Robyn Daniell,
Smart Metering team,
Ofgem,
9 Millbank,
London,
SW1P 3GE

27th November 2017

Dear Robyn,

DCC Price Control Consultation 2016/17

Thank you for the invitation to respond to the above consultation. Bristol Energy is an independent supplier of electricity and gas with a business model that has a regional focus on the South West of England, although we supply customers across Great Britain. We have mission to fight fuel poverty and be a force for social good.

Executive Summary

Bristol Energy is very concerned at the continuing increase in the costs of the smart metering programme. In particular, we are concerned that the DCC have failed to deliver as required and seem to now be seeking reward for the failure by claiming the increased costs they have incurred from this failure from customers. We therefore support all Ofgem's proposals to disallow costs, but believe Ofgem should have gone further.

The DCC seems to have forgotten that the decision to split the release over several versions via CR160 was not because DCC Users wished it, but was forced upon them by the DCC's inability to deliver, and a pragmatic solution being required. Even then, R1.2 did not deliver enough functionality to allow parties to commence SMETS2 roll out, and far from being a solution, the phased released caused more problems than it solved.

We are very surprised that Ofgem consider a margin rate of 15% to be reasonable. This is very generous compared to the margin rates of other market participants, who arguably have a greater degree of risk than the DCC with a regulated income. We strongly urge Ofgem to justify why they consider this as reasonable other than it is consistent with the previous year.

We have answered your specific questions below, expanding our response where necessary.

Q1. What are your views on our proposal to consider External Costs as economic and efficient?

We agree with Ofgem that the costs incurred by external parties were because of changes made to the programme and thus the additional costs they incurred are economic and efficient. We do not agree that it is therefore logical for those costs to be passed through in full to SEC parties without the DCC taking on some of the additional costs that are a result of their failure to deliver. We believe the external costs incurred on CP160 should be borne by the DCC and they should reimburse the cost of their contractors.

Q2. Do you have any views on DCC's contract management performance?

We agree with Ofgem that there is room for improvement, in particular ensuring that there is clarity as to what external parties are contracted to do, and what DCC is to do.

Q3. What are your views on our proposals on DCC's internal costs?

We agree with all Ofgem's proposals to disallow proposed cost increases. We recognise that in the short term, enrolling SMETS1 meters, DCBH and support to the switching programme will increase the headcount beyond the original 90FTE, but an increase from 90FTE to 340FTE cannot be justified by any stretch of the imagination. A 340 FTE headcount would make the DCC a larger employer than most medium sized suppliers, where competitive pressures keep headcounts as slim as possible.

We fully accept that the DCC will from time to time need to employ high cost contractors with particular skills and knowledge, but when doing so, DCC needs to ensure that such high cost resources are concentrated on the job they have been engaged to do, and are not allowed to drift onto other tasks which could be done by less expensive resources.

In terms of accommodation costs, we have never fully understood the need for the DCC to be based at IBEX House in the city of London, other than that it sublets from its parent company at, we assume, a fair market rate. There is certainly no justification as to why the ever expanding SMETS1 team need to be based there rather than Nottingham.

We also support Ofgem's requirement to justify their choice of offices in Runcorn, and why Runcorn rather than another location, given that their choice of location is to sublet yet again from its parent company. If DCC wishes to sublet from its parent company then it needs to prove the office and location are in the best interest of the DCC and SEC parties and have nothing to do with what is in the best interest of Capita, who may have an interest in filling underutilised accommodation they own or lease.

On External services, we accept that the delays have resulted in additional costs to parties providing those external services, and such costs are justified by those service providers. We do not believe that the DCC, as the key cause of the delay, should be able to pass these costs through to parties without taking any of the burden upon themselves.

Q4. What are your views on our assessment of DCC's performance against IM9 and 10?

Our view is that the DCC failed to meet IM9 and 10 and should sacrifice allowed revenue as Ofgem has proposed.

Q5. What are your views on our assessment of DCC's application to adjust their baseline margin?

We support Ofgem's assessment in this area in principle, although feel Ofgem is being exceptionally generous in its final proposals of considering 15% to be a reasonable margin. Ofgem fails to justify this position in its consultation paper, other than by referencing a similar margin last year.

Energy supply businesses would love to be able to make that level of margin, but competitive pressures make that impossible, and they face a higher degree of risk on their capital than the DCC as a regulated monopoly. We would like Ofgem to explain why it considers a 15% margin as reasonable and how it arrived at this conclusion. We feel Ofgem would be better to benchmark the baseline margin against other licensed entities in the energy market.

Q6. What are your views on our assessment of DCC's application for External Cost Contract

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Gainshare?

If Ofgem has satisfied itself independently of the DCC's claim that the refinancing could not have occurred without the DCC's involvement. Then we are satisfied that the DCC's request is in line with the contract agreed. Although we note that Ofgem has not provided in its consultation document any evidence that it has done anything other than accept the DCC's claim.

If Ofgem has not independently validated this claim it should do so before agreeing to provide £3.261m to the DCC rather than customers.

Q7. What are your views on DCC's reporting which explains its reasons for over-recovery of revenue in RY16/17?

The over-recovery of revenue is cash taken from energy suppliers (and thus customers) in an industry where cashflow is king. If we accept that the DCC's reasons are valid to avoid penalty interest rates we would have liked to see DCC return funds immediately with non-penalty interest to parties. It is not clear if this will be the case.

I hope you find this response useful. If you have any queries, please do not hesitate to contact me.

Kind regards,

Chris Welby

Chris Welby
Head of Regulation