



DCC: Set up for Success?

Chris Rowell
Smart Programme Director

MarketForce Smart Metering Forum
21 June 2011

(Re)Introducing ELEXON

By now, you should know us and our model ...

So what's new around ELEXON?

- Moving towards half hour settlement
- Maintaining data quality
- Contributing expertise to the SMIP
- Strengthening our team
- Understanding the risks that will face the DCC Licence holder



Meter

Data Collection

Data
Aggregation

Settlement

Funds
Administration

Bank

What we'll talk about today...

Drivers of the DCC Regulatory Framework

Objectives

We need to ensure:

- Consumer protection
- Operational integrity
- Promote competition

Business Activities

1. How do the DCC activities fit together?
2. What are the considerations around the WAN module?

Risks

3. Consequences of parallel procurement
4. How should we map and manage risks?

The DCC will undertake a diverse set of activities with multiple interactions ...

DCC Business Activities (pre PIM)

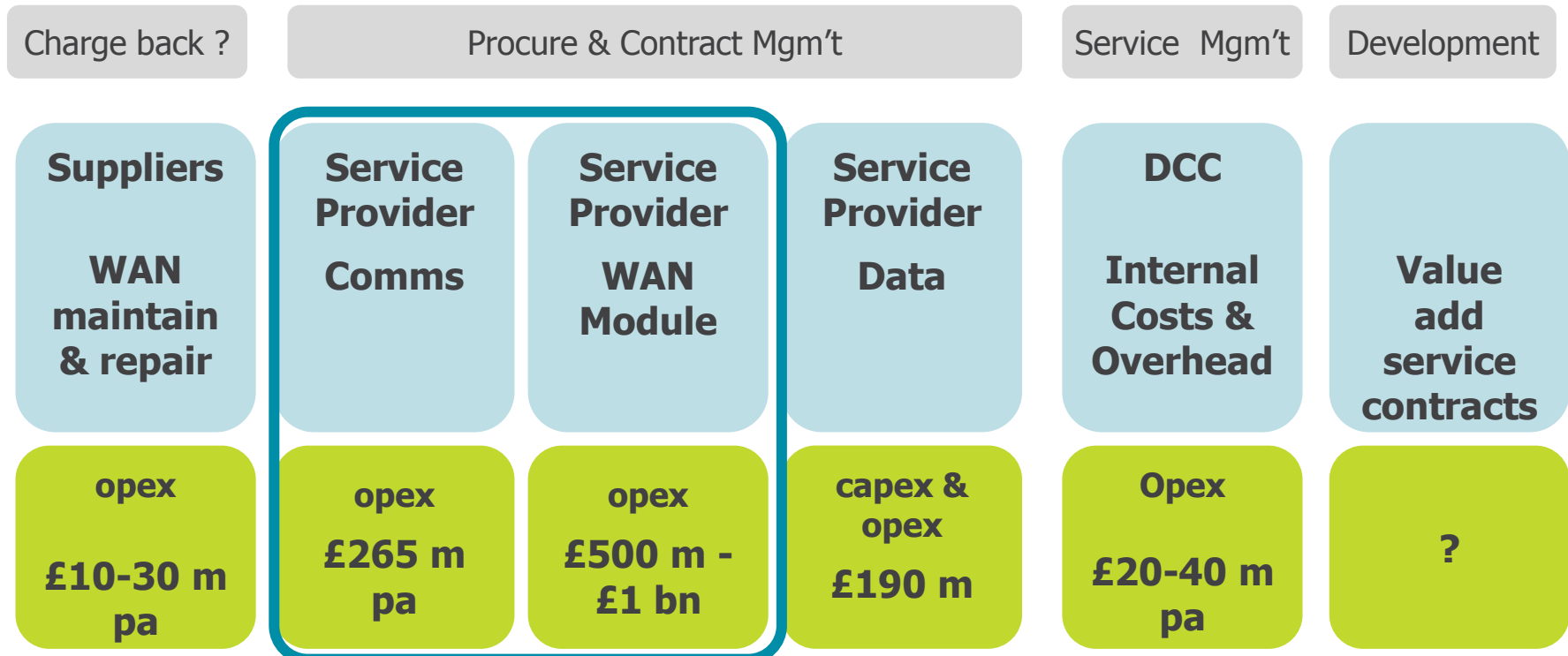
Charge back ?	Procure & Contract Mgm't			Service Mgm't	Development
Suppliers	Service Provider	Service Provider	Service Provider	DCC	
WAN maintain & repair	WAN Module	Data	Comms	Internal Costs & Overhead	Value add service contracts
opex £10-30 m pa	capex & opex £500 m - £1 bn	capex & opex £190 m	capex &/or opex £265 m pa	Opex £20-40 m pa	?

**Figures from DECC Impact Assessment – high level estimates*

The risks and opportunities are driven by asset structure contractual arrangements and the regulatory framework

The DCC will undertake a diverse set of activities with multiple interactions ...

