

Ayena Gupta
Head of DCC Oversight and Regulatory Review
Ofgem
10 South Colonnade
Canary Wharf
London E14 4PU

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Sent by email only to: DCCregulation@ofgem.gov.uk

Dear Ayena,

Centrica response to DCC Price Control: Regulatory Year 2022/23

We welcome the opportunity to comment on Ofgem's review of DCC Price Control for Regulatory Year 2022/23.

Our response is not confidential and may be published.

We agree with Ofgem's proposed positions and have provided answers to the specific consultation questions in Appendix A.

If you would like to discuss any aspect of this response, then please do not hesitate to contact me.

Yours sincerely,

(by email)

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Appendix A - Consultation Questions

Question 1: What are your views on our proposal to disallow £4.159m in incurred External Costs and £12.406m in forecast External Costs associated with DCC's procurement of an interim solution for the SMETS1 supply chain?

We agree that funding a Service Provider that no longer is offering a service, effectively duplicating payments, is not economic nor efficient.

We also agree that consumers should not pick up the set-up costs of the new SP. If a Service Provider in a competitive market went under, the party that had subcontracted would need to rectify the situation to not lose customers; this needs to be the case for the DCC and its Service Providers too.

We agree that DCC needs to run a competitive procurement for the SP contract (signed in an emergency), as soon as possible.

Question 2: What are your views on our proposed cost disallowance of up to £2.675m in relation to SMETS1 service stabilisation in RY22/23?

We agree, however, should DCC receive so many chances to produce the evidence Ofgem requires, especially since this is the 10th price control return (since RY13/14). Perhaps an incentive for DCC to produce quality information in the RIGs could be disallowance of the full £2.675m without another chance to provide information.

Question 3: What are your views on our proposal for a disallowance *up to* the amount of External Costs incurred on a directly awarded contract in the 4G CHs & Networks programme?

We agree with Ofgem's proposal.

Question 4: What are your views on our proposal to disallow £44.054m in forecast FSP External Costs?

We agree, it is important for Ofgem to disallow these forecasted costs and ensure that DCC explains its rationale in future regulatory years when costs are more certain.

Question 5: Do you have any other views on External Costs?

Contract management, alongside programme delivery, is a fundamental function of DCC, we remain concerned that DCC chose not to competitively procure a 4G contract, which could be a breach of licence.

We wish to highlight, for next year's PCR, the disconnect between DCC's Logistics and GBCS 4.1 project teams that did not work together on the end of components for Toshiba 2G/3G CHs and Toshiba GBCS 4.1 Firmware, resulting in testing firmware that will never be manufactured. This has wasted time and resources in DCC and energy suppliers from testing install and commission, and the initial pilot. More information can be found in the SEC operational group papers and minutes.

Question 6: What are your views on our proposals on disallow a 50% proportion of the RY22/23 resource costs associated to Corporate Management, Design and Assurance, Security cost centres and the Network Evolution programme?

We agree with Ofgem's proposal.

Question 7: What are your views on our proposals on DCC's approach to benchmarking of staff remuneration for both contractor and permanent staff?

DCC's benchmarking looks reasonable, and we have no strong view. We do, however, worry about the significant increase in FTE numbers and the continual rise in staff numbers, particularly in areas such as Finance that recently had an 'improvement' programme, i.e., the BAP.

We are also concerned over the continued high attrition of staff within DCC and the loss of corporate knowledge that continues, impacting previous decisions made, high numbers of feedback requests from new starters and covering old ground in forums etc. Perhaps an attrition benchmark against other monopoly businesses such as DNOs and third-party service providers would be useful.

Another area of concern is the use of Capita contractors, which appear to have a significant mark up on the rate, not accounted for by inflation alone. Comparing contractor costs in paragraph 4.25 between Regulatory Years:

RY21/22	186	£11.7m	£63k pa on average
RY22/23	255	£22.2m	£87k pa on average

"last year DCC excluded some consultant resource contracted from Capita". Using the numbers from the consultation appears to show that Capita consultants receive an additional £24k per annum on average, not adjusted for inflation.

Question 8: What are your views on our proposal to disallow the continued costs that are linked to the activities that we disallowed in RY21/22 – these include additional costs associated with the Executive training programme, innovation and growth as well as a continuation of the RY21/22 non-competitive procurements?

We agree and are surprised that DCC has not closed these programmes down.

Question 9: What are your views on our proposal to disallow a proportion of the costs linked to the activities that we consider not have been resourced in the most economic and efficient way?

We agree with Ofgem's proposal.

Question 10: What are your views on our proposal to disallow costs directly associated with the Business Accuracy Programme?

We agree with Ofgem. We have seen no benefit for DCC's customers or energy consumers from the BAP, even after challenging DCC at QFF and SEC Ops to present these; all the benefits presented related to DCC / Capita only.

Question 11: What are your views on our proposal to disallow costs associated with the RY22/23 non-competitive procurements for which we have not received satisfactory justification or evidence?

