

Decision

Switching Programme - Discretionary Data Reward and Discretionary Recovery Mechanism for DCC

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This decision letter sets out our final decision on the two elements of the Switching Programme Design, Build and Test (DBT) phase incentive framework for the Data Communications Company (DCC).

The two awards are as follows:

- The monetary value of award to DCC under the Discretionary Data Reward (DDR) is £105,000 (from a maximum of £200,000)
- The % of lost DBT phase margin that DCC can recover under the Discretionary Reward Mechanism (DRM) is 17.25% of all lost margin (from a maximum of 30%)

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1. Introduction

- 1.1 This is our decision on the two elements of the Switching Programme Design, Build and Test (DBT) phase incentive framework for the Data Communications Company (DCC).
- 1.2 The DBT phase incentive framework comprised two separate mechanisms, the Discretionary Data Reward (DDR) and the Discretionary Recovery Mechanism (DRM). Both mechanisms impacted on DCC's allowed margin for the DBT phase of the Switching Programme.
- 1.3 Further information on the background to the design and operation of the DBT incentive framework can be found on the Ofgem website.¹
- 1.4 We published guidance in relation to both mechanisms in May 2019.^{2,3} The guidance documents outline the scope and relevant criteria of the mechanisms, the application and assessment processes and the reporting requirements, for the benefit of both DCC and all interested stakeholders.

Discretionary Data Reward (DDR)

- 1.5 The DDR mechanism was a one-off activity aimed at incentivising DCC to meet (as a minimum), and exceed, the baseline quality standard for address matching. Exceeding this standard is expected to deliver greater benefits to consumers without increasing the overall cost to the programme.
- 1.6 The DDR allowed for a discretionary adjustment to be made to DCC, within a cap and collar at a value in the region of +/- £200k, if the baseline quality standard for Retail Energy Location (REL) address matching has been met as a minimum and/or exceeded, and if certain outcomes in relation to the management of costs of the service provider contract(s) have been achieved.
- 1.7 The application process for DCC to apply for an award under the DDR is two step:
 - Firstly, DCC had to demonstrate it met the scheme's pre-requisites, to be assessed on a pass / fail basis.

¹ Link [here](#) to further information on the DBT phase incentive framework on the Ofgem website

² Link [here](#) to the DDR guidance on the Ofgem website

³ Link [here](#) to the DRM guidance on the Ofgem website

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- In the event that DCC passed this step, it could then apply for reward under Part 1 of the guidance. The value of the discretionary reward of up to +£200k would then depend on DCC’s scoring in the three areas of the discretionary reward.

If DCC failed to meet the pre-requisite criteria however it would not be considered eligible for the reward under this scheme. Instead, DCC would be subject to discretionary downside to a capped value of (negative) - £200k under Part 2 of the guidance. The value of this downside would depend on the extent of the delay in meeting the milestone and on the steps DCC took to mitigate delay and the impact on the wider programme.

- 1.8 DCC’s performance in respect of Part 1 or Part 2 of the submission (whichever is applicable) would then be scored by the evaluation panel (details below) on a scale of 0–4 based on the degree of confidence provided in the submission as to whether the criteria have been met, where 4 invokes a high level of confidence and 0 invokes no confidence.
- 1.9 Each individual element of the submission within each part was weighted according to its relevant importance, such that some elements would have a greater impact on the overall final score than others. Please refer to the DDR guidance for details of the relative weightings of each element.
- 1.10 Finally, once an overall score for DCC’s submission had been calculated it will then be converted into the proportion of the capped value of the award that will be made to DCC, up to a maximum of +/- £200k. This will be calculated as follows:

$$\text{Value of DDR award} = (\text{overall score} / 4) * +/- \text{£}200\text{k}$$

Discretionary Recovery Mechanism (DRM)

- 1.11 The DRM meanwhile was a separate mechanism that allowed DCC to recover a portion (up to 30%) of any margin it had lost against previous milestones within the DBT phase which had not been achieved. For example, if DCC had lost £100k of margin against DBT milestones, the DRM mechanism would allow them to earn up to £30k of it back.
- 1.12 The value of award on the DRM was based on DCC achieving in two key performance areas - meeting the baselined programme Go Live date, and achieving certain outcomes in relation to engagement and communication.

