SCOTTISHPOWER

Ms Rachel Clark
Switching Programme Director
The Office of Gas and Electricity Markets
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Dear Rachel

Consultation on draft DCC business case for DCC activities during the Transitional Phase of the Switching Programme

Thank you for the opportunity to respond to this consultation.

We broadly welcome this draft of the DCC's Business Case as the first step on a long journey.

The activities and, moreover, the outlined scenario planning demonstrate the scope of the unknown, but we are hopeful that more certainty will emerge before too long. Nevertheless, while the CRS might introduce new elements to an old service, we also think it is important to guard against the idea that it represents a highly complex development, particularly if the product delivered merely matches existing service levels. It is important that this centralisation exercise is regarded as a means to reduce, rather than increase costs.

Our responses to your specific questions are set out in the annex.

Should you wish to discuss any aspect of this response please do not hesitate to contact me or Colin Blair (colin.blair2@scottishpower.com).

Yours sincerely

ADMcLaren

Douglas McLaren
UK Operations Director

Annex

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Question 1 – Is DCC's approach, as outlined in the business case, clear enough about how DCC will account for activities it is asked to undertake and how delivery can be assessed? If not how could this be improved?

The approach proposed is as clear as can realistically be expected, given the levels of uncertainty involved at this stage.

With regard to how the DCC's delivery can be assessed, we would suggest that any such assessment must involve a measured combination of cost, time and quality. In essence, we expect the DCC to be able to demonstrate how it has combined these elements to effect delivery in alignment with the established industry requirements: i.e. without any reduction in functional scope.

We are disappointed, therefore, with the DCC's assessment, and ultimate rejection, of the incentives that might be applied to its activities during the Transitional Phase. We felt that many of these represented metrics that would demonstrate that the DCC was delivering effectively: e.g. number of bidders; general product quality; product timeliness; and variance to DCC switching business case forecasts / materiality thresholds.

We also note that the DCC specifically argues against an incentive to cover stakeholder engagement. While we would not necessarily disagree with that, we would still like more assurance in this area. Ideally a collaborative approach will naturally emerge in time, but we would prefer that Ofgem set clear guidelines to ensure the DCC gives due weight to stakeholders' views, perhaps through a stakeholder satisfaction incentive (similar to that found in the transmission price control). We also think that where the DCC wishes to pursue an approach contrary to the views of the majority of stakeholders, it should defer to Ofgem on the matter.

Question 2 – Are the business case's structure and base assumptions clear enough to use in setting a realistic programme budget and forecast charges as part of the ex post plus regime? What can be done to address any concerns?

We think the structure and base assumptions are reasonably clear, but we are less persuaded that they justify the proposed costs. The registration service is a long standing feature of the energy market, so we do not recognise the complexity that appears to form the basis for much of the very high cost.

Of course there might be new elements in the CRS, but we would point out that the cost estimate is predicated on the Baseline Scenario, so we should guard against the idea of this somehow being a highly complex and innovative technological step, rather than a change of responsibility. Similarly we are sceptical that the scope will increase sufficiently to warrant the calling down of management reserve, so we would not wish to see it included in upfront charges.

Question 3 – For those activities that Ofgem is proposing to should be carried out by DCC but could be carried out by other parties (i.e. non-core activities not relating to procurement and development of the technical specification) have the correct activities been assigned to DCC or would other industry partners be better placed to take these on? If so, which activities, which industry partners and why would they be better placed?

While we would normally expect such non-core activities to be subject to competitive tension, the DCC has already been similarly permitted to use shared Capita resources within the terms of its Smart price control. Given that the costs of the activities here are still of relatively low materiality, we think there might be cost efficiencies in allowing the DCC to perform them. Nonetheless, it is an area we would expect Ofgem to scrutinise closely in its ex-post price control assessment.

Question 4 - Should the management reserve and contingency (Section 11.4) be included within the upfront charges on industry and what is the justification for this? Does the level of management reserve feel appropriate for the Switching Programme, taking into account the type, scale and actuality of potential unknowns?

No. We realise it is in the nature of an ex-post price control that regulatory scrutiny occurs after the fact. However, we think that including these costs in the upfront charges gives them the appearance of an accepted overhead and that they will, therefore, certainly be incurred. Instead, we believe these contingencies should represent the maximum tolerance. Therefore, we believe some form of notification and review process should be conducted, to ascertain whether the programme remains on track, before these further costs are incurred.

ScottishPower
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