centrica

20th December 2019

Jacqui Russell
Smart Metering
Ofgem
Canary Wharf

[Via email]

Dear Jacqui,

Centrica response to Ofgem's DCC Price Control Review consultation for RY 2018/19

Our response to Ofgem's consultation on the DCC Price Control Review for RY2018/19 is non-confidential and may be shared.

British Gas remains an advocate of the smart metering programme. We recognise that DCC have generally made good progress doing a difficult job, especially in their work with Telefonica. Whilst their customer engagement has improved, and changes in leadership have made a difference, there is still more work to do on speed of issue identification and communication.

Our biggest concern remains with Arqiva, as performance issues are resulting in inefficient costs on energy suppliers which we are unable to recover. These include:#

- Cost of revisits, to commission the full smart metering system if WAN / DCC issues frustrate a successful first-time installation.
- Lost smart mandate benefits. Revisiting customers does not add to our smart meter penetration figures but uses engineer resources that could instead be used for standard to smart exchanges;
- Deferral of prepayment rollout, we will not leave customers without the ability to vend via their PPPMID;
- Increased meter replacements for example, arising from inability to mode change the SMETS2 estate in the north.

We believe that DCC's performance and price control regime does not provide incentive for Arqiva or redress for DCC Users because:

- Arqiva fail to perform and their failure is not captured in the performance measurement;
- any penalties incurred are not commensurable with the impact these failures have on energy suppliers and consumers.

Customers have invested over £1bn in an Arqiva solution that cannot yet support prepayment and currently cannot support the volume of installs energy suppliers need to do as part of their license obligations. There appears to be no material consequences for Arqiva or DCC, and no meaningful forms of redress for BG.

We agree with Ofgem's areas of concern and would suggest the following specific areas for improvement regarding customer engagement:

- Effort should be prioritised based on impact on the smart rollout.
- The Finance Forum and Customer Portal could be improved by evolving into an Investment Board for DCC's customers with representation from the SEC sub-committees to ensure value for money is achieved with each DCC development / project.
- DCC can deliver better outcomes by more actively seeking customers' high-level business requirements for each new project and show traceability of requirements in to their initiatives or rationale for not including specific requirements.
- The current quality of the 'business cases' shared via the Finance Forum could be significantly improved by sharing the development and testing plans, estimated costs and benefits to the whole industry, alongside the business requirements captured.

If you would like to discuss any aspect of this response, then please do not hesitate to contact me or Rochelle Harrison.

Yours sincerely,

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Annex A: Answers to Ofgem's questions:

1. What are your views on our proposal to consider external costs as economic and efficient?
   a. We disagree with Ofgem's assessment of external costs, specifically with the costs relating to Arqiva, DCC's Communication Service Provider in the north.
   b. We struggle to understand how Arqiva's cost and performance within the DCC's external costs can be considered economic and efficient when Energy Suppliers still can't rollout in the North region due to performance issues.
   c. Energy Suppliers continue to wait for defect free Communication Hubs from Arqiva / EDMI and a stable network to enable prepayment customers to be eligible for SMETS2 meters.
   d. We also feel Arqiva's costs in 2018/19 were higher than necessary due to change requests costs being passed through for the rectification of defects, such as the LED light issue (CR 333) and the parallel processing change (CR313) made by the DSP to ARQ gateway. These were clearly defects in the Arqiva CH and solution design, if Arqiva were not a regional monopoly but a true commercial entity these defects would not have been payable by the customer.
   e. We strongly feel customers should not have picked up these costs as the EDMI CH was not (and remains) non-SEC compliant.

2. What are your views on our proposals on DCC's approach to benchmarking of staff remuneration?
   a. We broadly agree with Ofgem's proposals; however, we wish to flag the following areas where Ofgem may want to revisit for future price control reviews:
      i. Benchmarking could overstate staff remuneration if job descriptions inflate responsibilities or bear little resemblance to the role undertaken. A sample check of the Hayes benchmark, job description and role undertaken by an individual could quickly dismiss this concern.
      ii. The whole remuneration package must be benchmarked not just the basic salary, high bonuses or significant additional benefits all add to staff costs.
      iii. DCC have a perverse incentive to personnel costs as increased internal costs adds to Capita's overhead charge, at 9.5% and their baseline margin.