We agree and welcome Ofgem's stance on disallowing non-competitive procurements. We also urge Ofgem to investigate whether DCC has breached its Licence.

Question 12: What are your views on our proposals on the Shared Service Charge?

We agree with Ofgem's assessment. DCC continues to recruit for employees / contractors (in internal costs) for roles / services that were originally covered by the Capita overhead, such as HR – culture and values and IT systems (Enterprise IT). This could give Capita triple revenue from DCC – for the employee / contractor costs, increased baseline margin and increased shared service charge.

Question 13: What are your views on our proposal to disallow forecast resource cost variances in RY23/24 and RY24/25; and disallow all baseline forecast costs for RY24/25 onwards?

We agree it is important for Ofgem to disallow these forecasted costs and ensure that DCC explains its rationale in future regulatory years when costs are more certain.

Question 14: What are your views on our proposed position on DCC's System Performance?

We remain disappointed that the System performance does not match energy supplier or consumers' experience of DCC's system. It is neither as stable nor reliable as consumers need it to be. It is particularly frustrating for engineers in customers' homes not being able to rely on service requests being delivered or delivered on time to efficiently complete their work.

Our engineers (and we believe those of other energy suppliers) have more difficulty in the northern region getting all the devices to install and commission reliably due to intermittent WAN, which is not shown on the CH (via the light sequences). This leads to engineers sending more than one service request to ensure our process orchestration can complete, which is one of the reasons DCC believes it 'unfair' to use SRV 8.11 for system performance. Therefore, a workaround to help engineers I&C smart metering devices due to an issue with the CH is then used by DCC as a reason not to measure performance.

Question 15: What are your views on our proposed position on DCC's Contract Management?

We remain disappointed in DCC's contract management approach and perceived lack of holding its Service Providers to account.

We are very concerned that DCC has noncompetitively procured contracts and seeks extensions or emergency work orders / change requests to keep contracts going. There appears to be significant lack of planning and communication between DCC and its Service Providers behind this.

Question 16: What are your views on our proposed position on DCC's Customer Engagement?

Whilst it has improved over the last year, there are still pockets of poor practice, especially with the lack of transparency of costs and decisions, which ultimately impact consumer bills.

One example of poor practice is the DSP technical refresh / unplanned maintenance which was communicated by CGI to DCC in April 2022 but only communicated to DCC customers in Autumn 2022. The DSP technical refresh needed additional high impacting outage windows (i.e., taking down the system) from late October 2022 during peak prepayment / winter activity. Both DSP and DCC failed to recognise the impact on consumers of their bad planning and communication.

Question 17: What are your views on our proposed position on the assessment of the SMETS1 Baseline Margin Project Performance Scheme (BMPPAS)?

We agree with Ofgem's proposed position.

Question 18: What are your views on our assessment of DCC's application to adjust its Baseline Margin?

We agree with Ofgem's assessment and find it difficult to understand DCC's view that customer expectations have increased, particularly now there are fewer energy suppliers compared to the start RY21/22¹ and most industry forums are virtual / online, meaning less travel time.

We are regularly surprised at the number of DCC staff that attend industry forums organised by SECAS, The Dept and DCC itself, not just as an expert for a particular agenda item but remain throughout the meeting without contributing. It is difficult to perceive this use of DCC's resources as economic or efficient.

Question 19: What are your views on our assessment of DCC's application to adjust its ECGS?

We rely on Ofgem undertaking scrutiny here.

However, we believe DCC is too reliant on interest rate savings for ECGS and should be looking elsewhere for cost efficiencies. We are also concerned that justifying decisions based on current interest rates may lead to uneconomic decisions for 4G financing.

Question 20: What are your views on our proposed position on DCC's costs associated with Switching?

We agree with Ofgem's proposed position.

Question 21: What are your views on our assessment of Delivery Milestone 5 of the Switching Programme?

We agree with Ofgem's assessment.

Question 22: Do you agree with our proposal to apply a margin somewhere in the range of 7-9% when calculating BM adjustments from 01 April 2024 onwards? Do you have a specific figure that you think should be applied?

We agree that the baseline margin should attract a lower rate; particularly as we approach the new Licence period.

Question 23: Do you agree with our proposal to adjust the Shared Services Charge (SSC) from 9.5% to 4.5%?

Yes, although we believe it should be lower approaching zero. DCC has already brought 'in-house' several services which it should have received from Capita, including culture / value development, internal computer systems etc. It is unfair on consumers to continue to triple pay for these (via internal costs, baseline margin and shared service charges).

¹ <https://www.ofgem.gov.uk/retail-market-indicators> Number of active domestic suppliers by fuel type (GB) and Supplier entries and exits in the domestic energy retail market (GB)

Question 24: Do you agree with our proposal that any services provided to DCC by Capita, whether through a services contract or through the SSC arrangements, should not be eligible to earn any additional BM through the adjustment process from 01 April 2024 onwards?

Yes, we agree. Capita is likely to include a profit margin in the service contract with DCC, therefore adding the contract into internal costs and giving Baseline Margin further increases Capita profit at consumers' expense.

END