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- 1.13 The aim of the DRM was to ensure that DCC were continually motivated to keep the programme on track to achieve Go Live, and that it was incentivised to embrace and consider the wider impacts of its activities on other programme participants.
- 1.14 Again, the application process for DCC to apply for an award under the DRM was two step:
- Firstly, DCC had to demonstrate it met the scheme’s pre-requisites set out in Part 1 of the guidance, to be assessed on a pass / fail basis.
 - In the event that DCC passed this step, it could then apply for reward under Part 2 of the guidance.
- 1.15 DCC’s performance in respect of Part 2 would then be scored by the evaluation panel on a scale of 0–4 based on the degree of confidence provided in the submission as to whether the criteria have been met, in the same way as for the DDR as set out above.
- 1.16 Each individual element was also again weighted according to its relevant importance. Please refer to the guidance for details of the relative weightings of each element.
- 1.17 Finally, once an overall score for DCC’s submission had been calculated it will then be converted into the proportion of margin lost that will be recovered back to DCC, up to a maximum of 30% of the margin lost from missed milestones. This will be calculated as follows:

$$\% \text{ of margin recovered} = (\text{overall score} / 4) * 30\%$$

Evaluation process

- 1.18 DCC submitted its applications in October 2022.
- 1.19 As required by the guidance, both the DDR and DRM submissions were assessed by a panel of evaluators made up from:
- A senior member of the Ofgem Switching Programme team
 - An Ofgem Switching Programme commercial team member
 - A Switching Programme Communications representative
 - A representative of the Retail Energy Code Company Limited (RECCo)

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- 1.20 Each evaluator first scored the submissions independently before a moderation session was facilitated by a senior Ofgem official where a single consensus score for each criterion was defined.
- 1.21 The moderated scores and supporting commentary were communicated to DCC in May 2023. DCC were offered a right of reply as per the guidance requirements.
- 1.22 DCC provided a response to the panel’s determination in June 2023, which included extra information and evidence in support of an uplift to the scores under both schemes.
- 1.23 Two members of the Ofgem evaluation panel then assessed the response to determine the final scores under each criterion of the two schemes. Those final scores are presented below in chapters two and three.
- 1.24 Note, the guidance also sets out that the evaluation panel’s scoring would be subject to an independent review by the Switching Programme Licenced Party Assurer (LPA). However, it was subsequently agreed between Ofgem and DCC that this would not take place as the LPA contract had by that time lapsed.

2. Discretionary Data Reward (DDR)

DDR scheme pre-requisites

2.1 As set out in the DDR guidance and in chapter one, DCC first had to demonstrate with the use of supporting evidence that it had met the four scheme pre-requisites as set out below. In each case we have provided our response and decision.

1. The baseline quality standard for address matching must have been met by the set programme milestone

Summary of DCC submission:

2.2 The Ofgem Programme Director had set the baseline quality standard for DCC to achieve at Go Live (which took place on 18 July 2023) at 95%. It was then confirmed at the March 2022 Switching Programme Implementation Group (IG) meeting that the match rate was by that point 95.16%, a figure assured by the Core Systems Assurer.

Ofgem decision:

2.3 We consider that the criterion has been met.

2. The costs associated with meeting or exceeding the standard for address matching must not represent any additional spend over the length of the service provider contract(s)

Summary of DCC submission:

2.4 The baseline quality standard was met and exceeded in advance of Go Live with no additional spend over and above the £2.1m agreed for address matching activities in the programme budget at the start of the DBT phase.

Ofgem decision:

2.5 We consider that the criterion has been met.

3. The costs associated with meeting or exceeding the standard for address matching should be contained within External Costs

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Summary of DCC submission:

2.6 As the work undertaken to achieve the baseline quality standard did not represent additional spend during the DBT phase, as described above, the relevant costs were wholly contained within Central Registration Services (CRS) External Costs in the Price Control Regulatory Instructions and Guidance (RIGs), and were determined by Ofgem to be economic and efficient in the 2020 Price Control round.

