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National Change
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nationalgrid

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22 December 2022

Dear Sir/Madam

Consultation on DCC Price Control: Regulatory Year 2021/22

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

This response is not confidential.

Yours sincerely

Gemma Slaney
National Change Manager

Consultation Response

Question 1. What are your views on our proposal to disallow a portion of External Costs associated with programme delivery?

We note that there are certain details that have been redacted, including the amount of Ofgem's proposed amount for disallowance, however we agree that the full cost variance is likely to not be 'economic and efficient'. Customers have repeatedly expressed concerns over programme costs and the impact of delays, and this has been further compounded by the failure of one Service Provider leading to a material impact on the delivery of the programme. The DCC need to be made to hold their Service Providers to account and disallowing costs will emphasise this point. Contract Management has previously been an area of concern and the fact that there remains a continued use of Urgent Work Orders suggests that there is still a reactive approach and contract management isn't as focussed as it should be.

Question 2: What are your views on our proposal to remove from the forecasts all costs associated with 'CSP-C&S price support' from RY22/23? Do you have any views on the issue of Working Capital Charges?

We agree with the proposal to remove the forecast costs associated with CSP C&S price support due to lack of sufficient evidence around the reviews and the fact that there is not the assurance around the risk of further price support being required. Again, effective contract management should see the DCC carrying out and demonstrating a thorough assessment of the requestor's ability to absorb costs, as well as setting conditions for terminating any temporary price increase.

We agree that the DCC should be demonstrating that they are trying to minimise exposure to WCC, and support the suggestion that where possible, payment schedules should be aligned to milestones.

Question 3: What are your views on our proposal to disallow £108.22m of forecast External Costs?

We support the proposal for the disallowance of forecast External Costs. It is very concerning that this far into the programme thereare still errors with reporting, especially ones that amount to such a significant amount. DCC are challenged on their reporting abilities under the smart metering programme regularly and SEC Modifications echo this, so to find they are also not reporting correctly from a regulatory perspective, whilst not surprising, is very frustrating and concerning. We also support disallowing forecast costs in relation to DSP, CSP N and three SMETS1 Service Providers where the DCC have not provided sufficient justification and evidence.

Question 4: Have you got any other views on External Costs?

We are very concerned about the SEC Change Process and costs associated with implementing approved changes. The consultation refers to SEC MP007, which has current costs of circa. 32% higher than what was identified and approved via the change process and the FIA. This is significant (£6.7m) and it is concerning that the costs agreed under the change process can increase so drastically post approval. How can a cost versus benefit decision be made in the change process if things can change so much after the fact.

Question 5: 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 that the DCC have continued to improve their permanent-contractor staff ratio. We are also pleased to see an improvement in the ratio of roles hired above the margin compared to the number of new roles. We acknowledge that the DCC have also looked into the benchmarking further by considering pensions, life cover and car allowances to provide a better analysis. We note that bonuses are still excluded from the benchmarking. We support Ofgem continuing to review this area in future Price Controls to ensure that the DCC continue to improve and apply their hiring policies.

Question 6: What are your views on our proposal to disallow costs associated with non-competitive procurements where we have not received satisfactory justification or evidence?

We note a significant increase (more than double) in Internal Service costs and are also extremely concerned about the proportion of External Services that were sourced non-competitively, as well as the percentage that were procured through the parent company. We are supportive of the proposal to disallow costs where there was not the justification and evidence to support that these were exceptional circumstances that justified a non-competitive procurement.

Question 7: What are your views on our proposal to disallow the costs of the Order Management System, Customer Engagement Portal and the Executive Leadership Programme?

We agree with the proposal to disallow the costs associated with the Order Management System, Customer Engagement Portal and Executive Leadership Programme. Customers are not seeing any benefits from the OMS and CEP projects and these continue to be delayed, resulting in inefficiencies and non-economic spend. We also note that there was not sufficient evidence of value for money being provided by the Executive Leadership Programme.

