



Submitted by email to smartmetering@ofgem.gov.uk

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Dear Andrew,

Re DCC Price Control Consultation: Regulatory Year 2017/18

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

SSE broadly supports the proposals set out in this consultation in respect of the DCC and Ofgem's assessment. We welcome the assurance that Ofgem is focusing on ensuring that costs are being monitored and scrutinised; given that we are only able to view part of the evidence submission by DCC, we are reliant upon this thorough assessment by Ofgem.

We agree with Ofgem's view regarding the assessment of the year on year forecasts, business plan and moving away from the Licence Application Business Plan (LABP). We would expect to see DCC's learnings translated into accuracy of forecasting with an expectation to see a year on year improvement as learning develops.

We are fully supportive of establishing an appropriate governance process to be able to make meaningful input to DCC decision-making. We recognise this needs to be balanced between DCC being able to provide innovative and agile service improvements whilst providing a mechanism to enable suppliers to understand the costs and input into that decision-making process.

We have provided specific comments to the consultation questions in the following annex. If you have any questions or comments, please do not hesitate to contact me.

Yours sincerely,

Samantha Cannons
Regulation – Industry Codes



Annex 1: SSE response to DCC Price Control Consultation – Regulatory Year 2017/18

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

We support the proposal that the incurred External Costs for RY 2017/18 were economic and efficient, and note the rationale set out in sections 2.9 – 2.10. We agree that DCC should continue to explore all options available to it in future engagement to deliver value for money to its customers.

Question 2: What are your views on our proposals on DCC's Internal Costs?

We are supportive of Ofgem's assessment that a proportion of DCC's internal costs incurred have not been justified in RY 2017/18, based on the evidence and assessments set out in the consultation document.

In terms of DCC's forecast costs, we continue to remain concerned by the level of increase in DCC's costs since contract award. In particular, the variation year on year from accepted forecasts for the preceding Regulatory Year. Such levels of increase further reinforce the need to ensure that all costs incurred by DCC continue to be economic and efficient, and be fully justified with evidence.

We support Ofgem's view regarding the establishment of the Technical Operations team. We view that there was a distinct lack of engagement from DCC prior to the creation of the function. Although we believe there is a need for the team, we would have welcomed more specific and visible engagement around items such as its scope, business case, costs and benefits realisation and governance approval prior to it being established as this has not been clear.

Question 3: What are your views on our proposals on DCC's approach to benchmarking of staff remuneration?

We support Ofgem's view to disallow contractor costs where these are not viewed to be economic and efficient.

With regards to DCC's approach to benchmarking for contractors, we view this to be a reasonable approach, and we are pleased to see DCC are focused on reducing the number of contractors versus permanent staff.

Question 4: What are your views on our proposals for Shared Services?

We agree with Ofgem's assessment regarding Shared Services and potential duplication of costs. It does not appear that Capita can provide sufficient support services to DCC in some areas, potentially resulting in increased costs to customers.

Question 5: 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 fully support Ofgem's proposal that DCC needs to demonstrate that it has taken customer views into account in its decision-making. From our experience of previous engagements with DCC, it hasn't always been clear when we are being called on to provide a decision as opposed to a view. We welcome any opportunity as a DCC customer to provide a view, however, would also want to see a cost benefit analysis and consultation of customers before DCC proceeds.

We would seek further clarity for next year's price control submission, with costs clearly set out and attributable by work stream from DCC.

Question 6: What are your views on the processes that DCC should establish to enable meaningful customer input to decision-making?

We support the establishment of a governance process to enable input to decision-making on new initiatives. We would expect items such as the scope, business case, benefit and governance approval to be clearly defined, shared and agreed prior to proceeding with any development and implementation.

This process ought to be such that it doesn't fetter DCC's ability to engage with their service providers. We recognise there may be instances where DCC need to be innovative and agile, therefore any future processes need to take into consideration how this can be balanced with ensuring parties have been made aware of costs. This could be through consultation or the establishment of a decision-making body with the sole purpose of reviewing and approving proposals. Any future process must be clear as to where views are being sought from parties, or where a decision is being made based on views expressed.

We would welcome the introduction of monitoring or tracking of benefit realisation for any such initiatives and providing that information to DCC's customers. This could be a convenient way for Ofgem to track the evidence presented.

Question 7: What are your views on our assessment of DCC's application to adjust its Baseline Margin?

We are supportive of Ofgem's assessment overall and in we agree with the findings relating to the drivers and sub-drivers which will be disallowed. We agree with Ofgem's rationale to place disallowances into the overall figure.

Question 8: 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 are surprised around what is being put forward here by DCC, considering licence application in this area should have considered the industry environment.



We would expect to see greater learnings from DCC and how they are seeking to apply these. We would welcome sight of costs that are anticipated for RY 2019/20, that these are reflective of more accurate forecasting and clearly reference the costs DCC expects to cover.

Question 9: What are your views on our assessment of DCC's application for External Contract Gain Share?

We consider the proposal to confirm DCC's application to adjust the External Contract Gain Share term by a total of £13.204m between RY 2019/20 and RY 2024/25 as reasonable. Our view is based on the information set out in the consultation and that this reflects a reduction in External Costs as a result of securing cost savings in the FSP contracts.

Question 10: What are your views on our proposal on DCC's over-recovery of revenue?

We support Ofgem's view that DCC could take further steps to improve accuracy for the charging statements. We are surprised to see the extent of variation and we would expect DCC to demonstrate a greater accuracy of forecasts, for example regarding the number of meters being connected.

If DCC are looking to reinvest cost savings internally, as a customer we would welcome engagement around that being taken as a decision and that it should align with any future governance process, as referenced in our response to question 6 of this consultation.

We anticipate that the next indicative charging statement for RY 2019/20 will include additional costs for scalability management and production management.