SCOTTISHPOWER

Via email only to: DCCregulation@ofgem.gov.uk

FAO: Ayena Gupta
DCC Oversight and Regulatory Review

12 December 2022

Dear Ayena,

Consultation on proposals to introduce a DCC Switching performance incentive regime

Thank you for the opportunity to respond to this consultation.

Our full responses to the questions specifically posed in the consultation are set out in Annex 1.

It is, of course, essential that the DCC is properly incentivised to deliver the switching services, as these services are so important to functioning of the retail energy market and, consequently, to consumers. We therefore very much welcome Ofgem's efforts in this area.

We are broadly comfortable with the proposed incentive regime, though we would prefer a margin that reflected the value of the service to the Users, rather than an apparently arbitrary figure. We are pleased, therefore, that Ofgem invites respondents to comment on that value.

I hope that you will find our comments useful, but should you wish to further discuss any aspect of our response, please do not hesitate to get in touch.

Yours sincerely,

Torrecilla

David Torrecilla
Director, Centre of Excellence

Annex 1

Consultation on Proposals to Introduce a DCC Switching Performance Incentive Regime: Response from ScottishPower Energy Retail Limited

Question 1: Do you support the establishment of the Switching Incentive Regime (SIR) in the Licence as the mechanism for assuring the Switching element of DCC's Price Control?

Yes, we welcome the establishment of the Switching Incentive Regime (SIR) as the mechanism for assuring the Switching element of the DCC's Price Control.

Question 2: Do you agree in principle with the revocation and replacement of the May 2019 Direction, in the event that we establish the SIR?

Yes; in principle, we agree with the revocation and replacement of the May 2019 Direction, provided Ofgem establishes a Switching Incentive Regime (SIR).

Question 3: Do you agree with the definition of the four categories of measure identified that will constitute the SIR?

Yes, we think it is absolutely essential that the DCC be incentivised to continually deliver for the Service Users, and it is clear that delivery must also offer genuine and measurable value for money.

Question 4: Do you agree with our proposal that DCC should be able to earn a margin somewhere in the range of 6 – 9% of its economically and efficiently incurred internal costs under the enduring Switching arrangements (equating to a range of 6.4 – 9.9% in terms of return on costs)?

While we recognise that this value appears to be somewhat below that which the DCC is permitted in relation to its smart metering role, we still think it is higher than it should be. Instead, we think the percentage should approximate that which a supplier would typically pay a PCW-broker on a sale, as this would better align the apparent value of the service provision with the actual value realised by the energy supplier.

Question 5: Do you support either of the options we have identified for incentivising DCC's margin in the early post- go live period of Switching? Are there any other options you think should be considered?

On balance, we consider that the first of these options – i.e. DBT phase Delivery Milestones – will offer the better incentives as it will relate a more temporal relevance to the effect of the underperformance than would be the case with the suggested alternative.

Question 6: Do you agree that the proposed Licence drafting appropriately reflects the policy intent of our proposal to establish the Switching Incentive Regime?

Yes, we agree that the proposed Licence drafting appears to reflect the policy intent.

ScottishPower

December 2022