British Gas
Looking after your world

23rd December 2016

Rachel Clark
Ofgem
9 Millbank
LONDON
SW1P 3GE

Dear Rachel,

DCC Business Case for the Transitional Period of the Switching Programme

British Gas' response to the recent DCC switching programme business case consultation is non-confidential and may be shared on your website.

Our view is that the overall costs are too high and that this is driven by inappropriate approaches to use of contingency and management reserve. The overall impact of this approach is that consumers will pay £8m more than otherwise. We strongly urge Ofgem to review these issues.

British Gas remain concerned about the DCC's overall cost for the switching programme business case, particularly given this document only covers the transitional phase up to contract signature. We feel asking energy consumers to pay over £30m from 2016/17 to 2019/20 is a considerable amount of money for a detailed design and procurement process.

Whilst we note the resource costs have reduced since the initial draft, by £4m, we remain concerned about the use of contingency and management reserve and their inclusion in the overheads and margin calculations. We feel it is not appropriate to ask consumers to pay £3.5m over 4 years for 'contingency' and an additional £2.7m for 'management reserve'; thereby adding 35% to the DCC's base costs without an obvious benefit in return.

We also feel the inclusion of contingency and management reserve in the calculation for overheads and margin is unacceptable. This simple inclusion adds £1.8m to the costs, again for no consumer benefit.

Use of Contingency by DCC

British Gas believes that the party which is best able to control the risk should be the party to manage it and they should be incentivised to manage the risk. Paying the DCC upfront for known risks in the form of contingency does not incentivise them to manage or mitigate, whilst forcing customers to over pay for the initial stage of the switching programme.

At the additional Switching Programme Delivery Group meeting on 7th December 2016, DCC confirmed that the contingency amount was to cover the DCC's costs for the initial stage of the switching programme completing in 2020. The DCC said they had learnt from the Smart Metering Implementation Programme and the incremental movement of timescales. Energy Consumers should not be paying for the DCC to deliver a year later than their business case suggests and 18 months to two years later than Ofgem have planned.

Management reserve

The DCC have specified that the Management Reserve has been included in their business case to cover 'unknown unknowns' as a proportion of costs: we believe this figure is 15% of base costs. If the programme identifies unknown risks they should be managed in a similar way to Network price controls with uncertainty mechanisms or a rebase-lined business case for cost escalation. This protects consumers from mismanagement of risks and incentivises, by improving transparency and allowing industry challenge, whilst ensuring the DCC actively review and manage their programme.

Switching milestones

We note that the DCC have the contracts signature milestone in their business case as October 2019, whilst Ofgem believe the contract signature should be complete by the end of December 2018. We urge Ofgem to set the DCC an achievable timescale and not be swayed into setting milestones based on political appetite, which will inevitably lead to delay and increased cost.

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 want to talk through in detail.

Yours sincerely,

Sharon Johnson
Head of Industry Development
British Gas
07789 570250
[via email]

Appendix: Answers to consultation questions

1. *Is DCC's approach, as outlined in the business case, clear enough about how DCC will account for activities it is asked to undertake and how delivery can be assessed?*

   No, whilst the structure is clear, the cost and delivery per activity are not. The costs have been redacted at the activity level and the delivery scope is subjective. We are concerned that measuring the delivery scope and therefore judging the cost scenario in which it resides is difficult, compromising industry challenge and potentially reducing value for money.

   We are also concerned that the products have not been fully decided and the scope of DCC's activities are not clear, which is likely to cause a mismatch between this published business case and the 2017/18 charging statement. With the final costs published in March 2017, just before the regulatory year commences, this could cause a pricing shock to the industry, particularly for smaller suppliers.

2. *Are the business case's structure and base assumptions clear enough to use in setting a realistic programme budget and forecast charges as part of the ex post plus regime? What can be done to address any concerns*

   No, the scope tables in 7.3.1 through to 7.3.4 are useful, however without the cost for each area and the difference in cost between the baseline, high and low scenarios, we remain wholly reliant on Ofgem's scrutiny to ensure value for money for customers. Even relative costs for the high and low scenarios compared to the baseline would be useful and we hope will be shared to improve transparency in the near future.

   Also many areas of the scope appear subjective in what the DCC is expected to deliver, i.e. "Moderate solution" in the complexity of the technical solution. Either examples or a breakdown of the headline requirements would help to assess whether the baseline scope is adequate or another scenario is more appropriate.

3. *For those activities that Ofgem is proposing should be carried out by DCC but could be carried out by other parties have the correct activities been assigned to DCC or would other industry partners be better placed to take these on? If so, which activities, which industry partners and why would they be better placed?*

   The activities we believe are best delivered by DCC are spelt out in the table below, with further narrative for our reasons. Where we suggest a tender process for an alternate provider, we would expect that a competitive tender process is undertaken by the DCC to ensure the best value for customers.

Activity	**DCC Lead**	**Who else**	**Why**
CRS Technical Spec	Yes	N/A	As previously consulted
CRS procurement	Yes	N/A	As previously consulted
Security activities	No	Tender	Different solution required compared to SMIP security; a tender process could draw out the best value for money for customers.
Service Management	No	Tender	A portable design could be delivered reasonably competitively, potentially offering customers better value for money
Data Improvement	No	Tender	DCC have no obvious experience of this and

			with the data issues in the industry, would warrant excellent management.
Market Intelligence	No	Tender	A website with a daily feed from DCC and other parties could be competitively tendered relatively cheaply.

The security design and other activities could be undertaken by one of various information security consultants or software houses. We believe a less prescriptive security model is required for the central registration service compared to smart metering, enabling a wider tender process. If Capita or DCC's current Service Providers can deliver the full service without impacting on SMIP and for a competitive price they could be included.

A service management function for the faster switching programme should be highly portable and contract managed by the DCC. We believe it is in the best interests of consumers to check the cost via a competitive tender rather than assume it is absorbed into the DCC/Capita service management framework.

We feel that the DCC has limited data improvement experience and currently limited energy industry experience. The data improvement function will be crucial to the faster switching programme's success, ensuring the reliability of the switch occurring, which we believe is the key requirement of consumers. The data improvement service will need to work collaboratively with various energy parties and their expertise will be invaluable in managing the numerous data misalignments and errors. We would expect the majority of energy industry agents, including Xoserve and St. Clements to bid for this role.

The Market Intelligence service is also a portable function, which could take daily feeds of a sub section of registration data from the DCC to answer questions from the industry and consumers. With service level agreements on the speed of answer and quality of information, the DCC could relatively easily contract manage this service rather than deliver themselves. Again we would expect the majority of energy industry agents to bid for this role, including Gemserv / MRASco.

Potentially the service management, data improvement and market intelligence activities could be delivered by the same organisation if it provides the best value for money, in terms of service quality and cost.

4. *Should the management reserve and contingency (section 11.4) be included within the upfront charges on the industry and what is the justification for this? Does the level of management reserve feel appropriate for the switching programme, taking into account the type, scale and actuality of potential unknowns?*

No, British Gas believes that the party which is best able to control the risk should be the party to manage it and they should be incentivised to manage the risk. Paying the DCC upfront for known risks in the form of contingency does not incentivise them to manage or mitigate, whilst forcing consumers to over pay for the initial stage of the switching programme.

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The DCC have specified that the Management Reserve has been included in their business case to cover ‘unknown unknowns’ as a proportion of costs: we believe this figure is 15% of base costs. If the programme identifies unknown risks they should be managed in a similar way to Network price controls with uncertainty mechanisms or rebase-lined business plans for cost escalation. Therefore protecting consumers from mismanagement of risks and incentivising the DCC to actively review and manage their programme.