Guidance

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Revised OPR Guidance

Subject	Details
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This document sets out guidance on the revised Operational Performance Regime (OPR). The regime financially incentivises the Data Communication Company's (DCC) performance in three main areas: system performance, customer engagement and contract management.

This document is intended to explain the OPR framework, assessment and processes, including the roles of DCC, SEC Panel and Ofgem, and the calculation of any reduction in DCC's Allowed Revenue based on its performance.

This document follows our decision on the revised OPR, published in October 2020, and our decision on the OPR Guidance published in March 2021. This document is subsidiary to the OPR direction published in March 2021 and the Smart Meter Communication Licence. This document has been updated in March 2022 to include interim System Performance measures in place from RY22/23, small changes in relation to Customer Engagement and Contract Management, and removal of the Transition Phase section which is no longer relevant.

Contents

1. Introduction

Context

1.1. DCC is the central communications body licensed to provide the communications, data transfer and management required to support smart metering. It is responsible for linking smart meters in homes and small businesses with energy suppliers, network operators and energy service companies. It is important that as a monopoly company DCC faces sufficient incentives to play its role well, delivering value for money and high quality services. This is key to ensure consumers are able to take full advantage of the benefits of the smart meter rollout.

1.2. The Licence stipulates that DCC's Baseline Margin be put at risk each Regulatory Year under the relevant performance incentive regimes. These comprise the Baseline Margin Project Performance Schemes and the Operational Performance Regime (OPR). DCC's Baseline Margin is 100% at risk against these incentive regimes, with the majority at risk against the OPR.

1.3. The OPR was initially consulted on in March 2016 and the final decision and direction was published in September 2017[1]. Following DCC's submission of its performance under the initial OPR for the RY18/19 price control, we became concerned that the OPR metrics may not be providing the best incentives to DCC and asked stakeholders for their views on how the OPR can be modified and improved. All respondents, including DCC, supported a review of the OPR framework.

1.4. In March 2020, we published a working paper[2] setting out our initial thinking on how to revise the system performance measures under the original OPR, and financially incentivise two new areas: contract management and customer engagement. We published a formal consultation on these proposals in May 2020[3], followed by the decision

[1] Decision on the OPR September 2017: www.ofgem.gov.uk/publications-and-updates/decision-dcc-s-operational-performance-regime
[2] DCC Operational Performance Regime Working Paper March 2020: www.ofgem.gov.uk/publications-and-updates/dcc-operational-performance-regime-working-paper
[3] DCC Operational Performance Regime Review: May 2020 Consultation: www.ofgem.gov.uk/publications-and-updates/dcc-operational-performance-regime-review-may-2020-consultation

document in October[4] the same year. The decision set out our intention to publish additional guidance on the OPR to provide further detail to DCC and stakeholders.

1.5. In January 2021, we published a consultation setting out our proposals for the draft OPR Guidance[5]. In March 2021 we published our final decision[6] on these proposals, which brought into effect this document. In February 2021, we received an application from DCC for a derogation from various elements of the Smart Energy Code (SEC) Section H13 that came into effect from 25 February 2021. In April 2021, a temporary and limited derogation from certain elements of Section H of the SEC was granted to DCC[7].

1.6. Furthermore, in response to our January 2021 OPR Guidance Consultation, DCC argued that it was not technically possible to report on some of the proposed System Performance measures from April 2021 as current systems were unable to measure disaggregated Target Response Time (TRT) performance. Therefore, in our OPR Guidance Decision we gave DCC a 12-month grace period for DCC to work closely with its customers and SEC parties and find a technical solution.

1.7. This led to setting up of an ad-hoc industry group (OPR Working Group) by DCC, significant engagement between DCC and Smart Energy Code (SEC) Operations Group (OPSG) and a public consultation issued by DCC in December 2021[8]. DCC and SEC Panel submitted recommendations to us on System Performance measures for OPR in February 2022. This Guidance is being updated following these recommendations.

1.8. The key changes in the area of System Performance are:

- **Install and Commission measures:** replace the Target Response Time (TRT) Service Reference Variance (SRV) measures included in the March 2021 OPR

[4] DCC Operational Performance Regime Review: October 2020 Decision: www.ofgem.gov.uk/publications-and-updates/dcc-operational-performance-regime-review-october-2020-decision
[5] OPR Guidance Consultation January 2021: www.ofgem.gov.uk/publications-and-updates/opr-guidance-consultation-january-2021
[6] OPR Guidance Decision March 2021: www.ofgem.gov.uk/sites/default/files/docs/2021/03/opr_direction_0.pdf
[7] Derogation granted to Smart DCC Ltd from requirements of SEC Section www.ofgem.gov.uk/publications/derogation-granted-smart-dcc-ltd-requirements-sec-section-h
[8] DCC's consultation on Operation Performance Regime (OPR) potential measures (December 2021): www.smartdcc.co.uk/consultations/consultation-on-operational-performance-regime-opr-potential-measures/

Guidance with interim alternative reportable metrics, with the exception of SRV 8.11 (Update HAN Device Log) which will remain.

- **Prepayment measures**: replace the TRT SRV prepayment related measures included in the March 2021 OPR Guidance with interim reportable time-based metrics.

- **Interim solution**: the changes described above are being introduced on an interim basis, until the time when an enduring reporting solution for the measures in the 2021 OPR Guidance, or alternative measures fully supported by DCC's customers and SEC parties as an enduring solution, can be implemented.

1.9. Following the completion of the Customer Engagement trial period which ran over RY20/21, we have made minor changes to the Customer Engagement Assessment questions to improve clarity.

1.10. Chapter 6 of the Guidance, which described the transition phase of the OPR before each incentive came into effect, has been removed. This is because the revised OPR has now taken effect from 1 April 2022.

Purpose and Structure

1.11. This document aims to provide guidance to DCC and other stakeholders over the framework, assessment and processes of the OPR.

1.12. This guidance is supplementary to the OPR direction[9] - published on 25 March 2021 - and the Smart Meter Communication Licence.

1.13. In addition, the reporting guidelines and template, which define the manner in which DCC should report key price control and quality of service information – including the system performance measures of the OPR – are set out in the Regulatory Instructions and Guidance. This is published before 31 July - the Licensee's submission deadline - for each regulatory year[10].

[9] OPR direction March 2021: www.ofgem.gov.uk/publications/decision-opr-guidance-march-2021
[10] The DCC Regulatory Instructions and Guidance for RY1920: www.ofgem.gov.uk/publications-and-

1.14. This document is structured as follows:

1.14.1. Section 2 – Overview of the OPR with definitions of key variables

1.14.2. Section 3 – Description of the System Performance metrics, mechanisms and appeals process

1.14.3. Section 4 – Definition of the Customer Engagement Incentive assessment questions and criteria; and a description of the process and our expectation of DCC and the SEC Panel

1.14.4. Section 5 – Definition of the Contract Management Incentive assessment questions and criteria; and a description of the process and our expectations of DCC and the SEC Panel

updates/data-communications-company-dcc-regulatory-instructions-and-guidance-2020

Related Publications

Decision on OPR Guidance March 2021: www.ofgem.gov.uk/publications/decision-opr-guidance-march-2021

Derogation granted to Smart DCC Ltd from requirements of SEC Section H, April 2021: www.ofgem.gov.uk/publications/derogation-granted-smart-dcc-ltd-requirements-sec-section-h

OPR Guidance Consultation January 2021: www.ofgem.gov.uk/publications-and-updates/opr-guidance-consultation-january-2021

Decision on DCC Operational Performance Regime Review October 2020: https://www.ofgem.gov.uk/system/files/docs/2020/10/dcc_operational_performance_regime_review_-_october_2020_decision.pdf

Consultation on DCC Operational Performance Regime Review May 2020: https://www.ofgem.gov.uk/system/files/docs/2020/05/opr_review_consultation.pdf

DCC Operational Performance Regime Working Paper March 2020: https://www.ofgem.gov.uk/publications-and-updates/dcc-operational-performance-regime-working-paper

Decision on increasing the revenue at risk against the OPR January 2021: www.ofgem.gov.uk/publications-and-updates/decision-increasing-dcc-s-revenue-risk-against-opr

Consultation on increasing the revenue at risk against the OPR October 2020: https://www.ofgem.gov.uk/publications-and-updates/consultation-increasing-dcc-s-revenue-risk-against-operational-performance-regime

2018/19 Price Control Decision: https://www.ofgem.gov.uk/publications-and-updates/dcc-price-control-decision-regulatory-year-201819

2018/19 Price Control Consultation: https://www.ofgem.gov.uk/system/files/docs/2019/10/dcc_price_control_consultation_-_regulatory_year_2018-19.pdf

Decision on DCC's Operational Performance Regime September 2017: https://www.ofgem.gov.uk/system/files/docs/2017/09/1._decision_on_dcc.pdf

Consultation on the implementation of the Operational Performance Regime June 2017: https://www.ofgem.gov.uk/system/files/docs/2017/06/consultation_on_the_implementation_of_the_operational_performance_regime.pdf

DCC Operational Performance Regime: Principles and Objectives March 2016: https://www.ofgem.gov.uk/system/files/docs/2016/03/dcc_operational_performance_regime_principles_and_processes.pdf

Your feedback

General feedback

1.15. We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this guidance. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this guidance?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Any further comments?

Please send any general feedback comments to smartmetering@ofgem.gov.uk

2. Overview

Section summary

This section gives an overview of the overall OPR process. It determines the value of the revenue at risk against the OPR and sets the weighting applied to each metric. It also sets out the governance and process for amending the OPR guidance.

OPR Measures

2.1. The OPR assesses DCC's operational performance via seven different performance measures. DCC's performance in each of these performance measures is input into the OPR formula which dictates the value of the Baseline Margin Operational Performance Adjustment (BMOPA). The BMOPA is the reduction in DCC's Allowed Revenue due to its operational performance.

2.2. The OPR formula is defined in the OPR direction[11], but given here for completeness:

$$BMOPA_t = SUM1_t + SUM2_t + SDM1_t + SDM2_t + SDM3_t + VMM1_t + VMM2_t$$

2.3. The performance measure relating to each of the variables in the equation are given in Table 2.1.

Table 2.1: Performance Measures

Variable	Performance Measure
SUM1	Service Availability
SUM2	Firmware Management
SDM1	Install and Commission
SDM2	Prepayment (Interim Response Times)
SDM3	Change of Supplier
VMM1	Customer Engagement Incentive

[11] OPR direction, March 2021: www.ofgem.gov.uk/sites/default/files/docs/2021/03/opr_direction_0.pdf

VMM2	Contract Management Incentive

2.4. Performance Measures SUM1, SUM2, SDM1, SDM2, and SDM3 are all considered System Performance measures as they are quantitative outcome based measures, which measure DCC's performance in delivering its system. More details on these measures are given in the Section 3 of this document.

2.5. The two value for money measures, VMM1 and VMM2 are qualitative and measure DCC's performance in Customer Engagement and Contract Management. More details are given on these measures in Sections 4 and 5 of this document, respectively.

Overview of OPR Process

2.6. The OPR assesses DCC's operational performance in each Regulatory Year, running from 1 April to 31 March.

2.7. DCC must submit its Quality of Service Information as specified by the Regulatory Instructions in Guidance by 31 July after each Regulatory Year.

2.8. Alongside this submission, Ofgem will also take a submission from both the SEC Panel and DCC with regard to DCC's performance under the Customer Engagement Incentive. Ofgem will also receive an auditor's report on DCC's performance regarding the Contract Management Incentive.

2.9. Ofgem will then assess these submissions to determine a minded-to position on the value of the Baseline Margin Operational Performance Adjustment (BMOPA).

2.10. Ofgem will then consult on this position as part of the annual price control consultation from the end of October to the end of the year. This will provide DCC and its stakeholders an opportunity to respond to our minded-to positions on each area of the OPR.

2.11. Following analysis of DCC and stakeholder responses at the start of the calendar year, Ofgem will make any adjustments it deems necessary and publish its decision on the BMOPA as part of its decision on DCC's price control.

Revenue at Risk

2.12. Licence Condition 38.10 states that the revenue at risk against the OPR must at least be equal to 100% of DCC's Baseline Margin (excluding Project Baseline Margin) in any given Regulatory Year.

2.13. To ensure that DCC is sufficiently incentivised by the OPR, the revenue at risk is set by the following equation:

$$R(OPR)_t = BM(OPR)_t$$

Where $R(OPR)_t$ is the revenue at risk against the OPR, and $BM(OPR)_t$ is the Baseline Margin at risk against the OPR (therefore excluding Project Baseline Margin).

Performance Measure Weighting

2.14. The Performance Measure Weighting (PMW) determines the proportion of the revenue at risk against the OPR, R(OPR), that is at risk against each of performance measure.

2.15. The System Performance measures have a collective weighting of 70%, while the Customer Engagement Incentive and Contract Management Incentive each have a weighting of 15%. Table 2.2 gives the weighting for each performance measure.

Table 2.2: Performance Measure Weightings

m	Performance Measure	PMW_m
SUM1	Service Availability	23.33%
SUM2	Firmware Management	0%
SDM1	Install and Commission	23.33%
SDM2	Prepayment (Interim Response Times)	23.33%
SDM3	Change of Supplier	0%
VMM1	Customer Engagement Incentive	15%
VMM2	Contract Management Incentive	15%

2.16. The values given in Table 2.2 are set in perpetuity unless otherwise changed through the amendment of this document.

Governance

2.17. Ofgem will update this guidance as is necessary to ensure that DCC is effectively incentivised to provide a sufficient level of operational performance. However, we wish to minimise the extent to which this guidance will need to undergo significant changes to maximise the certainty given to DCC regarding its regulatory regime.

2.18. Ofgem will use its discretion, alongside stakeholder feedback, to determine whether this guidance requires modification. Modifications could include minor alterations to improve clarity, adjustments to qualitative measures to improve their function, and adjustments to the performance measure weightings.

2.19. As set out in Licence Condition 38.9, changes to the OPR Guidance would require - as a minimum - consultation with DCC. Ofgem will determine whether any given modification requires a public consultation with wider stakeholders. In general, we will publicly consult on modification to this guidance that could have a material impact on DCC's retained revenue, or that would lead to a material change to the focus of the OPR.

2.20. Ofgem will also seek stakeholder views as part of the annual price control consultation to collect feedback on potential improvements to the OPR that may require modification of the OPR Guidance.

2.21. As set out in Licence Condition 38.9, any modifications to this guidance must be published before the beginning of the Regulatory Year in which they are intended to take effect.

3. System Performance

Section summary

System performance measures the reliability of DCC systems, which is fundamental for the successful delivery of the smart meter rollout and business-as-usual operations.

There will be five system performance measures under which DCC will be financially incentivised: service availability, firmware management, install and commission, prepayment (Interim Response Times), and change of supplier. As of RY22/23, three out of five of these measures will carry an equal weighting whilst two measures will have no weighting attached. Where applicable, a portion of DCC's margin will be put at risk against each of these measures across meter generations and regions.

This section sets out the methodology in determining DCC's performance in each area and the associated penalty mechanisms resulting in the reduction of DCC's margin.

Background

3.1. System performance measures the reliability of DCC systems, which is fundamental for the successful delivery of the smart meter rollout and business-as-usual operations.

