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21/12/2021

Dear Ayena,

Consultation on DCC Price Control: Regulatory Year 2020/21

Thank you for the opportunity to respond to the consultation on the DCC Price Control: Regulatory Year 2020/21.

Since the start of the smart meter programme Electricity North West Limited (ENWL) has held regular bilateral meetings with the Department for Business, Energy and Industrial Strategy (BEIS) to support progress with the rollout and realise the ability of our ENWL customers to benefit from smart meters.

We share a number of Ofgem's concerns regarding the DCC's performance:

- unjustified forecasted costs which don't meet certainty thresholds – as a DCC user and customer we use the DCC forecasts to estimate the impact on our cash flow and our own price control forecasts. Whilst we recognise there is some uncertainty around DCC's activities, the DCC consistent over estimating of costs against programmes, has eroded customer confidence in the DCC's financial forecasting over its last six price controls. We would welcome closer alignment of the DCC final charging statement with its price control forecasting

- current activity aimed at developing new products for existing customers may not be underpinned by demand from its customers and instead the DCC's main priority should as ever remain delivery of its core services related to the smart metering communication network

- inefficient contract management – The existing national standard of Communication Service Provider (CSP) service is not being adhered to across all regions consistently. Customers in the North region receive a much poorer service which appears will remain the case until there are fundamental changes to the technology utilised by the CSP North provider. We believe the DCC service in the North West is poorer than other areas of the country, but our cost share is not reduced in line with the lower performance levels our customers experience. We would welcome Ofgem revisiting its proposals regarding the DCC performance incentives due to concerns we raised in our response and by other customers at the recent stakeholder event.

It is confusing at present as the DCC does not meet its SEC obligation and we are unclear if the DCC SLAs with the CSP-N are being met or not. In any event they do not appear to align between the DCC's contract with its contractors and the DCC's SEC obligations in this area. At the moment, we consider the DCC's communication network is likely to face, much increased traffic as more smart meters are rolled out and more use is made from the opportunities these could provide to manage the energy system. Given the issues in the North we consider it inappropriate for the DCC to receive its full margin on performance incentives

The Ofgem proposals to disallow certain activities which are uneconomic and not justified in this consultation should help incentivise DCC performance on contract management and service delivery.

Appendix 1 provides our detailed responses to each of the consultation questions.

I hope these comments are helpful. Please do not hesitate to contact me or Catherine Duggan (07775 547624) if you would like to follow up on any particular aspect of our response.

Yours sincerely,

Paul Auckland
Head of Economic Regulation

Appendix 1 – ENWL detailed responses to each of the consultation questions

The following table includes our views on the consultation:

Ref.	Question	Response
Section 2: External Costs		
1	**What are your views on our proposal to accept DCC's External Costs incurred in RY20/21 as economic and efficient?**	We are unable to provide a view if the External Costs are economic and efficient as we do not have adequate transparency of DCC costs due to their restricted commercially sensitive nature. Since everybody pays for a monopoly service there ought to be more transparency of the costs. Ofgem is much better placed to understand the efficiency of the significant cost increases and the appropriateness of the decisions that drive them. As raised at the recent Ofgem stakeholder event, we were disappointed this year with the lack of recognition by Ofgem, in its consultation, of the disparity in the service provided in the North region compared to Central and South. What is clear again from Ofgem's analysis in this consultation is that there is a differentiation in the cost variations across the DCCs CSP for North, Central and South regions. For RY 2021/21, the CSP Arqiva for the North region cost variations have increased at a higher rate (of 8%) compared with the much lower rates (of 3% and 5%) of CSP Telefonica for the central and south respectively. What is not as clear is why there is a continued distinction over the licence term in the rates of increase between these CSPs. We would welcome Ofgem's further investigation into this differentiation and if these costs are justified, particularly considering the differing regional performance levels. We would be interested in understanding if performance has improved to match cost increases. Please also refer to our more related responses to questions 12 and 13 regarding the DCC's wider performance in the North region.
2	**What are your views on our proposals to disallow the variance in enduring forecast costs for S1SP_3b and a proportion of the UIT forecast costs for DSP?**	We are unable to provide a view if the External Costs are economic and efficient as we do not have adequate transparency of DCC costs due to their restricted commercially sensitive nature.
Section 3: Internal Costs		
3	**What are your views on our proposals on DCC's approach to benchmarking of staff remuneration for both contractor and permanent staff?**	This has been an ongoing issue for six price controls. It might have been an option on this issue for Ofgem to have intervened more actively. We suggest more active intervention in similar cases where issues seem to persist. We welcome the DCC agreeing to change its approach for hiring contractors which is more aligned with its approach to permanent staff. Whereby, DCC will hire contractors at the median salary rate rather than the maximum market rate. However, the approach will only work if applied

