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22 December 2021

Dear Ayena,

DCC PRICE CONTROL: REGULATORY YEAR 2020/21

Thank you for the opportunity to respond to this consultation.

Our responses to the consultation questions are in Annex 1.

As ever, we welcome Ofgem's scrutiny of DCC spending, particularly as we are seeing year on year increases to our charging statements. Indeed, we note from the consultation that the estimated outturn costs at the end of the licence term now sit at c. £4.4bn. Not only is this figure disappointing, at a time of considerable market stress, it is one we consider largely incongruous to the typical DCC User's experience.

Intriguingly, we understand that the DCC ordered too many Communications Hubs, such that it will now need to procure additional storage, which DCC's Users will be asked to fund. While these costs might not have fully surfaced yet, we await them with particular interest in light of the high costs that the DCC has previously indicated would be required to fund such additional storage.[1]

Finally, as we approach the advent of a new regulatory framework, designed to underpin and ensure the delivery of smart meters to all relevant consumers, it is worth reflecting on the particular role that the DCC played in facilitating the efforts of energy suppliers within the passing framework. Noting that the next DCC price control window will cover the period immediately following the new framework's commencement, we think it is important that the DCC takes account of these new energy supplier obligations in its own future performance.

Nevertheless, we are sceptical about the likelihood of such synergistic alignments while the DCC's price control regime remains ex-post. We fully understand that an ex-ante regime cannot be delivered over night; however, we believe that Ofgem might consider introducing a parallel running arrangement for RY2022/23, such that the DCC's costs

[1] When it was impact assessing the withdrawn SEC Modification Proposal 'SECMP0066: Advanced Shipment Notifications (ASN) for Consignment of Communications Hubs', the DCC estimated that the additional costs would run to around £1.75m.

can be afforded a degree of scrutiny before they are incurred, even if the main controls continue to be ex-post in this case.

I trust that you will find this response helpful; however, should you wish to discuss with us any of the points raised, then please do not hesitate to get in touch.

Yours sincerely,

Richard Sweet
Head of Regulatory Policy

Annex 1

DCC PRICE CONTROL: REGULATORY YEAR 2020/21 – SCOTTISHPOWER RESPONSE

Question 1: What are your views on our proposal to accept DCC's External Costs incurred in RY20/21 as economic and efficient?

We are not persuaded that the DCC's planning and performance throughout RY2020/21 were of sufficient standard that the additional costs it incurred, as a direct result of that performance, could be said to be either economic or efficient. We note that Energy UK is to provide a more detailed response to this question, drawing on the experience of the SEC Operations Group to highlight particular examples of poor DCC performance.

Question 2: What are your views on our proposal to disallow the variance in enduring forecast costs for S1SP_3b and a proportion of the UIT forecast costs for DSP?

We support Ofgem's proposal to disallow the variance in enduring forecast costs for S1SP_3b and a proportion of the UIT forecast costs for DSP.

Question 3: What are your views on our proposals on DCC's approach to benchmarking of staff remuneration for both contractor and permanent staff?

We broadly welcome this DCC initiative to replace its contractors with permanent staff; however, at a time when the number of people directly employed in the industry is falling due to market stresses, we are generally dismayed by the overall numbers of people now working for the DCC.

While we offer no objection to staff bonuses as a means of retention, we would have liked to see some evidence of an attempt to benchmark against industry standards, as opposed to relying on Capita's internal arrangements.

Question 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?

As with previous years, we support Ofgem's decision to disallow Shared Service Charges for Additional Baseline activities. However, we would like a clearer understanding as to the specifics of the external services procured for NEP and ECOS. As these are flagship projects for the DCC and, given its ever increasing staff numbers, we would have liked more information on which aspects of the delivery of these projects the DCC believed it had insufficient in-house expertise.

Question 5: What are your views on our proposal to disallow non-resource recruitment costs in the Commercial and Operations cost centres?

We support Ofgem's position on disallowing non-resource recruitment costs in the Commercial and Operations cost centres. We are particularly concerned to ensure that DCC Users are not being asked to fund DCC resources engaged in influencing and shaping governmental or regulatory policy; in our view such activities are something that Capita, as the licence holder, should fund directly.

Question 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?

We support Ofgem in looking to develop methods to identify the efficiency of costs within a situational context. However, in this regard, we would refer you to Energy UK's response to this consultation, which lists some suggestions for proxy measures.

Question 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?

It is not yet clear to us why the DCC cannot provide the necessary cost information to Ofgem to make its determination of the economic efficiency of costs more straightforward. Nevertheless, we would support the adoption of Ofgem's proposed approach for RY21/22 Price Control.

Question 8: What are your views on our proposal to disallow forecast variances in Network Evolution, SMETS1, and ECoS programmes?

We support Ofgem's proposal to disallow forecast variances for the Network Evolution, SMETS1, and ECoS programmes.

Question 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 support Ofgem's proposal to disallow the costs associated with DCC's activities relating to EVs. In our view, the DCC needs to maintain its focus on delivering its core business activities. Indeed, as a general observation, it seems unlikely to us that the DCC will be able to successfully leverage its network for use with EVs until such times as it has greatly improved its core service capabilities.

Question 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 support Ofgem's proposal 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 for all baseline forecast costs for RY23/24 onwards. This is largely because we are concerned that the growth of these cost centres is linked to the management of an ever increasing number of service providers; seemingly at odds with the vaunted disaggregation strategy that the DCC has championed over recent years.

Question 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?

Ofgem's position that the DCC has achieved all of its targets under the OPR for RY20/21 seems to be at odds with our experience from attending the SEC Operations Group, and with our more general experience of operating with the DCC. We understand that in its response to this consultation, Energy UK will provide a detailed explanation of why it considers the DCC has failed to meet its OPR targets.

Question 12: What are your views on our assessment of DCC's application to adjust its Baseline Margin?

We broadly agree with Ofgem's assessment of the DCC's application to adjust its Baseline Margin.

Question 13: What are your views on our assessment of DCC's application to adjust its ECGS?

We broadly agree with Ofgem's assessment of the DCC's application to adjust its ECGS.

Question 14: What are your views on our proposed position on DCC's costs associated with the Switching Programme?

We broadly agree with Ofgem's proposed position on the DCC's costs associated with the Switching Programme.

Question 15: What are your views on our assessment of Delivery Milestone 2 and Delivery Milestone 3 of the Switching Programme?

We do not offer any comment on Ofgem's assessment of Delivery Milestone 2 and Delivery Milestone 3 of the Switching Programme.

ScottishPower
December 2021