

Consultation: DCC Switching Incentive Regime - Direction and guidance

Subject	Details
Publication date:	16 February 2023
Response deadline:	17 March 2023
Contact	Ayena Gupta
Team:	DCC Oversight and Regulatory Review
Telephone	020 7901 7000
Email:	DCCregulation@ofgem.gov.uk

We¹ are consulting on the Direction and accompanying guidance for The Data Communications Company (**DCC**) Switching Incentive Regime (**SIR**). The Direction is intended to set the value of the formula terms “CRSPA_t” and “CRSM_t” as set out in the Smart Meter Communication Licence and as relevant to the SIR. The guidance is designed to act as a comprehensive reference setting out how the SIR is intended to operate in practice, in accordance with the Licence and Direction.

The SIR is a performance incentive regime for DCC in its roles in the enduring Switching arrangements, established under the terms of its existing Price Control. We would like views from suppliers, Retail Energy Code (**REC**) parties, and any party with an interest in Switching. We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be

¹ The terms ‘we’, ‘us’, ‘our’ refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority

transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations).

If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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1. Introduction

- 1.1 The SIR is a financial incentive regime designed to incentivise The Data Communications Company (**DCC**) in its roles in the enduring Switching arrangements, to be provided through its Price Control.² 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 consultation follows our decision on the establishment of the DCC Switching Incentive Regime (**SIR**), published on 26 January 2023.^{3,4} That January decision related to the introduction of the SIR and the new Licence conditions to give effect to it. This consultation is now required to set out our proposals in relation to 1) the content of the Direction which sets out how certain SIR terms present in the Licence will be calculated, and 2) the guidance intended to sit alongside the Licence and Direction.

What are we consulting on?

- 1.3 This is a consultation on two documents related to the DCC SIR:

1) a Direction required to implement the SIR through the provision of the necessary detail in relation to the calculation of DCC's profit margin, as represented by the term "CRSM_t", and the mechanism for determining the revenue DCC can earn, as represented by the term "CRSPA_t".

2) guidance 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 Direction.

We have published draft versions of both the Direction and the guidance alongside this consultation.

² For clarity, when referring to the enduring Switching arrangements, we mean the Switching arrangements going forward under steady state operations

³ The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

⁴ 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>

- 1.4 We have also published a Notice of revocation of the 03 May 2019 Direction alongside this document.⁵ As we noted in our 26 January 2023 decision, we will revoke this May 2019 Direction, which determined the value of CRSPA_t in the Licence to cover the DCC's roles within both 1) the Transitional Phase and 2) the Design, Build and Test Phase of the Switching Programme, and replace it with a new Direction from 01 April 2023 onwards to give force to, and provide the detail for, the SIR going forward. This replacement Direction is one of the subjects of this consultation, as noted above. In the event that we decide to proceed with the revocation of the May 2019 Direction following the period of consultation ending on Friday 17 March 2023, we will issue a formal decision letter to that effect and the revocation will take effect as at the date of that letter.
- 1.5 As noted, we published our decision on 26 January 2023 on Licence changes to establish the SIR. Those changes will have effect from 56 days after the decision was made, so 23 March 2023. The changes will grant us powers pursuant to Condition 36.10 of the Licence to amend the value of the term CRSM_t through a Direction to be given to the Licensee following consultation, and powers pursuant to Condition 36.10A of the Licence to amend the value of the term CRSPA_t through a Direction given to the Licensee following consultation.
- 1.6 On the basis that the Licence modifications set out in our decision to implement the SIR come into force on 23 March 2023, we would propose that the SIR commences on 01 April 2023, to coincide with the start of the Regulatory Year (**RY**) 23/24. This consultation is intended to help enable us make an informed decision on the further detail required by the Direction in order for the SIR to operate effectively once the Licence modifications are in force.
- 1.7 Following careful consideration of any responses received to this consultation, we expect to publish a decision and (if implemented) a copy of the final Direction and guidance during the week commencing 27 March 2023.

⁵ Link [here](#) to the May 2019 Direction on margin and incentives for DCC's role in the DBT phase of the Switching Programme.

