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Dear Anna,

DCC PRICE CONTROL: REGULATORY YEAR 2019/20

Thank you for the opportunity to respond to this consultation.

Our responses to the thirteen questions posed by the consultation are set out in Annex 1.

Delayed delivery and stability issues continued to plague the DCC's performance throughout last year; especially in North Region. This has negatively impacted on our own delivery schedule, limiting the scope of our smart meter rollout and resulting in cost inefficiencies. Like Ofgem, we are concerned about the DCC's demonstration of its contract management capabilities, and we largely agree with Ofgem's findings and recommendations with regard to the DCC's costs and retained margin.

We very much share Ofgem's concerns that the DCC is not properly engaging its stakeholders on the cost and scope of its Network Evolution Project. As this project has the potential to cost a great deal of money, we support the disallowances in the hope that it will serve to remind the DCC of its responsibilities to its customers.

I trust that you will find our responses helpful, but should you wish to discuss any of them in more detail please do not hesitate to get in touch with me or my colleague James Nixon (jnixon@scottishpower.com).

Yours sincerely,

Richard Sweet

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Annex 1

DCC PRICE CONTROL: REGULATORY YEAR 2019/20 – SCOTTISHPOWER RESPONSE

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

Like Ofgem, we are concerned about the DCC's contract management. However, our concerns focus more on the DCC's ability to manage its service provider contracts and, in particular, on the under-performance in North Region, which continues to undermine OUR efforts to roll out smart meters to customers in that area. Therefore, before it concludes that the DCC's service provision in North Region was economic and efficient, we would urge Ofgem to also consider the downstream impacts such under-performance has had on the DCC's customers and on their ability to operate economically and efficiently.

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

We support Ofgem in disallowing these costs. As Ofgem also raised this matter during last year's price control, we are surprised to see it appear again this year. Benchmarking of staff remuneration is an exercise we would expect the DCC to properly undertake, including with regard to staff bonuses, as efficient staff costs are fundamental to the overall economic efficiency of the organisation.

Question 3: What are your views on our proposals to disallow the cost of DCC's retention scheme?

Of course, it is for the DCC, indeed the wider Capita organisation, to provide a working environment that fosters and encourages staff retention. Nevertheless, it is important to the energy industry that the DCC is able to retain its more experienced staff. So, if the DCC can demonstrate that staff retention was a problem and that it has been reduced/eliminated through this scheme, that might, in itself, go some way to justifying the initiative. Moreover, if the problem was in need of urgent attention, it may be that a more considered period of analysis was not an option - in which case such a scheme might be considred a reasonable stop gap approach.

As regards Ofgem's suggestion that the scheme could have been targeted only at key employees, we think that might have risked demotivating those employees not considered key, exacerbating the retention issue and undermining the succession planning that would offer a longer term solution to the retention problem.

These are merely observations, of course, and without greater insight we cannot offer a view as to whether these costs should be disallowed. Ofgem is clearly better placed to identify whether or not such costs represented value for money.

Question 4: What are your views on our proposal to disallow the incurred and forecast costs associated with the product management team?

We understand that the DCC service will grow over time to offer a much wider proposition than at present. However, while the stability of its service remains a serious issue, especially in North Region, its focus must be on getting the basic service right. We therefore support Ofgem's position that it is premature for the DCC to be looking to extend its service through the development of new value propositions for Electric Vehicles etc. Moreover, we are of the view that these speculative growth plans should be funded either by the DCC itself, or by parties looking to avail themselves of the services under consideration, not by the energy industry's customers. On no account should revenues from mandatory services be used to cross-subsidise discretionary service.

Question 5: What are your views on our proposal to disallow the forecast variance of the Commercial Operations and Vendor Management teams?

While it is necessary to obviate issues with 2G/3G sun-setting, the DCC clearly has wider plans for the Network Evolution Programme. To the extent that these plans might address issues with the communications network in North Region, we would certainly welcome such a wider remit; nevertheless, like Ofgem, we remain unclear as to what these plans actually are and what they might cost.

The DCC infrastructure and operation has already come at enormous cost. Our concern is that these wider Network Evolution plans may be little more than a veiled attempt to substitute elements of a failed infrastructure and that we (rather, our customers) are now being asked to fund this remedy for previous errors of judgement. It is very important, therefore, that the DCC be encouraged to engage stakeholders in a transparent manner about its planned activities, the need for them, and their cost.

