

# Guidance

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## Switching Incentive Regime Guidance (Draft for consultation)

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This document sets out guidance regarding the Switching Incentive Regime (**SIR**). The SIR financially incentivises the Data Communication Company's (**DCC**) performance in their three roles as Central Registration Service (**CRS**) Provider under the enduring Switching arrangements.

This document is intended to explain the SIR framework, assessment and processes, including the roles of DCC, the Retail Energy Code (**REC**) Company (**RECCo**) and Ofgem, and the calculation of any reduction in DCC's allowed CRS revenue under its Price Control based on performance. This document follows our decision on the establishment of the SIR, published in January 2023.

This document is supplementary to both the SIR Direction (expected to be published in its final form in 27 March 2023 - exact date TBC) and the Smart Meter Communication Licence, and should be read alongside those documents.

This is the first edition of the SIR guidance, with the regime due to commence on 01 April 2023.

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# 1. Introduction

## Context and related publications

- 1.1 The SIR is a financial incentive regime designed to incentivise The Data Communication Company (**DCC**) in its roles in the enduring Switching arrangements, to be provided through its Price Control.<sup>1</sup> DCC's three roles in Switching are as provider of the Central Switching Service (**CSS**), the Certificate Authority (**CA**) and the Switching Operator (**SO**) services.
- 1.2 This guidance follows our decision on the establishment of the DCC SIR, published on 26 January 2023.<sup>2,3</sup>
- 1.3 The new Switching arrangements went live on 18 July 2022 as part of the Switching Programme. Details of all previous publications relating to the Switching Programme can be found on the Switching Programme page on the Ofgem website.<sup>4</sup>
- 1.4 As a monopoly company providing services to the energy market, DCC is subject to a Price Control. Details of all previous publications relating to the DCC Price Control can be found on the Ofgem website in the Master Publications Library.<sup>5</sup>
- 1.5 The Retail Energy Code (**REC**) Company (**RECCo**) proposed REC Change Proposal R0025 (CP-R0025) in January 2022, which sought to introduce an economic incentive regime for DCC in its performance against its service levels (also known as Service Level Agreements, or SLAs) as defined in the REC.<sup>6</sup> We published our decision to accept CP-R0025 on 30 January 2023, with an implementation date of

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<sup>1</sup> For clarity, when referring to the enduring Switching arrangements, we mean the Switching arrangements going forward under steady state operations.

<sup>2</sup> The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

<sup>3</sup> Ofgem decision to establish the DCC Switching Incentive Regime:

<https://www.ofgem.gov.uk/publications/decision-policy-and-statutory-consultation-establish-dcc-switching-incentive-regime>

<sup>4</sup> The Switching Programme page on the Ofgem website: <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/switching-programme>

<sup>5</sup> Ofgem Master Publications Library: <https://www.ofgem.gov.uk/master-publications-library>

<sup>6</sup> Details of Change Proposal R0025 can be found on the REC Portal:

<https://recportal.co.uk/group/guest/-/service-provider-performance-charges-erds-grds-dcc->

01 April 2023.<sup>7</sup> Following the implementation of this regime, DCC will incur Performance Charges through the REC if it fails to meet its service levels.

## Purpose and Structure

- 1.6 This guidance is supplementary to both the Direction in relation to the SIR published alongside this guidance (“the SIR Direction”) and the Smart Meter Communication Licence (“the Licence”), and should be read alongside those documents.<sup>8</sup>
- 1.7 This guidance is designed to act as a comprehensive reference to the operation of the SIR, setting out how the regime is intended to operate in practice, in accordance with the Licence and SIR Direction.
- 1.8 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 SIR, are set out in the Regulatory Instructions and Guidance (**RIGs**).