		consistently. We note Ofgem commented a significant number of contractors were paid above the benchmark. From a principle perspective, we agree with Ofgem's proposal to disallow contractor costs of £0.430m which fall above the reasonable market rates.
4	**What are your views on our proposal to disallow the Shared Service Charge associated with external services procured for Additional Baseline activities such as NEP and ECOS?**	We agree with Ofgem's view that new scope activities such as the Network Evolution Programme (NEP) were not part of the original Licence Application Business Plan, Capita competitively tendered for the DCC contract. As such, we agree, that these activities were not subject to competition and if the DCC cannot justify these shared service costs related to those activities they should be disallowed.
5	**What are your views on our proposal to disallow non-resource recruitment costs in the Commercial and Operations cost centres?**	We would prefer that the DCC improve its performance on its existing core services and engages with us on those before considering developing value added services. As such, we would like to see transparency on the headcounts and recruitment against each project. We have concerns the DCC continue to recruit senior roles, which incur significant recruitment agency fees, against projects that do not contribute towards core services. We agree with Ofgem's proposal to disallow costs of £0.297m in the absence of any evidence that these recruitment costs are an economic and efficient spend.
6	**Do you have any views on potential proxy measures to calculate cost disallowances in areas where DCC may not have acted economically and efficiently, but the dependencies and scale of the impact are not clear?**	No. We agree this is an area Ofgem should actively review and explore further.
7	**When it is determined that DCC may not have acted in an economic or efficient manner but an appropriate methodology cannot be applied to calculate the proportion of costs impacted, we propose to take these instances into account when deciding DCC's score under the Contract Management and Customer Engagement aspects of the OPR. What are your views on this proposed approach to be adopted from RY2021/22 Price Control, if an alternative measure is not determined?**	Yes. In the absence of an alternative method we agree with Ofgem's proposal to take such cases, where Ofgem is unable to identify costs, into account when Ofgem assesses DCC's performance under the Contract Management and Customer Engagement aspects of the OPR. We would also welcome Ofgem consulting on the modified OPR score as part of the Price Control consultation and include how Ofgem arrived at the proposed reduction and its reasoning. We would also welcome a summary of the SEC panels or auditors reasoning and proposals for comparison. Please refer to our response to question 11 regarding the lack of transparency on the SEC Panel accepting the DCC exceptional event and Ofgem's subsequent proposal.
8	**What are your views on our proposal to disallow forecast variances in Network**	Yes. In the absence of certainty, we agree with Ofgem's proposal to disallow all forecast variance for SMETS1, Network Evolution

