



London Office
4th Floor,
1 Tudor Street,
London EC4Y 0AH
Tel: +44 (0)141 614 7501

Ayena Gupta
Metering and Market Operations
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

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Dear Ayena,

Consultation on DCC Price Control: Regulatory Year 2018/19

Thank you for the opportunity to respond to this consultation.

In the past year, we have seen considerable improvements to the DCC's transparency, especially in its approach to the quarterly Finance Forum. Nevertheless, despite the proposal to reduce the DCC's Baseline Margin by up to £1.305m for missing a key milestone, it remains unclear whether or how any of this penalty will be passed on to any Service Provider(s) responsible for this poor performance, which appears to be evidence of a continued lack of transparency in this particular area.

Similarly, while we very much welcome news that the DCC's External Cost reduction initiatives are saving its customers money, we think there should be much greater transparency of the exact nature of these savings. More generally, while we recognise the need for commercial confidentiality, as one of the DCC's principal customers, we think it is only right that suppliers be afforded a greater degree of insight, including, for example, where cost reductions arise following the imposition of contractual penalties.

The increasing size of the DCC headcount is another area of concern. At issue, in particular, is the risk that resources are not being targeted in the most effective way and that there may be a duplication of effort if the DCC is revisiting the work of its Service Providers.

Our responses to the consultation questions are in Annex 1. We hope that you will find them helpful. Should you wish to discuss any aspect of them, please do not hesitate to get in touch.

Yours sincerely,

Richard Sweet
Head of Regulatory Policy

ScottishPower Headquarters, 320 St. Vincent Street, Glasgow G2 5AD
Telephone: +44 (0)141 614 0000
www.scottishpower.com

**CONSULTATION ON DCC PRICE CONTROL: REGULATORY YEAR 2018/19 –
SCOTTISHPOWER RESPONSE**

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

We have never been particularly comfortable with the *ex post* arrangements that apply to the DCC price control. While we recognise that the DCC was able to exercise little control over the contract terms agreed with its Fundamental Service Providers (FSP), this has too often seemed to serve as an excuse whenever Users voiced their frustration over the surprisingly high costs of the programme.

However, given that the DCC will have been able to exercise more autonomy in procuring its SMETS1 Service Providers, we are expecting considerably better terms to have been negotiated. Certainly, we would expect Ofgem to ensure that this was the case, and for this question to be central to its assessment of the DCC's performance with regard to its enrolment and adoption project during the past year.

We would welcome far more visibility of the commercial terms of these arrangements.

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

We broadly agree with Ofgem's views on the DCC's staff remuneration and agree that the 80% to 20% staff to contractor ratio seems appropriate in light of the project work still being undertaken. We also think it is right that Ofgem questions the need for the DCC to use the maximum market rate as the benchmark for paying contractors. It is clearly important that the DCC provides suitable evidence of the internal processes it has followed before deciding to offer remuneration above the average market rate.

Given that we expect the nature of the DCC's role to change significantly once it concludes its SMETS1 project, we would prefer the DCC to offer more detail regarding the division of FTE between specific projects and BAU activities. We would not expect to see contractors being employed on BAU activities other than, for example, to cover short term staff absence.

Question 3: What are your views on our proposal to disallow all costs associated with the external service to develop a KPI Dashboard?

There seems little justification for asking Users to fund the DCC's development of a KPI Dashboard, particularly as it appears to have been for largely internal purposes. We therefore agree with Ofgem's minded-to position to disallow these costs.

Question 4: What are your views on our proposal to disallow all variance in forecast internal costs?

We agree that the DCC should be required to provide full and detailed justification for any increase in its forecast internal costs and, in this regard, would support Ofgem's proposal to disallow those costs it considers have not been satisfactorily justified.

Question 5: What are your views on our proposed position on DCC's operational performance?

We welcome Ofgem's decision to review the OPR, as we do not believe that in its current form it adequately reflects the quality of service being offered, eg with regard to the North CSP.

Question 6: What are your views regarding DCC's failure to ensure all CSPs met their contractual milestones and our proposed performance adjustments in response to this?

We have been given too little information about the full nature of the failure to be able to properly comment on the DCC's claims about the extent of the impact. However, a milestone is a milestone, regardless of the perceived customer impact, and we therefore fully support Ofgem's proposed performance adjustments in response to this.

As an aside, we can find no record to suggest that the DCC informed us that it had missed this milestone. In effect, therefore, it would appear that this consultation constitutes the only formal notice we have had concerning the matter.

Question 7: 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?

As noted in our response to Question 5, we very much welcome Ofgem's decision to review the OPR. Hopefully, the DCC's Users can become more involved in setting the sort of performance standards we expect and in monitoring / reporting on the DCC's delivery.

In particular, we would also like to see the regime applied at a more granular level, such that the manifest asymmetry between the service offered in the North Region and that offered in both Central and South Regions could be clearly drawn out in any findings.

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

We note from the consultation that the DCC has performed poorly in meeting the milestones set out in the R2.0 BMPPAS incentive regime. We therefore agree with Ofgem's proposal to reduce the margin available this year by 74%.

Question 9: What are your views on our proposed position on DCC's switching performance?

We do not feel able to properly comment on the DCC's switching performance at this time. Although we are fully engaged with Switching Programme, our view of the DCC's performance will remain relatively limited until the programme moves further towards an operational footing.

Question 10: What are your views on our assessment of DCC's application to adjust its Baseline Margin?

It is important that the DCC provides sufficient evidence to support any application it makes for an adjustment to its Baseline Margin. The consultation explains the perverse incentive that would exist if the DCC was allowed to recover Baseline Margin associated with work that costs less than originally predicted, and goes on to explain that the DCC did not offer any explanation as to why there are 'decreased costs for some drivers which had previously been awarded Baseline Margin'. While we would prefer to have more detail of the nature of the decreased costs, we accept Ofgem's judgement on the matter and support its decision to reduce the adjustment by £2.970m.

Question 11: What are your views on cost uncertainty in relation to Baseline Margin applications and the process for dealing with this issue?

Whether *ex post* or *ex ante*, price control mechanisms are designed to allow for uncertainty by permitting the under/over-recovery of costs. Clearly, the effect then of *ex post* arrangements is to allow for the price controlled party to operate at lower risk. Conversely, however, such arrangements effectively see that risk transferred to the price controlled party's customers.

It is of considerable importance to DCC Users, therefore, that Ofgem manages this process diligently. We largely welcome the application of this process to the current price control, although we would like access to more of the detail surrounding Ofgem's assessment.

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

In principle, we agree with Ofgem's interpretation of the ECGS guidelines and, therefore, its decision. However, we would prefer much greater transparency of the contract terms, such that we would be better able to make our own assessment of the claims that give rise to the DCC's application.

ScottishPower
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