3.2. As such, the first iteration of the OPR focussed solely on system performance. It consisted of five groups of metrics that are part of the Smart Energy Code (SEC) performance measures: DCC Service Desk, Communication Hubs, DCC WAN Coverage, Core Service Requests, and System Availability. Most of these metrics measured technical outputs, which did not appear to be strongly correlated with customer experiences.

3.3. The SEC Operations Sub-Group (SEC Ops Group) reviewed the SEC performance measures to identify improvements and define new metrics that better measure system performance. The SEC Panel agreed in April 2020 to implement the findings and recommendations of the SEC Ops Group's report, and the decision was adopted in October of that year. Following a period of refinement and implementation, these metrics were planned to be adopted through a SEC release in February 2021.

3.4. In October we published our decision to incentivise a subset of these revised metrics under the OPR.

3.5. In February 2021, we received an application from DCC for a derogation from various elements of SEC Section H13 that came into effect from 25 February 2021. In April 2021, a temporary and limited derogation from certain elements of Section H of the SEC was granted to DCC[12].

3.6. Furthermore, in response to our January 2021 OPR Guidance Consultation, DCC argued that it was not technically possible to report on some of the proposed System Performance measures from April 2021 as current systems were unable to measure disaggregated Target Response Time (TRT) performance. Therefore, in our OPR Guidance Decision we gave DCC a 12-month grace period for DCC to work closely with its customers and SEC parties and find a technical solution. If DCC was not able to deliver a reporting solution for System Performance in RY22/23, the default position was that DCC would lose all margin attached to those measures.

3.7. This led to setting up of an ad-hoc industry group (OPR Working Group) by DCC, significant engagement between DCC and Smart Energy Code (SEC) Operations Group (OPSG) and a public consultation issued by DCC in December 2021[13]. DCC and SEC Panel submitted recommendations to us on System Performance measures for OPR in February 2022. This Guidance is being updated following these recommendations.

3.8. The key changes in the area of System Performance are:

- **Install and Commission measures:** replace the Target Response Time (TRT) Service Reference Variance (SRV) measures included in the March 2021 OPR Guidance with interim alternative reportable metrics, with the exception of SRV 8.11 (Update HAN Device Log) which will remain. However, we will consider wider evidence into account when deciding if DCC should lose margin under OPR associated to SRV8.11. For example, we could consider what options DCC

[12] Derogation granted to Smart DCC Ltd from requirements of SEC Section H: www.ofgem.gov.uk/publications/derogation-granted-smart-dcc-ltd-requirements-sec-section-h
[13] DCC's consultation on Operation Performance Regime (OPR) potential measures (December 2021): www.smartdcc.co.uk/consultations/consultation-on-operational-performance-regime-opr-potential-measures/

explored with its Fundamental Service Providers (FSPs) and customers to improve performance.

- **Prepayment measures**: replace the TRT SRV prepayment related measures included in the March 2021 OPR Guidance with interim reportable time-based metrics. It is important to note, however, that while these interim metrics are deemed to be useful to assess system performance, they are not prepayment metrics. It was initially proposed by DCC that at least one of these metrics could be seen as a proxy for prepayment service performance but not enough evidence was presented to support this view. For clarity, we have relabelled Prepayment measures as "Prepayment (interim response time) measures" throughout this Guidance.

- **Interim solution**: the changes described above are being introduced on an interim bases, until the time when an enduring reporting solution for the measures in the 2021 OPR Guidance, or alternative measures fully supported by DCC's customers and SEC parties as an enduring solution, can be implemented.

System performance measures

3.9. DCC will be incentivised under five system performance measures: Service Availability, Firmware management, Install and Commission, Prepayment (Interim Response Times), and Change of Supplier. Where applicable, DCC's performance against these measures will be assessed across meter generations (SMETS1 and SMETS2) and - for SMETS2 - also across the smart network regions: North, Central, and South[14].

3.10. As of RY22/23, three out of five measures currently carry an equal weighting whilst two measures have no weighting attached. Table 3.1 below sets out the applicable split for each measure as well as its current weighting against the margin at risk for the system performance incentive.

[14] Note, only SMETS2 performance will be assessed by region. SMETS1 performance is not regionalised, and therefore will not be broken down by region.

Table 3.1: System performance measures: overview[15]

Performance measure (*m*)	Term	Weighting	Meter Generation		Split by region
			SMETS1	SMETS2	
Service Availability	*SUM1*	33.33%	-	-	-
Firmware Management	*SUM2*	0%	YES	YES	YES
Install & Commission	*SDM1*	33.33%	-	YES	YES
Prepayment (Interim Response Times)	*SDM2*	33.33%	YES	YES	YES
Change of Supplier	*SDM3*	0%	YES	YES	YES

Service Availability

3.11. Under the Service Availability performance measure, DCC is incentivised to ensure its services are accessible as needed, whenever and wherever they are required by DCC users.

3.12. The value of the Reported Performance Level in Regulatory Year t (RPL_{SUM1t}) will be determined as a mean of five SEC metrics, measuring the availability of DCC's interfaces and their supporting sub-systems averaged across the *n* months of Regulatory Year *t*. These are: DCC User Interface ($SA1_{it}$), Registration Data Interface ($SA2_{it}$), SMKI Repository Interface ($SA3_{it}$), SMKI Service Interfaces ($SA4_{it}$), and Self-Service Interface ($SA5_{it}$).

3.13. All five metrics will be equally weighted, therefore w_{SAt} for each metric $SA(1\text{-}5)_t$ is 0.20.

3.14. The general formula for obtaining the value of the Reported Performance Level for $SUM1_t$ is as follows:

$$RPL_{SUM1_{it}} = SA1_{it} \times w_{SA1_t} + SA2_{it} \times w_{SA2_t} + SA3_{it} \times w_{SA3_t} + SA4_{it} \times w_{SA4_t} + SA5_{it} \times w_{SA5_t}$$

[15] Note, some of the metrics that will be reported under the install and commission performance measure are applicable to both SMETS1 and SMETS2. However, we will only assess performance for SMETS2 meters under this measure.

$$RPL_{SUM1_t} = \frac{\sum_{i=1}^{n} RPL_{SUM1_{it}}}{n}$$

Where $RPL_{SUM1_{it}}$ is the Reported Performance Level for SUM1 in month i of Regulatory Year t, and n is the number of months in Regulatory Year t.

3.15. The Service Availability measure is common across all meter generations and regions, therefore, the calculated value will not require a further split.

3.16. As such, the penalty mechanism associated with this measure is penalty mechanism A.

3.17. Together, the five Service Availability metrics compose the SEC Code Performance Measure 6. Therefore, the value of the Reported Performance Level (RPL_{SUM1t}) will be set against the following TPL and MPL values:

- TPL_{SUM1t} = Target Performance Level for $SUM1_t$ is 99.5%.
- MPL_{SUM1t} = Minimum Performance Level for $SUM1_t$ is 98%.

These values correspond to Target and Minimum Service Levels as set out in Section H13 of the SEC and are set out in tables 3.2.

Firmware management

3.18. Under the Firmware Management performance measure, DCC is incentivised to ensure that firmware payload images are successfully delivered to communication hubs.

3.19. The value of the RPL for the Firmware Management measure ($SUM2_t$) is obtained as a mean of the SEC Code Performance Measure 6A relating to SRV11.1[16] for each month i (FM_{irgt}) averaged across the *n* months of Regulatory Year *t,* using the following general formula:

[16] 'Update Firmware Note: In respect of SMETS2+ Devices the DCC must ensure that the associated firmware update has been delivered to all relevant Communications Hub Functions within five days of receipt of the Service Request.'

$$RPL_{SUM2_{irgt}} = FM_{irgt}$$

$$RPL_{SUM2_{rgt}} = \frac{\sum_{i=1}^{n} RPL_{SUM2_{irgt}}}{n}$$

Where $RPL_{SUM2_{it}}$ is the Reported Performance Level for SUM2 in month i for region r for meter generation g of Regulatory Year t.

3.20. From RY21/22, no margin is to be put at risk against this measure, and DCC is only expected to report on this measure following its inclusion in the SEC.

3.21. This measure allows for DCC's performance to be assessed for each meter generation and across all three SMETS2 regions. The general formula will therefore produce four distinct $RPL_{SUM2rgt}$: one for *g=1,* and three for *g=2, r∈ {N, C, S}* which will be set against $TPL_{SUM2rgt}$ and $MPL_{SUM2rgt}$ values defined in tables 3.2 and 3.3.

3.22. The Firmware Management metric consists of components of SEC Code Performance Measure 6A. Therefore, the value of the Reported Performance Level (RPL_{SUM2t}) will be set against the following TPL and MPL values:

- TPL_{SUM2t} = Target Performance Level for $SUM2_t$ is 99%.
- MPL_{SUM2t} = Minimum Performance Level for $SUM2_t$ is 96%.

These values correspond to Target and Minimum Service Levels as set out in Section H13 of the SEC and are set out in tables 3.2.

Install and Commission

3.23. Under the Install and Commission performance measure, DCC is incentivised to ensure that all DCC services required in the install and commission of a smart meter are provided at a sufficient quality.

3.24. The value of the Install and Commission metric ($RPL_{SDM1rgt}$) is obtained as a mean of five performance measures relating to the Install and Commission Business Process, averaged across *n* months of Regulatory Year *t*.

3.25. These five performance measures are as follows: PM1.2 Comms Hubs Accepted by Customers (IC1), PM1.3 Comms Hubs not Faulty (IC2), PM1.1 First time SMWAN connectivity at Install (IC3), PM1.3 (South and Central) / PM1.4 (North) SMWAN Connectivity Level (IC4), and SRV8.11 Update HAN Device Log (IC5).

3.26. All five metrics will be equally weighted, therefore w_{ICqt} for each metric IC(1-5)$_t$ is 0.2.

3.27. The general formula for calculating the value of the RPL$_{SDM1}$ is as follows:

$$RPL_{SDM1_{irgt}} = IC1_{irgt} \times w_{IC1_t} + IC2_{irgt} \times w_{IC2_t} + IC3_{irgt} \times w_{IC3_t} + IC4_{irgt} \times w_{IC4_t} + IC5_{irgt} \times w_{IC5_t}$$

$$RPL_{SDM1_{rgt}} = \frac{\sum_{i=1}^{n} RPL_{SDM1_{irgt}}}{n}$$

Where $RPL_{SDM1_{irgt}}$ is the Reported Performance Level for SDM1 in month i for region r for meter generation g of Regulatory Year t, and n is the number of months in Regulatory Year t.

3.28. As we will only assess SMETS2 meters under this measure, DCC will be incentivised for its performance under the Install and Commission measure in each region *r∈ {N, C, S}* for meter generation *g=2.* Applying the above formula to all three regions will therefore return three distinct RPL$_{SDM1rgt}$ which will be set against relevant TPL$_{SDM1rgt}$ and MPL$_{SDM1rgt}$ defined in table 3.2.

3.29. For clarity, penalty mechanism B will be applied for this measure. We will not assess SMETS1 meters under this measure.

3.30. The Install and Commission metric consists of four components from the Reported List of Service Provider Performance Measures document (ICs 1-4), and one component of SEC Code Performance Measure 6A (IC5). The value of the Reported Performance Level (RPL$_{SDM1t}$) will be set against the following TPL and MPL values:

- TPL$_{SDM1t}$ = Target Performance Level for SDM1$_t$ is 99%.
- MPL$_{SDM1t}$ = Minimum Performance Level for SDM1$_t$ is 96%.

These values take into account DCC's performance to date, as well as the Target and Minimum Service Levels set out in Section H13 of the SEC and the Reported List of Service Provider Performance Measures document, and are set out in tables 3.2.

Prepayment (Interim Response Times)

3.31. Under the Prepayment (Interim Response Times) performance measure, DCC is incentivised to ensure that Service Reference Variants (SRVs) are successfully delivered to devices within a Target Response Time (TRT). As noted at the beginning of this chapter, these interim metrics are not prepayment metrics.

3.32. The value of the Prepayment (Interim Response Times) performance measure (SDM2) is obtained as a weighted mean of four performance measures relating to the delivery of SRVs within TRT under SEC Code Performance Measure 1, averaged across *n* months of Regulatory Year *t*.

3.33. These four are as follows: PM4.3 CSP Test HAN Interface Command (RT1), PM1.1 and PM1.4 DSP Real Time TRTs (RT2 and RT3), and PM1.1 S1-SP & DXC Real-time TRTs (RT4).

3.34. All four metrics will be equally weighted, therefore w_{RTqt} for each metric RT(1-4)t is 0.25.

3.35. The value of the RPL for the Prepayment (Interim Response Times) performance measure (SDM2) is calculated by the following general formula:

$$RPL_{SDM2_{irgt}} = RT1_{irgt} \times w_{PP1_t} + RT2_{irgt} \times w_{PP2_t} + RT3_{irgt} \times w_{PP3_t} + RT4_{irgt} \times w_{RT4_t}$$

$$RPL_{SDM2_{rgt}} = \frac{\sum_{i=1}^{n} RPL_{SDM2_{irgt}}}{n}$$

Where $RPL_{SDM2_{irgt}}$ is the Reported Performance Level for SDM2 in month i for region r for meter generation g of Regulatory Year t, and n is the number of months in Regulatory Year t.

3.36. Under this measure, DCC is to be incentivised separately for each meter generation and across all three SMETS2 regions. The general formula will therefore produce four distinct $RPL_{SDM2rgt}$: one for *g=1,* and three for *g=2, r∈ {N, C, S}* which will be set against $TPL_{SDM2rgt}$ and $MPL_{SDM2rgt}$ values defined in tables 3.2 and 3.3.

3.37. For clarity, penalty mechanism B will be applied for this measure where applicable.

3.38. The Prepayment (Interim Response Times) metric consists of components of SEC Code Performance Measure 1. Therefore, the value of the Reported Performance Level (RPL_{SDM2t}) will be set against the following TPL and MPL values:

- TPL_{SDM2t} = Target Performance Level for $SDM2_t$ is 99%.
- MPL_{SDM2t} = Minimum Performance Level for $SDM2_t$ is 96%.

These values correspond to Target and Minimum Service Levels as set out in Section H13 of the SEC and are set out in tables 3.2.

Change of Supplier

3.39. Under the Change of Supplier performance measure, DCC is incentivised to ensure that all DCC services required in the change of supplier process are provided at a sufficient quality.

3.40. The value of this measure is obtained as a mean of the three SEC performance measures relating to SRVs composing the Change of Supplier Business Process, under SEC Code Performance Measure 6A, averaged across *n* months of Regulatory Year *t*.

3.41. These are as follows: Update Security Credentials (Cos) (CS1), Update Import Tariff (Primary Element) (CS2), Update Device Configuration (Billing Calendar) (CS3).

3.42. All of these metrics are weighted equally, therefore w_{PP1}, w_{PP2}, $w_{PP3} = 0.3\dot{3}$.

3.43. The value of the RPL for the Change of Supplier performance measure (SDM3) is to be calculated using the following general formula:

$$RPL_{SDM3_{irgt}} = CS1_{irgt} \times w_{PP1_t} + CS2_{irgt} \times w_{PP2_t} + CS3_{irgt} \times w_{PP3_t}$$

$$RPL_{SDM3_{rgt}} = \frac{\sum_{i=1}^{n} RPL_{SDM3_{irgt}}}{n}$$

Where $RPL_{SDM3_{irgt}}$ is the Reported Performance Level for SDM3 in month i for region r for meter generation g of Regulatory Year t, and n is the number of months in Regulatory Year t.

