

Legal & Regulatory

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Dear Rob,

Thank you for the opportunity to respond to Ofgem's consultation on the **Data and Communication Company's proposed form of charging statement for 2014/15**. This is a non-confidential response on behalf of Centrica, excluding Centrica Storage.

At British Gas we have fully engaged with the smart metering programme, including the DCC since its inception, however we believe the transparency of the DCC's charging statement and modelling can be improved to help all users understand future charges. Throughout our engagement with the smart metering programme we have not been privy to the commercial commitments made to the DCC, simply the headline agreements between DECC and the winning contractors. Therefore the granular detail required by our business to forecast and budget has been missing and the DCC's charging statements do not currently fill this gap.

Our response answers your request for views on page 2 of the consultation documents and adds a further thought for your consideration.

Question 1. Does the charging statement provide sufficient clarity on the charges that Service Users will face?

Whilst we understand the price per meter within the DCC charging statement and how they calculated each price, there are several aspects that are not transparent and we have requested further clarity from the DCC and now Ofgem:

- The prudent estimate £7.6m does not form part of the DCC price control formula within their licence and increases their internal costs by 28%. DCC users need to understand whether this cost is allowable and if so, when the money will be returned to users at a neutral cost.

We have struggled to explain the prudent estimate to our business and what value it gives users. The explanation we have received from the DCC revolves around their need to be cash positive and remain liquid, i.e. they should not incur any debt. However our interpretation of the DCC's licence condition LC27 is that they should limit the level of debt they incur, not avoid debt altogether. Working capital arrangements are important for any business to manage and not being in debt at any point causes conflict with their licence conditions LC36 and their charging methodology. We hope Ofgem are able to clarify the debt issue as quickly as possible and enable the DCC's licence conditions to work more harmoniously together.

- We are also concerned that the DCC has requested to bring forward their baseline margin, which has been explicitly set in their licence, without sharing any reason for doing so with users. Our primary concern is that the DCC is unilaterally changing their licence obligations and it appears without consultation.
- The cost assumptions within table 1, on page 3 of the DCC charging statement has discrepancies in the size of the charging group (EMSMS_{gt}). We believe that not all parties have acceded to the Smart Energy Code (SEC) and those suppliers that have are currently being overcharged for the DCC's services. We need to understand when the outstanding suppliers will accede and what process will be followed to reconcile the payment for services. Using information from the charging statement, the level of overcharging is £30k per month or £260k per annum across the industry.
- We understand that performance incentives may need to be paid, however is not clear to us what success criteria the DCC will use to and how the money will be redistributed to users following missed milestones or underperformance. We hope Ofgem can clarify the arrangements.

Question 2. Is the Charging statement in a coherent and easy to navigate format?

On the whole the charging statement is easy to navigate and coherent, however the most useful information is in the Annex: commentary on charging statement and we feel should be incorporated within the main document.

We are unsure if the DCC charges are fixed per month or are profiled to follow when additional revenue is due to be spent, this will be particularly important when the mass rollout begins or there is a delay in the programme. We have concerns that the DCC could significantly over recover their costs in 2015/16 if the programme is delayed, which could undermine confidence in DCC by their main customers.

Question 3. Is the Charging statement accurate in all material respects?

Whether or not the charging statement is accurate is difficult for us to say, as we have had little sight of the contracts. Therefore we need assurance from Ofgem that the DCC is only recovering what it is allowed and in the correct regulatory years; particularly as the DCC have requested bringing forward revenue, 'prudent estimates' and a change in baseline margin.

Other issues.

We request that the DCC starts a Charging Methodology Forum in a similar vein to Distribution Charging Methodology Forums (DCMF) in gas and electricity. Currently the DCMFs meet at least quarterly to discuss changes in methodology, updated assumptions and views on what price changes are required for the next five regulatory years. We are willing to work with the DCC and other users in starting a Smart CMF and hope that Ofgem will be involved in shaping the meetings.

We hope you find our comments useful, if you have any questions please do not hesitate to contact me, details below.

Yours sincerely,

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