

12th June 2020

Andrew Roberts
10 South Colonnade
Canary Wharf
London
E14 4PU

Dear Andrew,

DCC OPR consultation June 2020

BG's response to the DCC Operational Performance Review consultation is non-confidential and may be published. Our key concerns are listed below and answers to Ofgem's questions are covered in annex A.

Our key concerns with Ofgem's proposal are as follows:

1. Level of incentive.

The proposed incentive is comparatively weak when compared to the level of customer detriment it is attempting to address. Over the past 9 months, we have seen multiple performance issues impact our customers and our delivery programmes, resulting in poorer customer experience and higher costs. For example, installation failure rates on the Arqiva network doubling, repeated delays to and iterations of its prepayment solution, significant delays to enrolment and slippage in the delivery of dual band comms hubs.

DCC does have an incredibly difficult job, whilst we can acknowledge the challenges, the regulatory obligations on Energy Suppliers and the price cap allowance do not provide for the impacts on rollout and costs.

We would like to see the level of incentive or penalty, materially increased and for it to be supplemented with an additional DCC licence obligation to take all reasonable steps to support Energy Suppliers' rollout and operation of smart meters. There should also be some flow through in to Energy Suppliers' price cap allowance, when their costs have been directly impacted as a result of DCC issues.

2. Prepayment.

It is essential that prepayment functionality is delivered and operated effectively. To date, DCC have only delivered the service for 2/3rds of the country. The performance regime changes do not address this. It may even perversely pay out even if the capability is not deployed.

If prepayment functionality is not delivered adequately in the next firmware version (EDMI 2.02.6) we cannot rollout to prepayment customers until resolved. Only incentivising on successful vends misses the fundamental non delivery of suitable Comms Hub firmware. We would welcome Ofgem adding a catch all incentive that ensures fit for purpose functionality across DCC's ecosystem that only pays out a reward if functionality works as expected.

3. Customer Engagement.

It is disappointing that a reward is required to incentivise DCC to communicate with their direct customers. We have seen some improvement and believe the remaining issues identified can be addressed easily and inexpensively. We would therefore prefer to see only a temporary measure or an alternate mechanism to be introduced to tackle this issue.

4. System performance.

We believe that the regional curve proposed for the system performance incentive is too complex and we would welcome a worked example to improve our understanding. We firmly believe that if DCC does not manage all their Service Providers adequately that if one fails, they all fail. The vast majority of Energy Suppliers are national businesses and most Distribution Networks cover more than one CSP region, therefore the impact could be felt across all end consumers if DCC fails any targeted performance.

Please contact me if you wish to discuss further.

Yours sincerely,

[via email]
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Annex A BG response to Ofgem's consultation questions

1. Do you agree that System Performance should be financially incentivised?
 - a. Yes, given the significant impact DCC's performance has on our smart metering operation we would welcome either a larger incentive or ability for DCC to lose more than their baseline margin.
 - b. To date, although progress has been made, we are still not seeing the performance standard we require. This low performance, especially in the north, impacts us twice, no recourse from DCC and no revenue from revisits etc., either from MAPs or the price cap. Since DCC's performance impacts our delivery so significantly, we would welcome increased incentives on DCC's system performance, including losing more than their baseline margin.

2. What are your views on our proposal for System Performance incentive?
 - a. We are concerned that the vend performance will not pick up lack of functionality if Arqiva's Firmware delivery (for EMDI 2.02.6) is further delayed. In fact, DCC could still achieve 100% of their prepayment target with no vends being submitted for SMETS2 devices in the north.
 - b. The regional incentive is too complex and needs a worked example to help our understanding. We firmly believe that if one region or Service Provider (such as the DSP) fails, they all fail, as most of DCC's customers have national coverage. DCC should be performance managing all their Service Providers, not just 2/3rds of the country.
 - c. Arrangements need to remain flexible so that as other important indicators appear, they can be developed and brought in at the right time. For example, billing and settlement overtaking importance of Install and commissioning during 2024.

3. Do you agree with the four areas we propose incentivising?
 - a. Yes. However, Ofgem needs to be mindful not to dilute the incentives by including too many sub-sections (regions) and metering cohorts. Diluting any incentive could have the unintended consequence of leading DCC to abandon any targeted performance following early or repeated failure.
 - b. We recommend that Ofgem assigns DCC an overarching licence objective to use all reasonable steps to support the rollout and operation of smart meters.

4. Do you agree that customer engagement should be financially incentivised?
 - a. No, we do not fully agree that customer engagement should be financially incentivised. As a monopoly business, DCC should be fully engaged with and driven by the feedback of their customers as normal commercial drivers do not exist. We remain concerned that DCC's Board can approve projects and 'innovative' spend without broad agreement from DCC's direct customers who are paying, generally well in advance of delivery.

5. What are your views on our proposal for customer engagement incentive?
 - a. Whilst we are disappointed that DCC needs a customer engagement incentive to improve their performance, we would prefer this to be a temporary measure until

the baseline performance is established. Any future dips below the baseline are penalised.

- b. As well as being a temporary incentive, we would welcome a similar feedback process to the current Electricity System Operator call for evidence, where Ofgem asks Market participants for their evidence of ESO communications.
 - i. There is a risk of an unintended consequence of using the SEC Panel to collate views. For example, the Panel may not be made aware of sensitive / commercial issues, since the Panel is made of industry participants. A Market participant may choose not to share information in case it loses competitive advantage as it would be shared with its competitors. This could restrict the information on which the assessment is based i.e. the incentive payment could be out of kilter with actual performance.
 - ii. Market participants providing feedback directly to Ofgem would be a reasonable counterbalance to the image the DCC will present of its view of performance.
 - iii. This would allow the Panel to focus on issues that only it can provide an informed view on rather than trying to represent individual views from across the industry.
 - iv. Perhaps Ofgem could present the anonymised evidence to the SEC panel and the SEC panel proposes the score. With Ofgem having the final decision on the reward / penalty DCC receives.
 - c. We cannot agree with awarding an incentive payment where performance has been deemed as 'poor' or even 'average', this is counter intuitive to the performance level that should be targeted. Also aligned to the ESO assessment, average should be the baseline performance that achieves a zero reward. Anything below average is a penalty and above is a reward.
6. Do you agree that contract management and procurement should be financially incentivised?
- a. No, as discussed in our bilateral call, DCC's fundamental role in the smart metering industry is to manage the system contracts; ensuring delivery is economic and efficient. We firmly believe that scrutiny of (via the audit) and any failure to deliver on their fundamental role should be undertaken in the Price Control Review every year. Thereby poor performance by DCC is disallowed and not ultimately funded by end consumers. We believe this would incentivise DCC to give this important area more focus, as more is potentially at stake.
7. What are your views on our contract management and procurement incentive?
- a. Answer as per question 6.
8. Do you agree with our proposed weighting between the three incentives?
- a. Whilst we agree that system performance is the most important incentive and should incur the highest percentage. As per answer to question 6, we feel that the contract management and procurement audit proposed should be included in Ofgem's PCR of DCC each year, leaving system performance and customer engagement weighting 80% and 20% respectively.
9. Do you agree that the proposed licence wording achieves the policy intent?

a. Yes.

10. Do you have any views on the draft direction published alongside the consultation?

a. No view.