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22nd December 2021

Sent by email to: Smartmetering@ofgem.gov.uk

Dear Ayena,

**DCC Price Control: Regulatory Year 2020/21**

Centrica's response to DCC Price Control: Regulatory Year 2020/21 is non-confidential and may be published. Answers to Ofgem's consultation questions are in the attached appendix.

We remain unconvinced that DCC is economic and efficient for internal and external costs. As evidence of DCC's inefficiency, DCC Users often need to use additional resources to fix or workaround defects in the DCC's Service providers systems and / or processes and DCC continues to spend money on non-mandated projects. For example,

- Failed Firmware Over the Air (OTA) upgrades are manually checked before activation, when the alert is not received, and Firmware OTA campaigns rerun numerous times to mop up the >50% failed upgrades[1].
- Install and Commission (I&C) processes failing in the north region, around Manchester, which DCC and Arqiva were unaware of. Starting in November 2020, it took significant effort to prove to DCC that the faults were not within British Gas' devices, systems, or processes, when Arqiva should have been monitoring and seamlessly rectifying issues.

DCC continues to charge its Users for speculative and business development work such as electric vehicles, whilst also spending money on the Customer Portal for little benefit. We have seen no engagement from DCC with the energy industry for electric vehicles, although we are aware of its proof of concept underway in Manchester. The Customer Portal (using the SalesForce platform) was DCC's response to Ofgem's call for more transparency from DCC on its customers' consultation responses and wider engagement; this could have delivered via the SmartDCC website. However, the Portal was sold to DCC Users as a 'one-stop shop' for access to DCC information from updating our Nominated Contact List (for the DCC's Service Centre) to accessing the Order Management System (OMS); none of which were delivered.

[1] CSP N PM2 performance for RY 20/21 on average 46.9%, see OPSG_49_2405_04 - Appendix B - DCC Performance Measurement Report Tracker - March 2021 (GREEN).xlsx attached

We urge Ofgem to revisit the external cost decision and analyse costs against the additional expense DCC Users are facing and end consumer inconvenience. We also ask that Ofgem disallows the entire internal expense of the DCC's Customer Portal, regardless of the Regulatory Year it was spent.

DCC's performance in RY 2020/21 was not above target and we strongly disagree with Ofgem's minded-to position. The performance witnessed by DCC's customers, evidenced in the Performance Measurement Report (PMR) and additions to SEC Ops Group's Issues log each month, clearly refute DCC's claim. Whilst we understand smart metering is transitioning between the two performance regimes it remains important that DCC is held to account for what it failed to deliver during key rollout years.

Whilst we agree with Ofgem's analysis of DCC's contract management performance, it is important to point out that straightforward contract changes remain unchanged by DCC with its Fundamental Services Providers. Within the monthly PMR, there is an incorrect formula for calculating the successful delivery of Power Outage Alerts for greater than 50 CHs (PM12.2), with results averaging 393%. DCC have been using the incorrect formula since February 2019, when CSP central first reported PM12.2. We are surprised that, to date, a simple contract change, such as an incorrect formula, has not been amended, perhaps signifying the lack of drive in DCC to make contractual changes.

For the avoidance of doubt, we support the equivalent responses from both EUK and SEC Panel for the DCC's PCR RY 2020/21.

We hope our response is helpful, and we urge Ofgem to reconsider the DCC's performance using the evidence from DCC's Performance Measurement Report. I am be happy to discuss any points in detail.

Yours sincerely,

Rochelle Harrison
**Centrica Regulatory Affairs, UK & Ireland**

## Appendix – responses to consultation questions

External Costs

**Question 1:** What are your views on our proposal to accept DCC's External Costs incurred in RY20/21 as economic and efficient?

We strongly disagree.

