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21 December 2018

Dear Andrew

Consultation on DCC Price Control: regulatory Year 2017/18

Thank you for the opportunity to comment on the consultation on Ofgems' review of the DCC's costs for the 2017/18 regulatory year.

We note that overall the DCC are proposing an increase in costs compared to last year's price control submission with total costs over the Licence term (excluding pass-through costs) now forecast to be £471m or 19% greater.

We welcome Ofgem's minded to position to disallow a £2.345m increase in costs for RY17/18 and a further £134.603m for the remaining term of the Licence up to RY25/26. We also welcome Ofgems' proposals for the DCC to better understand and account for customer needs.

As a customer we would like to be offered the right opportunities to inform DCC internal decisions before the DCC decides on changes to services that it provides to us. We would also like greater transparency of DCC costs. Specifically, we would like to see a breakdown of costs by customer charging group (Import Suppliers, Export Suppliers, Gas Suppliers, Electricity Distributors and Gas Transporters) during any cost benefit analysis so as to ensure that costs are fairly apportioned and if necessary ring fenced to the correct customer grouping to demonstrate they understand customer needs. We would also welcome a split by customer charging group of DCC costs to be published as part of the Charging Statements and Indicative Budgets by the DCC.

I hope these comments are helpful. The following table gives our detailed responses. Please do not hesitate to contact me or Catherine Duggan (07775 547624) if you want to discuss any aspect of this response.

Yours sincerely

Paul Auckland

Head of Economic Regulation

The following table includes our views on the consultation:

Ref.	Question	Comment
Q1	**What are your views on our proposal to consider External Costs as economic and efficient?**	We are unable to provide a view if the External Costs are economic and efficient as we do not have adequate transparency of DCC costs due to their restricted commercially sensitive nature. Ofgem is much better placed than us to review these external costs and the decisions that drive them. We note that compared to last year's forecasts in the price control, total External Costs are 7.9% higher for RY17/18 equivalent to £13.7m and 12.0% higher for the total Licence term equivalent to £262.2m. We agree with Ofgem that when seeking approvals for change requests that may give rise to future costs that the DCC should conduct risk assessments and clearly present the risks and reasonable alternative options to the Board.
Q2	**What are your views on our proposals on DCC's Internal Costs?**	We note that compared to last year's forecasts in the price control Internal Costs are 56% higher for RY 17/18 equivalent to £22.1m and 73% higher for the total Licence term equivalent to £187.8m. Ofgem state that the increases in Internal costs for the total Licence term is largely due to payroll costs. Yet DCC have not provided headcount figures beyond RY19/20. We support Ofgem scrutinising the costs and appropriately regulating the DCC including Ofgem making adjustments to disallow costs based on its regulatory assessment. We are not aware of having been consulted separately on nor had sight of the DCC publishing and committing to efficiency targets in order to demonstrate to us as customer that cost efficiency is central to its business planning strategy. We are not aware of, nor were we consulted upon any customer need for a DCC Technical Operations team. DCC do not make clear to us a customer the cost consequences associated with change requests and decisions when seeking our views. Their customer engagement is poor in this respect. A recent example being, on the 14 December the DCC wrote to all SEC parties with a notice of proposed reduction to Service Charges for RY 18/19 based on the return of "cost savings" of £14.3m achieved in RY17/18. Yet there is little cost information on how these cost savings where achieved but they are asking customers to submit views if we object to their proposals. We are unable to tell if the apparent charge reduction, which we welcome is caused by reversing over-forecasting in the first instance, delays to delivery - so just a timing issue or genuine cost savings brought about by innovation or efficiency.
Q3	**What are your views on our proposals on DCC's approach to benchmarking of staff remuneration?**	We agree with Ofgems' proposal to disallow £1.476m of contractor cost in RY17/18 and £0.286m in RY18/19 until such time as the DCC is able to submit adequate evidence to justify its remuneration of contractors. We agree that Ofgem should revisit the proposed disallowance in due course but a time limit should be set for the DCC providing the evidence and Ofgem making a decision to give DCC funders clarity and certainty for their charges.
Q4	**What are your views on our proposals for Shared Services?**	We agree that DCC should actively ensure and demonstrate that it is achieving value from money from the Shared Service Charge (to cover support services such as HR, IT, senior management input) provided by Capita its parent company.

Ref.	Question	Comment
		We would like to see the DCC demonstrate that it is achieving value for money from Capita before increasing customer costs by DCC having to provide 'value added services' themselves. Consequently, we agree with Ofgem's minded to position to disallow the Shared Services Charge for • the emulators contract for £0.151m on the grounds that they have chosen to make what was expected to be an external cost into an internal cost and that this cost is imposed on customers; and • Switching for the £0.291m on the grounds the DCC hasn't provided sufficient evidence/justification as to how the Switching business benefited from the shared services during RY17/18.
Q5	**What are your views on our proposal to expect more robust evidence from DCC on how it has taken customer views into account in future price control submissions?**	We welcome Ofgems' proposals for the DCC to establish a structured set of arrangements to facilitate meaningful input from customers. We make a number of recommendations in our response to Q6.on how the DCC can be encourage to be more transparent on costs.
Q6	**What are your views on the processes that DCC should establish to enable meaningful customer input to decision-making?**	As a customer we would like to be offered the right opportunities to inform DCC internal decisions before the DCC decides on changes to services that it provides to us. We would also recommend DCC provider greater transparency on its costs. Specifically, we would like to see a breakdown of costs by customer charging group during any cost benefit analysis so as to ensure that costs are fairly apportioned and if necessary ring fenced to the correct customer grouping to demonstrate they understand customer needs. We would welcome a split by customer category of DCC costs to be published as part of the Charging Statements and Indicative Budgets by the DCC. Also, we have proactively sought to engage with the DCC on business planning rather than a structured approach from the DCC to ensure each category of customers is effectively engaged such as via the Electricity Network Association for Electricity Distributors
Q7	**What are your views on our assessment of DCC's application to adjust its Baseline Margin?**	We agree with Ofgem's proposal to not support a Relevant Adjustment to the Baseline Margin for the full amount for which it has applied.
Q8	**In its submission, in support of its application for an adjustment to its Baseline Margin, DCC states that there has been a significant unanticipated change in customer expectations, and in customer and service provider demands. What are your views?**	We agree with Ofgem that the DCC does not provide sufficient evidence that there has been a significant unanticipated change in customers' expectations and in customer and service provider demands. We also agree that the DCC is arguing that they anticipate a large number of SEC modifications and an increase in regulation due to half hourly settlement but this activity has not increased materially. We would recommend that the next time the DCC Operational Performance Regime is due for review a customer/stakeholder engagement incentive should be considered for inclusion within their performance measures. We welcome the DCC having recently issued a consultation "Improving Smart DCC engagement with Customers and Stakeholders" closing on 31 Jan 2019.

Ref.	Question	Comment
Q9	**What are your views on our assessment of DCC's application for External Contract Gain Share?**	We note that the DCC provided justification of its proposed distribution of the savings, which included benchmarking against comparable gain share arrangements in other regulated industries. It is Ofgem's role to make an assessment using the information from the DCC and importantly other independent sources.
Q10	**What are your views on our proposal on DCC's over-recovery of revenue?**	We agree that the DCC should take future steps to improve the accuracy of its estimates for the Charging Statement and also as suggested in our response to Q6 split out costs by customer charging group to improve transparency on costs for customers.