British Gas
Looking after your world

12th January 2017

Robyn Daniell
Ofgem
9 Millbank
LONDON
SW1P 3GE

Dear Robyn,

DCC Price Control Consultation: Regulatory Year 2015/16

British Gas' response to DCC price control consultation for regulatory year 2015/16 is non-confidential and may be shared on your website.

We broadly agree with Ofgem's assessment of the DCC costs for 2015/16; however we are reliant on Ofgem being thorough in its assessment, ensuring the DCC costs are economic and efficient. We offer the following areas for support and challenge for future assessments:

- We remain concerned that the DCC are able to consult on changes to their implementation milestones and write the report to the Secretary of State, virtually guaranteeing the milestone reward. The reoccurring slippage in System Integration Testing has had a significant impact on the Smart Metering Implementation Programme, especially Energy Supplier plans, therefore rewarding the DCC for milestone movement is not appropriate.

- We feel that the DCC's rationale for its over recovery of revenue in 2015/16 is commercially driven and urge Ofgem not to set a precedence in accepting that 'forecasting errors' are allowable without penalty.

We have answered the specific questions in your consultation in the appendix. Please do not hesitate to contact me on the number below, if you wish to talk through in detail.

Yours sincerely,

[via email]

Simon Trivella
Regulation Manager – Smart Metering & Code Governance Reform
British Gas
07769 547123

Appendix: Answers to consultation questions

1. *What are your views on our cost proposals?*

   We feel that the DCC's over uses contractor resource when permanent employees would be more appropriate, particularly where detailed knowledge is required. We have experienced duplicated conversations on numerous occasions where new contractors have started in short succession. This inefficiency slows down discussions, whilst duplicating work and using contractor resource is uneconomic in long term roles. Duplicated conversations have occurred, for example, in demand management and Comms Hub ordering processes.

   Accommodation costs should start to reduce after go-live as the DCC moves to a service organisation and increases the use of their Service Desk (provided by Capita) outside of London. We remain concerned that the DCC continues to focus resources in central London and incurs additional resource costs (FTE and accommodation) due to this. Within the DCC's business case for faster switching they clearly attribute the 50th - 90th percentile pay levels to the central London location, page 70, paragraph 234. As the energy industry is national with energy companies (suppliers and networks) operating in all regions the argument needing a central London location is flawed.

   The cost increases for CSP north, Arqiva remain opaque from the DCC and we would welcome further insight from either the DCC or Ofgem on why Arqiva's costs have increased. All we have been told to date is that the costs relate to an increase in network coverage. We understand that the DSP, CGI costs have increased due to rework (from GBCS issues) and testing delays.

   We welcome the use of a cap to the corporate overhead charge paid to Capita and the counterfactual rationale.

   We are surprised that the DCC have given the number of SEC modifications raised as rationale for increased resources and costs, particularly as the SEC mod process only opened in February 2016 and the DCC have so far failed to support the modification impact assessment process.

   The number of FTEs in table A3.1 appears to double count the Service Desk and Operations resources. The staff numbers in the DCC annual report for 2015/16[1] and the PCR consultation all match (or can be aggregated to match) except Operations and the Service Desk. We suspect that their respective costs have also been double counted.

   The increase in Corporate Management FTEs by over 35% is surprising and not adequately explained in the summary table on page 43.

2. *What are your views on our assessment of DCC's application to adjust their baseline margin?*

   We are disappointed that a 15% margin has been accepted for another regulatory year by Ofgem, which is a wholly inappropriate level for a ring fenced, monopoly business with low risk.

3. *What are your views on our assessment of DCC's performance against IM8?*

   DCC should not be able to consult on changes to their implementation milestones and write the report to the Secretary of State, virtually guaranteeing the milestone reward. The reoccurring

[1] DCC's annual report, page 42. https://www.smartdcc.co.uk/media/401318/annual_report_2016.pdf

slippage in System Integration Testing has had a significant impact on the Smart Metering Implementation Programme, especially Energy Supplier plans, therefore rewarding the DCC for milestone movement is not appropriate.

4. *What are your views on the DCC's voluntary reporting which explains its reasons for over recovery of revenue in 2015/16?*

   We feel that the DCC's rationale for its over recovery of revenue in 2015/16 is commercially driven and urge Ofgem not to set a precedence in accepting that 'forecasting errors' are allowable without penalty.