3. What are your views on our proposal to disallow all costs associated with the external service to develop a KPI dashboard?
   a. We agree with Ofgem's proposal.
   b. We believe the KPI dashboard could have been developed inhouse, lowering the cost. However, as the KPI dashboard wasn't explicitly requested by DCC's Customers and hasn't been shared with us, we are not aware of the benefit to the industry for its development.

4. What are your views on our proposal to disallow variance in forecast internal costs?

    a.   We agree with Ofgem's proposal.

    b.   We are concerned that DCC are not adequately planning and forecasting for the contractors they require and getting the best available resources at the right cost. DCC via their business development plan know and understand the resources they will need for the next few years. They should be able to forecast and plan the contractor skills they need and be able to negotiate value for money rates, rather than paying top end daily rates. There should not be a need to recruit at short notice or pay above the market rate for any expertise.

5.   What are your views on our proposed position on DCC's Operational Performance?

    a.   We agree that the DCC did not meet all their current OPR measures.

    b.   The current OPR disguises DCC's operational performance in a 'sea of green' within their Performance Measurement Report, therefore the current OPR does not generate the right behaviour or incentives for DCC or their Service Providers.

    c.   We remain concerned that DCC does not adequately validate the performance measure received from their Service providers or challenge how they are measuring the metrics. For example, we understand from a recent FW OTA workshop that one Service Provider does not count FW OTAs dropped from the queue on day 4 of a 5-day SLA.

6.   What are your views regarding DCC's failure to ensure all CSPs met their contractual milestones and our proposed performance adjustments in response to this?

    a.   We agree that DCC missed their performance targets for SUM 2a and SDM 1 and should lose their baseline margin. We cannot find any correspondence from DCC informing us that Arqiva had failed to meet their coverage deadline, or telling us what they planned to do, had done to ensure the coverage milestone was achieved.

    b.   We are concerned that DCC appear to have crisis managed the missed Arqiva milestone to enable them to recover the missed milestone payment. Arqiva missing the coverage target is another symptom of their poor performance, which has not been adequately managed from our experience. This could however just be the lack of transparency with DCC's contract management process.

    c.   Arqiva remains significantly behind the rest of the GB rollout due to the defects and issues with the EDMI CHs and technology / implementation of the network. DCC referring to no impact from the missed milestone due to lack of rollout is a poor excuse given the problems mentioned.

7.   What are your views on how the OPR could be modified to better incentivise DCC to provide good service to its customers and deliver upon its objectives?

    a. The current OPR does not meet our requirements for DCC's performance measures as our customers' key outputs are swamped by the number of Service Requests etc. within the measures.

    b. This disguises DCC's operational performance in a 'sea of green' within their Performance Measurement Report, therefore the current OPR does not generate the right behaviour or incentives for DCC or their Service Providers.

    c. We would rather measure and see reported (within target response time, by device type and Service Provider):

        i. Meter read performance for on-demand and scheduled reads;

        ii. Vend success for prepayment customers;

        iii. Firmware Over the Air upgrade success;

        iv. Change of Supplier reliability;

        v. Defects fixed / problems resolved;

        vi. During the rollout – Install and Commission success for the full smart metering system, not just the CHs as is currently the case

        vii. During Enrolment and Adoption – Migration success.

8. What are your views on our proposed position on DCC's project performance?

    a. DCC performance in delivering defect free single band and dual band Communication Hubs has been poor. From not finding significant defects in System Integration Testing to not manging triage of testing defects with any urgency.

    b. R2.0 went live in 2018/19 we are still waiting for R2.0 Single Band firmware and Communication Hubs into our supply chain from Arqiva. Whilst we still have not been able to User Integration Test any Dual Band CHs from either CSP. There is currently no substantial plan for when we will be able to test.

    c. Whilst DCC has learnt some lessons from R1.x, for example using SMETS2 devices in Device Integration Testing, they are too quick to blame others, Service Users in particular, for their issues.

9. What are your views on our proposed position on DCC's switching performance?

    a. We agree with Ofgem's position.

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

    a. We agree with Ofgem's position.

11. What are your views on cost uncertainty in relation to baseline margin applications and the process for dealing with this issue?

    a. We believe DCC should not request baseline margin until the costs are certain. There could be an unintended consequence of overestimating costs if uncertain costs are included.

12. What are your views on our assessment of DCC's application to adjust its ECGS?
    a. We agree with Ofgem's position.