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30th May 2016

Mr Paul Hawkins
Regulatory Director
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Dear Paul,

British Gas response to DCC's implementation milestones consultation 2016

We wish to reiterate that British Gas supports the principle of DCC being rewarded for successful delivery against milestones that are critical to the success of the programme. We believe that the incentives should be meaningful and greater for the outcomes that are most crucial to the programme and our customers. We do however have significant concerns with the both the process of the latest implementation milestone consultation and the proposals that relate to it:

1) There is a potential conflict of interest which may impede the ability of the DCC to operate this consultation fairly.

We are surprised that the DCC is consulting on a matter that relates to its own remuneration; this conflict of interest could prejudice a fair outcome for industry and consumers. The scope of this consultation is far wider than intended within the DCC licence and we believe this should have been conducted as a formal Government consultation by DECC. We would prefer an independent party, such as SECAS, to collate the responses and prepare a summary for the Secretary of State and for this arrangement to be adopted for future DCC consultations.

2) The proposals create a much weaker incentive for the DCC to deliver when compared to the original baseline.

The implementation milestones within the DCC's licence are to incentivise the licensee to achieve the performance and timescales required by the smart metering programme. The balance between the performance and reward achieved is fundamental to the success of the smart metering programme. We feel that in the DCC's proposals that the balance has been significantly moved in favour of the DCC's ability to reach the targets with little consideration for the impact on the rest of the programme. We feel that the proposed incentive scheme is flawed in:

- The tapering profile and extended dates;
- Weightings; and
- Milestone split between CSP regions.

We believe that the change to the tapering profile, and the subsequent lengthening of the deadlines within the time factors, are not balanced to the needs of the DCC's customers or the programme. We feel the DCC's proposals will fundamentally undermine the whole programme. We cannot understand why it should be allowable that the tapering dates will move from 9 weeks, as in the original Licence schedule, to 4 months. This shift has not been justified and the significant impact it will have on DCC Users and other SEC Parties seems not to have been considered.

3) The removal of an incentive to provide stable services (IM11) is disconnected from its criticality to the programme.

Stable services are the acid test for the DCC. Whilst entering testing and going live on time are important, these outcomes can be artificial when compared to the reality of live operations. We were disappointed at the small weighting suggested for IM11 in the 2015 review; we are surprised and deeply concerned to see this implementation incentive has been removed completely.

The DCC's argument that the Operational Performance Regime (OPR) will reward stability of services is flawed as the OPR will not start until at least 3 months after the R1.3 release.

We propose the following milestone weightings:

Implementation Milestone	Description	Original weighting	DCC proposed	British Gas view
IM9	Start IT R1.2	10%	30%	20%
IM10	Start IT R1.3	10%	30%	20%
IM11 – IM13	Stabilise Services	45%	0%	20%
Total		65%	60%	60%

4) A fundamental purpose of the DCC is to provide a single point of accountability - splitting incentives to individual service providers is contrary to this.

We do not agree that the DCC should split each incentive between Arqiva and Telefonica regions; we believe that all the incentives should remain whole and incentivise the DCC to reach the earliest possible date together. DCC reaching dates at different times could have a significant impact on DCC Users depending upon their regional profile.

I hope you find these remarks helpful. Answers to the specific consultation questions can be found in the Appendix. This is a non-confidential response and may be placed on the DCC's website. Please do not hesitate to contact either Rochelle Harrison (Rochelle.harrison@britishgas.co.uk) or myself if you require any clarification on the points raised.

Yours sincerely,

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Appendix – Answers to consultation questions

1. Do you agree with our proposal to update IM9?

No. We do not believe that the proposed recovery mechanism or the alternative approach are in the best interests of the programme and will not fully incentivise the DCC to perform at the level the smart metering programme requires and expects. With such large gaps in dates in the proposed scheme, the programme would be allowed to slip with limited impact on the DCC's reward but significant consequences on DCC Users and their customers.

We do not agree with the criteria used to measure whether the licensee is ready as the IT approach document is a DCC-owned article which is within the control of the DCC to amend. The number of comms hubs ordered and delivered by go live will be an insignificant number; therefore 80% is an insignificant number and does not assure that these Comms Hubs will perform against R1.3.

2. Do you agree with the proposal to update IM10?

No. As question 1 above

3. Do you have a preference between the two options for updating the recovery mechanism?

Both recovery mechanisms have their merits; however recovery of lost margin should be based on delivering a stable system, rather than being ready for commencement of DCC live. Stability across the whole of DCC systems is the requirement of DCC's customers not simply being ready to go live.