

Ayena Gupta
Head of DCC Oversight and Regulatory Review
Ofgem
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19th December 2022

Sent by email to: DCCregulation@ofgem.gov.uk

Dear Ayena,

Centrica welcomes Ofgem's consultation on the Switching Incentive Regime (SIR) and we agree with Ofgem's proposals.

From the two incentive options for the early post go-live period, we prefer option 2, carrying the incentive over into RY23/24. We believe that option 1, using a delivery milestone in the past, regardless of whether it was achieved or not, will not incentivise performance now, nor in the future.

Our response is non-confidential and answers to Ofgem's questions are attached in the appendix.

Do not hesitate to contact myself or Adam Iles if you have any questions.

Yours sincerely,

Rochelle Harrison

Regulatory Manager

Regulatory Affairs and Policy

Centrica

Appendix – responses to consultation questions

Question 1: Do you support the establishment of the Switching Incentive Regime (SIR) in the Licence as the mechanism for assuring the Switching element of DCC's Price Control?

Yes, we support the establishment of the SIR. Incentivising DCC to deliver the right level of operational performance in its switching service will be beneficial to energy consumers.

Question 2: Do you agree in principle with the revocation and replacement of the May 2019 Direction, in the event that we establish the SIR?

Yes, we agree with the revocation and replacement of the May 2019 Direction given that it relates principally to the margin and incentives placed upon the DCC for the DBT phase of the switching programme. With the CSS now operating as an enduring service and the Switching Programme SCR closed, it is right that Ofgem now introduces the enduring Switching Incentive Regime.

Question 3: Do you agree with the definition of the four categories of measure identified that will constitute the SIR?

Yes, and the use of two of them.

We advise Ofgem to be avoid confusion and choose one term for engagement. We noted that customer / service user or stakeholder engagement terms were interchanged throughout the consultation, although they relate to differing groups (stakeholder being wider than customer). We also noted, Ofgem used the term VFM rather than VMM (which is in the Licence) throughout the consultation document, although not in the Licence changes.

Question 4: Do you agree with our proposal that DCC should be able to earn a margin somewhere in the range of 6 – 9% of its economically and efficiently incurred internal costs under the enduring Switching arrangements (equating to a range of 6.4 – 9.9% in terms of return on costs)?

We believe that DCC should earn the lower end of the margin range, 6%, given the control it had over the contract procurement, design, build and test phases plus the very low risk of non-payment from its direct customers. DCC also has reduced Regulatory risk from the REC as it can influence outcomes and timings of delivery, and impact assess all changes in a strong governance environment.

Question 5: Do you support either of the options we have identified for incentivising DCC's margin in the early post- go live period of Switching? Are there any other options you think should be considered?

We prefer option 2. With option 1, a delivery milestone in the past, regardless of whether it was achieved or not, will not incentivise performance now, nor in the future.

Question 6: Do you agree that the proposed Licence drafting appropriately reflects the policy intent of our proposal to establish the Switching Incentive Regime?

Yes, we agree that the Licence drafting reflects Ofgem's policy intent.