Consultation questions

Question 1: We consider that the SIR should comprise two measures - 80% operational performance measured through SIRSDM1, and 20% customer engagement measured through SIRVMM1. Do you agree with the proposed weighting of the two measures?

Question 2: We propose to derive a score for SIRSDM1 through the REC Service Provider Performance Charge framework, and for SIRVMM1 through a customer engagement survey. Do you agree with our proposed mechanisms for determining a score for each measure?

Question 3: Do you agree that the draft Direction appropriately gives effect to the policy design of the SIR as described in question 1?

Question 4: Do you agree that the draft guidance provides a comprehensive reference to the operation of the SIR, setting out the regime according to the Licence and Direction?

Context and related publications

- 1.8 We published our decision to establish the SIR on 26 January 2023.⁶ That decision followed our consultation on the SIR, published in November 2022.⁷
- 1.9 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.⁸

⁶ 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>

⁷ Ofgem November 2022 consultation on the Switching Incentive Regime:

<https://www.ofgem.gov.uk/publications/consultation-dcc-switching-incentive-regime>

⁸ The Switching Programme page on the Ofgem website: <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/switching-programme>

- 1.10 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.⁹
- 1.11 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 Level Agreements (**SLAs**) as defined in the REC.¹⁰ We published our decision to accept CP-R0025 on 30 January 2023, with an implementation date of 01 April 2023.¹¹
- 1.12 RECCo had previously published a consultation on DCC Service Provider Performance Charges in 2022.¹² The consultation, which sought views on how DCC's performance against its SLAs as defined in the REC could be incentivised, ie directly through the REC, or under the DCC Price Control under Licence, is discussed in more detail in Chapter 2. The consultation closed in May 2022, shortly after which RECCo published its response.¹³ The solution proposed in RECCo's response to the consultation was for a REC-led approach.

Consultation stages

- 1.13 Figure 1 below sets out the timeline that we expect to follow. This timeline envisages a decision on the Direction and guidance being published by the end of March 2023, which, in the event the decision is taken to implement the proposed form of Direction and guidance, and on the basis that the proposed SIR Licence changes come into force on 23 March 2023, will enable the SIR to commence on 01 April in tandem with the new RY.

Figure 1: Consultation stages

⁹ Ofgem Master Publications Library: <https://www.ofgem.gov.uk/master-publications-library>

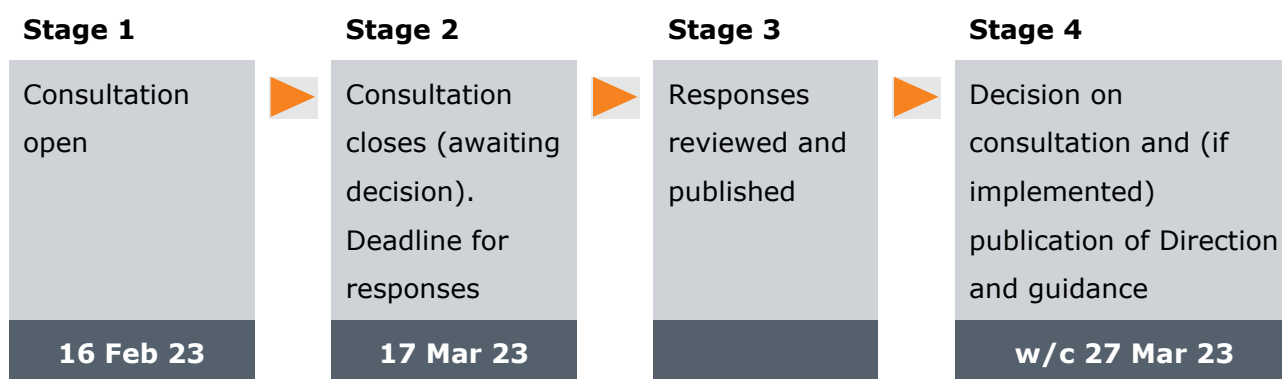
¹⁰ Details of Change Proposal R0025 can be found on the REC Portal:

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

¹¹ Ofgem CP-R0025 Acceptance letter: <https://www.ofgem.gov.uk/publications/decision-rec-cp-r0025-service-provider-performance-charges>

¹² RECCo consultation: <https://www.retailenergycode.co.uk/recco-issues-a-consultation-on-dcc-service-provider-performance-charges/>

¹³ RECCo's response to the consultation: <https://www.retailenergycode.co.uk/recco-response-to-consultation-on-dcc-service-provider-performance-charges/>



How to respond

- 1.14 We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.
- 1.15 We have asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
- 1.16 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

- 1.17 You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
- 1.18 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

- 1.19 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("**UK GDPR**"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations in the Appendix.
- 1.20 If you wish to respond confidentially, we will keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We will not link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

- 1.21 We believe that consultation is at the heart of good policy development. We welcome any comments about how we have run this consultation. We would also like to get your answers to these questions:
1. Do you have any comments about the overall process of this consultation?
 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. Were its conclusions balanced?
 5. Did it make reasoned recommendations for improvement?
 6. Any further comments?

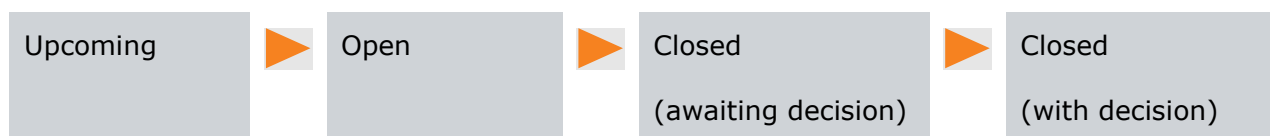
Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website.

[Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations).

Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:



2. Background information

- 2.1 For background information on the Switching Programme, DCC's roles in Switching, the DCC Price Control, DCC's funding mechanism and REC Performance Assurance, please refer back to chapter 2 of our November 2022 policy consultation on the SIR.¹⁴
- 2.2 Following that consultation we published two key documents relating to the SIR which are also relevant for background information:
- 1) our decision in response to the consultation on policy and Licence changes to establish the SIR on 26 January 2023.¹⁵
 - 2) our decision to accept REC Change Proposal R0025 (CP-R0025) on 30 January 2023, with an implementation date of 01 April 2023.¹⁶ 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 Level Agreements (**SLAs**) as defined in the REC.¹⁷ Following the implementation of this regime, DCC will incur Performance Charges through the REC if it fails to meet its SLAs.

¹⁴ Ofgem November 2022 consultation on the Switching Incentive Regime:

<https://www.ofgem.gov.uk/publications/consultation-dcc-switching-incentive-regime>

¹⁵ 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>

¹⁶ Ofgem CP-R0025 Acceptance letter: <https://www.ofgem.gov.uk/publications/decision-rec-cp-r0025-service-provider-performance-charges>

¹⁷ Details of Change Proposal R0025 can be found on the REC Portal: <https://recportal.co.uk/group/quest/-/service-provider-performance-charges-erds-grds-dcc->

3. Details of consultation

Consultation questions:

Question 1: We consider that the SIR should comprise two measures - 80% operational performance measured through SIRSDM1, and 20% customer engagement measured through SIRVMM1. Do you agree with the proposed weighting of the two measures?

Question 2: We propose to derive a score for SIRSDM1 through the REC Service Provider Performance Charge framework, and for SIRVMM1 through a customer engagement survey. Do you agree with our proposed mechanisms for determining a score for each measure?

Question 3: Do you agree that the draft Direction appropriately gives effect to the policy design of the SIR as described in question 1?

Question 4: Do you agree that the draft guidance provides a comprehensive reference to the operation of the SIR, setting out the regime according to the Licence and Direction.