Ofgem decision:

2.7 We consider that the criterion has been met.

4. DCC has appropriately prioritised its activities to ensure no detriment to other programme aspects through efforts to meet / exceed the baseline quality standard for address matching

Summary of DCC submission:

2.8 The activities necessary for DCC to achieve the baseline quality standard were built into the Programme Plan during the COVID re-plan, which was signed off at the Switching Programme Delivery Group (DG) meeting in October 2020. The programme was then delivered on time and budget.

Ofgem decision:

2.9 We consider that the criterion has been met.

Summary:

As DCC met all of the pre-requisite requirements, it can be considered for the discretionary award under Part 1 of the guidance.

DDR Part 1 – Putting improved data quality at the heart of the enduring Switching arrangements

2.10 The value of the discretionary reward of £0 to +£200k depended on DCC's scoring in three areas:

1. Exceeded the initial standard (75% weighting)

The achieved data quality (address matching) level has exceeded the minimum standard designated by the Authority. This shall be assessed on the level to which this has been exceeded, the certainty to which this is the case and the level to which DCC has gone above and beyond in achieving this.

Summary of DCC submission:

2.11 Data quality was 95.33% at Go Live as supported by evidence presented, exceeding the designated baseline quality standard of 95%.

Ofgem decision:

2.12 We recognise the good work that DCC undertook to exceed the baseline quality standard by 0.33% at Go Live, and that this resulted in additional monetised benefits being realised as described in the Ofgem Business Case.

2.13 However, as agreed bilaterally between Ofgem and DCC in a series of letter exchanges after the guidance was published, in order to meet this specific DDR criterion, the programme would require DCC to produce a plan ahead of Go Live setting out the activities that it would undertake in order to achieve an average match rate of 96.9% during year 1. This is the figure as calculated that would enable the Business Case benefits to be realised in Year One (ie up to 18 July 2024). There was a further requirement for this plan to have been consulted on in advance of Go Live with any party required under the plan to undertake activities in support of reaching the target. It was accepted that this could form part of the Year One Address Quality Plan, which was a separate existing requirement for DCC to produce under the Retail Energy Code (REC).⁴

⁴ See paragraph 2.5 of the REC Address Management Schedule on the REC Portal, link [here](#)

- 2.14 DCC have since confirmed that this element of the plan was not produced. Instead, DCC took the decision that reaching 96.9% in Year One would not be economical or efficient, and instead set out in its plan the activities that, in its view, would best improve Switching reliability going forward, as opposed to setting out specific activities to meet the 96.9% target. Unfortunately, this was not discussed with Ofgem prior to the plan being produced or the DDR submission being made.
- 2.15 We consider that, in light of DCC omitting to produce a consulted-upon plan as described above, the criterion in this first area has not been met. However, we recognise that work has been undertaken by DCC in respect of data quality to the extent that the baseline quality standard was exceeded by 0.33%, and would like to recognise this in the award.
- 2.16 **Score = 2**

2. Ensured the set standards are correct (10% weighting)

It is key that the defined data quality standard, to the extent that is reasonably foreseeable, ensures that reliability is maintained and continually improved in line with the expectations set out within the Ofgem Business Case. Although the Authority will designate the initial level and the longer-term standards will be set out within the REC, both will require expert input from DCC and its service providers to guide what is appropriate.

The initiatives/outputs against which DCC must provide evidence in this area include:

- a. Supporting the Authority to determine how the data quality standard will be measured.*
- b. Supporting relevant market participants (source data providers) to make evidenced based decisions on agreeing a standard for industry address data at Go Live that has the intention of not increasing failed switches.*
- c. Advising industry participants (source data providers) in ensuring address data is cleansed in accordance with the agreed standard for industry address data; and*
- d. Providing input collaboratively to Ofgem and the REC in setting an ambitious but realistic longer term data quality level that can act as a reasonable proxy for continual improvement in Switching reliability.*

Summary of DCC submission:

- 2.17 DCC published two key discussion papers for the purposes of defining the match rate standards - 1) a paper outlining the options for how the match rate could be measured, and 2) a paper analysing what appropriate "do no harm" and "gold standard" match rates could be determined as.
- 2.18 DCC also supported industry on the REL through DWG meetings, a REL seminar, through presentations to industry groups and through a series of bilateral meetings with source data providers.