3.44. From RY21/22, no margin is to be put at risk against this measure, though DCC is expected to report on this measure under the SEC.

3.45. Under this measure, DCC can be incentivised separately for each meter generation and across all three SMETS2 regions. The general formula will therefore produce four distinct $RPL_{SDM3rgt}$: one for *g=1,* and three for *g=2, r∈ {N, C, S}* which will be set against $TPL_{SDM3rgt}$ and $MPL_{SDM3rgt}$ values defined in tables 3.2 and 3.3.

3.46. The Change of Supplier metric consists of components of SEC Code Performance Measure 6A. Therefore, the value of the Reported Performance Level (RPL_{SDM3t}) will be set against the following TPL and MPL values:

- TPL_{SDM3t} = Target Performance Level for $SDM3_t$ is 99%.
- MPL_{SDM3t} = Minimum Performance Level for $SDM3_t$ is 96%.

3.47. These values correspond to Target and Minimum Service Levels as set out in Section H13 of the SEC and are set out in tables 3.2.

Failure to Report

3.48. Should DCC fail to report its performance for region r of meter generation g for measure *m* in any number of months in regulatory year t, then the score for that month would be taken as zero for the sake of these calculations.

Penalty mechanism

3.49. DCC's performance against each System performance measure will be subject to two new penalty mechanisms A and B.

3.50. Penalty mechanism A ensures that performance below MPL will result in 0% of revenue at risk being retained for a given metric.

3.51. Penalty mechanism A will be applicable for those metrics that measure DCC's performance for the SMETS1 meter generation (g=1). For clarity, those metrics will not be further split into regions. This mechanism will also be used for the Service Availability measure, which is common across meter generations and regions.

3.52. Penalty mechanism B ensures that, within each region, revenue at risk would continue to be lost incrementally for performance below MPL until revenue at risk retained equalled -16.7% at performance level x% for a given metric. Note, the minimum amount that can be retained across all three regions is capped at 0%.

3.53. Penalty mechanism B will be applicable for those metrics that measure DCC's performance for the SMETS2 meter generation (*g=2).* These metrics will be further split into three regions: North, Central, and South. DCC's margin associated with each relevant SMETS2 metric will be put at risk in individual regions, each carrying 33.33% of the margin put at risk.

3.54. Each penalty mechanism will yield a value of revenue deducted for measure *m* in region *r* for meter generation *g* in Regulatory Year *t: M_{rgmt}.* The value of the deducted revenue will be determined by setting DCC's Reported Performance Level (RPL_{rgmt}) for a measure *m,* meter generation *g* in region *r* in RY *t*, calculated by the general formulae set out in the previous section, against the current values of the Target Performance Level (TPL_{rgmt}) and Minimum Performance Level (MPL_{rgmt}) for that measure, meter generation, and region. The current values are defined in tables 3.2 and 3.3.

3.55. Each penalty mechanism is set out in detail below. In addition, please refer to Appendix 1 for a set of worked examples for each penalty mechanism to demonstrate the level of margin retained for different performance levels.

Determining the values of TPLI and MPLI

3.56. TPLI is the amount of revenue at risk against a given measure *m*, and therefore also the revenue retained when the Target Performance Level (TPL) is achieved. MPLI is the amount of revenue retained when the Minimum Performance Level (MPL) is achieved.

3.57. The TPLI for each measure is determined by the revenue at risk (R(OPR)) and the measures weighting (PMW). The MPLI is determined by the value of Y and the TPLI.

3.58. The value of TPLIgmt for each measure *m* is equal to the amount of revenue at risk for RY *t* of the OPR – $R(OPR)_t$ – adjusted by the Performance Measure Weighting for that measure *m* in RY *t* (PMW_{mt}) – *ie* the proportion of R(OPR) allocated to measure *m* – and weighted by the proportion of meters of generation *g* applicable for measure *m.* The current performance measure weighting is set out in table 3.1.

$$TPLI_{mt} = PMW_{mt} \times R(OPR)_t$$

$$TPLI_{gmt} = G_{gmt} \times TPLI_{mt}$$

Applicable for both Penalty Mechanism A and B

$$TPLI_{rgmt} = \frac{TPLI_{gmt}}{3}$$

Only applicable for measures using Penalty Mechanism B

3.59. $TPLI_{rgmt}$ is only relevant when $g = 2$ (SMETS2), and therefore for penalty mechanism B. Since under penalty mechanism B, DCC is to be incentivised under each applicable measure across the three communication regions, the value of $TPLI_{rgmt}$ for each measure *m* in each region *r* is equal to a *third* of the amount of revenue at risk for RY *t* of the OPR - $R(OPR)_t$ - adjusted by the Performance Measure Weighting for that measure *m* in RY *t* (PMW_{mt}) – *ie* the proportion of R(OPR) allocated to measure *m.*

3.60. The value of G_{gmt} is to be calculated as the proportion of meters of meter generation g at the end of each month in Regulatory Year t, averaged across that year. For clarity, there are two meter generations, SMETS1 and SMETS2, therefore the sum of G_{1mt} and G_{2mt} should equal 1.

3.61. For the avoidance of doubt, for the Prepayment (Interim Response Times) performance measure, SMETS1 and SMETS2 meters are considered for the calculation of the meter generation split. In addition, for Service Availability and Install and Commission G_{gmt} is equal to 1, as the meter generation split is not applicable for these measures.

3.62. The value of $MPLI_{gmt}$ for each measure *m* is determined by the value of Y_{gmt}, that is the proportion of the TPLI retained at MPL for that measure in RY *t.* The current values of *y* for each measure *m* are set out in table 3.2.

$$MPLI_{rgmt} = Y_{rgmt} \times TPLI_{rgmt}$$

3.63. For clarity, because penalty mechanism A does not require further region split, DCC risks 100% of the $TPLI_{gmt}$ under each measure for that generation of meter. In addition, the equation in paragraph 3.30 is also not broken down by region (and therefore does not have an *r* subscript).

Penalty Mechanism A

3.64. Penalty mechanism A ensures that performance below MPL will result in 0% of revenue at risk being retained for a given metric.

3.65. Penalty mechanism A will be applied for SMETS1 meters, or where a regional split is not applicable (*g=1* or *r is not applicable*).

3.66. For penalty mechanism A, the value of deducted margin M_{gmt} will be determined using the following principles, visualised in Figures 3.1 and 3.2.

- If RPL_{gmt} for a measure *m* in RY *t* is greater than the TPL_{gmt} for that measure in that year, then DCC will retain all margin associated with that measure.

$$If\ RPL_{gmt} > TPL_{gmt}\ then\ M_{gmt} = 0$$

- If DCC's RPL_{gmt} is less than *or* equal to TPL_{gmt} *but* is greater than or equal to MPL_{gmt}, then the deduction to DCC's margin will be calculated using the following general formula:

$$If\ MPL_{gmt} \leq RPL_{gmt}\ \leq TPL_{gmt}\ then:$$

$$M_{gmt} = -\left(1 - \frac{RPL_{gmt} - MPL_{gmt}}{TPL_{gmt} - MPL_{gmt}}\right) \times (TPLI_{gmt} - MPLI_{gmt})$$

where $TPLI_{gmt}$ and $MPLI_{gmt}$ are the Target and Minimum Performance Level Incentives, respectively, determining the margin retained for measure *m* by reaching that performance level. If *Y* is greater than zero, DCC's retained margin will be greater than zero when applying this formula.

- If DCC's RPL_{gmt} falls below the MPL_{gmt}, then DCC loses all margin associated with that measure.

$$If\ RPL_{gmt} < MPL_{gmt}\ then\ M_{gmt} = -TPLI_{gmt}$$

Table 3.2 gives the values of TPL and MPL - as set by the SEC and Ofgem - and the value of Y – as set by Ofgem - applicable for penalty mechanism A.

Table 3.2: Penalty mechanism A: value definitions (TPL, MPL, *Y*)

Performance measure (*m*)	TPL	MPL	*Y*
Service Availability	99.5%	98.0%	50.0%
Firmware Management	99.0%	96.0%	50.0%
Install & Commission	N/A	N/A	N/A
Prepayment (Interim Response Times)	99.0%	96.0%	50.0%
Change of Supplier	99.0%	96.0%	50.0%

Figure 3.1: Penalty mechanism A: visualisation of the margin deduction

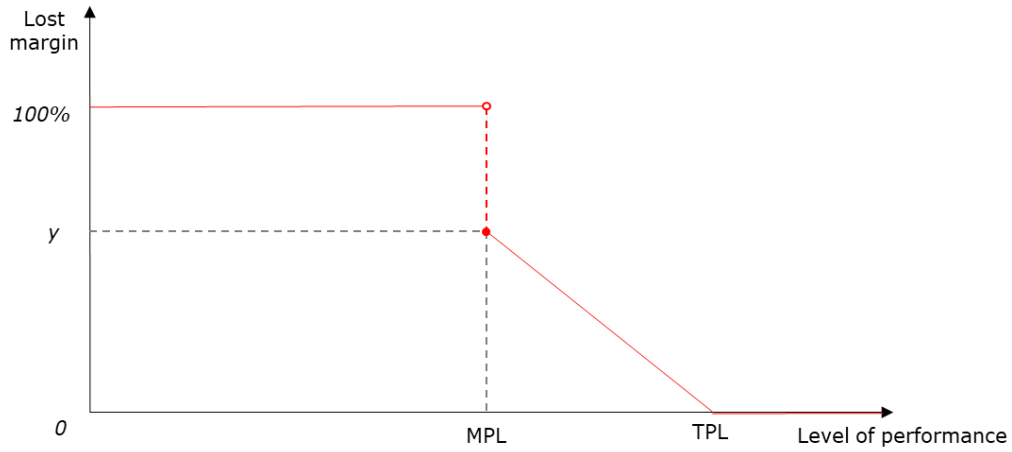
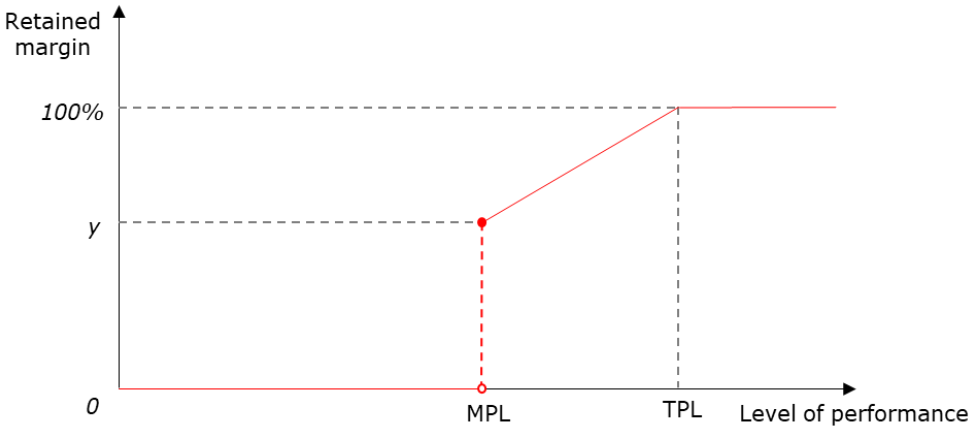


Figure 3.2: Penalty mechanism A: visualisation of the margin retention



Penalty Mechanism B

3.67. Penalty mechanism B ensures that within each region revenue at risk would continue to be lost incrementally for performance below MPL until revenue at risk retained equalled -16.7% at performance level x% for a given metric. Note, the minimum amount that can be retained across all three regions is capped at 0%.

3.68. For penalty mechanism B (*g=2, r∈ {N, C, S}*), the value of deducted margin M_{rgmt} will be determined using the following principles, visualised in Figures 3.3 and 3.4:

- If RPL_{rgmt} for a measure *m* in region *r* in RY *t* is greater than the TPL_{rgmt} for that measure in that region and year, then DCC will retain all margin associated with that measure.

$$If\ RPL_{rgmt} > TPL_{rgmt}\ then\ M_{rgt} = 0$$

- If DCC's RPL_{rgmt} is less than *or* equal to TPL_{rgmt} *but* is greater than or equal to MPL_{rgmt}, then the deduction to DCC's margin will be calculated using the following general formula:

$$If\ MPL_{rgmt} \leq RPL_{rgmt}\ \leq TPL_{rgmt}\ then:$$

$$M_{rgt} = -\left(1 - \frac{RPL_{rgmt} - MPL_{rgmt}}{TPL_{rgmt} - MPL_{rgmt}}\right) \times (TPLI_{rgmt} - MPLI_{rgmt})$$

where $TPLI_{rgmt}$ and $MPLI_{rgmt}$ are the Target and Minimum Performance Level Incentives, respectively, determining the margin retained for measure *m* by reaching that performance level in region *r.* If *Y* is greater than zero, DCC's retained margin will be greater than zero when applying this formula.

- If DCC's RPL_{rgmt} is lesser than MPL_{rgmt} *but* is greater than or equal to x_{rgmt}, then the following general formula will apply for the calculation of the deduction to DCC's margin:

$$If\ x_{rgmt} \leq RPL_{rgmt} < MPL_{rgmt}\ then:$$

$$M_{rgt} = -TPLI_{rgmt} + \left(1 - \frac{RPL_{rgmt} - X_{rgmt}}{MPL_{rgmt} - X_{rgmt}}\right) \times XI_{rgmt}$$

where X_{rgmt} is the performance level at which retained margin reaches its minimum value for measure *m* in region *r* and XI_{rgmt} is the incentive determining the margin retained for measure *m* in region *r* for performance at or below performance level X. The current values for *X* for each measure *m* are set out in table 3.3.

3.69. If DCC's RPL_{rgmt} falls below the X_{rgmt} then DCC loses all the margin associated with that measure in that region and incurs a penalty equal to the value of $XI_{rgmt.}$

$$If\ RPL_{rgmt} < X_{rgmt}\ then\ M_{rgmt} = -TPLI_{rgmt} + XI_{rgmt}$$

Determining the value of XI

3.70. The value of XI_{rgmt} for each measure *m* in region *r* is given by the below equation

$$XI_{rgmt} = -TPLI_{rgmt} \times 0.5$$

3.71. For clarity, each region carries the same weight across all applicable measures; the $TPLI_{mt}$ is therefore split equally among the regions, each carrying one third of the $TPLI_{mt}$. Together with the value of the penalty incentive XI_{rgmt}, DCC risks 50% of the $TPLI_{mt}$ in each region.

3.72. Table 3.3 gives the values of TPL and MPL - as set by the SEC and Ofgem - and the value of X and Y – as set by Ofgem - applicable for penalty mechanism B.