We remain unconvinced that DCC is economic and efficient for internal and external costs. As evidence of DCC's inefficiency, DCC Users often need to use additional resources to fix or workaround defects in the DCC's Service providers systems and / or processes and DCC continues to spend money on non-mandated projects. For example:

- Failed Firmware Over the Air (OTA) upgrades are manually checked before activation, when the alert is not received, and Firmware OTA campaigns rerun to mop up the >50% failed upgrades[2]. Each rerun OTA campaign costs BG approximately £10k in 3rd party support costs, regardless of campaign size.
- Install and Commission (I&C) processes failing in the north region, around Manchester, which DCC and Arqiva were unaware of. Starting in November 2020, it took significant effort to prove to DCC that the faults were not within British Gas' systems or processes, when Arqiva should have been monitoring and quickly rectifying issues. Failed I&C processes cause Energy Suppliers / Installers to revisit end consumers' homes, causing additional end consumer inconvenience and cost. It took several months to resolve.
- System and process defects are fixed using change requests rather than via a 'snagging list', resulting in DCC Users and end consumers paying twice and receiving a significant delay in functionality. Such as working prepayment functionality (due in SMETS2 release 1.3) finally delivered in October 2020 by Arqiva (EDMI CH), 2 years later than planned.

DCC continues to charge its Users for speculative and business development work such as electric vehicles, whilst also spending money on the Customer Portal for little benefit. We have seen no engagement from DCC with the energy industry for electric vehicles, although we are aware of its proof of concept underway in Manchester. The Customer Portal (using a SalesForce platform) was DCC's response to Ofgem's call for more transparency from DCC on its customers' consultation responses and wider engagement; this could have delivered via the SmartDCC website. However, the Portal was sold to DCC Users as a 'one-stop shop' for access to DCC information from updating our Nominated Contact List for the DCC's Service Centre to accessing the Order Management System; none of which were delivered.

We urge Ofgem to revisit the external and internal cost decisions and analyse costs against the additional expense DCC Users are facing and end consumer inconvenience. We also ask that Ofgem disallows the whole expense of the DCC's Customer Portal, regardless of when spent.

**Question 2:** What are your views on our proposal to disallow the variance in enduring forecast costs for S1SP_3b and a proportion of the UIT forecast costs for DSP?

We agree with Ofgem's minded-to position. Feedback from our own dealings with DCC for SMETS1 E&A highlight that business requirements are often set too early in the contract process without review or flexibility to change once device behaviours etc. are known.

[2] CSP N PM2 performance for RY 20/21 on average 46.9%, see OPSG_49_2405_04 - Appendix B - DCC Performance Measurement Report Tracker - March 2021 (GREEN).xlsx attached

Also, DCC appears to have a pattern of implementing quick workarounds rather than address and fix defects properly and on an enduring basis. Whilst we understand DCC has incentives using time-based milestones, workarounds simply pass the issue downstream towards the end consumer and are inefficient for the industry.

Internal Costs

**Question 3:** What are your views on our proposals on DCC's approach to benchmarking of staff remuneration for both contractor and permanent staff?

Whilst the benchmarking has improved, we still believe that the full package should be included, not just the salary. We note, for example, that permanent employees receive a car allowance that is a percentage of their salary, however similar organisations have a fixed annual value dependent on grade.

We have concerns that DCC is recruiting permanent employees to drive DCC's growth agenda (i.e., looking at the next licence period), which should not be funded by the ring-fenced monopoly business[3]. As well as adding unnecessary costs to consumers through the baseline margin and shared service charge, we believe this practice is potentially anti-competitive.

**Question 4:** What are your views on our proposal to disallow the Shared Service Charge associated with external services procured for Additional Baseline activities such as NEP and ECOS?

We agree with Ofgem's minded-to position.

**Question 5:** What are your views on our proposal to disallow non-resource recruitment costs in the Commercial and Operations cost centres?

We agree with Ofgem's minded-to position, and we are concerned that the turnover in employees is increasing DCC's non-resource costs and productivity, especially at the senior levels in the organisation.

**Question 6:** Do you have any views on potential proxy measures to calculate cost disallowances in areas where DCC may not have acted economically and efficiently, but the dependencies and scale of the impact are not clear?

We find it inconceivable that the DCC is not able to inform Ofgem about the number of FTEs or hours used for each project / work area. We would expect DCC to have timesheets used in all areas of the programme delivery and relevant support functions, such as CTO, device teams, design authority etc.

If DCC cannot provide sufficiently accurate data to enable Ofgem to properly assess efficiency, then we question whether any cost allowance can be justified.

**Question 7:** When it is determined that DCC may not have acted in an economic or efficient manner, but an appropriate methodology cannot be applied to calculate the proportion of costs impacted, we propose to take these instances into account when deciding DCC's score under the Contract Management and Customer Engagement aspects of the OPR. What are your views on this proposed approach to be adopted from RY2021/22 Price Control, if an alternative measure is not determined?

