SCOTTISHPOWER

Rupert Steele OBE
Director of Regulation

Robyn Daniell
Ofgem
9 Milbank
London,
SW1P 3GE

21 December 2017

Dear Robyn,

DCC Price Control Consultation: Regulatory Year 2016/17

Thank you for the opportunity to respond to this consultation. Our main points are set out below, with answers to the consultation questions in Annex 1.

We welcome Ofgem's review of the DCC Price Control and support the disallowance of £1.751m of costs and £4.702m of revenue where milestones have not been met.

We recognise that regulatory year 2016/17 was a significant year for the DCC consisting of the first stage of release of the live service. However, we remain concerned at escalating costs. In this context it would be helpful to understand if Ofgem considers there is more that can be done to ensure DCC costs are incurred economically and efficiently.

We believe there is scope to consider alternatives to modifying existing Fundamental Service Provider (FSP) contracts for discrete and significant increases in the scope of required services.

While we welcome DCC initiatives such as amalgamating change requests to achieve economies of scale, we believe that more could be achieved if the DCC had fewer constraints on its ability to procure from the market. We would encourage Ofgem to explore whether there are any barriers to ensuring that fundamental service provision remains cost effective.

Ofgem's proposals in relation to baseline margin and external contract gain share appear to be reasonable.

Should you wish to discuss any aspect of this response please do not hesitate to contact me or Claire Doherty (claire.doherty@scottishpower.com).

Yours sincerely,

Rupert Steele

Rupert Steele
Director of Regulation

ScottishPower London Office, 4th Floor, 1 Tudor Street, London EC4Y 0AH
Telephone +44 (0)141 614 2000, Direct +44 (0)141 614 2012
rupert.steele@scottishpower.com www.scottishpower.com

Annex 1

DCC PRICE CONTROL CONSULTATION: REGULATORY YEAR 2016/17 – SCOTTISHPOWER RESPONSE

Question 1: What are your views on our proposal to consider External Costs as economic and efficient?

We do not think the analysis is clear cut but, in the absence of appropriate benchmarks, we accept Ofgem's findings that the DCC's External Costs were economic and efficient.

However, we are concerned that some very expensive Change Requests have gone through without the opportunity for suppliers (DCC customers) to offer views on whether they are being delivered in the optimum way. In future, we would suggest that all changes above a materiality threshold should be subject to much wider scrutiny by industry and potentially subject to independent assurance before progressing to implementation.

We also believe there could be scope to introduce more competition in the procurement of discrete and significant extensions to fundamental service provision.

Question 2: Do you have any views on DCC's contract management performance?

We think the DCC's performance in this area should remain under scrutiny given Ofgem's findings that additional costs have been incurred on activity that should be delivered by FSPs.

Ofgem's use of independent assurance to evaluate the performance of central service providers has proven successful in other programmes and we encourage the introduction of this approach in evaluating the DCC's contract management performance.

Question 3: What are your views on our proposals on DCC's Internal Costs?

We agree with Ofgem's findings in relation to the DCC's headcount. The 90 FTE envisaged in the Licence Application Business Plan (LABP) already seemed high to us, so we welcome Ofgem's proposal to place obligations on the DCC to publish and commit to efficiency targets.

Question 4: What are your views on our assessment of DCC's performance against IM9 and 10?

The mechanism through which the DCC could recover lost margin was clear, so we agree with Ofgem's assessment and its proposals.

Question 5: What are your views on our assessment of DCC's application to adjust their baseline margin?

We agree with Ofgem's assessment of the DCC's application for baseline margin adjustment.

Question 6: What are you views on our assessment of DCC's application for External Contract Gain Share?

We do not feel sufficiently informed to comment on whether the DCC's involvement in the refinancing negotiations was material to the outcome of those negotiations. We therefore accept at face value Ofgem's findings in this regard, along with its proposal to allow adjustment of the ECGS term by a total of £3.261m between RY18/19 and RY20/21.

Question 7: What are your views on DCC's reporting which explains its reasons for over recovery of revenue in RY16/17?

We accept the DCC's explanation.

ScottishPower
December 2017