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<sup>7</sup> Ofgem CP-R0025 Acceptance letter: <https://www.ofgem.gov.uk/publications/decision-rec-cp-r0025-service-provider-performance-charges>

<sup>8</sup> Link to the Smart Meter Communication Licence: <https://www.ofgem.gov.uk/publications/smart-meter-communication-licence>

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## 2. Overview

### Section summary

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

### SIR Measures

2.1 The SIR assesses DCC's performance using two different performance measures. Performance against each of these measures determines the value of the Centralised Registration Services Performance Adjustment (**CRSPA<sub>t</sub>**) for that Regulatory Year (**RY**). **CRSPA<sub>t</sub>** is the reduction in DCC's Switching revenue for a given RY due to performance, and is applied as a downward adjustment in the formula of Centralised Registration Services Revenue (**CRSR<sub>t</sub>**).

2.2 The **CRSPA<sub>t</sub>** formula is defined in the Licence but with the underlying value calculation set out in the SIR Direction. It is provided here for reference:

$$CRSPA_t = SIRSDM1 + SIRVMM1$$

Where:

*SIRSDM1* - Switching Incentive Regime Service Delivery Measure 1

*SIRVMM1* - Switching Incentive Regime Value for Money Measure 1

2.3 Performance measure *SIRSDM1* represents DCC's operational performance in terms of meeting its service levels for each of its three core Switching roles, as defined in the REC. More details are provided in Chapter 3.

2.4 Performance measure *SIRVMM1* represents DCC's customer engagement performance in delivering its Switching roles. More details are provided in Chapter 4.

## Revenue at Risk

- 2.5 As set out in our decision on the SIR and as provided for in the SIR Direction, DCC's allowed margin ( $CRSM_t$ ) is equal to 7% of its internal costs ( $CRSIC_t$ ), calculated as a rate of return of 7.5%.
- 2.6 Licence Condition 36.10C (a) states that the revenue at risk against the SIR must at least be equal to 100% of  $CRSM_t$  in any given RY, meaning the total value of DCC's revenue at risk through the SIR is equal to 7.5% of its internal costs.

## Performance Measure Weighting

- 2.7 The two performance measures are weighted as follows:
- SIRSDM1 – 80%
  - SIRVMM1 – 20%
- 2.8 80% of DCC's total revenue at risk will therefore be incentivised against *SIRSDM1*, and 20% against *SIRVMM1*.
- 2.9 These values are set in perpetuity unless otherwise changed through the amendment of this document.

## Overview of SIR Process

- 2.10 The SIR assesses DCC's performance in each RY, running from 01 April to 31 March, beginning with RY 23/24 on 01 April 2023.

### ***During the RY:***

- 2.11 DCC will collect its entire allowed margin ( $CRSM_t$ ) as standard throughout the RY from RECCo alongside its costs through the monthly CRS Provider invoicing

process. The margin calculation will be based on DCC's forecasted internal costs ( $CRSIC_t$ ) for the RY.

- 2.12 DCC may incur Performance Charges as determined by its performance against its service levels under the REC CRS Provider Performance Charges framework. This process is governed entirely within the REC. Given the performance measure weighting of the SIR as described above, the maximum value of Performance Charges DCC may incur in any RY is equal to 80% of  $CRSM_t$ .

**Following the end of the RY:**

- 2.13 DCC must submit the information as specified by the RIGs by 31 July after each RY. As part of that submission DCC must report the value of Performance Charges it bore as a result of missed service levels throughout the RY, which helps determine the value of the  $SIRSDM1$  measure. As provided for in the REC, DCC may also at this point submit evidence to the Authority concerning any missed service levels it considers were not necessarily within its control. More details of the  $SIRSDM1$  measure are provided in Chapter 3.
- 2.14 Alongside that submission, Ofgem will also take a submission from both the REC Code Manager and DCC with regard to DCC's customer engagement performance in order to help determine the value of the  $SIRVMM1$  measure. More details of the  $SIRVMM1$  measure are provided in Chapter 4.
- 2.15 Ofgem will then assess these submissions to determine a minded-to position on the value of  $CRSPA_t$ . See Chapter 5 for more details.
- 2.16 Ofgem will then consult on this position as part of the annual Price Control consultation which we aim to publish in autumn each year. This will provide DCC and its stakeholders an opportunity to respond to our minded-to positions on the values of  $SIRSDM1$ ,  $SIRVMM1$  and  $CRSPA_t$ .
- 2.17 Following analysis and careful consideration of any responses received to the consultation, Ofgem will publish its final decision on the value of  $CRSPA_t$  as part of its annual Price Control decision in February.



