

23rd December 2020

Anna Clover
Ofgem
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LONDON
E14 4PU

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

Dear Anna,

Centrica response to Ofgem's consultation on DCC's Price Control Review 2019/20

Centrica welcomes the opportunity to comment on the DCC's Price Control Review 2019/20. We have provided answers to the specific consultation questions in appendix A along with evidence to support our answers in appendix B. Our response is non-confidential.

We broadly agree with Ofgem's minded to position, including DCC's retention scheme and the costs incurred for Preston Brook. However, we disagree with Ofgem's position to find DCC's External Costs economic and efficient. We cannot reconcile the inefficient service and performance we have received from Arqiva, CSP region north, in 2019/20 with economy and efficiency. Issues caused by Arqiva's solution include:

- Customers unable to use SMETS2 prepayment functionality due to CH defects found in test, which was only resolved in Oct 2020.
- A significant dip in Install and Commission performance that was unnoticed by Arqiva and DCC until we raised the incident.
- Decreasing daily read performance from Arqiva Comms Hubs.
- Underperforming Over the Air firmware upgrades to meters which was, until recently, incorrectly reported in DCC's monthly performance report.

These issues have caused Energy Suppliers to spend more time and money testing numerous firmware versions, which cannot be recouped under the price cap or via tariffs. Customers have waited longer for smart metering functionality and many have been inconvenienced by a revisit to complete the installation. Our engineers have had to deal with the frustration and embarrassment of not knowing when the error messages will be resolved, whilst explaining to customers that they may need to return. Energy Suppliers have also needed to set up manual

processes to check whether firmware upgrades were successful and rerun firmware campaigns to those failed.

Efficiency should mean that DCC's customers and end consumers experience reliable performance, from installation through to firmware upgrade and prepayment vends, without pushing the risk, cost and process complexity outside of DCC's systems.

Given the extent of our concerns, we urge Ofgem to revisit the external costs related to CSP north and conduct an audit of DCC's contract management of CSP north for 2019/20. This could act as a trial for how the contract management assessment within the new Operational Performance Regime will operate. The audit also would assist Ofgem in looking at how competitive pressures can be replicated for monopoly providers.

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

Your sincerely,

(by email)

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Appendix A - Consultation Questions

Question 1: What are your views on our proposal to consider external costs as economic and efficient?

We disagree. As mentioned in the covering letter, we find it difficult to reconcile economy and efficiency with the performance and costs in CSP north. During RY19/20, we had numerous difficulties within the north, namely:

- *Lack of defect-free Comms Hub firmware to enable prepayment functionality.* Evidence of defects in appendix B, EDMI release notes for CHs – Firmware versions 1.39.2 – 2.02.6. For example, defect number 14066 in 1.38.6 firmware does not allow a customer to apply a prepayment vend locally via the PPMID, this was fixed in the 1.93.2, however other faults meant this firmware version was not rolled out. The vend does not reach the gas meter due to a fault in the Comms Hub.
- *No reliable way to Firmware Over the Air upgrade our devices;* this remains ongoing with no get to green plan from Arqiva. See appendix B for DCC's updated monthly performance report, details under CPM1 / PM2 for Arqiva.
- *We witnessed a significant dip in install and commission performance in November 2019, which Arqiva and DCC missed.* See appendix B for I&C graphs comparing Arqiva to Telefonica.
- *We changed our orchestration to lower the number Install and Commission failures,* as Arqiva's network has difficulty delivering GBT messages, such as the tariff update (SRV 1.1.1).
- *Decreasing success with daily reads.* See graph from Arqiva Common Issue Forum in appendix B.

We also do not accept that the Change Request process is economic and efficient. Arqiva have repeated mentioned that their solution design was signed off by DCC and therefore intimated not to blame for the poor performance. However, in a competitive environment Arqiva's flawed design would have to be corrected at their expense, otherwise they would lose market position. Ofgem should revisit DCC's External costs, including the change requests raised by DCC to CSPN, as the cost of defect fixes and non-SEC compliance should not reside with customers.

And likewise, for SEC modifications, where we have seen significantly increased development costs from Arqiva compared to Telefonica for the same changes.

