Centrica's response to DCC Price Control Review RY 2021/22

We were alarmed to read that DCC had non-competitively procured some contracts, in breach of its own policy and Licence and did not provide enough justification or evidence for areas of spend, whilst also restating some costs from previous years.

Having seen improvements in customer engagement, we are still not receiving the level of cost transparency or explanation we require to understand the movement in DCC's charges. DCC has the opportunity to improve its cost transparency with 4G CHs and Network, and we strongly encourage its Finance and Commercial team to engage with us.

For the avoidance of doubt, we support the EUK PCR response.

<u>External Costs</u>

Question 1: What are your views on our proposal to disallow a portion of External Costs associated with programme delivery?

We agree with Ofgem's proposal.

Question 2: What are your views on our proposal to remove from the forecasts all costs associated with 'CSP-C&S price support' from RY22/23? Do you have any views on the issue of Working Capital Charges?

We agree with Ofgem's proposal. We remain convinced that DCC's contracts with the CSPs should protect against CH price hikes.

Question 3: What are your views on our proposal to disallow £108.22m of forecast External Costs?

Whilst it has no impact on the charging statement, indicative charging statement nor budgets, we agree with Ofgem's proposals.

Question 4: Have you got any other views on External Costs?

Our biggest concern with external costs, and linked to contract management, is that DCC does not manage contract changes or renewals appropriately, leading to significant delay and then forced to accept Service Providers' higher than expected costs due to time constraints / urgency to deliver. DCC often takes months to negotiate and then presents to stakeholders without full explanation and having not taken end consumers into account.

The DSP technical refresh is an example of this behaviour. DCC knew in April 21 that a technical refresh was required but took six months to present to the SEC Operational Group and wanted to take the system down for a significant time in November 21 to begin the process. DCC had not considered the impact on end consumers, particularly prepayment customers who tend to increase the number of vends in October / November. DCC seemed surprised that its customers were uncomfortable with the plan.

<u>Internal costs</u>

Question 5: What are your views on our proposals on DCC's approach to benchmarking of staff remuneration for both contractor and permanent staff?

We agree with Ofgem's proposal but remain concerned that the whole renumeration package is not benchmarked.

We also remain concerned that DCC are hiring employees to manage the Licence renewal (Capita should be funding this, outside of DCC costs) and spending significant resources on cultural changes (corporate values etc.) that should form part of the Shared Service from Capita. We believe DCC continues to employ resources that should come from the Shared Service overhead. By employing directly, DCC can inflate its internal charge, apply the Shared Service overhead, and potentially increase its baseline margin, giving Capita additional profit.

Question 6: What are your views on our proposal to disallow costs associated with non-competitive procurements where we have not received satisfactory justification or evidence?

We believe these non-competitive procurements, particularly if to a linked business should be disallowed and DCC investigated for Licence breach.

Question 7: What are your views on our proposal to disallow the costs of the Order Management System, Customer Engagement Portal, and the Executive Leadership Programme?

We have actively called out the wasteful spend by DCC on the Customer Engagement Portal for several years and we agree the costs should be disallowed. We would also like the previous uneconomic spend on the CEP to be reclaimed from DCC on behalf of energy consumers.

We agree with Ofgem's proposals for disallowing the spend for the OMS and Executive Leadership Programme. The Executive Leadership Programme appears to be another area that should be covered by Capita's Shared Service charge.

We are concerned that this year we have witnessed DCC spending money on large (all employee) two-day conference at Old Trafford Football Ground, when Capita must have facilities DCC could use. Plus, spending time and money taking its senior leadership team to the Williams F1 facility, again this could have been hosted within Capita's facilities. The scale of DCC's leadership team was also a surprise given the circa 600 FTEs.

Question 8: What are your views on our proposal to disallow costs directly associated with the Business Accuracy Programme?

We agree with Ofgem's proposal to disallow costs for the Business Accuracy Programme. DCC's has still not shared the benefits that impact its customers or end consumers, simply how quickly the benefits pay back. We believe all the benefits of the BAP remain within DCC and Capita, meeting its regulatory reporting commitments.

Question 9: What are your views on our proposals on the Shared Service Charge?

We agree with Ofgem's proposals.

Question 10: What are your views on our proposal to disallow costs associated with the product management team, DCC's work on EVs and additional products?

We agree with Ofgem's proposals to disallow costs associated with the product development team and work on EVs. DCC should be more cautious of using its monopoly position to gain from a competitive market, especially when there has been no mandate from government or the Authority.

Question 11: What are your views on our proposal to disallow forecast cost variances in RY22/23 and RY23/24 in the Corporate Management (including Policy and Markets team), Finance & People, and Operations cost centres, and the Network Evolution, SMETS1, and ECoS programmes; and all baseline forecast costs for RY24/25 onwards?

We agree with Ofgem's proposals. As mentioned in previous PCR responses, we are concerned that DCC are directly employing a team to work on the Licence retender and lobby for access competitive markets.

Performance Incentives

Question 12: What are your views on our proposed position on DCC's System Performance?

We are concerned that the CH delivery deferrals have not been correctly reported and therefore DCC is not completely covered by SEC Panel exemptions. We note that the SEC Panel approved a performance let for Arqiva deliveries in August 2021, however as you can see from the table below, BG experienced further deferrals in subsequent months. Even with a SEC panel exemption, DCC should accurately measure its delivery performance.