In the meantime, we support Ofgem's proposal to disallow this forecast variance.

Question 6: What are your views on our proposal to disallow the incurred cost variance associated with Preston Brook?

We agree that the DCC's plans to vacate Preston Brook could have been better managed during the notice period and we, therefore, support Ofgem's minded to decision on this cost variance.

Question 7: What are your views on our proposal to disallow all variance in forecast internal costs?

If the DCC cannot provide sufficient evidence of need or even an accurate estimate of costs, then it is difficult to see how it can demonstrate they were incurred efficiently. We therefore support Ofgem's proposal to disallow all variance in DCC's forecast internal costs.

It is important to frame these ever increasing DCC cost projections in the context of a market that continues to tighten its belt. Energy suppliers are being hard pressed because energy consumers are hard pressed. Many of the economic impacts of restrictions aimed at curbing the pandemic are likely to persist for years to come, and some will only manifest themselves later. We all must cut our cloth accordingly, and the DCC is no exception. It must demonstrate how it will find at least some of the resources to meet future requirements by leveraging the cost-efficiencies of a leaner internal operation.

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

We very much support the findings of Ofgem's review of the OPR. The old regime had not been providing the DCC with incentives that adequately mapped to the operational requirements of its customers. Good examples of such weakness were reflected in the incentives around the installation and commissioning times and in the over-the-air delivery of firmware upgrades. As these issues were, again, particularly noted in North Region, it is to be hoped that the revamped OPR framework will expose such regional variations and perhaps focus the DCC's attention more keenly on their resolution.

Question 9: What are your views regarding DCC's failure to ensure all CSPs met their contractual milestones and its wider performance in the North region?

While it comes as no surprise that the DCC was unable to provide WAN coverage, in line with their contractual milestones, it is nonetheless disappointing.

As explained in our response to Question 1, the DCC's failure to provide an adequate and stable service in North Region has hampered our efforts to deploy smart meters in the area. In particular, delayed delivery of the R2.0 Communications Hub prevented us from offering dual fuel smart prepayment meters to customers in North Region for around eighteen months. Even now, the network in North Region continues to be plagued with stability issues, further hampering the use of smart prepayment.

While we note that the missed milestone might, in itself, have impacted little on the DCC's customers, we think it is against this more general backdrop of an inadequate and unstable service that the performance in the region must be construed. We therefore support Ofgem's minded-to position to make a reduction to the BM of the full value associated with the SDM1 milestone.

Question 10: What are your views on our proposed position on DCC's project performance?

The delays with R2.0 project delivery have had a significant impact on our deployment plans in North Region, in turn affecting our performance against our own obligations. We would therefore agree that the DCC should forego at least 87% of the margin for this project and would even urge Ofgem to consider reducing the entire value of the margin in this respect (i.e. £0.554m).

Question 11: What are your views on our assessment of DCC's application to adjust its Baseline Margin?

We agree with Ofgem's disallowances in respect of the DCC's application to adjust its Baseline Margin. For example, we agree that the DCC should have anticipated the increased SEC Modification activity, especially as all indications from previous years would have suggested such.

We do, however, continue to take issue with the 15% margin that the Government agreed for the DCC at contract award. Particularly in these straitened times, when energy consumers and suppliers alike are having to tighten their belts, it seems rather inappropriate that the DCC continues to be granted such generous terms.

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

Last year, we asked for greater transparency over the nature of the savings that led DCC to apply for an ECGS adjustment. Now we are advised that, hitherto, all such savings have come from refinancing initiatives, rather than from more efficient ways of working.

To be clear, we welcome both the savings and the transparency; however, there are many areas of the DCC's service that give rise to dissatisfaction among its customers, and we cannot help but wonder how any of these refinancing initiatives will do anything to improve that position. It is important therefore that Ofgem also considers the net effect of these refinancing initiatives to ensure they are not contributing to any further degradation of that service.

Question 13: What are your views on our assessment of Delivery Milestone 1?

We note Ofgem's view that the delays to the milestone's delivery, which seemed to stem largely from the DCC's own processes, extended beyond the four-week margin loss period. Therefore, we agree that the DCC should lose all margin associated with the Delivery Milestone 1.

ScottishPower
December 2020