Table 3.3: Penalty mechanism B: value definitions (TPL, MPL, X, Y)

Performance measure	TPL	MPL	*X*	*y*
Service Availability	N/A	N/A	N/A	N/A
Firmware Management	99.0%	96.0%	90.0%	50.0%
Install & Commission	99.0%	96.0%	90.0%	50.0%
Prepayment (Interim Response Times)	99.0%	96.0%	90.0%	50.0%
Change of Supplier	99.0%	96.0%	90.0%	50.0%

Figure 3.3: Penalty mechanism B: visualisation of the margin deduction as a proportion of $TPLI_{mt}$

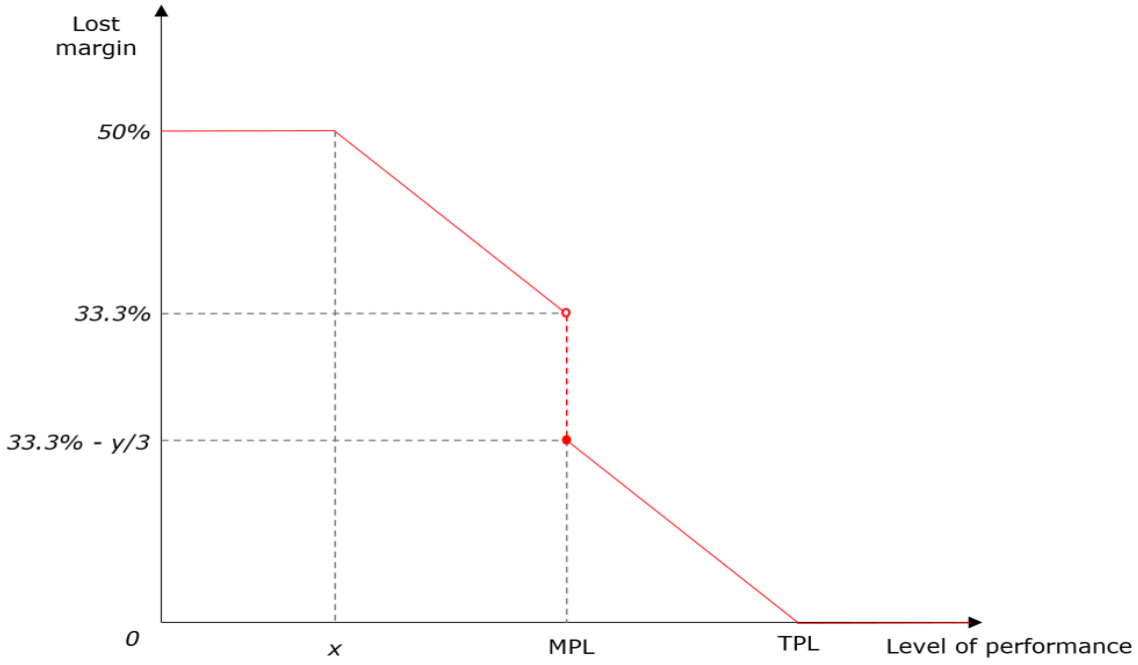
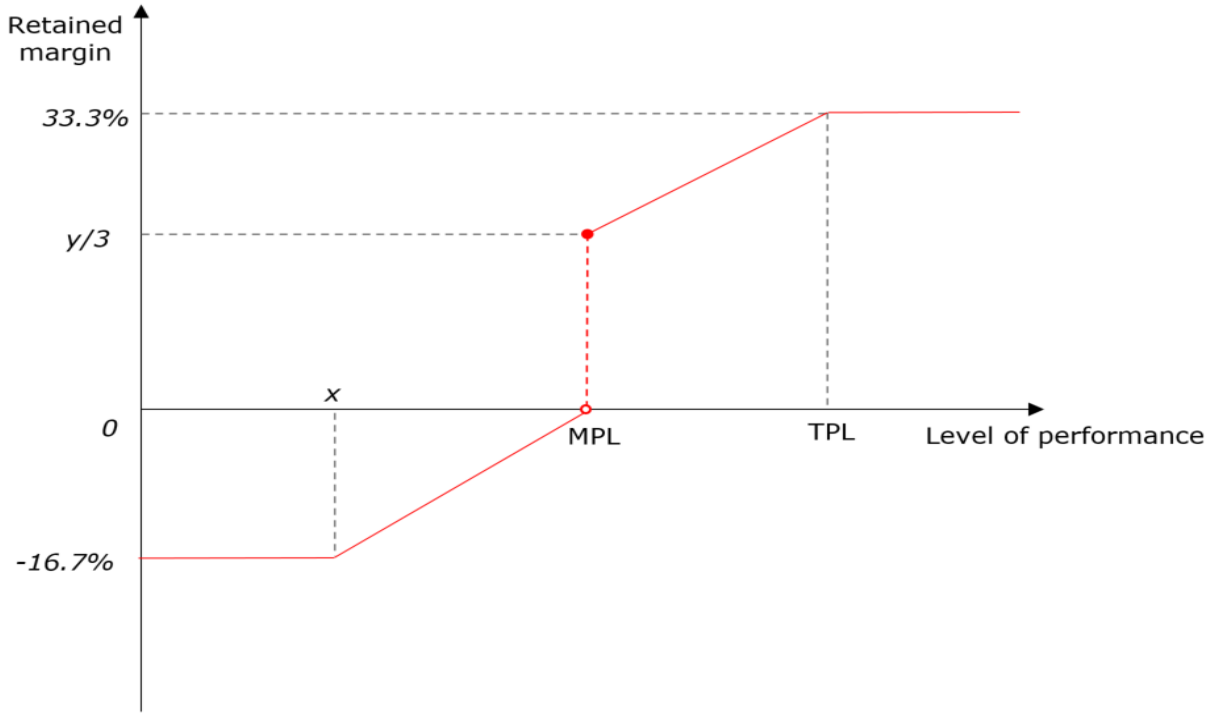


Figure 3.4: Penalty mechanism B: visualisation of the margin retention as a proportion of $TPLI_{mt}$



Calculating overall margin deduction

3.73. The overall margin deduction under each of the five performance measures can be calculated as the sum of margin deductions across regions and meter generations.

3.74. Should the overall margin deduction under a metric *m* for the SMETS2 meter generation (*g=2*) across the three communication regions exceed the value of the margin at risk for that meter generation ($TPLI_{gmt)}$, the overall margin deduction will be exactly 100% of the TPL_{gmt}. In other words, although DCC risks 50% of the $TPLI_{gmt}$ in each of the three communication regions, the overall margin deduction cannot exceed the total value of $TPLI_{gmt}$.

3.75. The general formula for calculation of the overall margin deduction under each measure is as follows:

$$M_t = \sum_g (M_{gt}) = M_{1(t)} + (M_{N2(t)} + M_{C2(t)} + M_{S2(t)})$$

$$providing\ M_{2(t)} = \max\left[M_{N2(t)} + M_{C2(t)} + M_{S2(t)}, -TPLI_{m(t)} \times G_{2(t)}\right]$$

Appeal process

3.76. Where DCC believe that a set of circumstances outside of its control have adversely impacted its performance under a particular measure, in a particular region, meter generation and time, DCC can submit an application for an adjustment to the reduction of the System Performance incentive as part of its annual price control submission.

3.77. Such an application should contain:

- descriptions of relevant external factors which have impacted DCC's performance, including evidence that they lay outside DCC's control;
- quantitative and qualitative evidence of the impact;
- list of performance measures impacted, including defined timeframe, region, and meter generation; and

- evidence of steps DCC had taken or intends to take in order to mitigate any impact on its users and restore performance to BAU level.

3.78. Should such a situation arise, DCC must in the first instance raise the matter with the SEC Panel and obtain the Panel's view. This may be as part of the SEC process on OPR Exceptional Events[17]. DCC may choose to present its appeal to Ofgem immediately following the occurrence of an issue during a Regulatory Year, if practical, rather than as part of its price control submission in July. However, Ofgem will only make a determination on the evidence associated with an appeal during its assessment of DCC's price control submission.

3.79. Based on the submitted evidence and taking into account the Panel's view, Ofgem may consider adjusting the performance incentive in DCC's favour. Any adjustment made to the margin retained would be consulted on through the subsequent price control consultation, where DCC and other stakeholders will have the opportunity to submit further evidence for adjustment.

[17] OPR Exceptional Events are set out in sections H13.7-13.14 of the SEC: https://smartenergycodecompany.co.uk/download/2483

4. Customer Engagement

Section summary

This chapter outlines the requirements of the Customer Engagement Incentive of the OPR. It includes the scope of the assessment, assessment criteria, and the assessment process.

DCC's customer engagement will be assessed using a defined set of qualitative criteria to produce an overall score. The criteria covers the timing and frequency of engagement; quality of information provided by DCC and the incorporation of customer views.

Background

4.1. We want to see DCC's decisions strongly informed by an understanding of its customers' needs, replicating the pressures a company would experience in a competitive market to drive better value for money. At the time of publishing this guidance - while DCC has demonstrated recent improvements in customer engagement - we continue to hear concerns from DCC customers that engagement around both its decision-making processes and wider informative engagement has not been sufficiently transparent, timely or relevant.

4.2. In May 2020 we consulted on whether it would be appropriate to financially incentivise DCC's customer engagement as part of the revised OPR regime. Stakeholders responded largely in favour of our proposals, and in October 2020 we published our decision to implement a financial incentive. We consider that a financial incentive could help to further and faster drive DCC's customer engagement to an appropriate standard, ensuring that DCC is responsive to the needs of its users and delivering good customer outcomes.

4.3. Following the completion of the Customer Engagement trial period which ran over RY20/21, we have made minor changes to the Customer Engagement Assessment questions to improve clarity.

4.4. The assessment process requires DCC to prepare a submission setting out DCC's assessment of its performance during the previous Regulatory Year against a set of assessment criteria defined in the OPR Guidance. The SEC Panel will also prepare a submission using the same criteria, ensuring that DCC customers can feed in views

towards the submission's preparation. This will ensure both DCC and its customers are represented in the assessment process, thus providing a balance of stakeholder views.

Assessment Criteria

4.5. DCC's engagement will be assessed against the criteria shown in table 4.1.

Table 4.1: Customer engagement assessment criteria

Aspect of customer engagement	Assessment questions	Weighting
Timing and frequency of engagement	1. Has DCC enabled customers to feed in views at appropriate points and with appropriate frequency in decision-making cycles? 2. Has DCC provided appropriate notice and allowed sufficient time for customers to contribute views? 3. Has DCC provided general information to customers in a timely manner and with sufficient frequency? (Including general updates, reactive engagement on unplanned issues)	25%
Quality of information provided by DCC	4. Has DCC provided its customers with sufficient quality of information to allow them to feed into a decision-making process? (eg clear costs and benefits and/or consequences of decisions). 5. Has DCC provided sufficient quality of information in its broader engagement (eg general updates, reactive engagement etc) for customers to understand the issues and the actions DCC is taking? 6. When engaging with customers, has DCC ensured to engage with relevant audiences, and tailored the information appropriately?	25%
Taking account of customer views	7. Has DCC ensured its customers understand on which issues their views will inform decision-making? 8. Have DCC's decisions demonstrated that customer views have been taken into account? 9. Has DCC clearly explained how customer views have informed its decision making, and where relevant why DCC has disagreed with customer views?	50%

4.6. Further guidance on what we would consider in our assessment is set out below. This is not intended to be exhaustive, but as a guide to DCC, the SEC Panel, and DCC's customers of what we may expect to see evidence of.

Timing and Frequency of engagement

4.7. Expected timelines and frequencies for engagement should be set out clearly for DCC customers across projects and decision-making cycles, ensuring appropriate lead times for DCC customers to engage effectively. We would expect DCC to review these with its customers to ensure its processes are working and revise timeframes if necessary.

4.8. The submission should provide specific evidence demonstrating when and how frequently DCC has allowed customers to feed in their views, as well as covering the frequency and timeliness of broader informative engagement.

4.9. We would expect DCC to seek greater input, supported by appropriately detailed information, where decisions have greater potential impact on customers.

Quality of information provided by DCC

4.10. When assessing the quality of the information, we will consider: customers' ease of access to the information, the readability/comprehensibility of the information, and the level of detail and precision in the content.

4.11. We would expect DCC to provide sufficient rationale for different options, providing where possible sufficient information around the expected costs of options in order for customers to give informed feedback.

4.12. We would expect to see evidence that DCC has considered its audience when providing information and that the engagement is tailored appropriately, such as through the format of the information, level of technical detail, and the forums DCC chooses to engage.

4.13. We would expect to see evidence covering engagement around change and project requests, as well as DCC's broader informative engagement.

Taking account of customer views

4.14. The submission should evidence that DCC has been clear when communicating to its customers which issues they can provide views on, and ensure that DCC has provided avenues for customers to seek clarification if needed.

4.15. DCC demonstrating that it followed the recommendations of its customers in its decision-making processes would be strong evidence of high performance. However, DCC would also be able to demonstrate high performance by clearly communicating to its customers the rationale behind why, in certain instances, DCC made a decision that diverged from the views of its customers.

4.16. DCC should evidence that it has closed the 'feedback loop', ensuring stakeholders have been informed of the outcomes as a result of their engagement. This should be carried out regardless of whether the recommendations of customers have been followed, with a strong rationale provided for DCC's decisions.

Assessment Process and timeline

4.17. DCC's Customer Engagement will be assessed on an annual cycle. The assessment process will involve the following steps:

4.18. **Submission preparation (April-July):** DCC and the SEC panel must prepare a submission for Ofgem's review, using the OPR Guidance for reference. Each submission will set out an assessment of DCC's performance in the previous Regulatory Year. In preparing the submission, the SEC Panel must seek wider views as part of their assessment of DCC's customer engagement. DCC and the SEC Panel should work together transparently and share drafts with one another when preparing their submissions to maintain open communication and ensure the submissions are comparable.

4.19. **Reporting (31 July):** Both DCC and SEC Panel should send their submissions via email to Ofgem (Smartmetering@ofgem.gov.uk) along with any supporting evidence by no later than 31 July, following the end of the Regulatory Year under assessment.

4.20. **Internal assessment (Aug–Oct):** We will conduct an internal assessment of both submissions against the assessment criteria described in table 4.1 to produce an overall score. If necessary, we will return to SEC and DCC with any questions at this stage to inform our position.

4.21. **Consultation (Oct-Dec):** We will consult on our minded-to position as part of our annual price control consultation, which we aim to publish in autumn each year. We expect stakeholders' responses to our consultation would serve as a 'right of reply' to our assessment and could include further evidence or examples of DCC's customer engagement that we would take into account.

4.22. **Decision (Jan-Feb):** We will analyse responses and any additional evidence provided. We will publish our final decision, outlining DCC's final score and the associated margin retained, in February, as part of the annual price control decision.

Scope of Assessment

4.23. DCC carries out a range of activity, which all require engagement with its customers, including BEIS-initiated, SEC-initiated, DCC-initiated, ad-hoc issues, and BAU activity.

4.24. All aspects of DCC activity are within scope of the Customer Engagement Incentive assessment, and we expect DCC and SEC Panel to draw on examples and evidence from a range of different activities for relevant criteria when preparing their submission.

4.25. We recognise that engagement will look different for different types of DCC activity. For example, DCC may be constrained in the type of engagement it can carry out where an activity has been mandated by BEIS, and DCC may not be able to meet all assessment criteria where such an activity has been mandated. We will take the type of activity into account, and any resulting constraints, when making our assessment. However, we would expect to see evidence that DCC has engaged with its customers wherever possible, and that DCC has engaged with customers to the extent that the activity permits.

Submission Requirements

4.26. DCC and the SEC Panel should each prepare a submission providing an assessment of DCC's performance over the previous Regulatory Year.

4.27. The submissions from DCC and the SEC Panel must both be prepared using the latest form of the OPR Guidance. We will clearly state where information is only relevant to one party.