DCC Business Activities (post PIM)



**Figures from DECC Impact Assessment – high level estimates*

The risks and opportunities are driven by asset structure contractual arrangements and the regulatory framework

...And the inclusion of the WAN modules raises several questions for the DCC

WAN Module Considerations

What does WAN module *ownership* mean?

How to ensure most efficient financing arrangements between DCC, service providers, suppliers and external financiers?

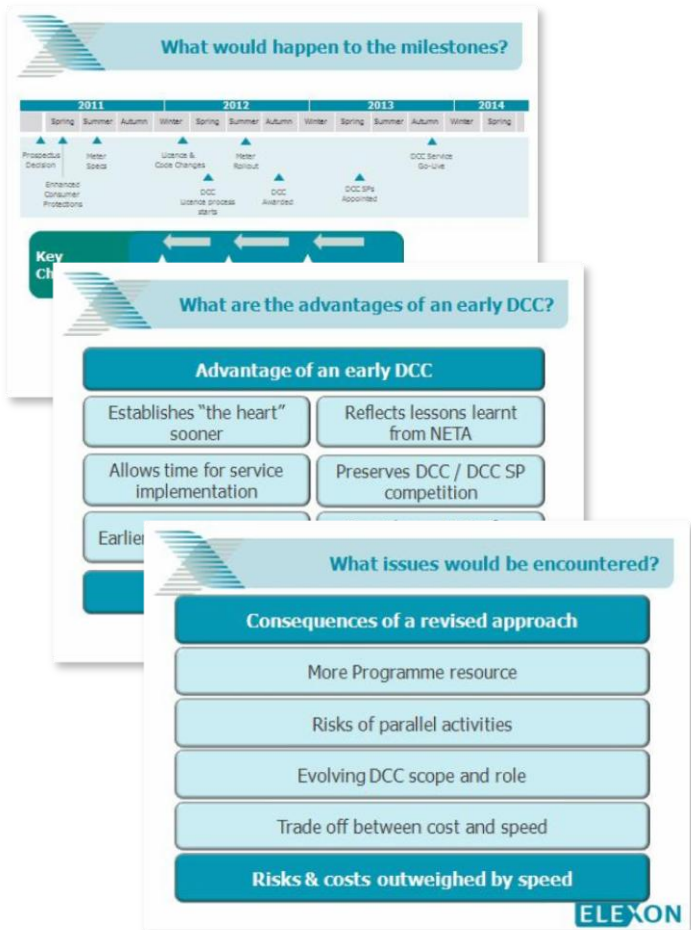
What are the appropriate interfaces to manage handoffs between DCC, WAN service providers and suppliers?

How to manage the physical logistics of WAN modules to ensure efficient installation?

Will the regulatory regime allow for recovery of stranded contracts?

We are keen to work with industry and partners to bottom out these issues

Getting the DCC involved early in SP procurement is essential



Recognise trade-offs in procurement approaches and their impact on DCC

Involve DCC to consider the long-term impacts of procurement strategy

Provide clarity for DCC financing

Ensure service provider contracts are robust and have aligned incentives

The procurement strategy needs to set the DCC & DCC SPs for success

There are a variety of risks that will impact the DCC

Financial

- Cost of capital
- Cost of equipment and services
- Inflation
- Internal cost
- Supplier default
- Lower-than-expected demand for DCC services
- Optionality for non-domestic customers

Operational

- Supply chain
- Service provider failure
- Commissioning timelines
- WAN installation process
- Equipment performance & safety
- New entrants
- Registration data handover
- Consumption data quality & security
- SP fragmentation
- Failure to achieve DCC service standards

