Capita

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Ofgem
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21 December 2021

By email to: smartmetering@ofgem.gov.uk

Dear Ayena

Ofgem Consultation on DCC Price Control 2020/21

Thank you for providing the opportunity to respond to Ofgem's consultation on the DCC Price Control for the regulatory year 2020/21. This letter represents the views of Capita plc, shareholder of Smart DCC Ltd (DCC).

DCC is providing its own response to your consultation in which it will address the specific questions raised in the consultation document. Capita fully supports DCC's view on these points, most notably that DCC applied in the correct window for gainshare on the savings from DCC's in-house test lab service.

The contents of this letter can be treated as non-confidential and may be published.

Smart DCC in 2020/21

The period since April 2020 has seen more than 7.6m smart meters added to the DCC network, a huge achievement amongst the backdrop of unprecedented global challenges. DCC has continued to keep the secure network operating and programmes progressing throughout national lockdowns. To date, almost 73% of the SMETS1 dormant meters has been migrated.

Our reading of Ofgem's consultation proposals is that DCC has been effective in providing the justification and evidence required in support of its expenditure decisions, and Ofgem has been proportionate in making its assessment.

However, there are two items which I would like to highlight and express Capita's concern, namely, the gain share application on the DCC in-house test labs and Ofgem's request for stakeholder views on cost assessment approaches.

External Contract Gainshare

We strongly disagree with Ofgem's minded-to-position to reject our application including £3.98m in RY20/21 relating to DCC's in-house test lab services. Testing provision sat within the original Fundamental Service Provider (FSP) contracts and moving this service in-house has allowed DCC to provide a better service for customers at a cheaper cost.

DCC have acknowledged the services offered under the original contract are not directly comparable to those in the new test labs, mainly because the services being offered by DCC go beyond those included in the original contracts, but at a significantly lower overall cost. Therefore, DCC have delivered a genuine cost and efficiency saving by providing more for less.

With respect to the application window, we disagree that DCC should have applied for the adjustment in RY19/20. DCC realised savings against the FSP contracts in July 2021 and therefore the application is made as per licence condition 39.3 which states *"to provide, where relevant, for an upward adjustment to the amount of the Licensee's Allowed Revenue that reflects some part of the reduction in External Costs that the Licensee has proposed to effect, or has effected, through* *amendments to the External Service Provider Contracts to which the Licensee is party".* DCC has effected the reduction during RY20/21.

The guidance on gainshare also states that reductions in External Costs should be "*achieved".* No reduction in External Costs were achieved until RY20/21, and as the purpose of the gainshare is to increase revenue, there can be no upward adjustment in revenue until savings are made. DCC informed Ofgem that it would apply for the future savings in both RY18/19 and RY19/20, noting the application would be in the first year a net saving is realised. In both instances, Ofgem did not challenge this position.

We believe DCC is eligible for a gainshare adjustment of £3.98m, reflecting the comparison on a like-for-like basis and giving customers a £7.61m share of the savings DCC has made.

Cost Assessment

There are two points we would like to make in relation to cost assessment. The first, on Ofgem's request for stakeholder views on approaches to determining proxy measures that would enable Ofgem to assess whether with hindsight more cost effective and efficient decisions could have been made, and the second on Ofgem's proposal to offset costs against the Operational Performance Regime (OPR) if it is unable to determine a proxy measure.

Firstly, Ofgem argues the proposal to implement a proxy measure has arisen from customer concerns that DCC left the DSP contract extension too late and that the decision to run a full procurement for 4G comms hubs has delayed the programme and added to costs. Even Ofgem have stated it is difficult to determine whether these approaches resulted in additional costs and if it did what the quantum of these costs would be. Therefore, the application of a proxy as a 'general rule' is likely to deter DCC from taking a strategic approach to its commercial activities, instead opting for a highly risk averse full procurement for every new service which often delivers sub-optimal outcomes.

For example, there was a very clear rationale for the sequencing of events for the DSP contract extension. DCC started by negotiating improvements to the existing contract, such as DCC ownership of the IPR and cost transparency. Once these were secured the contract extension could then be negotiated on much better terms.

Secondly, proposing to take instances of cost inefficiency into account as part of the OPR conflates the incentive regime and cost assessment. The criteria for cost disallowance and OPR decisions are different. If Ofgem does wish to pursue this route, it should do so by consulting on changes to the OPR guidance. This will allow DCC and Capita to assess the totality of the proposals.

If you wish to discuss any points in this letter, or indeed any other aspects of the Price Control, please do not hesitate to contact me. I would be happy to discuss any of these points in more detail,

Yours sincerely

P. Elliott

Patrick Elliott
Chief Strategy & Product Officer, Capita Public Service