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

Dear Jacqui,

Centrica response to Call for Evidence: Review of the regulatory arrangements for the Data Communications Company

We welcome the opportunity to comment on the call for evidence. As there are no questions in the call for evidence we have been guided by the scope in the consultation. Our evidence to support the points below is included in a confidential appendix, separately attached on email.

Future role of Smart DCC

We firmly believe that DCC will need to concentrate on stabilising and improving the reliability of the smart metering infrastructure before widening the scope of mandated business in the new licence period. DCC must concentrate on its core activities until at least 2033. For example, the introduction of 4G Communications Hubs and Wide Area Network in early 2024; this rollout will continue to 2G/3G sunsetting and SMETS1 end of life swap-out. Taking DCC until at least 2033 before the baseline services need review. Any further services or role for DCC post 2033 must support the energy industry in helping GB reach net zero by 2050.

Also, DCC's objectives need to be matched to those of DCC Users, the current DCC licence has a disconnect between the previous Energy Suppliers' obligations to achieve rollout by all reasonable steps and the new hard percentage completion by 2025. Smart DCC must have matching obligations to ensure the whole industry achieves the same aim, whilst being economic and efficient.

The same licence pressure as applied to Energy Suppliers for complete and efficient smart metering rollout should be applied to DCC and their Service Providers. Much of our current rollout delay (outside of COVID 19 restrictions) has been from poor performance in CSP north, including their failure to provide viable prepayment functionality in their Communications Hub. Currently, the Install and leave rates for CSP north are 10% compared to central and south at 3.5%. Install and Leave is a last resort for Energy Suppliers as we need to return to the customer and complete the work, leaving us out of pocket and our customer inconvenienced. Please see confidential appendix for details.

Regulatory Framework to offer additional services

The current regulatory framework for DCC to offer explicit and value-added services does not work. The explicit service does not allow innovation in smart metering messages to be commercially viable due to the short tenure of exclusivity and testing limitations. The value-added service cannot be offered whilst the DCC's ecosystem is under constant development and has an unstable code base.

We understand DCC's preference to offer value-added services and be able to set their preferred profit margin, however DCC are a monopoly entity, wholly paid for by their Service Users. If the licence holder wished to offer services to other entities outside of their core Service Users, a separate funding stream should be allocated by the licensee's shareholders, which also pays for a reasonable proportion of the system capacity and resources that service would use.

For the Licensee to offer value-added / non-core services they must guarantee resources for the delivery of the core services. Otherwise, there is a potential unintended consequence of the DCC concentrating more on non-core services due to unregulated margins. Also, the Licensee must bear 100% of the risk for any liabilities for data breaches etc for these non-core services.

Services we would expect DCC to offer existing Service Users would be bespoke reporting or named resource within the DCC's Technical Operations Centre (TOC).

Delivery via contracted service providers or itself

We do not have a strong preference whether DCC contracts with Service Providers or delivers the service itself, if the performance criteria ensure end consumer's needs, DCC Users' Licence and the code obligations can be fulfilled.

However, DCC may need expertise outside its core specialisms and using competitively tendered Service Providers allows DCC to support the industry without the use of uneconomic consultants.

Effectiveness of the current Regulatory framework

Whilst the enduring governance is well established, the transitional governance has continued for longer than necessary and we expect BEIS to allow further developments in DCC's new licence period to be only Ofgem or industry led. Unfortunately, BEIS involvement in the ongoing smart metering development leads to confusion and DCC having too many governors. We need to see full transition to the enduring governance before the new licence period starts.

The most ineffective area of the current regulatory framework is the lack of transparency surrounding DCC's costs, particularly those costs that are socialised via the fixed charges. Recently, for example, we discovered (at March 2021 TBDG) that the setting up of testing facilities for meter manufacturers was socialised via the fixed charges to DCC Users. Whilst the daily testing charge has been explicitly charged to the meter manufacturer participants. As previously suggested, a cost challenge subgroup of the SEC Panel would help DCC overcome their transparency issues and could feed into the Price Control Review each year.

Effectiveness of Governance Structures

We believe that Ofgem and DCC have enough cost information to move the price control regime from ex post to ex ante. DCC has been running the smart metering ecosystem long enough for the cost of the baseline service to be well established. Any new major developments to the DCC's mandatory business could be separate business cases and performance regimes, like the Faster Switching programme, and sit outside of DCC's ex ante business case.

The DCC needs to focus on efficiency rather than growth of the service and much of the DCC's current programmes will have delivered and bedded in by 2025. Therefore, uncertainty mechanisms will only be needed in extreme cases and DCC can spell out their assumptions in the upfront business case.

Key aspects of DCC's business for stakeholders

DCC should concentrate on offering the energy industry a secure, national service for smart metering, helping to get to net zero with end consumers data for energy demand and generation. However, DCC need to improve the outputs from their Service Providers first, especially Arqiva during this and the next licence period, without driving additional costs to Energy Suppliers or end consumers. The reliability of the ecosystem needs to be improved, whilst delivering the next generation of Communication Hubs and Wide Area Network (WAN) to mitigate the risk of 2G/3G sunsetting and end of current WAN contracts from 2028.

Unless DCC delivers the smart metering infrastructure reliability and scalability, net zero cannot be attained; smart metering is part of the foundation to net zero, supplying much of the data Great Britain needs to change behaviours and offerings. Therefore, DCC's licence should limit future development to enabling the energy industry to support its net zero ambitions.

The DCC's licence also needs to focus on transparency for DCC Users, transparency of costs and issues.

We look forward to speaking on 31st March. If you would like to discuss any aspect of this response, please do not hesitate to contact Rochelle Harrison.

Yours sincerely,

(by email)

Sharon Johnson
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END