Unfortunately, with a monopoly contract competitive pressures do not exist; therefore, we urge Ofgem to revisit their minded to position on external costs and review Arqiva's change and project request costs.

Question 2: What are your views on our proposals on DCC's approach to benchmarking of staff remuneration for both contractors and permanent staff?

We agree with Ofgem's position on contractor costs; however, we are disappointed and disagree with Ofgem's position on permanent employees.

As stated in previous PCR responses, we believe that the whole remuneration package for permanent employees should be benchmarked. Therefore, we are disappointed that lessons from last year's PCR responses have not been learnt, although we understand that the feedback

timeline between 2018/19 Regulatory Years' Price Control Review period closing to 2019/20 starting is short.

Given the high level of redundancies in the Energy sector over the last few years, we believe there is an abundance of suitably qualified personnel. Therefore, DCC does not need use the higher benchmark to enable recruitment or contract for.

We are concerned that DCC had almost doubled their Corporate Management spend in RY2018/19 and increased again by more than 50% in RY 2019/20. Whilst we understand the majority of additional spend in this area, i.e. Operations and Additional Baseline is SMETS1 related, the significant jumps are not fully explained.

As mentioned in previous PCR responses, we remain concerned that DCC are increasing their internal roles with responsibility that should be covered by the Capita Shared Service. In fact, duplicating areas of responsibility with the shared service function not only increases internal costs, but also the shared service fee and baseline margin, potentially significantly overcharging end consumers.

Question 3: What are your views on our proposals to disallow the cost of DCC's retention scheme?

We agree with Ofgem's minded to position. The retention scheme was not targeted to individuals deemed likely to leave DCC but appears as a broad-brush bonus scheme.

If DCC feels it has a retention problem, there are far more economic initiatives that could be put in place, ranging from simple questionnaires to discover any cultural issues to development programmes for their high performing team members.

Question 4: What are your views on our proposal to disallow incurred and forecast costs associated with the product management team?

We agree with Ofgem's proposal. Until DCC has delivered their mandatory business programmes, they should not be distracted by innovation, especially outside of their core business. Getting the basics right continues to be DCC's customers' major ask and to deliver of all customer eligibility in their remit must be their priority.

Question 5: What are your views on our proposal to disallow the forecast variance of the Commercial Operations and Vendor Management teams?

We agree with Ofgem's proposal.

Question 6: What are your views on our proposal to disallow the incurred cost variance associated with Preston Brook?

We agree with Ofgem's position. DCC adopted a low risk approach on the Preston Brook move, which was not economic.

As Preston Brook is a Capita owned and managed site, DCC could be perceived as having a conflict of interest in economically managing their departure from this office. Such perceived conflicts of interest can drive reluctance to invest in our sector.

Question 7: What are your views on our proposal to disallow all variance in forecast internal costs?

We agree with Ofgem's proposal, although note it bears little impact on the charges levied by DCC in their charging statement or indicative statements.

Question 8: What are your views on our proposed position on DCC's operational performance?

Whilst there has been significant progress made in building the SMETS2 and SMETS1 solutions, there have been some very significant performance failures, especially in the north. As evidenced in appendix B, under question 1.

We struggled to achieve reliable Install and Commission performance and FW OTA to our devices in the north region. We were disappointed in having to flag to DCC and Arqiva that their performance in I&C had declined significantly in November 2019 and this took several months, plus a change in our orchestration (only in the north) to resolve.

The issues with Arqiva's performance in FW OTA of devices remain unresolved at present. Even with significant pressure from SEC Ops and Panel, Arqiva remain under target. Also, issues with Arqiva's reporting of their performance have only recently come to light. Unfortunately, the Service Credits payable by Arqiva to the industry does not cover the cost of rerunning FW campaigns and manually checking the success of downloads to each metering set.

Whilst DCC can report that 100% of CHs were accepted by Energy Suppliers, we were not able to install Arqiva's CHs in end consumers' homes who wanted or needed prepayment functionality. Defects found during testing meant that prepayment vends sent locally (via the PPMID) would not land on the gas meter and other defects meant the PPMID and gas meter had data misalignments. We felt these impacted the consumers' smart metering experience and would drive significant volumes of calls into our contact centres. Evidence of Comms Hub defects in appendix B, release notes and emails for question 1. Energy Suppliers finally received prepayment compliant Arqiva CHs in October 2020 with FW 2.02.6, to enable a prepayment rollout beyond a pilot.