- 2.18 As DCC will have already collected its margin ( $CRSM_t$ ) through the REC as noted above, the value of  $CRSPA_t$  will be applied as a downward adjustment to DCC's allowed revenue ( $CRSR_t$ ).
- 2.19 In the event that any of DCC's costs for the RY are disallowed resulting in a reduction to the value of  $CRSICT_t$ , and therefore  $CRSM_t$  (which is calculated as a % of  $CRSICT_t$ ), it may be necessary for funds to be reconciled between RECCo and DCC. The process through which any reconciliation of funds takes place would be a matter to be agreed between RECCo and DCC, for example through an adjustment being made by DCC to the following year's REC budget.

## Governance

- 2.20 Ofgem will update this guidance as is necessary to ensure that DCC is effectively incentivised to provide a good level of performance in its Switching roles. 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.
- 2.21 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.
- 2.22 As set out in Licence Condition 36.10B (b), changes to the SIR guidance would require, as a minimum, consultation with DCC as the Licensee. Ofgem will determine whether any given modification requires a wider public consultation. In general, we will publicly consult on modifications 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 SIR.
- 2.23 Ofgem will also seek stakeholder views as part of the annual Price Control consultation to collect feedback on potential improvements to the SIR that may require modification of the SIR Guidance.
- 2.24 As also set out in Licence Condition 36.10B (b), any modifications to this guidance must be published before the beginning of the RY in which they are intended to take effect.

### 3. Operational Performance measure – SIRSDM1

#### Section summary

This chapter outlines the requirements of the operational performance measure. It includes the scope of the assessment, assessment criteria, and the assessment process.

DCC's operational performance will be governed through the REC under the CRS Provider Performance Charges framework throughout the RY. DCC will then report to Ofgem following the end of the RY the value of Performance Charges borne, which Ofgem will then use to determine the value of *SIRSDM* for use in the SIR as part of the Price Control determination process.

#### Background

- 3.1 The operational performance measure *SIRSDM1* measures DCC's performance in the delivery of its three key roles in Switching as CRS Provider, those being the provision of the CSS, the CA and the SO. The quality of service provided under each of these roles will have a direct impact on the speed and accuracy of the Switching system.
- 3.2 Under the REC CRS Provider Performance Charges framework, DCC may incur Performance Charges as determined by its performance against its service levels for each of the three services. The total value of these Performance Charges incurred by DCC throughout the year will determine the value of the *SIRSDM1* measure.
- 3.3 This framework is governed entirely within the REC. The provisions in the REC, which are set out in the Performance Assurance Schedule, were introduced through REC CP-R0025: Service Provider Performance Charges. Any changes to that framework will be subject to the REC change management process.
- 3.4 Ofgem will however retain ultimate decision-making authority for the final value of *SIRSDM* as part of the Price Control determination process.
- 3.5 Given the performance measure weighting of the SIR as described above, the maximum value of Performance Charges DCC may incur in any one year through

the REC, and therefore the maximum value of  $SIRSDM1$ , is equal to 80% of its allowed margin ( $CRSM_t$ ).

## Assessment Process and Timeline

3.6 Ahead of the start of the RY, REC PAB will determine the maximum value of Performance Charges which can be applied to the CRS Provider throughout the RY. This is based on:

- DCC's forecast of its internal Switching costs ( $CRSIC_t$ ), as set out in the CRS Provider budget agreed between DCC and RECCo ahead of the start of the RY.
- The % value of DCC's margin ( $CRSM_t$ ), as set out in the SIR Direction.
- The % value of DCC's margin at risk for the RY through the SIR against  $SIRSDM1$ , as set out in the SIR Direction (performance measure weighting).