Regulatory & Political

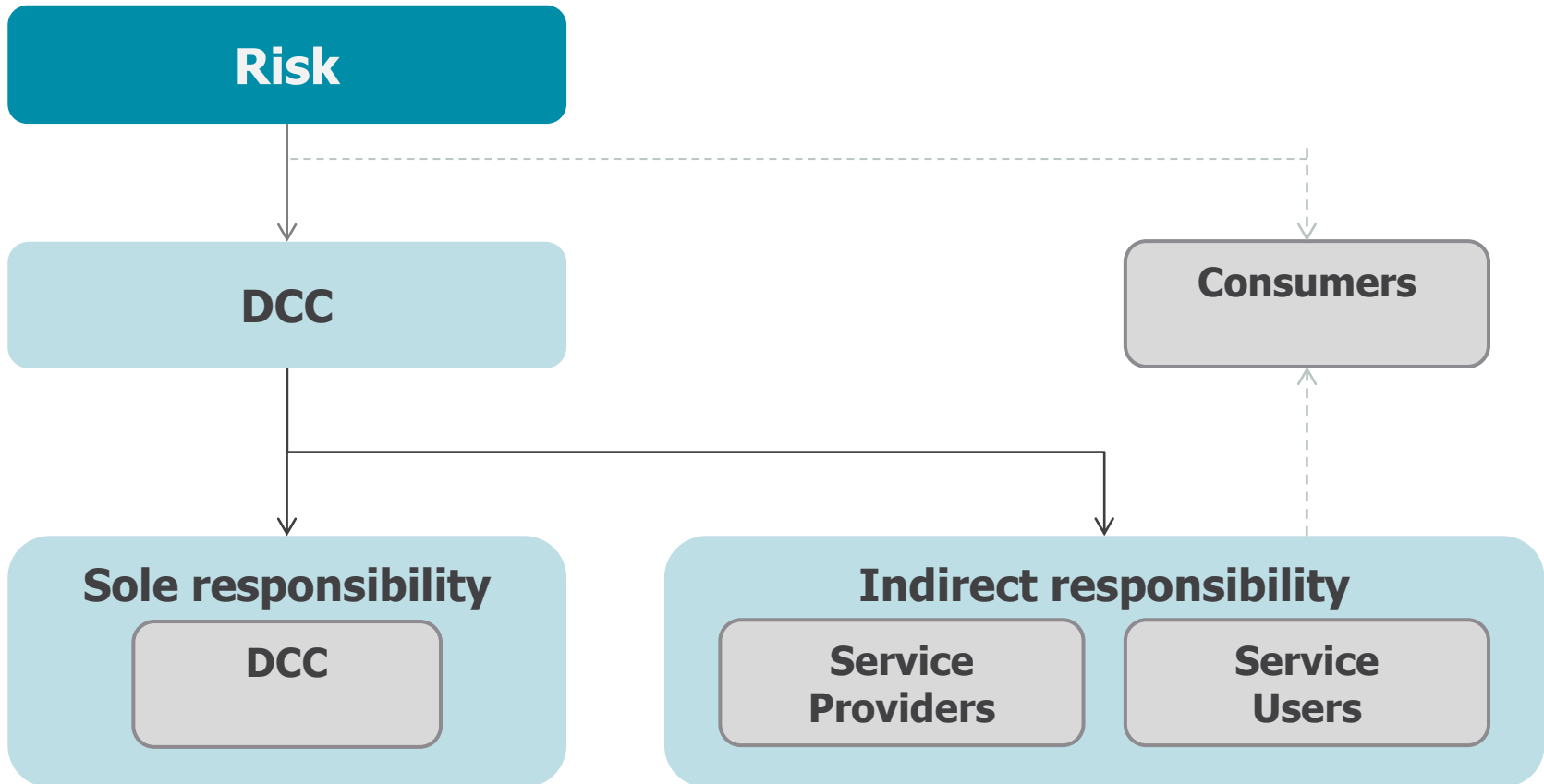
- Scope creep
- Retail charging rules
- Regulatory risk going forward
- Updates to SEC
- Programme delay or cancellation
- Ongoing government policy risk
- Programme failure

Strategic

- Risk allocation & windfall losses (for novated contracts)
- Provision of new services
- Lower speed of roll-out
- Technological obsolescence
- Inefficient contract portfolio

To achieve operational stability and commercial viability the DCC needs balanced risk and reward

The regulatory framework should allocate risks where they can best be managed



Some risks are best managed outside the DCC

Today we highlighted three issues...

The WAN module arrangements raise questions

Clear responsibilities and regulatory control will be required

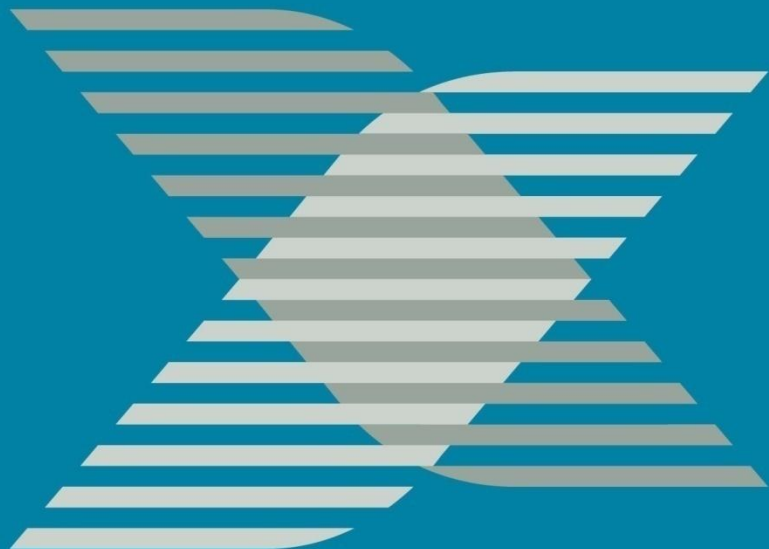
The procurement strategy significantly impacts the DCC's attractiveness and required capabilities

The DCC needs a voice ... and the sooner the better

Risks and uncertainty is a key element of the programme

Need to allocate risks to those best placed to manage them – and price them accordingly

There are many issues still to resolve, a strong DCC voice will benefit everyone



Chris Rowell
Smart Programme Director
chris.rowell@elexon.co.uk
0207 380 4337