	Evolution, SMETS1, and ECoS programmes?	and ECoS programmes of £17.844 over RY 21/22 and £9.115m over RY 22/23.
9	**What are your views on our proposal to disallow the costs associated with DCC's activity relating to EVs? Please provide any evidence if you have engaged with DCC in this area.**	We agree with Ofgem's proposal to disallow the £0.167m costs associated with DCC's Electric Vehicle (EV) activity as the demand for this service and products is not known or justified. The DCC's main priority should as ever remain delivery of its core services.
10	**What are your views on our proposals to disallow forecast cost variances in the Corporate Management, Commercial, Finance, Operations, and Programme (Service Delivery) Cost Centres in RY21/22 and RY22/23, and all baseline forecast costs for RY23/24 onwards?**	We agree with Ofgem's proposal to disallow forecast costs associated with the named cost centres. We welcome Ofgem's proposal that the DCC charging statement forecasts need to be improved to provide clarity and certainty. As a DCC user we use the forecasts to estimate the impact on our cash flow and our own price control forecast.
Section 4: Performance Incentives		
11	**What are your views on our proposed position on DCC's performance under OPR and trial run for customer engagement, and implementation of the contract management incentive?**	We disagree the DCC should be allowed to retain all Baseline Margin under the OPR as not all of its targets have been achieved. As part of SDM1, DCC must ensure that the CSPs meet all contractual coverage commitments in the Regulatory Year. If DCC does not achieve this, it will lose all of the BM associated with SDM1. (This is irrespective of how DCC performs in the other component of SDM1: Percentage of first time SMWAN connectivity at install). In the consultation, Ofgem report that the DCC submission stated the DCC me all targets <u>except</u> for SDM1 and it was a similar scenario to RY 19/20. In RY 19/20 Ofgem reduced the Baseline Margin for the DCC of the full value associated with the SDM1 milestone of £1.644m associated with a missed milestone for the North region. Yet this year, as the DCC's application for an OPR exceptional event was accepted this resulted in their achieving all OPR targets. We request Ofgem revisit this proposal and provide transparency on the data reported by the DCC, the rationale for the SEC Panel decision and if the missed target for SDM1 for RY20/21 was a missed milestone for the North region as per previous price controls. If so what mitigating factors exist that enabled the target to be met for RY 20/21 (and allow baseline margin) which differs from the target not being met for RY 19/20 (and disallow baseline margin).
Section 5: Baseline Margin adjustment and External Contract Gain Share		
12	**What are your views on our assessment of DCC's application to adjust its Baseline Margin?**	We note the DCC applied for an adjustment of £0.441m for its DNO Transformation Programme activity which is to address the performance gap of services the DNOs receive. As noted by Ofgem, the SEC mandates that [the DCC] send Power Outage Alerts (POA) and Power Restoration Alerts (PRS) to Users within

		60 seconds and this CSP contract does not match the SEC requirements. We welcome Ofgem's view that there is a need to address this performance gap and Ofgem's proposal to reject this adjustment as the DCC has not me this performance gap in any material way. We are also concerned at the DCC proposal under SEC modification 096 'DNO Power Outage Alerts': • to set the POA target to 11 minutes, and the PRA target to 8 minutes yet prior to the implementation of the single power cut telephone number (105), DNOs were receiving between 20% and 40% of calls from consumers within five minutes of the start of the power outage event, and between 60% to 67% of calls within ten minutes • If this proposal were to be implemented as currently drafted in the North the majority of our customers would notify us of an outage before we received an alert from the CSP-N. Whereas CSP- Central and South would still receive 60 second alerts from some future date yet to be defined. We assume due to the result of 2G Comms Hubs being replaced by 4G Comms hubs in these areas Consequently, we believe the DCC service in the North West would be ten times poorer than other areas of the country, but our cost share is not reduced and our customers benefits are materially eroded.
13	**What are your views on our assessment of DCC's application to adjust its ECGS?**	We note that the DCC has an incentive to seek and achieve cost savings in the FSP contracts including the CSP-N contract. We would welcome Ofgem's views on the lack of cost savings on the CPS-N contract, instead there was growth of the costs of CSP-N at £5.96m being nearly double that of CSP -C and CPS-S yet customers and DCC service users in the North receive a poorer service. We would disagree with the DCC distribution of savings between its customers is consistent with previous years as the costs savings made in RY20/21 from Communication Hub financing were not distributed to all DCC users and only impacted Suppliers. As such DNOs as a DCC user have received no benefits from the DCC activity in this area.
Section 6: Switching		
14	**What are your views on our proposed position on DCC's costs associated with the Switching Programme?**	We would welcome the reasoning for Ofgem's position to disallow all forecast costs from RY22/23 to the end of the Licence period, of £7.054m and to disallow the corresponding margin an additional £0.031m. The consultation is silent on both these areas.
15	**What are your views on our assessment of Delivery Milestone 2 and Delivery Milestone 3 of the Switching Programme?**	Ofgem has allowed all costs incurred in RY20/21 of £29.903m and that the DCC should retain 20% and 25% of the margin associated with DM2 and DM3 respectively. As referenced by Ofgem - the DCC and its service providers play a central role in delivering the Switching Programme and every cost should be justified as the Business Plan was not competitively tendered.