WESTERN POWER DISTRIBUTION
Serving the Midlands, South West and Wales

National Change

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Date
17 December 2021

Dear Metering and Market Operations

DCC Price Control: Regulatory Year 2020/21

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc in response to the above consultation.

This response is not confidential.

Yours sincerely

Gemma Slaney
National Change Manager

Consultation Questions

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

We note that the external costs have increased considerably from the RY2019/20 forecast. Whilst we can understand some of the reason given behind this, we are concerned about the wider implications, for example the SMETS1 increases and how these might have an impact on the cost benefit analysis case of this project. We accept at this point that the programme needs to continue but would hope that lessons could be learnt to ensure better accuracy in forecasting costs going forward. We don't want this to become a recurring theme with other projects in the future.

We are also of the opinion that there needs to be considerable work done with regards to timeliness of negotiations and the use of Urgent Work Orders. We are concerned that as a result of these being rushed through there is a risk that there is not appropriate time for consideration or negotiation and it also means that there is a chance that 'quickest' options are being picked rather than looking holistically and making the best choice.

As a result we are not entirely satisfied that the External Costs incurred are economic or efficient.

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 the proposal to disallow the variance in enduring forecast costs due to the uncertainty around what is going to happen beyond the contract expiry and programme dates.

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 are pleased to see the DCC continue to improve the permanent to contract staff ratio. We feel it is positive to see the DCC increase their scrutiny of internal costs. We agree with the proposals with regards to the DCC's approach to benchmarking staff and look forward to seeing this area improve as a result of this.

Along with work on the benchmarking it would be good to better understand the DCC process for signing off staff and work. For example we have seen a lot of resource and output from the DNO Programme, however despite asking on numerous occasions, have not been advised any costs involved from the DCC for this work. Who is agreeing what should be spent in this area and deciding what is value for money?

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?

We support the proposal to disallow the Shared Service Charge associated with Additional Baseline activities.

Question 5: What are your views on our proposal to disallow non-resource recruitment costs in the

Commercial and Operations cost centres?

We support the proposal to disallow non-resource recruitment costs in the Commercial and Operations cost centre. We also have concerns that there seems to be a large amount of recruitment into senior roles and we would challenge this and would welcome further details on the DCC structure.

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 understand the challenges surrounding this area. Does there need to be clear guidelines and expectations to be able to accurately determine that the DCC have acted in an economic and efficient manner? We are also still waiting for the DCC to provide SEC Ops with details of their change processes to identify how and when costs are signed off for work that does not fall into the SEC Modification process. This was raised as a formal action in February 2021 and we are concerned that as yet the DCC are unable to provide this information. Having these processes clearly defined could help show that the DCC has acted appropriately.

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?

We understand the complexities in this area and although we are unsure what the best solution is, we support the view that this is linked to Contract Management. We are also concerned about how changes in programmes and the additional, unexpected costs could potentially be impacting an earlier business case for a programme. We feel there are definite benefits for earlier and more detailed planning.

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

We support the proposal to disallow forecast variances for Network Evolution, SMETS1 and EcoS programmes.

We note that Market-wide Half Hourly Settlement is included within the consultation as a programme of work, however we are aware of a SEC Modification that is looking to address this that has significant costs associated and therefore we need to ensure that it is clear how and where the costs are coming from with regards to this programme.

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 agree with the proposal to disallow the costs associated with DCC's activity relating to EVs as the DCC should be focusing on core systems and we don't believe that there has been appropriate instruction or justification for this work.

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 the 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 all baseline forecast costs for RY23/24 onwards as the DCC has not been able to provide sufficient justification or meet the certainty thresholds.

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?

We support the proposal that the DCC OPR should run with margin attached for RY21/22 and not be extended further and that there should be adequate reporting in place to do this. As a customer we have worked with the DCC in both workshops and the SEC Modification process and are becoming increasingly frustrated that the DCC are still unable to provide adequate reporting on their performance. We are also concerned that when these conversations where held, the DCC also raised the topic of additional costs for enhancing system performance, implying that the DCC know they will not meet the required standards if the reporting was implemented and therefore wanting to make improvements alongside implementing reporting, at an additional cost to their customers.

We don't support the proposal that the DCC should retain all Baseline Margin as we don't believe targets were achieved.

SDM2 details the core service request performance which, whilst above the minimum service level, has not reached the target service levels and there has again been a consistent issue with CPM1 not reaching the minimum service level.

With regards to customer engagement we still believe that there is a lot to improve on. 4.4.1 of the consultation states that the DCC believes that it proactively engaged with customers during RY20/21, however we do not feel that this is always the case. As mentioned under question 6 we are still waiting to understand the DCC change process to know if and when the DCC are meant to engage with customers and therefore if they are acting accordingly. The DCC also continue to refer to the Quarterly Finance Forum as a decision making forum when it is not (although this is improving). The DCC have also tried to have 'industry' agree costs and work in forums/workshops where there are only a handful of customers (DCC Boxed and OPR being examples) and it was industry who had to strongly push back and advise this was not appropriate. Again, if we had details of the DCC process for signing off changes/costs, industry would be able to ensure the process was appropriate and has adequate customer engagement and sign off. 4.43 states that the DCC believes that they undertook timely and frequent engagement with customers, however there have been occasions where this continues to not be the case, with us having had to proactively engage further and challenge the process and details regarding both DCC Boxed and major incidents.

We don't agree with the DCC's view mentioned under 4.54 that it sets out clearly where customers' views can influence decisions but look forward to the continued work with SECAS to fully form the development cycles.

A lot of the DCC engagement is with workshops and webinars and these often don't have structured minutes and actions documented which makes it hard to follow up comments that have been made.

Finally, we do not feel that there has been enough engagement with the DNOs regarding the costs being incurred as part of the DNO Transformation Programme. We have expanded on this under question 12.

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

We are concerned about the increase of SMETS1 costs and how this reflects to the business case and the cost benefit analysis that was initially submitted.

With regards to the DNO Transformation Programme costs, we agree with Ofgem's view that this should be disallowed as there has not been a material change in scope. DNOs have just been striving to have the service that was expected as detailed within the SEC. We would also like to highlight that when the programme first started, we asked the DCC regularly to confirm exactly what the process was for signing off costs associated to the additional work as a result of this programme, as although we may have asked for something, it might be that the benefit wouldn't outweigh the cost and therefore we would be happy to compromise or find an alternative. Unfortunately despite raising this on numerous occasions, the DCC never actually provided the DNOs with this information. Therefore, we are again supportive of any costs under this area being disallowed, and believe that this is further evidence of the failing of the DCC under the customer engagement category.

We support the proposal to reduce the DCC's adjustment by £8.08m.

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

We support the view that the in-house test lab has not met the criteria and we trust that the DCC has provided enough evidence to support the savings that they have stated and therefore we agree with the proposal to reduce the relevant adjustment to the ECGS.

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

As the DCC have not provided justification for forecasts beyond RY22/23 we are supportive of the proposal to disallow these costs.

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

We support the proposals regarding the DCC's costs associated with the Switching Programme, as the milestones were reached.