4.28. Both submissions must provide a rounded and impartial view of DCC's performance.

4.29. DCC and the SEC Panel should engage with each other when drafting their submissions to ensure the two submissions are comparable. Maintaining transparency throughout the process will also ensure DCC will have sight of the SEC Panel submission to have the right of reply.

4.30. In preparing its submission, the SEC Panel in particular must:

- seek wider customer views as part of its assessment of DCC's performance with regards to customer engagement. We will not prescribe how the SEC Panel should seek these views.

- consider DCC's wider engagement, such as bilateral engagement with stakeholders, rather than limiting its assessment to DCC's engagement with the Panel itself.

4.31. The SEC Panel submission must explain how the SEC Panel sought customer views prior to the submission and how they were incorporated.

4.32. The submission will comprise two parts as outlined in Figure 4.1.

Figure 4.1: Submission requirements

Part 1: Main submission	Part 2: Supporting Evidence
• The main narrative of the submission, describing DCC's performance over the previous year. • It should contain the minimum requirements detailed in this section.	• Supporting evidence to complement the submission. • This will consist of any additional evidence of DCC's engagement as relevant, and may also include a number of case studies.

Part 1 Submission – Main submission minimum requirements

4.33. The Part 1 submission is aimed at providing the overall narrative for the assessment.

4.34. Part 1 of DCC and the SEC Panel's submissions should, at minimum:

- set out a reasoned assessment of DCC's performance against each of the nine assessment criteria questions outlined in table 4.1.

- assign a score from 0-3 for each assessment question, with a descriptive rationale as to why that score has been assigned. The scoring framework is outlined in table 4.3.

4.35. Part 1 should draw upon examples from a range of DCC activities as relevant to demonstrate DCC's engagement (eg, mandated activity, SEC-initiated activity, ad-hoc issues, BAU activity).

4.36. As stated previously in this guidance, all DCC activity is within scope of this assessment. The submissions should therefore consider the full breadth of DCC activity.

Part 2 Submission – Supporting Evidence

4.37. In Part 2 of the submission, DCC and the SEC Panel should provide any supporting evidence to justify the rationale and score given for each criteria question in Part 1.

4.38. We expect to see a range of evidence to support the main submission. Evidence could include but is not limited to: DCC's stakeholder engagement plan, strategy documents, results and feedback from customer surveys, outputs from engagement events (eg workshops, webinars), examples of communications from DCC and its customers, board papers, minutes from board meetings, and snapshots from DCC's Customer Portal.

4.39. Part 2 of the submission may also include up to five case studies. These case studies should follow a specific instance of DCC engagement from start to finish, demonstrating DCC's performance against the assessment criteria wherever relevant. Additional evidence may also be provided to support the case studies.

Submission Format

4.40. In meeting the minimum requirements for the main submission, DCC and the SEC Panel should address each of the nine assessment questions in turn, providing a detailed explanation for each question and justification for the suggested score.

4.41. Table 4.2 sets out a checklist for the content of the submissions.

Table 4.2: Submission requirements

Submission Checklist	Expected length of submission
Part 1 – main submission: a) narrative providing assessment of DCC's performance against each of the nine assessment criteria questions in turn b) suggested score for each assessment question	We expect the submission should be up to thirteen A4 pages (excluding cover pages, contents pages and blank pages). We suggest DCC and the SEC Panel should consider allocating no more than one page per criteria question for 'Timing and frequency of engagement' and 'Quality of information provided by DCC', and two pages per question for 'Taking account of customer views', due to their respective weighting.
Part 2 – supporting evidence: a) case studies describing individual cases of DCC's engagement b) additional supporting evidence	a) We expect up to five case studies may be provided, each no more than two pages in length. b) Additional evidence must be referenced in the body of the main document or a case study and provided in electronic form. There are no other restrictions on the amount or format of the additional evidence.

4.42. There is no fixed restriction on font requirements, but the submissions must be legible.

4.43. There should be no embedded documents within the submission document. Additional evidence should be referred to within the main submission where relevant and provided separately as supporting evidence. The main submission should include an annex giving a list of the additional evidence that has been provided.

4.44. The submissions will be published on our website. Any information which is considered confidential should therefore be highlighted to Ofgem. If a submission includes information that DCC or the SEC Panel considers to be confidential, an alternative redacted version of the submission should also be provided by 31 July for us to publish.

Scoring Methodology

4.45. We will award a score of 0, 1, 2 or 3 for each individual sub-question of the assessment framework described in table 4.1.

4.46. Scores will be awarded using the scoring framework outlined below in table 4.3.

4.47. DCC and the SEC Panel should use this scoring framework to provide an indicative score for each criteria question as part of their main submission.

4.48. In order to consider engagement to be high performance we would require to see strong evidence over a range of DCC activity across the year that the required criteria is met, and in particular that the practice is embedded in DCC's processes.

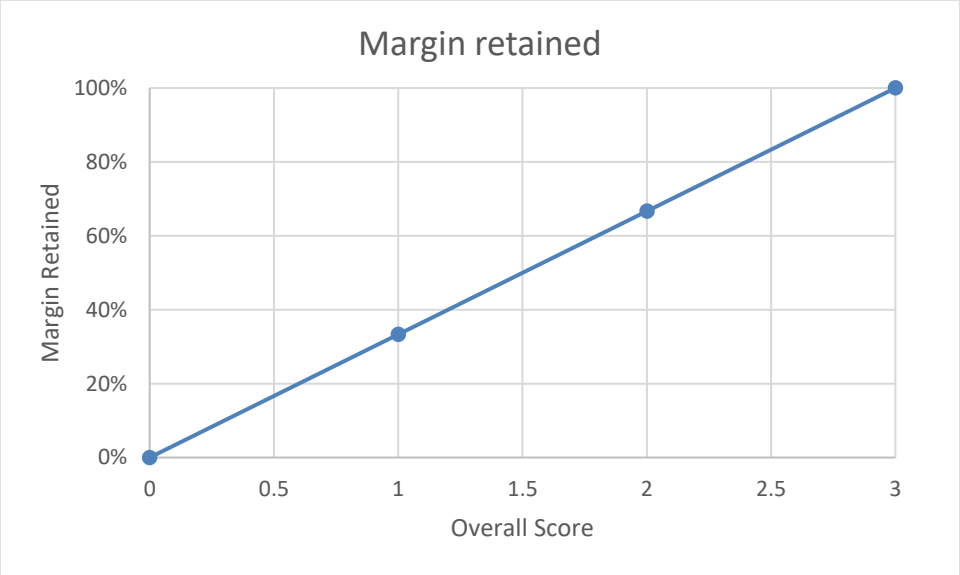
Table 4.3: Scoring Framework

Score	Description	Margin retained
3	Strong evidence that DCC meets the required standard with minor areas of improvement – DCC is performing to the expected standard.	100%
2	Evidence that DCC meets the required standard with very few material areas of concern and/or some minor areas of concern.	66.67%
1	Evidence that DCC meets the required standard but inconsistent with some material areas of concern.	33.33%
0	Limited evidence that DCC has met the required standard with multiple material issues of concern.	0%

4.49. A final score will be produced from a weighted average of the scores given to each assessment question. As the overall score will be calculated using a weighted average of the individual scores, it will be possible for the overall score to be a decimal value from 0-3. This ensures that even small, incremental changes to performance will pass through to the final score, ensuring that DCC is incentivised to make granular improvements. The methodology for calculating the score is provided later in this section.

4.50. Figure 4.2 illustrates the scoring mechanism which will be used to convert the overall score into the amount of margin retained.

Figure 4.2: Mechanism to convert score into margin retained



Appeals process

4.51. We will publish DCC's scores for customer engagement as part of our annual price control consultation. DCC and wider stakeholders will have the chance to respond to the scores and provide further justification and evidence as part of their response to the price control consultation.

Formula for Customer Engagement Incentive Performance Measure

4.52. The Customer Engagement Incentive is equal to performance measure VMM1.

4.53. The value of VMM1 is defined as:

$$VMM1_t = -\left[1 - \left(\frac{Z_{VMM1,t}}{TZ_{VMM1,t}}\right)\right] \times TPLI_{VMM1,t}$$

Where:

$$TPLI_{VMM1,t} = PMW_{VMM1,t} \times R(OPR)_t$$

4.54. The score for VMM1 in Regulatory Year t, $Z_{VMM1,t}$, is given by the function:

$$Z_{VMM1,t} = \sum_{c} \left(Z_{c,VMM1,t} \times ACW_{c,VMM1,t} \right)$$

Where $Z_{c,VMM1,t}$ is the score DCC receives for criteria *c* of VMM1 in Regulatory Year *t*, and $ACW_{c,VMM1,t}$ is the weighting given to criteria *c* of VMM1 in Regulatory Year *t*.

4.55. There are three areas of customer engagement under assessment, each with three assessment questions. The relative weighting of each area is provided in table 4.1. The individual weighting for each assessment question is calculated as one third of its area weighting and is given in table 4.4. The overall score will be calculated using a weighted average of the scores given to each question.

Table 4.4: Weighting for each assessment question

Assessment Question (c)	Weighting (ACW)
1	8.33%
2	8.33%
3	8.33%
4	8.33%
5	8.33%
6	8.33%
7	16.67%
8	16.67%
9	16.67%

4.56. The top score for the measure (and each question) is 3, as given in table 4.3. Therefore:

$$TZ_{VMM1,t} = 3$$

5. Contract Management Incentive

Section summary

This section sets out the guidance in regards to the Contract Management Incentive. This includes setting out the audit process and timelines; the assessment criteria as defined in the NAO Framework; the scope of the assessment and the scoring mechanism.

Background

5.1. DCC was appointed using an outsourced service model, to manage contracted smart metering service providers. As such, external costs compose the largest proportion of DCC's costs, and it is critical that these contracts are entered into, managed and closed out effectively and efficiently. Proactive, best in class contract management and procurement have the potential to deliver real benefits to DCC customers and the consumer.

5.2. As of the publication of this guidance, not all of DCC's service providers are performing at the level expected by DCC. We outlined our concerns around DCC's contract management and procurement processes in both our 18/19 and 19/20 price control consultations[18]. Given the size and volume of DCC's contract portfolio, and that several original service provider contracts will require extension, it is important that DCC increases focus on this area in the coming years.

5.3. In May 2020 we consulted on whether it would be appropriate to financially incentivise DCC's contract management and procurement as part of the revised OPR regime. Stakeholders responded largely in favour of our proposals, and in October 2020 we published our decision to implement a financial incentive based on an audit of DCC's

[18] See price control consultations for RY19/20 and RY18/19.
RY19/20: www.ofgem.gov.uk/publications-and-updates/dcc-price-control-consultation-regulatory-year-201920
RY18/19: www.ofgem.gov.uk/publications-and-updates/dcc-price-control-consultation-regulatory-year-201819

contract management and procurement activity under the National Audit Office (NAO) framework.

Audit process and timelines

5.4. DCC's contract management and procurement will be audited on an annual cycle. We have set out the cycle below divided into six main stages.

- ***Setting the Terms of Reference (TOR) (Jan-March 2021):*** Ofgem published the draft TOR in January 2021 to gather feedback from DCC, SECAS and wider stakeholders.[19] Ofgem incorporated this feedback and published the final TOR in March 2021.[20] The TOR were used to produce materials in preparation for the tender.

- ***Appointment of the auditor (May 2022):*** Ofgem will run a competitive tender process, with SECAS involvement over the final selection of the auditor. We expect the auditor to be appointed by May 2022. Initially, the auditor will be contracted for a three year period. The budget for the auditor contract will be set by SECAS.

- ***Evaluation (May-June):*** The independent auditor will then evaluate DCC's contract management and procurement activity using the NAO framework and the agreed terms of reference. The auditor will work closely with DCC during this assessment to enable access to the required evidence as well as speaking to a number of DCC user representatives and the SEC Panel, the latter in particular in regards to the SEC change process. The auditor will need to provide an interim report for DCC to comment on by **12 June.**

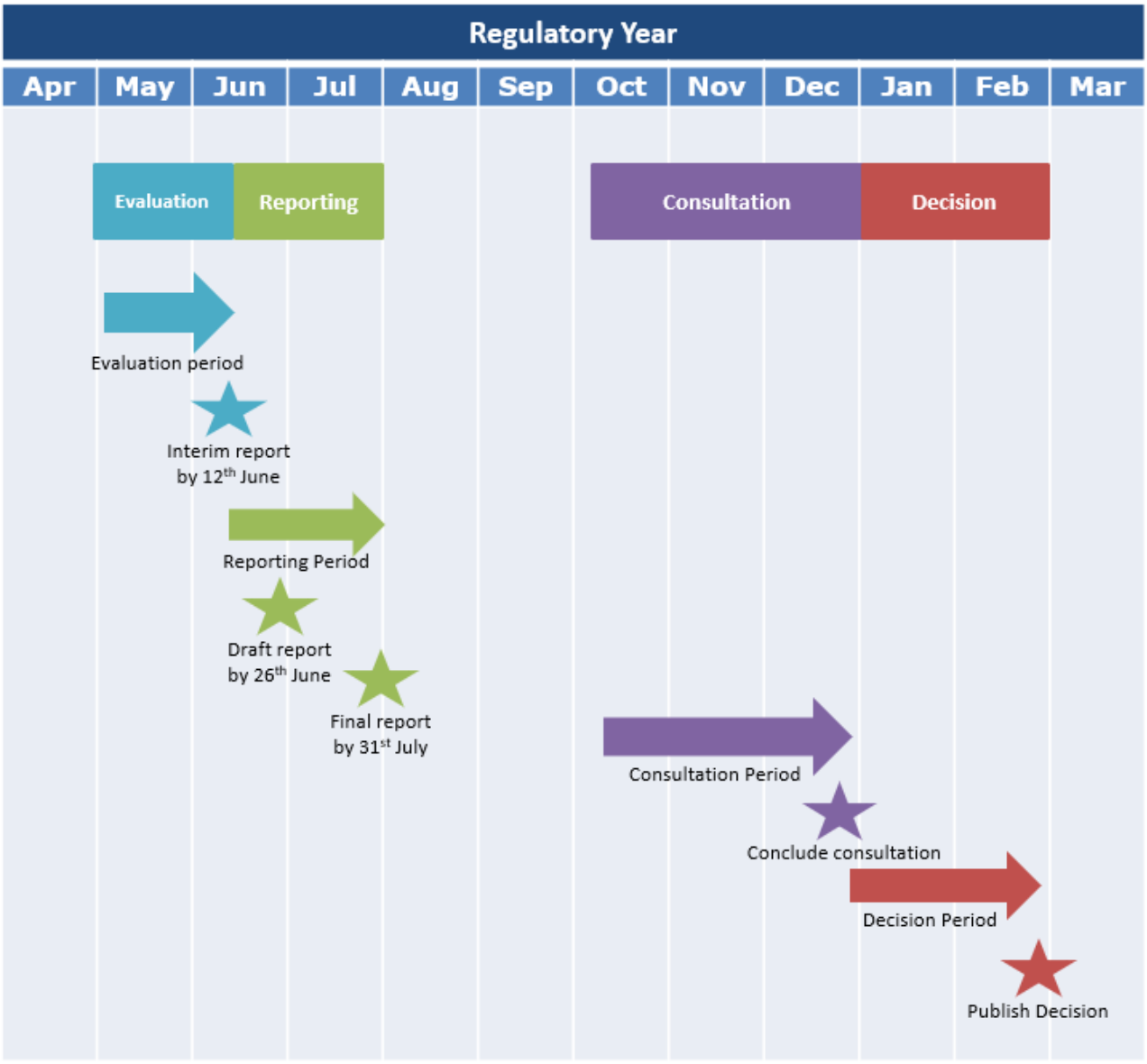
- ***Reporting (July-September):*** The independent auditor will submit a draft report to Ofgem by **26 June**, taking account of DCC's comments**.** This report will include the auditor's assessment on the level of attainment that DCC has reached for each supporting question and domain. Ofgem will review the report, and may request further iteration to ensure the report meets the requirements set out in the scope/terms of reference. The final report must be issued to Ofgem by **31 July**. Once the final report has been issued, Ofgem will confirm to SECAS that the work is

[19] OPR Guidance Consultation January 2021: www.ofgem.gov.uk/publications/opr-guidance-consultation-january-2021
[20] Decision on OPR Guidance March 2021: www.ofgem.gov.uk/publications/decision-opr-guidance-march-2021

complete. The full report will then be issued to Ofgem, DCC and BEIS, and Ofgem will issue a non-commercially confidential version of this report to be circulated to the SEC Parties and the Panel.

