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20 December 2019

Dear Ayena

Consultation on DCC Price Control: regulatory Year 2018/19

Thank you for the opportunity to comment on the consultation on Ofgems' review of the DCC's costs for the 2018/19 regulatory year.

As Ofgem notes, the price control should be set at a level to ensure that DCC continues to be able to make the required investments to deliver a value for money of appropriate quality at a cost consumers can afford. Several key themes continue to appear in each of the price control review consultations: unsatisfactory stakeholder engagement, a need for clear evidencing of savings and lack of justification of cost forecasts.

We recognise the importance of protecting commercial interests and that this can limit the amount of information available to understand the efficiency of delivery. We are therefore reliant upon Ofgem's benchmarking process and its review of cost and delivery performance. This response therefore focuses on the principles applied to the determination, based upon Ofgem's assessment.

We acknowledge that there is significant uncertainty surrounding elements of DCC's cost base. It is essential that DCC recognises that the additional uncertain costs (and the impact upon bills) represent additional cost risks to the financing parties. We would therefore expect significantly higher engagement in these areas than in the areas agreed at the price control. The proposed significant increase in total costs (excluding pass-through) over the licence term of 33%, illustrates the impact upon bills and the importance of gathering customer feedback and support. The additional transparency on costs through its quarterly finance forums and the publication of parts of its price control submission for RY18/19 are positive first steps.

From a principled based perspective, we welcome Ofgem's minded-to position to disallow sums of:

- £1.088m from DCC's total cost in RY18/19 relating partly to remuneration for contractors and partly to an external service procured to deliver a KPI dashboard.
- £235.917m increase in its forecast costs over the remaining term of the Licence due to lack of justification of these costs.
- £1.305m of the Baseline Margin due to its performance under the OPR.

- £0.093m reduction in RY18/19, and a total of £0.479m across the licence period under the R2.0 BMPPAS.
- £2.970m decrease in baseline margin to reflect the price control decisions on unacceptable costs, cases where insufficient evidence of a material change that could not have been foreseen, or for where the driver does not appear to meet the conditions in the Licence, reduction to reflect costs not incurred but awarded in Baseline Margin.

Appendix 1 provides detailed responses to each of the questions.

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 the DDC understand customer needs.

I hope these comments are helpful. The following table gives our detailed responses. Please do not hesitate to contact me or Bryan Heap (07500 849220) if you want to discuss any aspect of this response.

Yours sincerely

Paul Auckland

Paul Auckland

Head of Economic Regulation

Appendix 1 – Detailed Question responses

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 to understand the efficiency of the significant cost increases and the appropriateness of the decisions that drive them. Ofgem notes that it expects DCC to provide fuller assurance around how they have assessed the trade-offs they choose to make in contract negotiations and how they plan to manage contractual risks to ensure performance and delivery throughout the terms of the contract.
Q2	**What are your views on our proposals on DCC's approach to benchmarking of staff remuneration?**	Ofgem notes that almost a quarter of Contractors are hired at above market rates. We agree that in order to demonstrate that these costs are efficient, DCC should provide evidence of the internal processes it follows and the decision-making process. This is especially important when remuneration exceeds the maximum daily market rate. Once again, the lack of detail prevents a full analysis but from a principle perspective, we agree with Ofgem's proposal to disallow perceived inefficient costs unless the DCC can provide robust justification.
Q3	**What are your views on our proposal to disallow all costs associated with the external service to develop a KPI Dashboard?**	Ofgem has set out its rationale for the disallowed costs associated with the KPI dashboard. As Ofgem believes that these represent additional costs on consumers for which they have not seen sufficient evidence of additional value, it is appropriate to disallow them.
Q4	**What are your view on our proposal to disallow variance in forecast internal costs?**	Ofgem noted in previous years that it was concerned with DCC's failure to provide information on finding efficiencies and delivering value for money. This has continued in the current year and therefore Ofgem is justified in disallowing all variation in forecasts from RY21/22 onwards.
Q5	**What are your views on our proposed position on DCC's operational performance?**	Ofgem appear to have taken a balanced view of the rules of the mechanism, the impact upon customers and the incentives on the DCC to perform. We also think it would be appropriate for DCC to provide explanations on its performance issues and how these will be resolved going forwards. We therefore are supportive of Ofgem's position.
Q6	**What are your views regarding DCC's failure to ensure all CSPs met their contractual milestones and our proposed**	The DCC must be incentivised to effectively manage the contractual milestones and recognise the elements of controllable risk allocated to the DCC. This should also take into account the actions taken to resolve any issues. As the DCC is unable to provide any evidence of engagement to support its claims of minimal impact or SEC panel

Ref.	Question	Comment
	performance adjustments in response to this?	engagement, it is difficult to understand the basis of the claim adjustment.
Q7	**What are your views on how the Operational Performance Regime could be modified to better incentivise DCC to provide a good service to its customers and deliver upon its objectives?**	We are not best placed to answer this question. Ofgem must agree SMART (Specific , Measurable ,Achievable, Realistic, Time based) objectives with the DCC to ensure that the value drivers for customers and the DCC are aligned.
Q8	**What are your views on our proposed position on DCC's project performance?**	Table 4.4 suggests that DCC have only achieved 25.6% of the available performance metrics. We therefore agree with Ofgem's assessment and position that the performance under the mechanism is poor.
Q9	**What are your views on our proposed position on DCC's switching performance?**	We are supportive of the switching performance position on the basis that Ofgem has approved the evidence that DCC has met the milestones.
Q10	**What are your views on our assessment of DCC's application to adjust its Baseline Margin?**	If Ofgem is not satisfied that DCC has provided sufficient evidence to support part of its application for the Baseline Margin, it is unable to make an appropriate adjustment. We therefore support the position based on Ofgem's role and findings.
Q11	**What are your views on cost uncertainty in relation to Baseline Margin applications and the process for dealing with this issue?**	Cost uncertainty is inherent in any price control. Uncertainty represents a more significant issue for ex ante price controls than ex post. The key test for funding of allowances is the visibility of the uncertainty at the time of the price control determination and how those known uncertainties are funded. We agree with Ofgem's view that a number of those put forward by the DCC (customer engagement and Business Process Volume Management) should have been anticipated and therefore should not be included.