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Submitted by email to smartmetering@ofgem.gov.uk

12 January 2017
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Dear Robyn,

SSE Response to DCC Price Control Consultation: Regulatory Year 2015/16

We welcome the opportunity to respond to this consultation on the review of DCC's price control.

SSE supports the proposals set out in this consultation in respect of DCC's price control and baseline margin values adjustment. We welcome the assurance that Ofgem is focusing on ensuring that costs are being monitored and scrutinised, and that these are economically and efficiently incurred.

In terms of DCC's forecast costs, SSE is concerned by the level of increase in DCC's costs since contract award. Such levels of increase further reinforce the need to ensure that all costs incurred by DCC are economic and efficient and can be justified with evidence.

We look forward to engaging with Ofgem further on the future development of the price control regime.

We have provided responses to the consultation questions in the attached Annex 1 and if you have any questions or comments, please do not hesitate to contact me.

Yours sincerely,

Samantha Cannons
Regulation – Codes

Annex 1: SSE response to DCC Price Control Consultation: Regulatory Year 2015/16

Question 1: What are your views on our cost proposals?

We welcome Ofgem's assessment that a small proportion of DCC's internal costs incurred have not been justified in 2015/16, in addition to £59.17m in DCC's forecast over the remaining period of the licence. Whilst we recognise the need for DCC to bring in specific resource expertise, we remain concerned at the level of increase to the internal costs.

In terms of DCC's forecast costs, SSE is concerned by the level of increase in DCC's costs since contract award, rising to £294m, and being £190m higher than the 2014/15 forecast over the licence term. Such levels of increase further reinforce the need to ensure that all costs incurred by DCC are economic and efficient and can be justified with evidence.

We broadly support the proposal that the incurred external costs for RY 2015/16 were economic and efficient. We note the rationale set out in sections 3.39 to 3.49, and in particular, the assessment by Ofgem where DCC needs to provide clearer evidence.

Question 2: What are your views on our assessment of DCC's application to adjust their baseline margin?

SSE supports Ofgem's assessment and proposal to amend DCC's Baseline Margin to allow for a £0.647m adjustment versus the proposal from DCC of £1.604m. We agree that the margin adjustment application should be calculated as the variation between RY14/15 forecast FTE and incurred FTE for RY15/16.

In terms of the margin %, we understand the proposal following Ofgem's consideration of DCC's evidence and the rationale based on the preceding year for 15%. We are fully supportive of Ofgem continuing to consider the rate of return on any future Baseline Margin Adjustment applications, and evidence submitted by DCC. We agree that as DCC business is established, there is scope to reconsider an appropriate margin on variations eligible for a Baseline Margin Adjustment on an ongoing basis.

We seek clarification that the footnote 17 referenced in Section 4.4 remains the approach to DCC price control for CRS. That is for the RY16/17 onwards, CRS costs will be subject to the CRS specific price control, incentive and margin arrangements.

SSE supports the proposal to confirm DCC's application to adjust the External Contract Gain Share term by a total of £2.911m between 2017/18 and 2019/20.

Question 3: What are your views on our assessment of DCC's performance against IM8?

We support Ofgem's consideration that DCC delivered against the IM8 milestone in the North region later than the date directed by BEIS. We agree that IM8a (Licensee is ready for Systems Integration Testing in the North Region) was due to be met by 1 September 2015. With the evidence set out in Section 5.3, it is appropriate for a percentage to be disallowed from the Baseline Margin Implementation Milestone (BMIT).

As a result, we support the proposal to disallow £53,462 from BMIT.

We are in full agreement that DCC must make sure that processes are diligently followed, contract specifications are clear and that they have the right commercial levers in place to avoid additional cost and manage performance.

Question 4: What are your views on DCC's voluntary reporting which explains its reasons for over recovery of revenue in RY15/16?

Uncontrollable variation in costs incurred and Regulated Revenue in RY 2015/16

We agree that the examples provided by DCC and set out in the consultation, do not seem to provide sufficient explanatory detail to enable a robust assessment. We support Ofgem's view that these factors should be explained in more detail by DCC as part of their submission on voluntary reporting.

Proportion of the correction factor as at the end of RY 2015/16 which is being returned to customers in RY 2016/17 charges

We support Ofgem's concerns about the gap (and time delay) between actual correction factor and the correction factor outlined in the Charging statement. We agree that returning the over-recovered service charges sooner would benefit service users, especially small suppliers. We agree with the proposal that DCC would need to provide a clearer explanation on why this was not avoidable in order for the variation not to attract the penalty interest rate.