DCC informed us of the deferral dates and quantities, we had no choice but to accept. The volumes were often deferred again. We do not believe it is reasonable to defer deliveries by more than the order month, the VMO2 volume in Feb 22 was delivered over six months later. DCC used the 'reasonable' wording (in SEC appendix H, section 6.5-6.9) to argue its performance was aligned to code. Whereas Parties can only move delivery by 5 days, must stay within the same delivery month and can incur non-standard delivery charges. For the avoidance of doubt, deferring a delivery by more than a month is not reasonable.

	Arqiva deferred CH	**PMR CH Del 1.1 %**	**VMO2 deferred CH**	**PMR CH Del 1.1 %**
Aug-21	896	No events		100
Sep-21	1,792	100		100
Oct-21	1,792	100		100
Nov-21		100		100
Dec-21	4,480	100		100
Jan-22	2,688	100		100
Feb-22		100	55,104	100
Mar-22	6,272	100		100
Apr-22	10,752	100		100

Further deferrals continued to Aug-22 for both CSPs.

The RIGS template needs to be reviewed as it does not capture DCC's performance in the same way as the Performance Measurement Report and allows DCC to hide poor performance in average calculations. We spelt out our concerns in the last year's PCR response, our view is unchanged.

Question 13: What are your views on our proposed position on DCC's Contract Management?

We remain concerned that DCC do not align its Service Providers' contracts with changes needed by the Smart Energy Code and its customers' requirements. DCC proved its reticence to make contract changes during the original, DCC hosted, OPR workshops when it insisted on keeping a principle of no Service Provider contract changes; all stakeholders disagreed with this principle.

We are deeply concerned that DCC has not competitively procured the contracts highlighted by Ofgem's review and believe DCC has breached its own policy and potentially Licence in doing so. We urge Ofgem to investigate further. We also note the gap in the contract management audit between reviewing the Fundamental Service Providers and smaller contracts that have not been competitively procured.

Question 14: What are your views on our proposed position on DCC's Customer Engagement?

We believe the SEC Panel score should be adopted for DCC's Customer Engagement score, rather than the middle ground between SEC Panel and DCC. DCC has an incentive to paint a positive picture of engagement, whereas the SEC Panel has been even handed in its feedback and a fairer point of view.

We also believe that the scoring system for Customer Engagement is flawed and should be revised to a score out of 5, with 5 being excellent to 1 being very poor. The new scoring range would give increased granularity and represents a more intuitive scale.

DCC's customer engagement, whilst slowly improving, remains mixed. We continue to see areas in DCC where the end consumers' experience or impact is an afterthought, particularly in project delivery. We also remain concerned at the expanding team in Customer Engagement, who appear to work in a silo from DCC's Service Management team.

We continue to offer advice to DCC that feedback on consultations, business plans etc should be signposted by stakeholder groups rather than all stakeholders. We have great difficulty in seeing our feedback represented in DCC's decision documents or consultation responses as it is wrapped up in generic customer or stakeholder positions. DCC should summarise feedback by large / small energy suppliers, network owners, other users, consumer groups etc., which would help us all understand whether our opinion is aligned to energy suppliers (for example), and we as a group have been listened to.

<u>Baseline adjustment and external contract share gain</u>

Question 15: What are your views on our assessment of DCC's application to adjust its Baseline Margin?

We agree with Ofgem's proposals to reduce DCC's Baseline Margin allowance.

Question 16: What are your views on our assessment of DCC's application to adjust its ECGS?

We do not have enough information to properly assess DCC's application for ECGS. However, we have concerns regarding what base costs and run rates DCC has used in calculating the savings for consumers. For example, the original test lab costs for SMETS2 go-live cannot simply be rolled forward as the test scope and usage has decreased significantly since SBCHs, then dropped again more recently when DBCHs went live.

We believe the test labs are not a mandatory business service for the DCC and could be explicitly charged based on usage by external parties, except if related to service incident fixes or CH defects.

We cannot see the cost savings that DCC claims in ECGS. We have frequently asked DCC's Finance team to explain the increases in SBCH and DBCH rental charges (CH fixed), and why the 10-year rental of CHs is significantly higher than the redeployed cost within the same charging statement. (Please see spreadsheet analysis attached to email, this has been shared with DCC previously). We have not, to date, received a satisfactory explanation, except that an error occurred in a previous year and financing over a smaller volume.

<u>Switching</u>

Question 17: What are your views on our proposed position on DCC's costs associated with the Switching Programme?

We agree with Ofgem's proposals on DCC's costs for the Switching Programme.

Question 18: What are your views on our assessment of Delivery Milestone 4 of the Switching Programme?

We agree with Ofgem's assessment of DCC's performance for delivery milestone 4 of the Switching Programme.

<u>Over-recovery of revenue</u>

Question 19: What are your views on our proposal on DCC's over-recovery of revenue?

We believe DCC should pay the penalty interest for over recovering 113% of its allowed revenue. DCC has consistently over recovered allowed revenue each year and ignored stakeholders' advice that adding additional funds via a 'prudent estimate' is not in keeping with its Licence. The 'prudent estimate' is not a defined term, simply advice to produce a conservative estimate (LC36.5) and avoid in year changes to Service Charges. DCC appear to use the 'prudent estimate' as a contingency fund, which was confirmed during the last Quarterly Finance Forum by Jason Clark (DCC's Finance Director).

DCC's needs to understand that overcharging consumers will not be accepted by making it pay penalty interest.

ENC

- SBCH / DBCH cost increase analysis – spreadsheet
- Finance query email chain