

Mark Bygraves
Elexon Ltd
350 Euston Road
4th Floor
London
NW1 3AW

22nd January 2021

Sent by email to: communications@elexon.co.uk

Dear Mark

Centrica Response to the Elexon 2021/22 Business Plan

Thank you for providing the opportunity for Centrica to respond to the Elexon 2021/22 Business Plan.

Centrica is a business focused on delivering the net zero energy transition. We are ready to support a green recovery that works for both consumers and businesses. Centrica supports the changes that will enable customers to transition to a low carbon future. A future where customers, both those with smart homes and electric vehicles (EVs) and those without, may take advantage of innovative new propositions such as dynamic time of use tariffs tailored to their unique energy and service's needs.

We have reviewed the proposed Business Plan and budget for 2021/22 and whilst we broadly support the priorities outlined within the plan, we are concerned at the £14.8m increase in the 21/22 budget compared to the 20/21 year end forecast. Suppliers are having to review all discretionary / non - mandatory activities and financial spend to replicate the low-cost base Ofgem has modelled to set retail price cap allowances.

The major increase appears to be driven by increase in the Projects and Investment element of the budget which is proposed to be £28.8m. This element includes £20m solely for Systems and Business Transformation. We recognise the importance of reliable systems capable of supporting the development of the industry, but we are unable to assess the merits of this investment from the information supplied in the Business Plan. This assessment would require the well justified business case, with cost-benefit analysis of all options considered (including doing nothing). The analysis should consider a range of different scenarios for how the industry could develop placing different requirements on central systems. This analysis should be provided to all stakeholders to allow for effective engagement.

Further to the Systems and Business Transformation element of the budget we note that due to the funding arrangements Elexon cannot itself amortise the costs of upgrading it's IT infrastructure. However, we do not believe it is right that these significant costs that could serve the industry for many years to come are borne by market participants active within a single budget

year. We therefore encourage Elexon to be more innovative when contracting out these services to ensure potential one off costs are, where possible, smeared over a number of years.

We also note that Elexon has included an amount of £21.3m for operational costs which covers a proposed cost for 177.3 FTE staff. Although we have no specific concerns, we are unable to assess the efficiency of this spend as the Business Plan does not provide direct evidence. Analysis of how Elexon expenditure benchmarks against comparable providers is required, especially for spending that is not, or rarely, subject to a tender process. Potentially, Elexon could commission an independent audit of its operational costs with a view to giving parties the assurance that Elexon is operating efficiently and providing good value for the costs it is incurring.

We would be happy to discuss our response directly with Elexon and if you have any questions or queries on this response please contact Kevin.woollard@centrica.com in the first instance.

Yours sincerely

Andy Manning
Head of Network Regulation, Industry Transformation & Governance
Centrica Regulatory Affairs, UK & Ireland