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[3] Director Regulatory Design and Delivery - JN-122021-4547071 | Michael Page
Director of Policy and Markets: Smart DCC (pocketrecruiter.com)

We believe using the scores from the contract management and customer engagement to calculate a proportion of uneconomic costs is a blunt tool. As mentioned in question 6, we believe using DCC's timesheets would be more accurate measure and a better incentive.

**Question 8:** What are your views on our proposal to disallow forecast variances in Network Evolution, SMETS1, and ECoS programmes?

We agree, although we note it does not impact charges to DCC Users.

**Question 9:** What are your views on our proposal to disallow the costs associated with DCC's activity relating to EVs? Please provide any evidence if you have engaged with DCC in this area.

We agree with Ofgem's minded-to position. We have no evidence as DCC has not offered us any engagement with EV development. Although we are aware of DCC's proof of concept in Manchester.

**Question 10:** What are your views on our proposals to disallow forecast cost variances in the Corporate Management, Commercial, Finance, Operations, and Programme (Service Delivery) Cost Centres in RY21/22 and RY22/23, and all baseline forecast costs for RY23/24 onwards?

We agree.

We are concerned that DCC plan to spend £10m until Licence renewal on the Business Accuracy Programme, which (according to DCC's presentation at its Quarterly Finance Forum in early December 2021) will only generate net benefit after Licence renewal. The Business Accuracy Programme is potentially anti-competitive, as well as being financially wasteful, given it will not recoup its costs unless Capita regains the Smart DCC Licence. Any new incumbent is likely to have its own invoicing, reporting systems etc. which will make the Business Accuracy Programme changes redundant. We urge Ofgem to challenge whether the programme, with its current scope, is value for money and has any negative impact on the Licence retender.

<u>Performance Incentives</u>

**Question 11:** What are your views on our proposed position on DCC's performance under OPR and trial run for customer engagement, and implementation of the contract management incentive?

DCC's performance in RY 20/21 was not above target and we strongly disagree with Ofgem's minded-to position. The performance witnessed by DCC's customers, evidenced in the PMR (spreadsheet attached) and additions to SEC Operational Group's Issues log each month clearly refute DCC's claim. (The SEC Panel response includes the SEC Ops Group Issues log.)

The SDM2 performance was below target during RY20/21, it was on average 97.21% (target 99%). SDM2 is measured using CPM1 and 2 in DCC's PMR – CPM1 (Percentage of On-Demand Service Responses delivered within the applicable Target Response Time) and CPM 2 (Percentage of Future-Dated Service Responses delivered within the applicable Target Response Time). The use of CPM3 (Percentage of Alerts delivered within the applicable Target Response Time) is incorrect and using a weighted average across CPM1-3 is also incorrect; alerts are not service responses.

It is likely that DCC's performance for RY2019/20 has decreased as Arqiva discovered a reporting error in summer 2020, which impacted their PM2 success rate and Arqiva restated all its percentages for Firmware payloads back to early 2018.

We understand smart metering is transitioning between the two performance regimes, it remains important that DCC are held to account for what they failed to deliver during key rollout years.

Whilst we agree with Ofgem's analysis of DCC's contract management performance, it is important to point out that straightforward contract changes remain unchanged by DCC with its Fundamental Services Providers. Within the monthly PMR, there is an incorrect formula for calculating the successful delivery of Power Outage Alerts for greater than 50 CHs (PM12.2), with results averaging 393%. DCC have been using the incorrect formula since February 2019, when CSP central first reported PM12.2. We are surprised that, to date, a simple contract change, such as an incorrect formula, has not been amended, perhaps signifying the lack of drive in DCC to make contractual changes.

<u>Baseline margin and External Contract Gain Share</u>

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

We agree with Ofgem's minded-to position.

**Question 13:** What are your views on our assessment of DCC's application to adjust its ECGS?

It is very difficult for DCC Users to assess savings DCC have generated against the forecast costs received. However, all the savings to date appear to rely on refinancing Service Providers rather than system or process improvements, which is disappointing in its lack of ambition.

<u>Switching</u>

**Question 14:** What are your views on our proposed position on DCC's costs associated with the Switching Programme?

We agree with Ofgem's minded-to position.

**Question 15:** What are your views on our assessment of Delivery Milestone 2 and Delivery Milestone 3 of the Switching Programme?

We agree with Ofgem's minded-to position