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Ofgem
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20 January 2016

Dear Robyn,

DCC Price Control Consultation: Regulatory Year 2014/15

Thank you for the opportunity to respond to this consultation.

Our answers to the consultation questions are in the annex to this letter. In summary, we support the approach Ofgem has taken to this price control and agree with its proposals for the rate that should apply to the baseline margin adjustment.

We also very much welcome the clarification it offers the DCC with regard to its future reporting of activities, as this will help to build confidence amongst Users that attendant costs are being efficiently incurred.

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).

Yours sincerely,



Rupert Steele
Director of Regulation

**DCC PRICE CONTROL CONSULTATION: REGULATORY YEAR 2014/15
SCOTTISHPOWER RESPONSE**

Chapter Two

Question 1: What are your views on our approach to assessing DCC's costs?

We very much welcome Ofgem's approach here.

Whereas ex-ante price control arrangements might otherwise have allowed clear signals to be offered up-front, the idiosyncratic nature of ex-post arrangements relies heavily on cumulative experience. Although the Regulatory Instructions and Guidance (RIGs) were available from the outset, it was always likely that a period of refinement would be needed to provide clarity to the regulator's expectations; while this was the second DCC price control, it was the first with a benchmark.

Nonetheless, we think Ofgem will, by now, have fully established its requirements of the DCC for the future by visiting its offices, engaging a forensic auditor to scrutinise its internal processes, comparing its current projections against its Licence Application Business Plan (LABP) and assessing its performance against the deliverable implementation milestones.

Question 2: Do you have any suggestions on where we can improve our approach?

No, we are broadly comfortable with the approach Ofgem has taken.

Chapter Three

Question 3: What are your views on our assessment of DCC's performance against the IM7?

In our view, the assessment of DCC's performance against Implementation Milestone (IM7), which only required that the Service Management System Design be approved by the Secretary of State, seems reasonable.

With regard to DCC's wider performance (which was the main focus of this chapter of the consultation document), we were interested to note Ofgem's comments to the effect that the DCC had not provided sufficient evidence that it was following suitably robust procurement processes. Ofgem appeared to make similar observations, particularly regarding the procurement of services from the DCC's parent company, in the last DCC price control consultation (Nov. 2014). The User community needs to be confident that such services are being procured cost efficiently, so we very much welcome that Ofgem has clarified its expectations of the DCC with regard to its reporting of such procurements in the future.

Chapter Four

Question 4: What are your views on our cost proposals?

We agree with the cost proposals in the consultation, as we share Ofgem's concerns about the increasing cost of DCC resources. These concerns are heightened by the apparent

burgeoning of staff numbers at the DCC, particularly as our understanding from early engagement with the Government's implementation programme was that the DCC would be a very small organisation that merely managed contracted service provision.

Question 5: We are interested in feedback from stakeholders and industry parties on DCC's external engagement. What were your experiences of engaging with DCC in regulatory year 2014/15?

Our experience of DCC engagement throughout 2015 has generally been a positive one.

Aside from the quarterly 'industry days', when it provided updates on its progress towards delivery, we also enjoyed a regular monthly bilateral with the DCC and, when necessary, *ad hoc* bilateral meetings were arranged to cover particular topics e.g. Security, or Testing. Similarly, there have been a number of senior management bilaterals during 2015, which we found particularly useful.

The DCC also provided briefings, via WebEx, to elucidate whenever it released a Finance Statement, although we generally felt that more time could have been allowed for Q&A.

While the DCC does update Users on any proposed changes to its plans, we would prefer they did so in a timelier manner than has been the case so far.

Question 6: We welcome views on DCC's benchmarking methodology, including on what you consider the appropriate percentile is that DCC should use when carrying out benchmarking, and approach to benchmarking benefits?

We are surprised to find that DCC salaries exceeded the 50th percentile in many cases - even more so that some exceeded the 75th. However, absent a clearer explanation of the roles concerned and the extent of specialisation involved, we do not feel sufficiently informed to express a view on the appropriate percentile.

We welcome the rigour being applied to this aspect of the DCC's price control and are pleased to see Ofgem concerning itself to ensure the DCC undertakes a robust analysis of market rates to secure value for money through its executives' remuneration packages.

Question 7: We are looking for ways to further benchmark DCC costs. What other sources of data or potential comparators can you recommend for subsets of DCC costs?

In our view, broadly similar roles must exist elsewhere in the telecommunications sector, which might offer reasonable comparators.

Question 8: Do you agree with our approach to real price effects (RPEs)?

Yes. While we also recognise that RIIO might not always be perfect comparator here, the approach is broadly understood around the industry and is clearly something the DCC should have been referring to.

Chapter Five

Question 9: What are your views on DCC's approach to the prudent estimate?

While we acknowledge the uncertainties the DCC faces during the implementation phase, we also share Ofgem's concerns about the risks of over-recovery and, therefore, the need for a tolerance threshold. However, as indicated in our response to the July consultation, we do not suggest a particular threshold, only that it should reflect a balance between this uncertainty and how precise a prudent estimate can practicably be expected.

Question 10: Do you agree that our proposals should take effect from April 2015/16?

Yes.

Chapter Six

Question 11: Do you agree with our assessment against the criteria in the licence?

Yes.

Question 12: What margin do you think should apply, 10% or 15%?

We have always taken the view that the DCC's service provision needs to reflect value for money versus that of a hypothetical competitor. Importantly, while the DCC occupies a monopoly position with respect to the GB energy market, we believe similar requirements are likely to be competitively provided for in other markets, possibly offering ready comparators. We therefore very much welcome Ofgem's efforts to identify such comparators, that it might benchmark the DCC's margin, and we support its proposal that a 10% margin should apply.

Question 13: Do you have any views on the rate of return methodology we have developed?

In line with our response to Q12, we support the methodology Ofgem proposes here.

ScottishPower
January 2015