Question 9: What are your views regarding DCC's failure to ensure all CSPs met their contractual milestones and wider performance in the north region?

Our perception of DCC's management of contractual milestones can often be summarised as too little, too late, only pushing their Service Providers to deliver when it is clear they will not hit a target. For example, we are not aware of any correspondence from DCC in 2019/20 informing us that Arqiva were likely to miss the target before the deadline nor the plan for Arqiva to avoid this.

As mentioned above, there are several issues with the north region:

- Significant delay in defect free prepayment functionality in the CHs, which should have been delivered in SMETS2 release 1.3. If Arqiva had developed a Comms Hub and network in a commercial environment with such design flaws, they would be forced to make changes (at their own expense) to not lose their market position.
- Worsening I&C success rates during Q4 2019, highlighted by BG raising concern, not initially seen in DCC's data analysis.
- Poor performance in device firmware over the air upgrades, consistently highlighted by BG at SEC Ops / via incidents etc., and not measured correctly in performance data.
- High impact assessment quotes for SEC modifications with elongated delivery lead times (compared to equivalent quotes from Telefonica), causing SEC mods to be rejected on cost / benefit analysis.

We believe all the examples show that Arqiva are not running an efficient operation and DCC are slow to find and manage issues found. We suspect that Arqiva do not have enough subject matter experts to analyse and resolve network and CH issues.

DCC has not been able to secure the level of performance or an acceptable speed of response about Arqiva issues, whereas generally Telefonica performance and speed of response meets our expectations. Of disappointment was the failure to deliver any remediation to the performance issues raised by British Gas in Q4 2019, until further intervention by government in 2020.

Whilst DCC's TOC has improved the data within DCC, it is not providing the insight required by DCC's Service management team or customers.

Question 10: What are your views on our proposed position on DCC's project performance?

We agree with Ofgem's position. The delay in achieving the R2.0 deliverables has had a significant impact on Energy Suppliers operating costs including several testing cycles (which will continue into 2022 with the GBCS changes).

Question 11: What are your views on our assessment of DCC's application to adjust baseline margin?

We agree with Ofgem's position.

Question 12: What are your views on our assessment of the DCC's application to adjust its ECGSt?

We agree with Ofgem's position. We do not receive enough information to really enable us to assess this, as it's commercially confidential.

Question 13: What are your views on our assessment of delivery milestone 1 (FMRS)?

We agree with Ofgem's position.

Appendix B – Evidence (via email)

Question 1 – Prepayment defects.

EDMI 1.39.2 Firmware release note and email from DCC's Service Centre explaining why 1.39.2 did not pass Operational Acceptance after User Integration Testing



HGP I#K I#Jhdvdh# H [W#HGP I#J lp z duh#
Q r wh#DIFK #16<1569# 4b6<b5#K sgdwh#HJHT

EDMI 2.02.4 Firmware release note and email from DCC's Service Centre explaining the 'CH deafness' witnessed after OTA and advising to not rollout prepayment in the north until 2.02.6 is available in 2020/21.



HGP I#SUR GbJhdvdv H [W#FVS#D ruK #H#
hbQ r whb5135I7b#KI4I I lp z duh#Wdwxv#K sç

Question 1 – Firmware OTA performance (see CSPN PM2 analysis sheet)



53533<bF#xw#p hub
G F F V S b Shuir up dq fh

Question 1 - Daily meter read performance (from DCC's Arqiva Common Issues Forum). Graph redacted to keep response non-confidential.

N.B. Yellow line = Arqiva, blue line = Telefonica (both regions)

One Truth Dashboard (25/06/2020)



Due to a lack of consistent install volumes there has been an impact on the data captured in the One Truth Dashboard

Question 1 Slide below from Arqiva Common Issues Forum (30th January 2020)

Highlights the install and commission issues faced by Energy Suppliers from November 2019 and continued meter read failures.

2. One Truth Dashboard Draft.



The above demonstrate the key performance measures and highlight the discrepancy between Arqiva and Telefonica.