### Worked example:

- DCC's forecast of  $CRSIC_t$  - **£10,000,000**
- Value of  $CRSM_t$  - **7.5%**
- % weighting of  $SIRSDM1$  in the SIR - **80%**

Maximum value of Performance Charges for the RY =

$$10,000,000 * 7.5% * 80% = \mathbf{£600,000}$$

\*numbers provided for illustrative purposes only

3.7 Following the end of the RY, DCC must report to Ofgem the value of Performance Charges it bore throughout the RY. We will then use this figure to determine the value of  $SIRSDM$ , as follows:

- 1) Value of margin adjusted = value of Performance Charges borne
- 2)  $SIRSDM1 = (\text{Value of margin adjusted} * -1)$

**Worked example:**

➤ Value of Performance Charges borne throughout the RY = **£150,000**

1) Value of margin sacrificed = £150,000

2)  $SIRSDM1 = (150,000 * -1) = -£150,000$

\*numbers provided for illustrative purposes only

3.8 The assessment process will involve the following steps:

- **Reporting (April-July):** DCC must report to Ofgem as part of its Price Control submission the value of Performance Charges it bore throughout the RY. DCC may also at this point submit evidence to Ofgem concerning any missed Performance Levels it considers were not necessarily within its control.
- **Internal assessment (Aug-Oct):** Ofgem will consider any evidence presented to determine whether any of the Performance Charges should not apply. If necessary, we will return to RECCo and DCC with any questions at this stage to inform our position. Ofgem will then determine its minded-to position on the value of *SIRSDM1* for use in the calculation of  $CRSPA_t$ . In the event that all Performance Charges are determined as applicable, the value of *SIRSDM1* will equal the value of all Performance Charges borne.
- **Consultation (Oct-Dec):** We will consult on our minded-to position as part of the annual Price Control consultation, which we aim to publish in autumn each year. This will provide DCC and its stakeholders an opportunity to respond.
- **Decision (Jan-Feb):** We will analyse responses and any evidence provided. We will make any adjustments deemed necessary and publish our final decision on the value of the *SIRSDM1* measure as part of the annual Price Control decision.

3.9 Any necessary reconciliation of funds between DCC and RECCo following the publication of the Price Control determination will be subsequently managed in a manner to be determined between the two parties, for example through an adjustment being made by DCC to the following year's REC budget.

## 4. Customer Engagement measure – SIRVMM1

### Section summary

This chapter outlines the requirements of the customer engagement measure of the SIR. 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 cover taking account of customer's views; providing timely and quality information; providing quality support, and transparency of costs.

### 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.
- 4.2 The purpose of defining a customer engagement measure within the SIR therefore is to incentivise DCC to engage effectively with its stakeholders on its roles in Switching, to the benefit of the Switching system and ultimately to consumers.
- 4.3 DCC's principal engagement with its customers in Switching is through the Service Desk via the Switching Portal, where its responsibilities as set out in the REC SO Service Definition include:
  - investigating problems and recurring incidents with the Switching system and supporting their resolution, either directly themselves or through coordination with the relevant Service Provider
  - providing expertise to support market participants managing issues
  - supporting improvement activities in address data quality

Through the Switching Portal, market participants (DCCs customers) are able to:

- Submit tickets for:

- Switching Incidents, which must be resolved within agreed service levels
- Switching Service Requests, which must be fulfilled within agreed service levels
- Check the progress of any tickets raised
- View system bulletins and the forward schedule of change
- Search the knowledge database for assistance

## Assessment Criteria

4.4 The *SIRVMM1* assessment process requires RECCo to provide a submission following the end of the RY setting out scores for DCC against a set of assessment criteria related to its customer engagement performance over the course of that RY. DCC will also prepare a submission scoring itself against the same criteria. This will ensure that both DCC and its customers are represented in the assessment process, providing a balance of stakeholder views.

4.5 The assessment criteria are set out below. We require both parties to provide us with a score for DCC against a number of attributes, with appropriate evidence provided to support that score.