- ***Consultation (Oct-Dec):*** Ofgem will incorporate a summary of the auditor's report as part of the price control consultation, setting out the audit scores as part of Ofgem's minded-to position on DCC's performance under the OPR. Ofgem will then publish the price control consultation to provide an opportunity for all stakeholders to respond. In particular, this will provide an opportunity for DCC users, the SEC Panel and DCC to submit additional evidence to appeal the auditor's scoring.
- ***Decision (Jan-Feb):*** Ofgem will then consider responses and any additional evidence submitted by stakeholders. This may include further clarification with the auditor around the scores. Ofgem will then determine whether to make any adjustments and publish the final decision.

Figure 5.1 - Timeline of the Audit Process



Outputs from the audit

5.5. As stipulated under the milestone timeline, we would expect the auditor to submit their final report to Ofgem by 31 July.

5.6. We expect this report to state DCC's level of attainment for each supporting question under the NAO framework, providing a detailed rationale for this level of attainment based on the evidence assessed. We expect the report to highlight areas of good practice from DCC and areas where their performance could be improved as per the assessment. The auditor may also give their general reflections on the audit process as part of their report.

5.7. Ofgem will produce a non-commercially confidential version of the report that will be made available to SEC parties. Some or no redactions may be made to this version of the report compared to the final commercially confidential version. DCC will have a chance to comment on the non-commercially confidential version of the report to highlight any areas of commercial confidentiality, though it will be up to Ofgem to decide whether to make redactions. We expect this report to be redacted only in areas where there are strict commercial confidentiality concerns with the aim of as much transparency as possible. The report will then be shared with SEC Panel who will have the opportunity to request further clarification or information in the report, but it will be up to Ofgem whether to act on these comments. The final report will then be shared with SEC parties.

Assessment criteria

5.8. The auditor will assess the DCC's contract management and procurement activity using a modified version of the NAO Contractual Relationships Audit Framework. The full modified version of the framework has been published as an annex alongside this guidance document.[21]

5.9. This framework sets out seven 'domains' of assessment covering contract management, procurement and re-procurement. Each domain is broken down into three supporting questions with information that an auditor would need to collect, judgement questions, evidence to be gathered and indicators of good practice. The auditor is to give equal priority to each domain in its assessment.

5.10. Evidence sources given as non-exhaustive examples in the framework include business cases, commercial strategy, risk assessments, performance reports, financial models, board papers and minutes.

[21] Modified NAO Framework for use in the OPR: www.ofgem.gov.uk/publications-and-updates/opr-guidance-consultation-january-2021

Table 5.1 - Summary of NAO Framework domains and supporting questions, incorporating modifications for DCC

Domain	Key question	Supporting questions
1. Commercial strategy	Is there an overarching commercial strategy, with a clear rationale for the approach being taken?	1.1. Is there a clear and consistently held view of what the contract is producing, the type of commercial relationship desired, the basic contract structure and how it will be managed?
		1.2 Has there been an assessment of strategic drivers, including policy drivers, and the internal and external environment?
		1.3 Has the commercial strategy been based upon the assessment of strategic drivers and the internal and external environment?
2. Capability & governance	Does DCC have the capability needed to manage the contract and is it developing capability for the future?	2.1 Does DCC have the necessary capability, skills and systems?
		2.2 Does DCC understand its future needs and is it working towards meeting them?
		2.3 Has DCC deployed its capability in a balanced way across the lifecycle and is commercial capability effectively integrated with the business?
3. Market management & sourcing	Has sourcing supported the commercial strategy and followed recognised good practice to optimise VFM?	3.1 Has market management driven long term value for money?
		3.2 Was there a defensible process that resulted in the selection of a capable supplier?
		3.3 Was there optimum use of competitive pressure?
4. Contract Approach	Does the balance of risk and reward encourage service improvement, minimise perverse incentives and promote good relationships?	4.1. Is there an appropriate allocation of risk between DCC and the supplier?
		4.2. Are there incentives to encourage the supplier to act in the interest of DCC?
		4.3. Are suitable mechanisms established to drive the desired relationship?
	Is the service being managed well, with	5.1 Do DCC and the supplier have comprehensive knowledge of service performance?

Domain	Key question	Supporting questions
5. Contract management	costs and benefits being realised as expected?	5.2. Are the suppliers delivering in accordance with the contracts, and are they actively managed by DCC to meet or exceed requirements (including delivering accurate, timely Impact Assessments)?
		5.3 Is DCC meeting its obligations?
6. Contract lifecycle	Will the service continue to demonstrate VfM through its lifecycle?	6.1. Does the contract continue to support DCC's strategic intent?
		6.2. Are VFM mechanisms used to ensure the contract continues to deliver VFM over its life?
		6.3. Is change controlled and well managed and does the contract remain current?
7. Transition & termination	Is DCC ready for the end of the contract?	7.1 Has market management been undertaken to support new contracts?
		7.2 Has the end of the contract been managed effectively to allow re-bid or handover?
		7.3 Are insights from the operation of the contract brought to bear in developing the new contract?

5.11. We have modified the framework to incorporate an assessment of the SEC modification change process:

- NAO Supporting Question 5.2 is reworded to say: 'Are the suppliers delivering in accordance with the contracts and are they actively managed by DCC to meet or exceed requirements (including delivering accurate, timely Impact Assessments)?'
    - Sub question 5.2.3 (which is not populated in the NAO framework), is updated to read: 'Are DCC suppliers' SEC Modification Impact Assessments delivered in line with SEC deadlines, provide a meaning breakdown of costs and accurately address the business requirements provided, adequately translating these into technical requirements for each service provider contract to meet desired outcomes and including innovative solutions to reduce cost, where appropriate?'
- NAO Supporting Question 6.3 remains the same: 'Is change controlled and well managed and does the contract remain current?'
    - Sub question 6.3.6 (which is not populated in the NAO framework), is updated to read: 'Does DCC's contract management of service providers facilitate delivery of SEC Modification-driven change to meet the requirements and timelines agreed with customers as part of the SEC Modification process?'

Scope of Assessment

5.12. The assessment criteria in the modified NAO Framework cover DCC's activities in contract management, procurement and re-procurement. The audit will cover DCC's activities over the course of a Regulatory Year.

5.13. The auditor will assess and gather evidence of DCC's contract management of DCC's Communication Service Providers - Arqiva and Telefonica – and Data Service Provider – CGI.

5.14. The auditor will also assess DCC's contract management of the three SMETS1 service providers that incurred the highest costs over the Regulatory Year.

5.15. The auditor will also assess DCC's contract management in terms of adherence to the SEC modification change process. The auditor will not assess individual Change Requests/Project Requests, but may draw on evidence relating to a sample of these to assess DCC's overall delivery of SEC change.

5.16. The auditor will assess procurement and re-procurement activity under DCC's Network Evolution programme. This will cover the procurement of 4G Comms Hubs and Networks and re-procurement of the Data Services Provider (DSP) and Smart Metering Key Infrastructure (SMKI).

5.17. Activity covered by Baseline Margin Project Performance Adjustment Schemes (BMPPAS) - or where BEIS intend to put one in place for upcoming regulatory years - will be excluded from the assessment.

5.18. Note, we do not expect the auditor to produce a score for each activity in scope. Instead, we expect the auditor to draw on examples of these activities, where relevant, to produce a score for each supporting question.

Scoring Framework

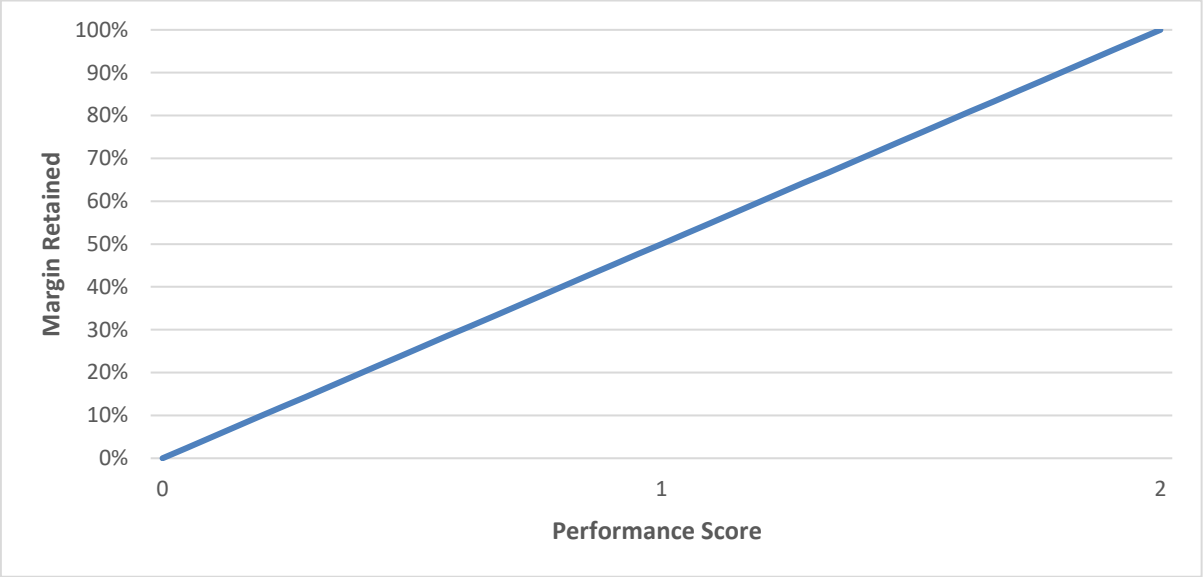
5.19. Each domain in the NAO framework consists of three supporting questions. For each of these supporting questions, the NAO framework defines three levels of attainment.

5.20. The auditor will collect evidence within the scope of the audit based on the information and judgement questions specified in the framework to determine DCC's level of attainment (0, 1 or 2) for each supporting question.

5.21. All supporting questions and domains will have equal weighting. Hence, DCC's score for each domain will be calculated via a simple average of DCC's level of attainment across the three supporting questions. DCC's overall performance score will then be calculated as an average of DCC's score in each domain. As the overall score will be calculated using an average, it will be possible for the overall score to be a decimal value from 0-2.

5.22. The level of margin retained under the Contract Management Incentive will be set by DCC's performance score. Figure 5.1 shows the linear relationship between the performance score and retained margin.

Figure 5.2 – Scoring Mechanism



Appeals process

5.23. We will publish DCC's scores for contract management as part of our annual price control consultation. DCC and wider stakeholders will have the chance to respond to the scores and provide further justification and evidence as part of their response to the price control consultation.

Formula for Contract Management Incentive Performance Measure

The Contract Management Incentive is equal to performance measure VMM 2.

The value of VMM 2 is defined as:

$$VMM2_t = -\left[1 - \left(\frac{Z_{VMM2,t}}{TZ_{VMM2,t}}\right)\right] \times TPLI_{VMM2,t}$$

Where:

$$TPLI_{VMM2,t} = PMW_{VMM2,t} \times R(OPR)_t$$

The score for VMM2 in Regulatory Year t, $Z_{VMM2,t}$, is given by the function:

$$Z_{VMM2,t} = \sum_c \left(Z_{c,VMM2,t} \times ACW_{c,VMM2,t}\right)$$

Where $Z_{c,VMM2,t}$ is the score DCC receives for criteria c of VMM2 in Regulatory Year t, and $ACW_{c,VMM2,t}$ is the weighting given to criteria c of VMM2 in Regulatory Year t.

There are seven domains in the NAO framework and each domain has three questions, therefore there are 21 questions in total. Each question will be given an even weighting giving a weighting of 1/21 for each question. The top score for the measure (and each question) is 2.

Table 5.2: Parameter Setting

Parameter	Value
$ACW_{c,VMM2,t}$	1/21
$TZ_{VMM2,t}$	2

Appendices

Index

Appendix 1 – Penalty Mechanism Worked Examples

The following appendix sets out a series of worked examples to demonstrate the margin retained by DCC under different levels of performance for both Penalty Mechanism A and B.

Assumptions

1. **$BM(OPR)_t$ = amount of BM at risk against OPR (this excludes BM associated with BM Project Performance Adjustment Scheme) for Regulatory Year t is the following:**

   BM (OPR) = 6.753

2. **PMW_{mt} = Performance Measure Weighting for measure m for Regulatory Year t (proportion of B(OPR) allocated to measure m, as outlined in the OPR Guidance) is the following:**

   PMW_{mt} for measure m for RY t = 33.3%

3. **G_{gmt} - The weighting given to meter generation g for measure m for RY t (SMETS1 and SMETS2 meter generation) is the following:**

   SMETS1 = 2%

   SMETS2 = 98%

4. **TPL_{rgmt} = Target Performance Level for region r for meter generation g for measure m for Regulatory Year t is the following:**

   TPL = 99%

5. **MPL_{rgmt} = Minimum Performance Level for region r for meter generation g for measure m for Regulatory Year t is the following:**

   MPL = 96%

6. **X_{rgmt} = The Performance Level at which retained revenue at risk reaches its minimum value for region r for meter generation g for measure m for Regulatory Year t is the following:**

   X = 90%

7. **Y_{rgmt} = The proportion of the TPLI retained at MPL for region r for meter generation g for measure m for Regulatory Year t is the following:**

   Y = 50%

8. **$TPLI_{rgmt}$ = Target Performance Level Incentive. The retained revenue at risk for measure m by reaching the target performance level for region r for meter generation g for Regulatory Year t is the following:**

   $TPLI_{mt}$ = £2.251m

9. **$MPLI_{rgmt}$ = Minimum Performance Level Incentive. The retained revenue at risk for measure m by reaching the minimum performance level for region r for meter generation g for Regulatory Year t is the following:**

   $MPLI_{mt}$ = £1.125m

Please note all numbers used in this scenario analysis are for illustrative purposes only.

Penalty Mechanism A: Scenario Analysis

In this section, we present a range of scenarios related to penalty mechanism A to illustrate outcomes in regards to margin loss and margin retention.