Ofgem decision:

- 2.19 The panel considered that DCC demonstrated good performance against this requirement, and generally provided a good level of support to industry.
- 2.20 **Score = 3.**

3. Implementing a strategy for the maintenance and improvement of Data Quality for the long term (15% weighting)

The initiatives/outputs against which DCC must provide evidence in this area include:

- a. Pro-actively contributing to raising industry awareness of address data quality and integrity through developing and sharing with industry, best practices, guidance and guidelines on improving address data quality. This could include providing input into clear guidelines around the definition of the address match calculation, mastership, ownership and stewardship of the data elements associated with the programme.*
- b. Developing in collaboration with industry, a process to ensure data quality/integrity is continuously maintained and improved on an ongoing basis post Go Live; and*
- c. Supporting industry in developing a long-term address data quality improvement strategy.*

Summary of DCC submission:

- 2.21 During the DBT phase DCC held "blue sky thinking" workshops and industry sessions to investigate additional mechanisms for improving data quality.
- 2.22 DCC published its Switching Address Quality Plan, which set out the activities DCC would undertake through to April 2023 to 1) raise industry awareness of address
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quality and integrity, 2) ensure data quality is continuously maintained and improved, and 3) support industry to develop a long term data improvement strategy. This will involve regular meetings with network operators and suppliers to investigate address related issues.

- 2.23 DCC has also created a REL sub-group to monitor and resolve issues with the REL. It also has plans to run a regular wider Switching Energy Industry Address Forum to discuss trends and resolve issues, and to hold bilateral sessions with suppliers to resolve more specific issues as necessary.

Ofgem decision:

- 2.24 We acknowledge the good work done by DCC through the REL sub-group, and that work has been done with a view to maintaining and improving data quality going forward.

- 2.25 It was however considered that the Year One plan appended in the document lacked detail on approaches to data improvement. It was also noted that it was released just before Go Live with limited consultation as was required, and that DCC did not take particular account of the feedback received via this limited consultation process.

- 2.26 On the REC REL guidance (Cat 3 document), the first version produced by DCC was not suitable for use as an enduring document, for example it contained a lot of technical programme language not fit for purpose. It was also not provided until late in the process, limiting the opportunity for stakeholder engagement.

- 2.27 **Score = 2**

Final score and value of DDR award

- 2.28 The final scoring and subsequent DDR award value is as follows:

Criterion 1.1 (75%) = 2

Criterion 1.2 (10%) = 3

Criterion 1.3 (15%) = 2

Overall score = $(2 * 0.75) + (3 * 0.1) + (2 * 0.15) = 2.1$

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Value of DDR award = (overall score / 4) * +/- £200k

= (2.1/4) * £200k

= **£105k**

3. Discretionary Recovery Mechanism (DRM)

DRM Part 1 – Minimum requirements

3.1 As set out in the DRM guidance and in chapter one, DCC could only be considered eligible for the DRM reward if it met two requirements to be assessed on a pass / fail basis, as set out below. In each case we have provided our response and decision against each requirement.

1. The baselined programme Go Live window has been met

Summary of DCC submission:

3.2 At the January 2022 DG meeting the target Go Live date was designated as 18 July 2022. Ofgem then took the decision to go live on this date at the DG meeting on 30 June 2022, and the service subsequently went live on the target date.

Ofgem decision:

3.3 We consider that the criterion has been met.

2. A clear stakeholder engagement strategy is in place and being appropriately followed

Summary of DCC submission:

3.4 DCC provided a significant amount of information around its stakeholder engagement approach in its submission which indicated a strategy is in place and is being appropriately followed.

Ofgem decision:

3.5 We consider that the criterion has been met.

Summary:

3.6 As DCC met both of the pre-requisite requirements, it can be considered for the discretionary award under Part 2 of the guidance.