- In the case of the RECCo submission, we expect RECCo to decide itself how best to collect this information for each question from the relevant parties impacted by DCC's customer engagement performance in each case. Some questions may only be relevant to RECCo, for example the question on transparency of costs, whereas others may be relevant to all REC Parties. We expect RECCo to provide a score and supporting evidence for each attribute that fairly and accurately reflects what may be a range of views.
- In the case of the DCC submission, we would expect it to answer the questions directly itself, again providing evidence to support its scores.

4.6 DCC’s performance on customer engagement will be assessed against the criteria in the table below.

<b>Aspect of customer engagement</b>	<b>Assessment questions</b>	<b>Weighting</b>
<b>Taking account of customer views</b>	1. Have DCC’s decisions demonstrated that customer views have been taken into account? Has DCC clearly explained how customer views have informed its decision making, and where relevant why DCC has disagreed with customer views?	25%
<b>Providing timely and quality information</b>	2. Has DCC provided timely and quality information for its customers?  This could include: <ul style="list-style-type: none"> <li>• Maintenance of service status dashboards</li> <li>• Provision of service bulletins for market participants</li> <li>• Maintenance of the knowledge base for the benefit of market participants</li> <li>• Provision of information regarding future planned Operational Switching Service Changes</li> </ul>	25%
<b>Providing quality support</b>	3. Has DCC provided adequate support to market participants in fulfilling Service Requests and in managing the resolution of Switching Incidents raised?	25%
<b>Transparency of costs</b>	4. Has DCC met expectations in terms of providing quality and transparent information in a timely manner around the costs of providing its services?	25%

4.7 Further guidance for DCC and its customers on how to answer these questions is set out below. This is not intended to be exhaustive, but as a guide to DCC, RECCo, and DCC’s customers of what we may expect to see evidence of.

### Taking account of customer views

- Where applicable, DCC should demonstrate that it followed the recommendations of its customers in its decision-making processes.
- Where applicable, DCC should clearly communicate to its customers the rationale behind why, in certain instances, DCC made a decision that diverged from the views of its customers.
- DCC should close 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 rationale provided by DCC for its decisions.

### Providing timely and quality information

- DCC should ensure that customers have easy access to the information they require, that the information is clearly presented in terms of readability/comprehensibility of the information, and that the information should have the required level of detail and precision.
- DCC should consider its audience when providing information and engagement with its customer should be tailored appropriately, such as through the format of the information, level of technical detail, and the forums through which DCC chooses to engage.
- DCC should ensure the information is provided in a timely manner, such that the customer has access to it when required

### Providing quality support

- DCC should ensure that it provides the required support in a timely manner to fulfil Switching Service Requests, and that it provides the market participant with sufficient and timely information regarding the progression of the request.
- DCC should ensure that it provides the required support in a timely manner to resolve Switching Incidents, and that it provides market participants with



sufficient and timely information regarding the progression of the resolution of the incident.

### Transparency of costs

- DCC should ensure it provides RECCo with timely and quality information regarding its annual budget costs and actual costs incurred in the FY. For the budget, DCC should comply with its obligations as set out in the REC.
- The information should be clearly presented in terms of readability/comprehensibility, and should have the required level of detail and precision such that RECCo can fully understand it.
- DCC should respond to any RECCo queries in a timely manner.
- For costs incurred, DCC should provide such evidence as necessary to support that such costs were economic and efficient. DCC should seek prior consultation with RECCo before committing to any external costs, or incurring any internal costs which would require an increase in its agreed budget.

## **Assessment Process and Timeline**

4.8 DCC's customer engagement performance will be assessed on an annual cycle. The assessment period will be 01 April to 31 March.

4.9 The assessment process will involve the following steps:

- **Submission preparation (April-July):** RECCo and DCC must prepare a submission for Ofgem's review, answering all four questions in the assessment criteria in the table above. In preparing the submission, RECCo must seek wider views as appropriate as part of their assessment. DCC and RECCo should work together transparently and share drafts with one another when preparing their submissions to maintain open communication and ensure the submissions are comparable.

