

Anna Clover
Metering and Market Operations
OFGEM
10 South Colonnade
Canary Wharf
London
E14 4PU

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Dear Anna,

Consultation on DCC Price Control: Regulatory Year 2019/20

SSEN broadly supports the proposals set out in this consultation in respect of Ofgem's assessment of the DCC's costs for the 2019/20 regulatory year.

We welcome the assurance that Ofgem is focusing on ensuring that costs are being monitored and scrutinised.

Similar to the Regulatory Year 2018/19 consultation, we maintain the view that DCC engagement with SEC Parties and their customers was not of a consistent quality or transparency and welcome further engagement from the DCC. Further to this, as noted in our consultation response we would expect to see the DCC focus on core processes and delivering a stable and efficient service.

We also would like to note the continued trailing install figures in the CSPN region, we understand that the original slower take up was due to CSP issues in the North. We welcome the ongoing monitoring and industry focus on CSP performance and missed milestones.

Thank you for the opportunity to respond and we would be happy to discuss any of our views set out in this response.

Yours sincerely

Ross Bibby
Senior Analyst – Distribution Regulation

Annex 1: Scottish and Southern Electricity Networks response to Ofgem consultation on DCC Price Control: Regulatory Year 2019/20

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

We agree with Ofgem's comments and welcome the reference made on expecting DCC to provide more completeness in the provision of supporting documents and evidence surrounding CR's and PR's. We have also observed instances where change has caused a negative impact.

We would also note the current performance differences between services provided by Arqiva compared to Telefonica. We would welcome Ofgem's further clarification on the reasons for the cost variations between CSPN and CSPC/CSPS.

Question 2: What are your views on our proposals on DCC's approach to benchmarking of staff remuneration for both contractor and permanent staff?

Noting Ofgem's comments, whilst the packages provided by the DCC should ensure they are attractive and seek the appropriate skilled employees, using the maximum market rate benchmark and remuneration package should be clearly justified and internal processes transparent.

We would expect DCC to apply its hiring policies for permanent staff more rigorously moving forward taking into account more stability and experience in key departments and process areas which will allow better decision making. Further to this point, we would have expected DCC to provide forecasts for its headcount beyond RY20/21. We agree with Ofgem to disallow £1.272m of contractor costs in RY19/20.

Question 3: What are your views on our proposals to disallow the cost of DCC's retention scheme?

We agree with Ofgem's comments. From this section, it is evident that other methods of staff retention were not fully investigated. Overall this seems like an unnecessary expenditure with no prior consideration or post implementation evidence that it had worked effectively. Due to this it is sensible to disallow the full cost of the retention scheme £2.499m in RY19/20.

Question 4: What are your views on our proposal to disallow the incurred and forecast costs associated with the product management team?

As per section 3.64, We would expect to see the DCC continue concentrate on process improvement and delivering a stable and efficient service. We feel the service currently being provided does not warrant the annual costs being levied.

Taking into account the current service received, we agree with Ofgem's position to be minded to disallow the incurred cost associated with this team of £0.509m for RY19/20, and disallow forecast costs of £1.245m over RY20/21 and RY21/22.

Question 5: What are your views on our proposal to disallow the forecast variance of the Commercial Operations and Vendor Management teams?

We are supportive of the proposed adjustments in response to the Commercial Operations and Vendor Management teams. It is noted that this area will become a focus area as the DCC start to progress with the parts of the Network Evolution Programme. Alongside this, the DCC were unable to clearly justify the forecast variance, therefore in the absence of evidence we support the decision from Ofgem to disallow the whole forecast variance for the Commercial Operations and Vendor Management teams. We also expect the DCC to provide further evidence as part of this consultation which will allow the industry to quantify future activities.

Question 6: What are your views on our proposal to disallow the incurred cost variance associated with Preston Brook?

We note that due to commercially sensitive detail, we rely on Ofgem's review and determination in this section. Due to this, we are content with the proposed position set out by Ofgem.

Question 7: What are your views on our proposal to disallow all variance in forecast internal costs?

We agree with Ofgem's comments. From this section noting the lack of evidence and justification provided, we agree with Ofgem's position to disallow all variation in DCC's baseline forecasts.

Question 8: What are your views on our proposed position on DCC's operational performance?

We agree with Ofgem's comments and are fully supportive of the OPR review alongside attending and feeding into the previous workshops. We have a concern around SDM3 and would welcome further clarification around statistics provided by the DCC. For this measurement, we have seen a significant amount of unplanned downtime for the DCC, which would seem to exceed the allotted SEC allowance per month.

Question 9: What are your views regarding DCC's failure to ensure all CSPs met their contractual milestones and its wider performance in the North region?

We agree with the minded position to make a reduction to the BM of the full value associated with the SDM1 milestone, £1.644m. As a DNO with license area in the Arqiva region, we have seen reduced roll out figures since the enrolments of SMETS2 when compared with the Telefonica regions, including missed milestones. We expect the DCC to have followed this closely to ensure all factors related to the North region are monitored and performance improvements driven by the DCC.

Question 10: What are your views on our proposed position on DCC's project performance?

We are content to agree with Ofgem's position as we do not have a comprehensive view of the DCC's project performance as we do not have visibility of the detailed information and costs related to these.

Question 11: What are your views on our assessment of DCC's application to adjust its Baseline Margin?

We agree with comments made on each section highlighted by Ofgem, we also believe that a lot of the adjustments applied for by the DCC were foreseeable. We are supportive of Ofgem's comments that if the information provided on these items by the DCC was not sufficient and has not satisfied Ofgem, we agree with the findings and decision to adjust the baseline margin.

Question 12: What are your views on our assessment of DCC's application to adjust its ECGS?

We are unable to gain a full understanding of the DCC's application for ECGS adjustment and so are minded to agree with Ofgem's position.

Question 13: What are your views on our assessment of Delivery Milestone 1?

Referencing the four-week margin loss period, procurement of the CSS provider and the issues with CSSIA, we agree the DCC should lose all margin associated with the Delivery Milestone 1.