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14/12/2020

Dear Anna,

Consultation on DCC Price Control: Regulatory Year 2019/20

Thank you for the opportunity to respond to the consultation on the DCC Price Control: Regulatory Year 2019/20.

Since the start of the smart meter programme Electricity North West Limited (ENWL) has held regular bilateral meetings with the Department of Business, Energy and Industrial Strategy (BEIS) to support progress with the rollout and realise the ability of our ENWL customers to benefit from smart meters. This is particularly important in our region as the Greater Manchester Combined Authority where more than 2.5m people live is targeting net zero by 2038, faster than the national target of 2050. Our ENWL region has the highest proportion of customers who are experiencing fuel poverty of all the DNO's, so smart meters offer the opportunity to increase their control over their energy bills. Providing services efficiently and considering the overall cost is absolutely vital due to the economic shock covid-19 is having on prosperity, where the DCC's costs are a vital component of energy bills. For regulatory year 2019/20 the DCC's total reported costs of £495m is 15% more than the allowed revenue of £429m for the whole of ENWL owning, developing and operating the electricity distribution network that distributes around 10% of Great Britain's electricity.

We share a number of Ofgem's concerns regarding the DCC's performance regarding their:

- current activity aimed at developing new products for existing customers may not be underpinned by demand from its customers and instead the DCC's main priority should as ever remain delivery of its core business. We have worked alongside the DCC to try to resolve issues and move forward in its core activities. We have made allowances recognising that the rollout has created significant challenges for all participants and have always been willing to allow time for complex issues to be resolved. Unfortunately, significant issues still remain, in some cases years after being first raised to the DCC.

- efficient contract management and failure for the Communication Service Providers (CSPs) to meet their contractual milestones and wider performance in the North region. We recently wrote to the CEO of the DCC setting out that whilst we fund the DCC substantially and on a nationally shared basis, we don't receive a national standard of service for our customers in our region as the service is much poorer in the North. SMETS2 installations in the ENWL region lag significantly behind those in other Central and Southern Distribution Network Operator (DNO) regions largely as a consequence of CSP issues in the North. We believe the DCC service in the North West is poorer than other areas of the country, but our cost share is not reduced in line with the lower performance levels our customers experience. We welcome Ofgem's recent decision[1] that the DCC should publish more granular and regional performance data. Clearly, we'd like the service performance issues resolved, though the current situation of paying for a service quality we don't get isn't tenable.

The DCC needs to make a step change in their engagement activity with customers and how they procure and contract manage their external costs and service delivery. The proposals to disallow certain activities which are uneconomic and not justified in this consultation and align with Ofgem's separate decision to modify of the DCCs Operational Performance Regime (OPR) should help incentivise DCC performance on customer engagement, contract management and service delivery.

Appendix 1 provides our detailed responses to each of the consultation questions.

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 would like to follow up on any particular aspect of our response.

Yours sincerely,

Paul Auckland Digitally signed by Paul Auckland Date: 2020.12.14 19:38:31 Z

Paul Auckland
Head of Economic Regulation

[1] DCC Operational Performance Regime Review: October 2020 Decision

Appendix 1 – ENWL detailed responses to each of the consultation questions

The following table includes our views on the consultation:

Ref.	Question	Response
Section 2: External Costs		
1	**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. Since everybody pays for a monopoly service there ought to be more transparency of the costs. Ofgem is much better placed to understand the efficiency of the significant cost increases and the appropriateness of the decisions that drive them. What is clear from Ofgem's analysis in this consultation is that there is a differentiation in the cost variations across the DCCs CSP for North, Central and South regions. For RY 2019/20, the CSP Arqiva for the North region cost variations have increased at a higher rate (of 5%) compared with the much lower rate (of 1 and 2%) of CSP Telefonica for the central and south respectively. What is not as clear is why there is a distinction in the rates of increase between these CSPs. We would welcome Ofgems' further investigation into this differentiation and if these costs are justified, particularly considering the differing regional performance levels. Please also refer to our more related response to question 9 regarding the DCC's failure to ensure all CPS met their contractual milestones and the DCC's wider performance in the North region.
Section 3: Internal Costs		
2	**What are your views on our proposals on DCC's approach to benchmarking of staff remuneration for both contractor and permanent staff?**	Ofgem notes in the consultation that the DCC continues to use the maximum market rate as the benchmark for contractor daily rates and exhibits inconsistency in hiring policies for permanent staff. We do not agree that a maximum market rate should be used as a benchmark for contractor daily rates. 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 or there is lack of consistency in their hiring policy. From a principle perspective, we agree with Ofgem's proposal to disallow perceived inefficient contractor costs and request that the DCC apply a consistent hiring policy going forward.

