

Tricia Wiley  
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Ofgem  
9 Millbank  
London  
SW1P 3GE

24 April 2014

Dear Tricia,

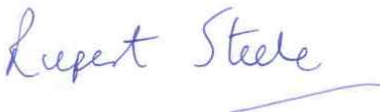
**DATA COMMUNICATIONS COMPANY: REGULATORY INSTRUCTIONS AND GUIDANCE CONSULTATION**

Thank you for the opportunity to respond to the above consultation. Our views on the specific issues raised are set out in the annex to this letter.

Wherever appropriate, we would encourage Ofgem to use external comparators to help gauge cost efficiency. Whilst the DCC and the service providers have somewhat specialist functions, their constituent costs (e.g. IT) can be benchmarked against other UK sectors. This would be consistent with the approach Ofgem applies to other price controls including areas such as transmission system operators and Xoserve. Given this, we recommend that the RIGs are reviewed to ensure they can facilitate such comparative assessments.

Should you wish to discuss any aspect of this response please do not hesitate to contact me or David Ross Scott ([davidross.scott@scottishpower.com](mailto:davidross.scott@scottishpower.com)).

Yours sincerely,



**Rupert Steele**  
Director of Regulation

**DATA COMMUNICATIONS COMPANY: REGULATORY INSTRUCTIONS AND GUIDANCE CONSULTATION - SCOTTISHPOWER RESPONSE**

**Q1: Do the RIGs and templates capture the significant cost and expenditure items?**

Yes, however, we consider that some items in the CSP Baseline return appear to be rolled up to a higher level of granularity than might be expected. For example, implementation/coverage is given as a single line item; whereas we expected a more detailed breakdown of components. If the CSP provided something akin to the DCC's Licence Application Business Plan as part of its bid, then that might lend itself to this purpose.

**Q2: Do you have any comments on the definitions used in the RIGs?**

No.

**Q3: Given the evolving role of the DCC, do you think the templates are flexible enough?**

The flexibility for the inclusion of 'new scope' activities should make the templates robust to a developing baseline.

**Q4: Do you think the breakdown of the information described in the RIGs is sufficient to enable a determination of whether costs have been economically and efficiently incurred, while maintaining an appropriate level of regulatory burden on DCC?**

We would encourage Ofgem to use external comparators to help test whether the DCC and service providers are delivering value for money to Users and, ultimately, to the energy consumer. We believe Ofgem should adopt this approach when assessing material cost deviations from the baseline by the DCC or service providers in addition to the costs of new contractual requirements and activities.

Whilst the DCC and service providers have what may be considered bespoke functions, their constituent costs e.g. system integration, software, staff costs, and communication services are more generic and can be benchmarked against other UK sectors for example on a unit cost basis. The costs concerned will need to be "normalised" as appropriate before such comparisons are made. As mentioned in our cover letter, this would be consistent with Ofgem's approach to other price controls.

Given these considerations the RIGs and templates should be reviewed to ensure that they have sufficient detail to facilitate such comparative assessments. Based on our assessment of the proposed reporting arrangements, we would suggest Ofgem require the service provider service lines (DSP and CSPs) to be broken down by the constituent costs. We recognise however that such considerations are subject to the service provider contractual arrangements, in particular regarding information disclosure.