TPLI SMETS1 = £0.045m

This means the retained revenue at risk for measure m by reaching the TPL is £0.045m

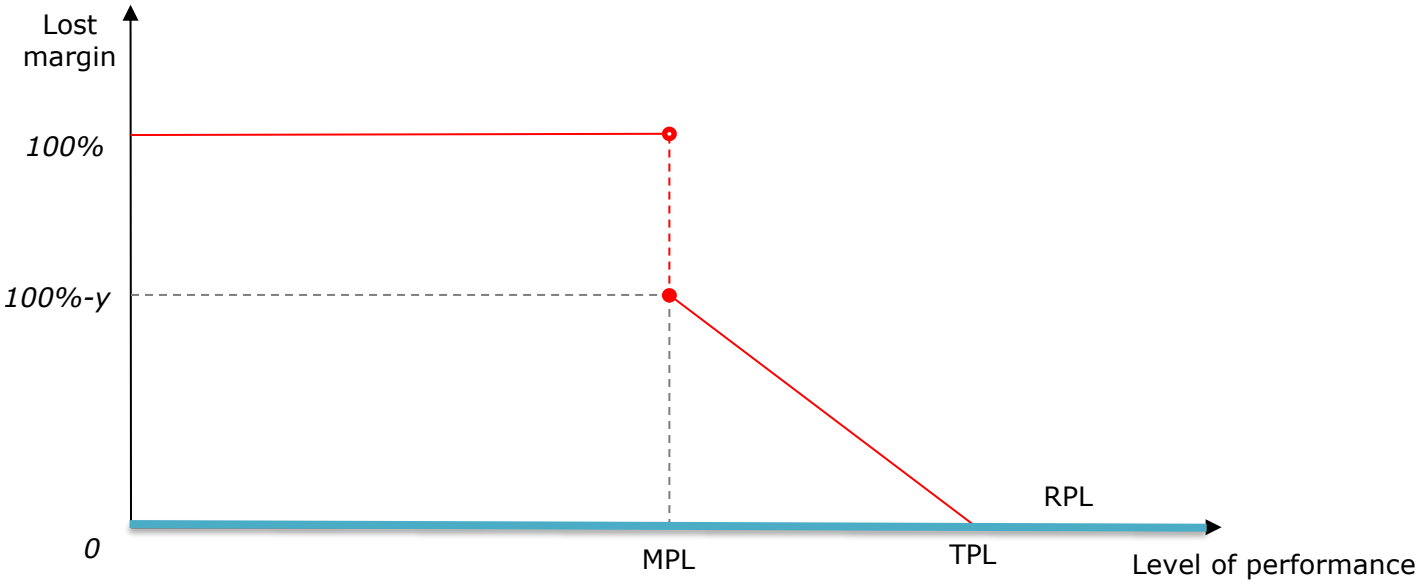
MPLI SMETS1 = £0.023m

This means the retained revenue at risk for measure m by reaching the MPL is £0.023m

Scenario 1: If DCC RPL is 99% (or greater) for measure m

DCC will lose zero margin and retain the full £0.045m margin associated with SMETS1 meter generation. This level of performance and the level of lost margin is illustrated by the blue line in Figure A1.1.

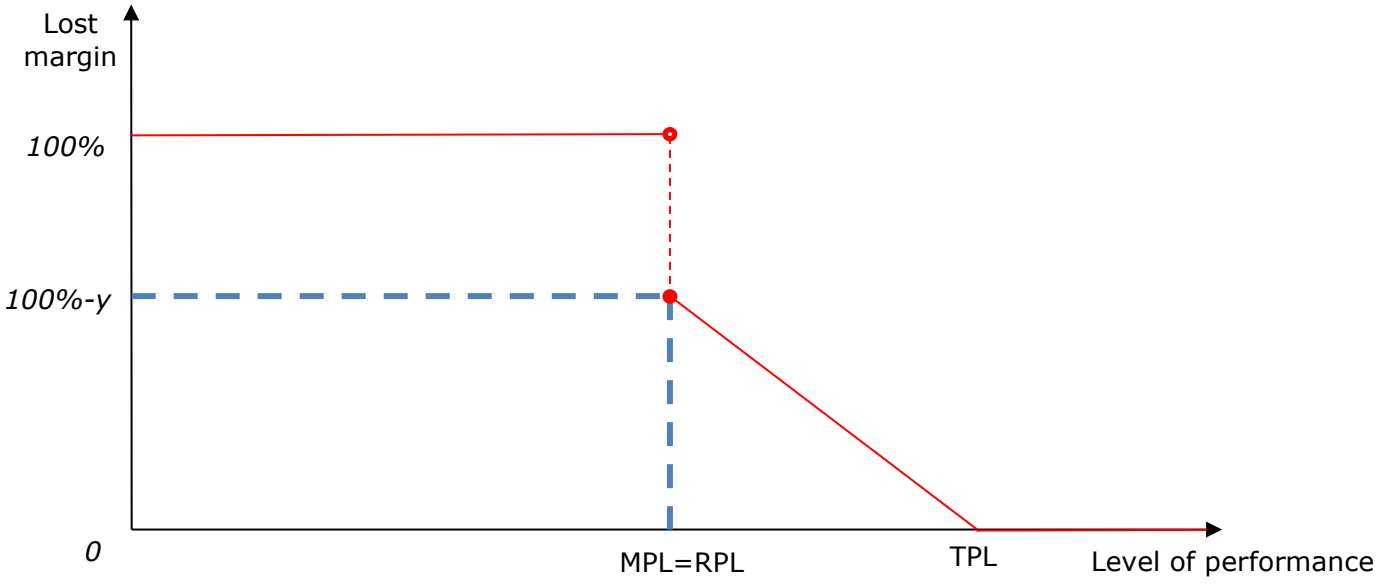
Figure A1.1: Penalty mechanism A: visualisation of the margin deduction for scenario 1



Scenario 2: If DCC RPL is 96%, equalling MPL for measure m

DCC will lose £0.0225m margin and retain £0.0225m margin associated with SMETS1 meter generation. This level of performance and the level of lost margin is illustrated by the dotted blue line in Figure A1.2.

Figure A1.2: Penalty mechanism A: visualisation of the margin deduction for scenario 2

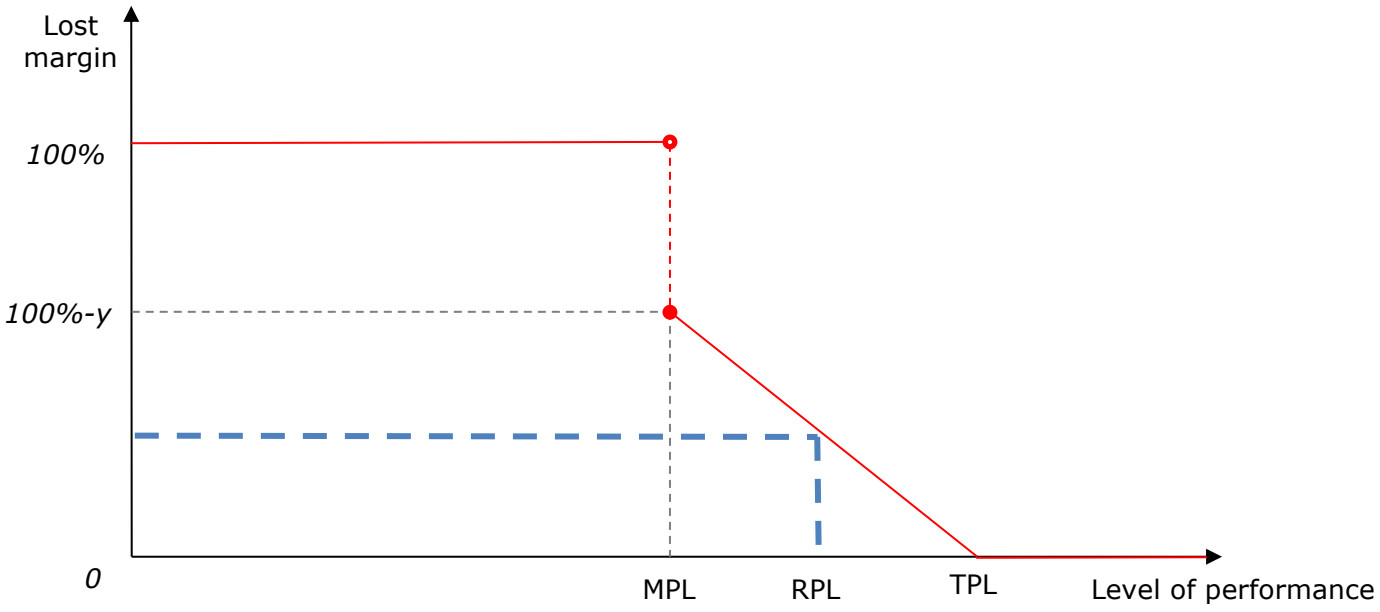


Scenario 3: If DCC's RPL is 97% (between MPL and TPL) for measure m

DCC will lose £0.015m margin and retain £0.030m margin associated with SMETS1 meter generation. This level of performance and the level of lost margin is illustrated by the dotted blue line in Figure A1.3.

As illustrated in Figure A1.3, the amount of margin DCC lose for performance between MPL and TPL, incrementally falls as RPL converges to the TPL.

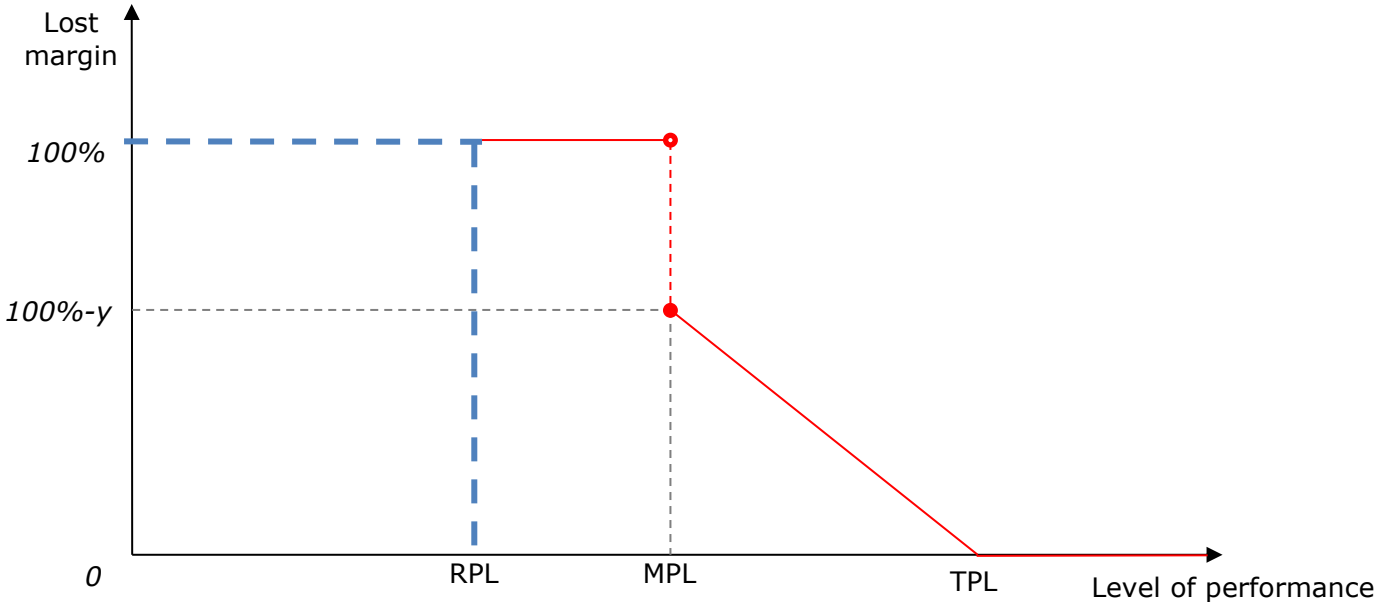
Figure A1.3: Penalty mechanism A: visualisation of the margin deduction for scenario 3



Scenario 4: If DCC RPL is below MPL for measure m

DCC will lose the full margin, £0.045m associated with SMETS1 meter generation. This level of performance and the level of lost margin is illustrated by the dotted blue line in Figure A1.4.

Figure A1.4: Penalty mechanism A: visualisation of the margin deduction for scenario 4



Penalty Mechanism B: Scenario Analysis

In this section, we present a range of scenarios related to penalty mechanism B to illustrate outcomes in regards to margin loss and margin retention.

TPLI SMETS2 = £2.206m

This means the retained revenue at risk for measure m by reaching the TPL for all regions is £2.206m.

MPLI SMETS2 = £1.103m

This means the retained revenue at risk for measure m by reaching the MPL for all regions is £1.103m.

TPLI SMETS2 region = £2.206m/3 = £0.735m

This means the retained revenue at risk for measure m by reaching the TPL for region r is £0.735m.

MPLI SMETS2 region = £1.103m/3 = £0.368m

This means the retained revenue at risk for measure m by reaching the MPL for region r is £0.368m.

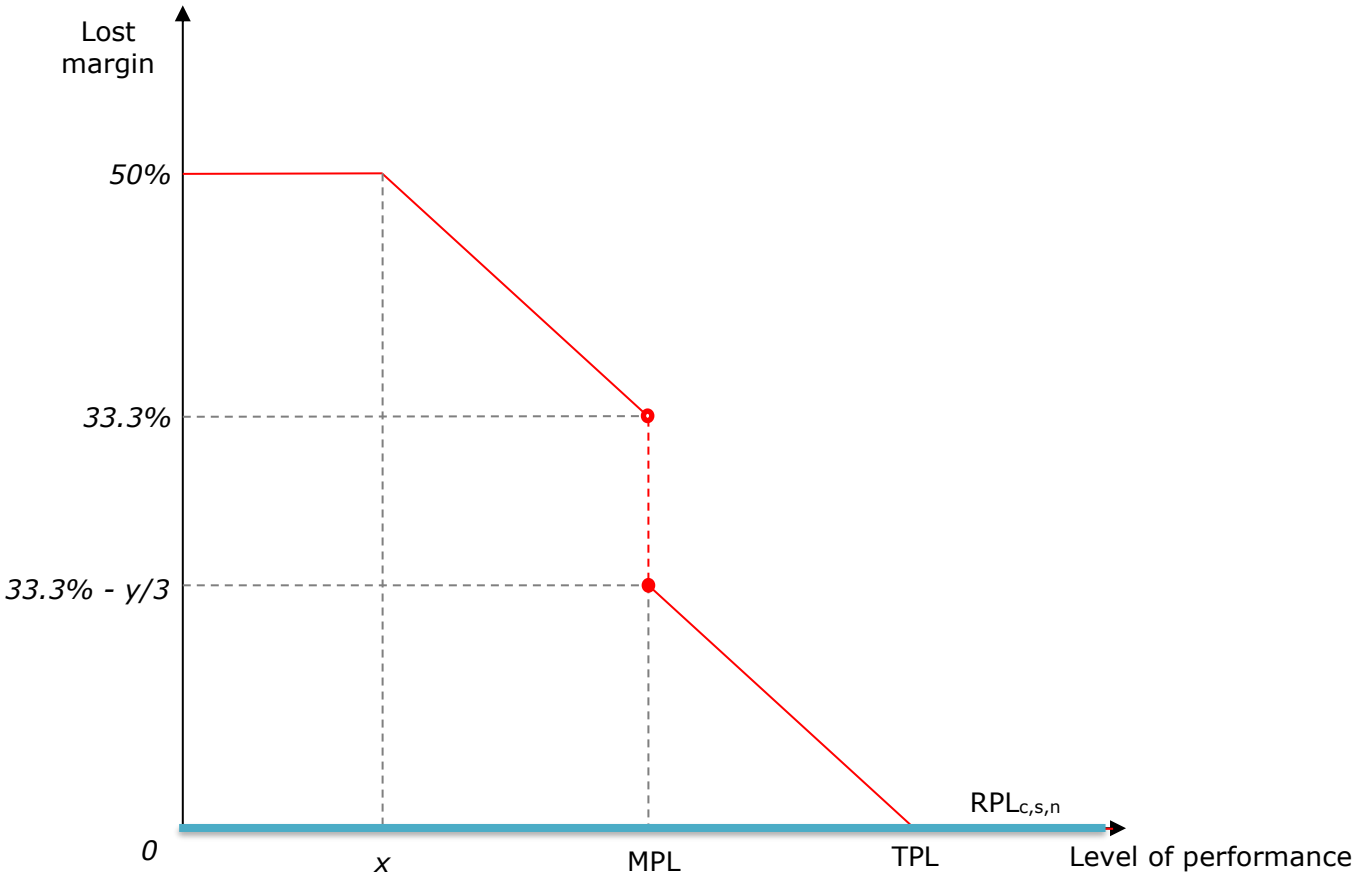
XI SMETS2 = -£0.368m

This means the retained revenue at risk for region r for measure m by reaching performance at or below performance level x is -£0.368m.