- **Reporting (31 July):** Both RECCo and DCC should send their submissions via email to Ofgem along with any supporting evidence by no later than 31 July following the end of the RY under assessment.
- **Internal assessment (Aug–Oct):** We will conduct an internal assessment of both submissions against the assessment criteria to produce a single overall moderated customer engagement score. If necessary, we will return to RECCo and DCC with any questions at this stage to inform our position.
- **Consultation (Oct-Dec):** We will consult on our minded-to score as part of our annual Price Control consultation, which we aim to publish in autumn each year. Note, whilst stakeholders have the opportunity at this point to include further evidence or examples of DCC’s customer engagement performance, we would encourage them to make all reasonable effort to provide that information as part of the initial submission process.
- **Decision (Jan-Feb):** We will analyse responses and any additional evidence provided. We will make any adjustments deemed necessary and publish our final decision, outlining DCC's final score and therefore the value of the *SIRVMM1* measure, in February as part of the annual Price Control decision.

## Scope of Assessment

- 4.10 All aspects of DCC’s activity in its roles as CRS Provider are within scope of the customer engagement measure assessment.

## Submission Requirements

- 4.11 RECCo and DCC should each prepare a submission providing an assessment of DCC’s performance over the previous RY.
- 4.12 Each submission should provide a score for each of the four questions in the assessment criteria using the scoring methodology set out below. Evidence should be provided to support the scores, including case studies as appropriate.

- 4.13 Both submissions should use the below template when answering each of the four questions. The submission for each question should be no longer than two sides of A4, so the whole submission, not including any covering and closing remarks, should be no longer than eight sides of A4.

<b>Aspect of customer engagement - <i>Taking account of customer views</i></b>
<b>Question 1.</b> Have DCC’s decisions demonstrated that customer views have been taken into account? Has DCC clearly explained how customer views have informed its decision making, and where relevant why DCC has disagreed with customer views?
<b>Score (0-3):</b>
<b>Supporting evidence:</b>

- 4.14 In preparing its submission, RECCo must seek views from REC Parties as DCC’s customers. As noted, we expect RECCo to decide itself how best to collect this information for each question, and to ensure it is collecting information from the appropriate parties impacted by DCC’s customer engagement performance in each case. RECCo’s submission must explain how they sought customer views to inform the submission, and how they were incorporated into the scoring.
- 4.15 RECCO and DCC should engage with each other when drafting their submissions to ensure the two submissions are broadly comparable.
- 4.16 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 RECCo considers to be confidential, an alternative redacted version of the submission should also be provided by 31 July for us to publish.

## Scoring Methodology

4.17 The submissions should include scores of 0, 1, 2 or 3 for each of the four individual questions.

4.18 Scores should be awarded using the scoring framework outlined below.

Score	Description
3	Strong evidence that DCC meets the required standard with only minor areas for improvement – DCC is performing to the expected standard.
2	Evidence that DCC meets the required standard, with very few material areas of concern and/or some minor areas of concern.
1	Evidence that DCC meets the required standard but inconsistently, with some material areas of concern.
0	Limited evidence that DCC has met the required standard, with multiple material issues of concern.

4.19 We will then assess both submissions to determine a final score of 0, 1, 2 or 3 for each question. If there is disagreement between the two submissions in terms of the scores provided for a given question, we will assess the supporting evidence provided and determine a final score ourselves.

4.20 We will then produce a final overall score from a weighted average of the scores for each assessment question. As the overall score will be calculated using a weighted average of the individual integers, 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.