3.1. The SIR allows DCC to earn a margin on its internal costs of providing its services under Switching, subject to its performance against key, defined metrics throughout the RY. Details of the reasons for establishing the SIR are set out in our January 2023 decision in response to our consultation.¹⁸

3.2. As noted in those documents, we are taking a two-step approach to establishing the SIR in the legal framework:

- 1) **Defining a formula in the Licence** - the formula takes the form of a series of terms representing various costs, revenues, and any other metrics as appropriate relevant to DCC's activity. One of the terms is a performance adjustment term, to provide for a potential downward adjustment to Switching revenue based on performance under the SIR. It needs to be a downward adjustment, as the Switching

¹⁸ 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>

margin would already have been applied to Switching revenue as standard as an upward adjustment.

Following our recent decision, we have established this formula in Condition 36 and Schedule 6 of the Licence. Those new Licence provisions are due to enter into force on 23 March 2023 at the end of the statutory 56 day standstill period for Licence changes.

2) **Publication of a Direction** - ahead of the point at which we intend the framework to commence, we would publish a Direction setting out which of the performance adjustment terms within Schedule 6 will apply, and the value of the margin that DCC will be permitted to earn. In practical terms this involves populating the Licence terms $CRSM_t$ and $CRSPA_t$.

This Direction will replace the May 2019 Direction that is currently in force, which provided for DCC's financial incentive scheme and margin allowance under the Transition and DBT phases of the Switching Programme.¹⁹ As noted above, we have published a Notice of revocation of that May 2019 Direction with an effective date of 31 March alongside this consultation.

Alongside this Direction we will publish accompanying guidance. The guidance is designed to provide a comprehensive reference to the operation of the SIR, setting out the regime according to the Licence and Direction..

3.3. This two-step approach allows for the SIR, as with the DCC's Operational Performance Regime (**OPR**) in Smart Metering, to be updated or amended as appropriate through the issuing of a new Direction following consultation. This will ensure the SIR remains fit for purpose year on year, and ensures that DCC, Switching stakeholders and any other interested party are able to respond to proposals around its design.

3.4. Our recent January 2023 decision represents completion of step 1) of the process.

3.5. On the basis that the Licence modifications set out in our decision to implement the SIR come into force on 23 March 2023, we would propose that the SIR commences on 01

¹⁹ Link [here](#) to the May 2019 Direction on margin and incentives for DCC's role in the DBT phase of the Switching Programme.

April 2023, to coincide with the start of the Regulatory Year (**RY**) 23/24. This consultation is intended to help enable us make an informed decision on the further detail required by the Direction in order for the SIR to operate effectively once the Licence modifications are in force

3.6. We have already set out the following decisions in our January 2023 decision:

- We have established the SIR in the Licence through the insertion of a new Schedule 6 using four categories of measure – Service User Measure (**SIRSUM**), Service Delivery Measure (**SIRSDM**), Development and Improvement Measure (**SIRDIM**) and Value for Money Measure (**SIRVMM**).
- We will award DCC a margin of 7% on its internal costs for Switching under its Price Control, equating to 7.5% in terms of return on costs through the calculation method we apply.
- 100% of this Switching margin in any given RY will be put at risk against the SIR.
- We will revoke the May 2019 Direction and replace it with a new Direction to give force to, and provide the detail for, the SIR going forward. The Direction will be underpinned by the provisions we have introduced into the Licence in the new Schedule 6.
- Subject to the outcome of this consultation and on the basis of the Licence changes coming into force on 23 March 2023, we anticipate the SIR will take effect from 01 April 2023.

3.7. For information, and to assist stakeholders in responding to the proposals to establish the SIR in the Licence, we provided details in Chapter 4 of our November 2022 consultation of our minded-to position on the design of the SIR from 01 April 2023 onwards. We considered that the SIR could be comprised of two categories of performance measure, weighted at 80% operational performance / 20% customer engagement.²⁰

²⁰ Ofgem November 2022 consultation on the Switching Incentive Regime:
<https://www.ofgem.gov.uk/publications/consultation-dcc-switching-incentive-regime>

3.8. We are now formally consulting on amending CRSPA_t in a manner consistent with the proposals set out in that recent consultation.