Scenario 1: If DCC's RPL is 99% (or greater) than the TPL (99%) for measure m in all regions

DCC will **lose zero** margin and will **retain £2.206m** margin associated with SMETS2 meter generation. This level of performance (represented by $RPL_{c,s,n}$) and the level of lost margin is illustrated by the blue line in Figure A1.5.

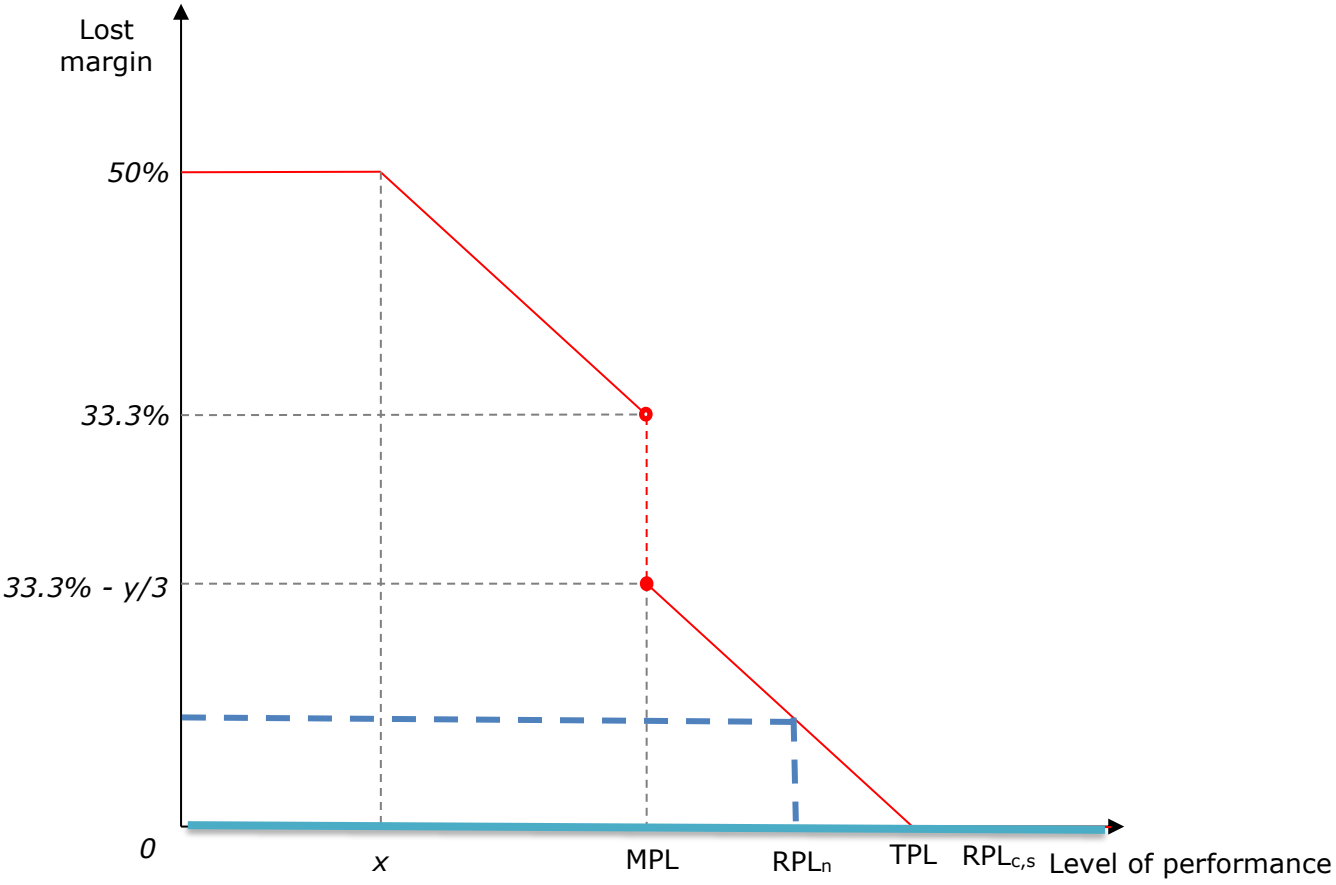
Figure A1.5: Penalty mechanism B: visualisation of the margin deduction as a proportion of TPLImt for scenario 1



Scenario 2: If DCC's RPL is 99% (or greater) than the TPL (99%) in regions South and Central, and RPL is 97% (less than TPL but greater than MPL) in North region for measure m

DCC will lose £0.245m margin in North and will retain £1.961 margin associated with SMETS2 meter generation. This level of performance (represented by $RPL_{c,s}$ and RPL_n)and the level of lost margin is illustrated by the blue dotted and solid lines in Figure A1.6.

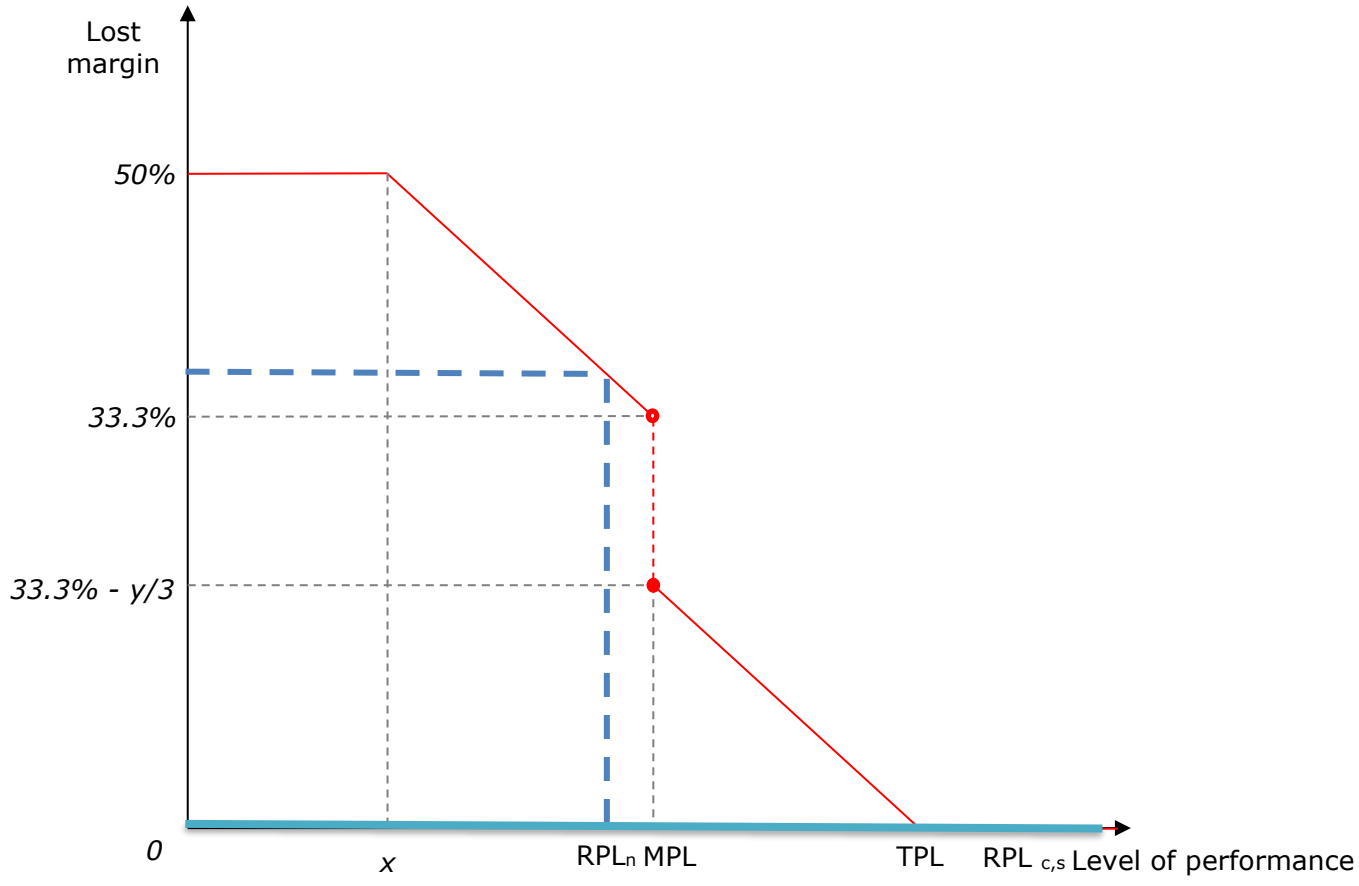
Figure A1.6: Penalty mechanism B: visualisation of the margin deduction as a proportion of TPLImt for scenario 2



Scenario 3: If DCC's RPL is 99% (or greater) than the TPL (99%) in regions South and Central, and RPL is 95% (less than MPL but greater than x) in North region for measure m

DCC will lose £0.797m margin associated with the North region and retain £1.409m margin associated with SMETS2 meter generation. DCC's performance is below MPL but above x in the North and this level of performance is represented by RPL_n and the level of lost margin is illustrated by the blue dotted line. In the Central and South region, DCC's performance is at 99% or greater – this is represented by $RPL_{c,s}$) and the level of lost margin is illustrated by the solid blue line in Figure A1.7.

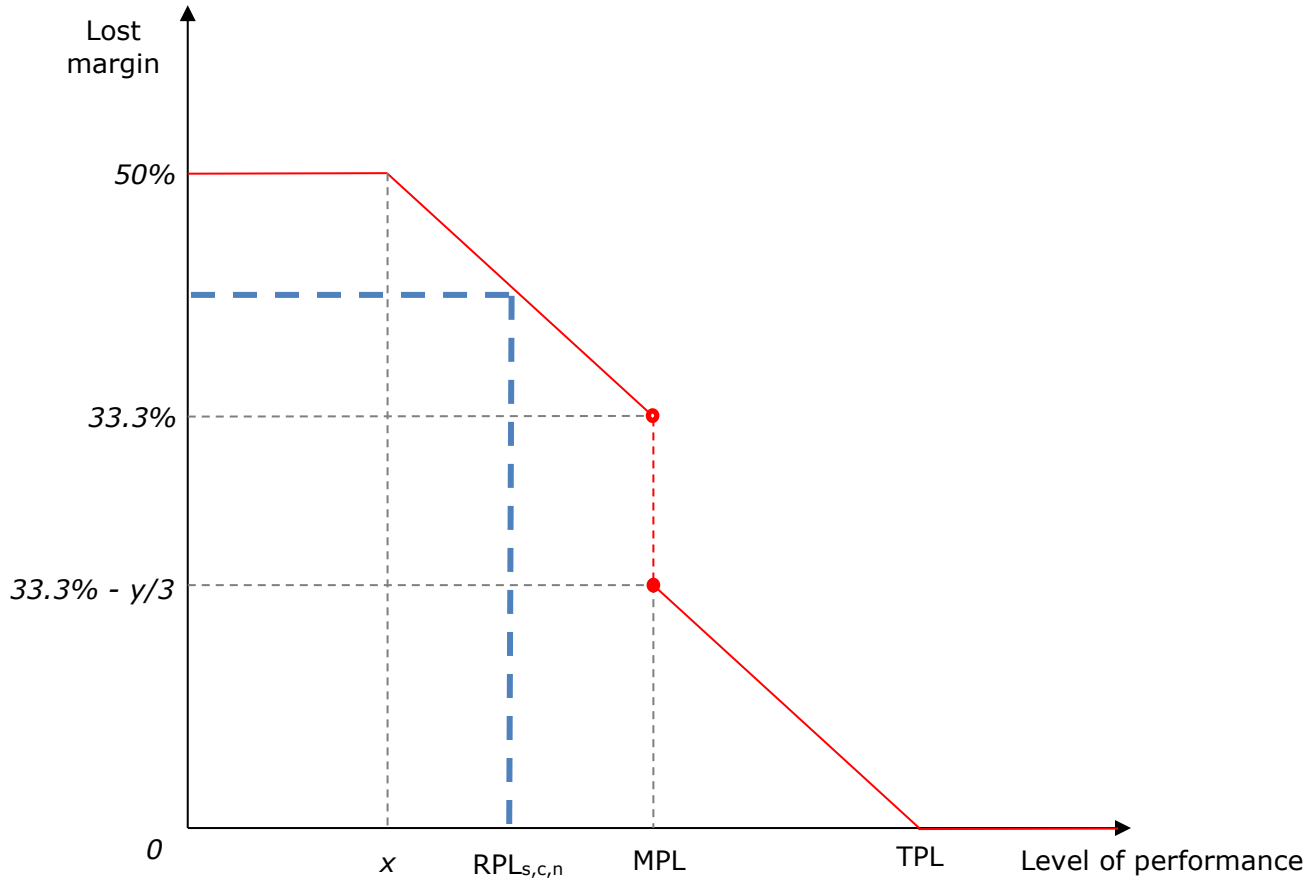
Figure A1.7: Penalty mechanism B: visualisation of the margin deduction as a proportion of TPLImt for scenario 3



Scenario 4: If DCC's RPL is below MPL (below 96%, and above x) In all regions for measure m

DCC will lose the full margin £2.206m for measure m associated with SMETS2 meter generation as all regions fall below MPL. This level of performance (represented by $RPL_{c,s,n}$)and the level of lost margin is illustrated by the blue dotted line in Figure A1.8.

Figure A1.8: Penalty mechanism B: visualisation of the margin deduction as a proportion of TPLImt for scenario 4



Scenario 5: If DCC's RPL is below x in North region and at TPL In Central and South regions for measure m

DCC will lose £1.103m for performance below x in the North region – this is 50% of the TPLI for SMETS2 region. This level of performance is represented by RPL_n and the level of margin is illustrated by blue dotted line. DCC will retain £1.103m for performance at TPL in the Central and South regions. This level of performance represented by $RPL_{c,s}$ and the level of lost margin is illustrated by the solid blue line in Figure A1.9.

Figure A1.9: Penalty mechanism B: visualisation of the margin deduction as a proportion of TPLImt for scenario 5