Question 8: What are your views on our proposal to disallow costs directly associated with the Business Accuracy Programme?

We do not feel that DCC Customers have had enough engagement or visibility of the details around this programme and so don't have information with regards to how benefits will be realised. We support the proposal to disallow the costs directly associated with this programme.

Question 9: What are your views on our proposals on the Shared Service Charge?

We agree that there is an inconsistent approach by the DCC and therefore support the proposal to disallow the SSC costs associated with the NEP. We also support the view that Brabazon House SSC costs should be disallowed as the test lab services were provided by the CSPs and therefore an External Cost and the lack of justification as to why these costs should be incurring SSC.

Question 10: What are your views on our proposal to disallow costs associated with the product management team, DCC's work on EVs and additional products?

We agree with the proposal to disallow a proportion of the costs associated with the DCC's activity relating to the Project Management team and DCC's work on EVs and additional products 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 11: What are your views on our proposal to disallow forecast cost variances in RY22/23 and RY23/24 in the Corporate Management (including Policy and Markets team), Finance & People, and Operations cost centres, and the Network Evolution, SMETS1, and ECoS programmes; and all baseline forecast costs for RY24/25 onwards?

We support the proposal to disallow forecast cost variances due to lack of evidence to justify the increased workload and additional resource requirements.

Question 12: What are your views on our proposed position on DCC's System Performance?
We agree that the DCC's Operational Performance was below target and therefore support the proposal to make a reduction to the Baseline Margin associated with the SUM1 and SDM2 measures.

Question 13: What are your views on our proposed position on DCC's Contract Management?
We note the auditor's findings regarding the DCC's contract management and this has highlighted some issues that are felt by the DCC Customers, such as consistently not meeting required timelines for SEC Modifications and as a result support the proposal to reduce the margin.

Question 14: What are your views on our proposed position on DCC's Customer Engagement?
We are pleased that Customer Engagement is now incentivised under the Price Control as this is an area where we have felt a lot of pain in the past. We note that the DCC are attempting to make improvements in this area but still feel that there is a long way to go. The consultation references that the DCC developed a new CDM, however we are still awaiting final output and decisions from this, after we fed into the process. We are still not completely clear what the DCC change process is for non-SEC Modification changes so that we know exactly how and when customers are engaged. We also fed into the SEC response. We support the proposal to reduce the Baseline Margin.

With regards to these areas, we wonder whether there is benefit in perhaps amending the scoring so instead of a score of 0-2, perhaps a score of 0-5 might help to provide a more flexible and accurate score.

Question 15: What are your views on our assessment of DCC's application to adjust its Baseline Margin?
We agree with the views on the assessment of the DCC's application to adjust the Baseline Margin. We accept that there is increased certainty in some areas, but also that there is still insufficient evidence to fully support the total request.

Question 16: What are your views on our assessment of DCC's application to adjust its ECGS?
We agree with the proposal to reduce the Relevant Adjustment to the ECGS term and the assessment detailed in the consultation.

Question 17: What are your views on our proposed position on DCC's costs associated with the Switching Programme?
We agree that the forecast costs should be disallowed due to the fact that there is insufficient information to justify them.

We also feel that there should be a separate regime for the Switching Programme. The two functions are completely different in the way they function and how they are expected to interact with industry. We would support a switching specific OPR type review.

Question 18: What are your views on our assessment of Delivery Milestone 4 of the Switching Programme?
We agree with the views regarding DM4 and the associated margin.

Question 19: What are your views on our proposal on DCC's over-recovery of revenue?
We are disappointed to see the DCC have over-recovered, and are concerned by the statement that they will always breach going forwardshowing a disregard for their Licence conditions. We feel that this just illustrates that they are unable to accurately forecast their spending and are also not willing to try and improve this accuracy. We are fully supportive of applying the penalty interest rate in accordance with their Licence.