3	**What are your views on our proposals to disallow the cost of DCC's retention scheme?**	We agree with the decision to disallow the full cost of the retention scheme £2.499m in RY19/20 on the grounds that the DCC were unable to quantify the impact of the scheme on retention. We note that Ofgem are open to receiving additional evidence from the DCC to justify its use of the retention scheme and which would enable Ofgem to revisit the proposed disallowance. We would expect the retrospective provision of evidence could be difficult in the absence of analysis ahead of introducing the scheme as we are concerned the scheme was introduced without appropriate prior consideration nor sufficient evidence it worked.
4	**What are your views on our proposal to disallow the incurred and forecast costs associated with the product management team?**	We agree with Ofgems' proposals to disallow the costs associated with the Product Management team. We note that the Product Management sub team was specifically responsible for undertaking increased stakeholder engagement relating to business planning and ensuring that its propositions are developed in line with industry expectations. As an existing customer we would maintain our position as per our summer response to Ofgem DCC OPR review consultation, that the current OPR framework does not incentivise DCC's engagement with its customers including DNOs. We would prefer that the DCC improve its performance on its existing core services and engages with us on those before considering developing value added services. We have written to the CEO of the DCC setting out some of our concerns including poor stakeholder engagement in general with DNOs as well as the under performance in the North region specifically.
5	**What are your views on our proposal to disallow the forecast variance of the Commercial Operations and Vendor Management teams?**	Ofgem notes that the DCC when challenged over the certainty of its forecasts that the DCC was unable to provide clarity over which costs would be attributed to the Network Evolution programme which they state includes increasing requirements of the Switching programme. We agree with Ofgems' proposal to disallow the forecast variance of the Commercial Operations and Vendor Management teams on the grounds the DCC weren't able to provide justification that the costs meet the certainty threshold.
6	**What are your views on our proposal to disallow the incurred cost variance associated with Preston Brook?**	We are unable to provide a view if the Accommodation 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.

7	**What are your views on our proposal to disallow all variance in forecast internal costs?**	We agree with Ofgems proposal to disallow all variation in DCC's baseline forecasts from RY22/23, onwards given the lack of evidence and certainty provided in justifying these costs. This amounts to £172.003m.
Section 4: Performance Incentives		
8	**What are your views on our proposed position on DCC's operational performance?**	We welcome Ofgem's recent decision on the OPR review. We support Ofgem's decision to require DCC to report on a new 'install and commission' metric as early as April 2021, split by region. We welcome that this metric, and the other three metrics where relevant, would break down performance by meter type and DCC communications region. We disagree with the DCC arguments reference under paragraph 4.13 that their missing milestones in the North region has limited impact and we disagree that these issues have been resolved quickly. This clearly indicates a disconnect by the DCC from delivering a core service to its existing customers and inability to engage and act on customers feedback. As previously mentioned in our response to Q4, we have written to the CEO of the DCC setting out our concerns regarding under performance in the North region and lack of granular performance transparency. Refer to our response to Q9 for a more detail on our views on the DCC failure to meet their contractual milestones and its wider performance in the North region.
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?**	We agree with Ofgem making a reduction to the DCCs baseline margin of the full value associated with the SDM1 milestone of £1.644m as these missed milestones have a significant impact on our customers as we believe the DCC service in the North West is poorer than other areas of the country. ENWL's DNO region has one of the highest proportions of customers experiencing fuel poverty in the country, therefore our customers are hit hardest by the asymmetry between the significant DCC costs (we pay nearly £20 per year per enrolled meter) and have a relatively small number of smart meters in our region, especially noting critical mass penetration levels of 60% are needed to deliver several DNO benefit streams. We therefore continue to want to see the DCC focussing on it's core offering and enabling the rollout of smart meters in the north. The DCC focussing in this way is also supportive of the Government's policy and approach to a further phase of smart meter rollout to penetration levels of greater than 85% by the end of 2024. This is the second consecutive regulatory year where a milestone has been missed in the North region and whilst there has been some limited improvements, the number of smart meters being enrolled and installed in our region continues to lag significantly behind those in the Telefonica region.

		Consequently, we request that Ofgem continues to make the £1.644m reduction and does not accede to the DCC's request to reduce the scale of this adjustment.
10	**What are your views on our proposed position on DCC's project performance?**	We have concerns that the DCC are saying that the missed milestones in the North region have minimal impact. We request that any decision on the DCCs submitted value for their project performance take account of ourselves as an existing customer reporting our experience of under performance in the North region. Refer to our detailed responses to Q8 and Q9.
Section 5: Baseline Margin adjustment and External Contract Gain Share		
11	**What are your views on our assessment of DCC's application to adjust its Baseline Margin?**	We agree that it is part of the DCC's obligations as a SEC party to ensure its systems remain complaint with the SEC and that the DCC should have expected increased SEC Modification activity. Especially, as the DCC are themselves the proposer for the vast majority of SEC modifications (8 of the last 10 SEC proposals raised were proposed by the DCC). As such if Ofgem is not satisfied that DCC has provided sufficient evidence to support part of its application for the Baseline Margin, we support the position based on Ofgem's role and findings to adjust its baseline margin.
12	**What are your views on our assessment of DCC's application to adjust its ECGS?**	We note that the DCC has an incentive to seek and achieve cost savings in the FSP contracts including the CSP-N contract. We would welcome additional clarity and transparency on the cost savings made to the CSP-N contract in light of the reported missed milestones and under performance.
Section 6: Switching		
13	**What are your views on our assessment of Delivery Milestone 1?**	We agree the DCC should lose all margin associated with the Delivery Milestone 1 – through its service providers – to develop the Centralised Switching Service interface specifications and the CSS integration approach. We would welcome the reasoning for Ofgem's position to to disallow all forecast costs from RY22/23 to the end of the Licence period, £20.615m and to disallow the corresponding margin an additional £1.590m. The consultation is silent on this area. As referenced by Ofgem - the DCC and its service providers play a central role in delivering the Switching Programme and every cost should be justified as the Business Plan was not competitively tendered – consequently, we would welcome Ofgem views on the DCC costs for RY19/20 and if the DCC justified these costs. The consultation is silent on this area.