DRM Part 2 - Ensuring Quality delivery of the DBT phase

3.7 Following both minimum requirements being met, the value of the discretionary reward then depended on DCC's scoring in three areas:

1. Demonstrate DCC has gone above and beyond in pro-actively providing prompt, transparent and co-operative engagement on programmes changes (50% weighting)

Summary of DCC submission:

- 3.8 DCC acknowledged that its role in the change process, which was run by the Programme Coordinator, was to ensure that Impact Assessments (IAs) were produced on time and then explained to the relevant stakeholders. It attended every Change Advisory Team, Design Forum and Design Authority meeting where required. It oversaw a preliminary change process, including maintaining a Preliminary Change Log to ensure all new CRs were recognised before progression, and made itself available to the Change Proposer for an informal discussion if necessary.
- 3.9 It also gave presentations to stakeholders to explain the major programme changes, including on the REL and on the Service Management System.
- 3.10 It initiated a range of forums where issues could be discussed with Parties Under Integration (PUI), including weekly meetings and the monthly Programme Board
- 3.11 It held weekly meetings with Ofgem and the Programme Coordinator to discuss relevant issues, and supported the Issue Resolution Group (IRG) in the period immediately before Go Live

Ofgem decision:

- 3.12 It is clear that DCC did undertake activity to provide engagement on programme changes.
- 3.13 However, it was felt that the evidence provided was limited in terms of demonstrating that DCC had gone "above and beyond" in doing so, and could better be described as BAU activity.
- 3.14 The panel also noted that there were some issues with DCC's performance on change:
- some Impact Assessments were delivered late

- the quality of DCC raised changes was mixed, and some required multiple iterations to resolve. The primary issue noted was the ability to put forward change options
- the DCC procured System Integrator did not correctly maintain the service management requirements following various programme changes, impacting REC drafting and risking incorrect requirements being drafted into Service Provider contracts

3.15 We do however acknowledge that this took place against the backdrop of the COVID-19 pandemic, so some disruption to service quality may be expected.

3.16 **Score = 2**

2. Demonstrate balancing short term change to minimise larger impacts later in the programme or in early life (30% weighting)

Summary of DCC submission:

- 3.17 DCC raised CR122 to introduce a more efficient licensing process for Adapter Service Providers to obtain a ServiceNow Licence - benefits included a simpler delivery model for the DNOs, clearer lines of incident management to avoid delays to the solution management, and reduced costs of licences. This was cited as an example of where DCC took an early decision to change to deliver benefits / improvements.
- 3.18 It also introduced a post-Go Live wash up release - this involved DCC reviewing all outstanding CRs immediately ahead of Go Live and triaging them for progression based on their importance for Go Live, with any not strictly necessary delayed until afterwards. This was referenced as an example of DCC accepting short term delays to avoid greater costs associated with delaying Go Live.
- 3.19 Finally, DCC introduced a number of changes during DBT to improve quality / minimise cost, including:
- allowing testing by third party providers on behalf of suppliers
 - automating flows through ServiceNow to allow DCC to manage the certification lifecycle for industry parties, reducing the cost and time burden on them
 - introduction of the use of production data during testing, which was more effective than the use of synthesised data as proposed by the design

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- introduction of simulators for the enduring environment to reduce costs on PUIs of maintaining permanent connection
- separating Switching testing from SMETs testing, allowing both programmes to develop and test in parallel

Ofgem decision:

3.20 The panel considered that DCC provided some good examples of how it balanced short term change to minimise larger impacts later, to the benefit of the programme.

3.21 **Score = 3**

3. Quality of evidence provided (20% weighting)

Ofgem decision:

3.22 DCC generally provided an adequate level and quality of evidence to support its submission.

3.23 **Score = 2**

Final score and value of DDR award

3.24 The final scoring and subsequent DRM award value is as follows:

Criterion 2.1 (50%) = 2

Criterion 2.2 (30%) = 3

Criterion 2.3 (20%) = 2

Overall score = $(2 * 0.5) + (3 * 0.3) + (2 * 0.2) = \mathbf{2.3}$

% of lost margin recovered = $(\text{overall score} / 4) * 30\%$

= $(2.3/4) * 30\%$

= **17.25%**

4. Conclusions and next steps

- 4.1 This decision letter sets out our final decision on two elements of the DBT incentive framework for DCC:
- The monetary value of award to DCC under the Discretionary Data Reward (DDR) - £105,000
 - The % of lost DBT phase margin that DCC can recover under the Discretionary Reward Mechanism (DRM) – 17.25%
- 4.2 DCC should now reflect these figures in the RIGs as part of its Price Control submission.
- 4.3 To confirm, the DBT phase of the Switching Programme has now ended and both the DDR and DRM mechanisms have ceased.