like to make in addition to our responses to the specific questions regarding the Open Letter.

Having analysed the Open Letter, it is not clear to us as to why the Department for Business, Energy and Industrial Strategy (BEIS) believe that the Data Communication Company's (DCC) Licence should be amended to allow BEIS to set incentives for DCC to deliver specific projects such as SMETS1 Enrolment and Adoption and Release 2.0. Both of these projects / requirements have been part of the Smart roll-out criteria for a very long time and it is unclear to npower as to why DCC should be further incentivised to deliver these pre-existing requirements.

npower understands the need for increased accountability and would be of the position to support a greater level of governance around DCC's activities due to the severity of resulting implications to our business and the industry overall. However we would like to first understand if, and why, BEIS believe that the current mechanisms in place are insufficient therefore will not deliver the required outcome. If this is the case, npower believes that further evaluation is required upon the operational capability of the DCC as to whether the DCC is performing as a business.

npower also believes there is a risk that if BEIS take the approach outlined in the Open Letter with regards to incentivising projects, that this will set a precedent that all releases should be incentivised in this manner which we cannot support.

It is also worth noting that the Smart Energy Code (SEC) contains a clear requirement (and has contained that requirement since its inception in 2013) for three releases per annum

(February / June / November). DCC are not currently compliant with this requirement which raises concerns across our business.

Within Paragraph 9 on Page 3 of the Open Letter, it is stated that the expected requirement of Dual Band Communications Hubs (DBCHs) is approximately 26.5% within premises that have smart meters installed. Assuming that smart meters are installed in 53m homes, this would mean that circa 14m DBCH's will be required. We have also noted that DCC have assumed that only 6m DBCH's will be required in their Release 2.0 consultation.

This discrepancy raises questions for us as to the robustness and accuracy of DCC's assumptions pertaining to Release 2.0 in comparison to what has been stated within this Open Letter.

Within this consultation it is stated that Ofgem should be responsible for the Operational Performance Regime (OPR) excluding anything within the OPR relating to projects, with the latter being the responsibility of BEIS. npower believes that this segregation of duties / responsibilities will create unnecessary complexity within the charging methodology, cause confusion and hinder transparency.

Paragraph 3 on Page 5 of the Open Letter, in particular, poses a risk regarding lack of transparency and increased complexity as BEIS have noted that their proposal Baseline Margin associated with projects may not be put at risk in the same Regulatory Year (RY) because it will conflict with Ofgem's regime which allows an additional Baseline Margin.

Paragraph F on Page 5 states that the proposed scheme could allow DCC to retain >100% of its Baseline Margin in order to incentivise the DCC to deliver earlier than planned on a milestone that is significant to industry. We believe that this approach carries a risk in that it could incentivise the DCC to focus their priorities on projects where they have the ability to retain >100% of its Baseline Margin at the expense of their core activities negatively impacting our business and increasing strain upon the industry, overall.

Please see our comments in reference to the four questions that were asked. I hope that the information we have given provides satisfactory responses to your questions. If you require any further information, please do not hesitate to contact me.

Yours sincerely,

Jag Bhohi

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<u>Consultation Response</u>

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)?

No.

The DCC is a regulated monopoly with a captive market in terms of users and should require no further incentivisation to meet its obligations as it is already generously rewarded.

We believe that splitting incentive regimes across different governance routes removes overall accountability that should rightly sit with the Authority. The proposal drives further complexity into what is already a very complex regulatory regime and is unwarranted.

In addition to this, industry experience to date is that DCC prioritises BEIS requirements over those of the industry and this proposal will serve to perpetuate that approach. SEC governance must be allowed to be fully established and to require DCC to carry out impact assessments on modification proposal, in line with its SEC obligations, with Ofgem having full oversight of all DCC performance. The previous incentive regime did not work to the benefit of suppliers or customers in our view. It is our opinion that the DCC's Users should be the primary driver of setting priorities in the interests of the industry and, ultimately, the consumer.

To conclude, we believe that whilst the DCC and its Users may internally treat such developments as projects, the overall control and implementation should remain within established and proven industry regulatory mechanisms. Therefore, any and all future projects should be governed transparently via the SEC.

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

No.

It is our position that having two incentive regimes poses significant risk to DCC's focus on key performance areas. We are concerned that the introduction of these new incentives could allow manipulation of the two regimes to maximise financial reward and commercial interest above DCC Users' prioritisation of DCC Services.

The incentives proposed allow more than 100% incentive reward upon early delivery. However, incentives are milestone based that are defined by event rather than date and include no quality criteria or assessment. Therefore, it is feasible that under this mechanism, the DCC could deliver capabilities later than planned and/or to a quality that does not meet the requirements of its Users, but the DCC could still qualify for the additional financial incentive rewards.

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.

No

The OPR was established to allow Users to place incentives on operational areas of importance when underpinning rollout and ongoing Smart services. By moving the date of this implementation, this also moves the ability for these priorities to be set or measured. As the prioritisation discussions have been ongoing for some time, it is not clear why there is a need to move the implementation date. We are concerned that moving to the proposed date would mean that the DCC is not operationally incentivised or measured for a further 2 years, by which point rollout will be only four months away from completion.

Furthermore, if the OPR is moved, the opportunity to apply lessons learned from the implementations of Release 1.2 and Release 1.3 cannot be applied to Release 2.0 in order to effectively support the rollout.

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

Yes.

DCC LC36 Part E, Appendix 2.

The proposed changes reflect that details of any scheme should be disregarded when proposing or determining a Relevant Adjustment.

We would like clarity as to how the Relevant Adjustment would then be adequately assessed and what degree of transparency would npower have, in such an instance.