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Dear Tricia,

DCC Price Control Consultation

Thank you for giving Electricity North West the opportunity to respond to this consultation. We recognise the importance of this consultation as the price control for DCC has implications for our costs and ultimately, the bills for our customers.

We are supportive of the approach adopted to assess the DCC's price control for the period of 23rd September 2013 to 31st March 2014. We agree with the decisions to disallow the additional costs due to DCC not achieving IM5 and the lack of justification for increased labour costs. We also support the decision to reject the increased baseline margin in line with the criterion set out in the DCC licence.

As there are still a number of unknown costs associated with the DCC, the ex post price control methodology is still appropriate. In the future when the DCC is operational, we would expect this to change to an ex ante price control as this will bring more certainty on costs for all parties. We also note that the significant variation of the costs from the LABP should reduce over time and therefore the prudent estimate would no longer be required.

Once the DCC price control is in steady state and the control is moved to an ex ante basis, elements of the RIIO price control approach could be adopted including assessing productivity improvements, real price effects, introducing output incentives to ensure delivery of customer service and key deliverables, and ensuring that DCC is being innovative to deliver cost efficiencies and outputs.

Benchmarking of the DCC costs is difficult as there is no direct comparator. Alternative ways of benchmarking could be based against activities undertaken in business functions (as conducted in other price control cost assessment activities) but there is a significant risk of setting inappropriate cost targets. One option for Ofgem to consider is the comparison of the current DCC costs against proposed costs in the other tenders.

We note that Ofgem was concerned with some of the submissions made by the DCC to allow the regulator to assess its costs. We suggest that Ofgem could consider adopting the data assurance requirements to ensure that submissions have the appropriate level of review and sign off.

Yours sincerely

Joanne Fallows
MRA and SEC Contract Manager
Electricity North West Limited