4.21 The final score will be determined to two decimal places.

4.22 We will then translate that final score into a % value of margin sacrificed under the customer engagement measure, and ultimately into a value for *SIRVMM1*, as follows:

1) % margin sacrificed =

$$(3 - \text{Final Score}) * 33.33$$

2) Value of margin at risk against SIRVMM1 =

$$CRSICT_t * CRSMT_t * \% \text{ weighting of SIRVMM1}$$

3) SIRVMM1 =

$$(\text{Margin at risk} * \% \text{ of margin sacrificed}) * -1$$

**Worked example:**

- CRSICT<sub>t</sub> - **£10,000,000**
- CRSMT<sub>t</sub> - **7.5%**
- % Weighting of SIRVMM1- **20%**
- Customer engagement measure score – **2.0**

1) % Margin sacrificed =  $(3 - 2.0) * 33.33 = 33.33\%$

2) Margin at risk against SIRVMM1 =  $10,000,000 * 7.5\% * 20\% = \mathbf{£150,000}$

3) SIRVMM1 =  $(£150,000 * 33.33\%) * -1 = \mathbf{-£50,000}$

In this case, a customer engagement score of 2.0 results in 33.33% of the margin at risk against customer engagement being sacrificed, translating into a monetary value of -£50,000 in this particular example.

\*numbers provided for illustrative purposes only

## 5. Calculation of $CRSPA_t$

### Section summary

This chapter sets out how the SIR measures are translated into a value of  $CRSPA_t$  and used in the calculation of  $CRSR_t$  as part of the Price Control determination.

- 5.1 As provided for in the SIR Direction, the value of  $CRSPA_t$  shall be calculated according to the following formula:

$$CRSPA_t = SIRSDM1 + SIRVMM1$$

Using the worked examples given here in this document therefore:

$$CRSPA_t = -£150,000 + -50,000$$

$$\text{So, } CRSPA_t = -£200,000$$

- 5.2 Condition 36.9 of the Licence sets out the formula for  $CRSR_t$  as follows:

$$CRSR_t = CRSEC_t + \mathbf{CRSIC}_t + CRSPC_t + CRSCA_t + \mathbf{CRSPA}_t + CRSPTC_t + CRSECGS_t + CRSVASC_t + \mathbf{CRSM}_t$$

Using the worked examples given here in this document therefore, and assuming all other terms have a value of 0 for clarity:

$$CRSR_t = 0 + \mathbf{10,000,000} + 0 + 0 + \mathbf{-200,000} + 0 + 0 + 0 + \mathbf{750,000}$$

- 5.3 Therefore, in this example:

**Worked example:**

- DCC report internal costs ( $CRSICT_t$ ) of £10,000,000
- DCC collect a margin ( $CRSM_t$ ) of £750,000
- DCC are levied a performance adjustment ( $CRSPA_t$ ) of **£-200,000**
- DCC *retain* a margin ( $CRSM_t$ ) of **£550,000**

\*numbers provided for illustrative purposes only

- 5.4 Note, the examples above assume that DCC's forecasted costs and incurred costs, on which  $CRSM_t$  and therefore the values of money at risk through the SIR are determined, are identical to the costs ultimately allowed through the Price Control determination process. If there is any change to those allowed costs as a result of the Price Control process, adjustments will be required to the values of  $CRSM_t$ , and therefore  $SIRSDM1$  and  $SIRVMM1$ . This may necessitate funds being reconciled between RECCo and DCC.

## Appendix 1 - List of abbreviations

CRSPA <sub>t</sub>	Centralised Registration Service Performance Adjustment
CRSR <sub>t</sub>	Centralised Registration Service Revenue
CRSM <sub>t</sub>	Centralised Registration Service Margin
CRSIC <sub>t</sub>	Centralised Registration Service Internal Cost
CRSEC <sub>t</sub>	Centralised Registration Service External Cost
CRSPC <sub>t</sub>	Centralised Registration Service Pre-Agreed Cost
CRSCA <sub>t</sub>	Centralised Registration Service Cost Adjustment
CRSPTC <sub>t</sub>	Centralised Registration Service Pass-Through Costs
CRSECGS <sub>t</sub>	Centralised Registration Service External Contract Gain Share
SIRSDM1	Switching Incentive Regime Service Delivery Measure 1
SIRVMM1	Switching Incentive Regime Value for Money Measure 1