

Tricia Quinn
Ofgem
9 Millbank
London
SW1P 3GE

21 January 2015

Dear Tricia,

DCC PRICE CONTROL CONSULTATION

Thank you for the opportunity to respond to the above consultation.

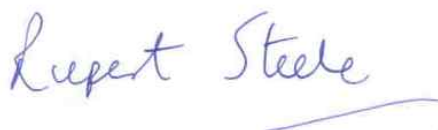
We are generally supportive of the approach Ofgem has taken to this first DCC Price Control.

In particular, we welcome Ofgem's encouragement of the DCC to be more transparent when consulting on changes to its costs, as we agree the industry should be afforded an opportunity to scrutinise such costs before they are incurred. We would also welcome DCC's early engagement with industry in developing its operational performance regime.

In view of the likely delays to DCC go-live, we think it very unlikely that its scope will increase appreciably in the medium term and can see little case for any upward adjustment of its baseline margin in the wake of this review. These delays not only jeopardise the delivery schedule, they also create considerable uncertainty as to the eventual costs the industry should anticipate. For that reason we would very much welcome a move to *ex-ante* arrangements as soon as practicable.

Our answers to the questions raised in the consultation are in the attached Annex. Should you wish to discuss any aspect of this response, please do not hesitate to contact me.

Yours sincerely,



Rupert Steele
Director of Regulation

DCC PRICE CONTROL CONSULTATION – SCOTTISHPOWER RESPONSE

Question 1: What are your views on our approach to assessing DCC's costs? And do you have any suggestions on where we can improve our approach?

We broadly agree with Ofgem's approach to assessing the DCC's costs.

Noting Ofgem's dissatisfaction with the quality of the reports provided by the DCC for its first price control, we would suggest that interim reporting requirements be placed on the DCC to ensure it is on the right track with these in future.

Question 2: What are your views on our assessment of DCC's performance against the IMs?

The assessment seems to arrive at a fair and reasoned judgement of the DCC's performance against the milestone criteria.

Question 3: Do you have any observations from the current incentive framework which can inform early thinking on developing an enduring framework?

We would support Ofgem's recommendation that the DCC engage with stakeholders from the outset in developing its operational performance regime. Moreover, that engagement needs to represent a genuinely open and collaborative approach, not merely lip service where the DCC communicates with users only in as much as, and as far as, it is obliged to.

Question 4: What are your views on our proposal?

We think the proposals seem reasonable. However, we are concerned with the exculpatory rationale given for some of the apparent cost escalations, in particular those concerning the development of the billing system. We are told these cost increases are largely driven by the 'emerging charging methodology', but we were of the view that the charging methodology was clearly understood at the time of the DCC contract award, with the only significant development since then being the DCC's own proposals to transfer explicit charges to the fixed charge element. Moreover the apparent motive for this proposal was to avoid/defer system development costs.

Question 5: Do you have any views on how the methodologies used for networks could be applied to DCC in future?

We note Condition 38 of the DCC licence already contains Development and Improvement Measures. It is, perhaps, to this area that Productivity Improvement metrics might be applied.

Question 6: We are looking for ways to benchmark DCC costs. What other sources of data or potential comparators can you recommend for subsets of DCC costs?

In our view, a number of suitable comparators might lend themselves as benchmarks for the DCC price control. In particular, as mentioned above, many suppliers will have experience of contracts with smart meter system operators dating back some years. Also, given the nature of the DCC service provision, it may be that Ofcom's experience could be called upon here.

Question 7: What are your views on DCC's approach to the prudent estimate?

Given the *ex-post* nature of the DCC price control, we recognise some benefit in the Prudent Estimate arrangements, particularly as it provides more certainty of outturn costs. It is important, however, that the gap between allowed and regulated revenues is not excessive, as appears to be the case in this first year. As explained above, we would welcome a move to *ex-ante* arrangements as soon as is practicable.

Question 8: Do you agree that our proposals should take effect from April 2015/16?

Yes.

Question 9: Do you agree with our assessment against the criteria in the licence?

Yes, we agree that the baseline margin should not be adjusted upwards. In view of the likely delays to DCC go-live, we think it very unlikely that the DCC's scope will increase appreciably in the medium term and can see little case for any upward adjustment.

Question 10: What are your views on our longer term strategy of moving towards a more ex ante price control? How might this be achieved?

We very much welcome initiatives that allow us to budget with greater certainty. As a prospective DCC User, ScottishPower would expect an *ex-ante* price control to increase the certainty with which it is able to forecast the DCC costs it will have to pay. While we recognise that the requirements of the DCC may not yet be sufficiently well established for Ofgem to consider *ex-ante* arrangements for next year, we would hope such an arrangement might be applied in the year following DCC go-live, and certainly after any implementation constraints have been relaxed.

ScottishPower
January 2015