3.9. We consider that the SIR should be comprised of two separate performance metrics, weighted as follows:

1) A Service Delivery Measure (**SIRSDM1**) – 80% - reflecting the operational performance of DCC in its Switching roles

2) A Value For Money Measure (**SIRVMM1**) – 20% - reflecting DCC's performance in terms of customer engagement with its customers in its Switching roles

3.10. Whilst we consider good performance across both measures to be critical, we consider operational performance should be incentivised to a proportionally greater extent than customer engagement. This on the basis that we think good operational performance will deliver proportionally greater value to consumers, as it will directly impact on the speed and accuracy of the systems on which the whole Switching process relies.

3.11. More detail is provided regarding each of the proposed performance measures below.

1) SIR Measure 1 - Operational Performance (SIRSDM1)

3.12. The REC Performance Assurance Board (**PAB**) assures DCC's performance against its SLAs in accordance with the provisions of the relevant Service Definitions and the Performance Assurance Schedule in the REC. Following approval of CP R0025, DCC will be exposed to the risk of a Performance Charge (penalty or damage) if an SLA, or series of SLAs, are not met. This new framework in the REC will take effect from 01 April 2023 onwards.²¹

3.13. We consider that the operational performance element of the SIR should be administered on a day to day basis within the REC, in accordance with the provisions of that framework as introduced by CP R0025. DCC would then report to Ofgem following year end details of the Performance Charges that have been levied against it throughout the year, as

²¹ Ofgem CP-R0025 Acceptance letter: <https://www.ofgem.gov.uk/publications/decision-rec-cp-r0025-service-provider-performance-charges>

part of its Price Control submission. Ofgem would then use this information as part of the Price Control determination process to determine the value of *SIRSDM1*.

3.14. We consider this to be the right approach to take because it allows REC PAB full control over the governance of the day to day DCC performance assurance process within the RY, whilst enabling Ofgem to reserve ultimate decision-making authority over the value of DCC's performance adjustment for the RY, to be determined through the Price Control process following RY end.

3.15. In order for the REC framework to be fully aligned with the SIR, the maximum value of Performance Charges that can be levied against DCC within a RY through the REC would equal 80% of DCC's allowed Switching margin under its Price Control, in line with our proposed weighting of 80% for *SIRSDM1*. That ensures that 80% of DCC's allowed Switching margin is therefore being put at risk against its operational performance. We will work closely with RECCo to ensure the correct functioning of the SIR and PAF in tandem.

3.16. Please refer to the draft guidance published alongside this consultation for more details of the process / timeline through which *SIRSDM1* would be determined.

2) SIR Measure 2 - Customer Engagement (*SIRVMM1*)

3.17. As noted, the term *SIRVMM1* reflects DCC's customer engagement performance throughout the RY. We think 20% of DCC's allowed Switching margin for the RY should be at risk against this metric.

3.18. The intention of defining a metric within the SIR for customer engagement is to incentivise DCC to engage effectively with its customers on its roles in Switching, to the benefit of the Switching system and ultimately to consumers.

3.19. As we noted in the November 2022 consultation, we think it should involve the use of a form of customer satisfaction survey, with the value of margin DCC retains determined by its performance against certain defined metrics.

3.20. We have therefore designed the *SIRVMM1* assessment process on that basis. Our proposed approach requires RECCo to provide a submission following the end of the RY setting out scores for DCC against a defined 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.

3.21. We will then use the results from those assessments to derive a value of *SIRVMM1* as part of the Price Control assessment process, which translates into margin adjustment through the provisions set out in the Direction.

3.22. Please refer to the draft guidance for more details of the process / timeline through which *SIRVMM1* would be determined.

Appendix – Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the UK General Data Protection Regulation (UK **GDPR**).²²

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, “Ofgem”). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data

We are not intending to share your personal data with other organisations. We are intending to publish non-confidential consultation responses, including any personal data that may be contained within them.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for six months after the consultation closes.

²² Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (GDPR), as retained in domestic law following the UK’s withdrawal from the European Union (UK GDPR)

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

10. More information

For more information on how Ofgem processes your data, click on the link to our "[Ofgem privacy promise](#)".