Data Communications Company

DCC Remuneration Policy Guidance

Smart DCC Response

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Executive Summary

We welcome Ofgem's consultation on the Remuneration Policy for DCC2 and recognise the important role that performance-related pay has in ensuring good outcomes for customers, particularly with the organisation moving to not-for-profit. However, performance-related pay only incentivises our staff where we can influence the measures we are assessed against. It is critical that this principle is upheld in the new Remuneration Policy.

While we support the overall intent of ensuring a fit for purpose Remuneration Policy that reflects the revised licence conditions on DCC2, we have concerns with the current drafting and suggest changes to better achieve Ofgem's objectives.

Given the transition that DCC is undergoing and the uncertainty this can create, Ofgem should adopt a minimum change approach with the Remuneration Policy rules. Significant change, particularly in relation to remuneration, has the risk of unsettling DCC's staff and could cause an increase in attrition at an extremely challenging time. It would not be appropriate to have a two-tier regime where Senior Managers have a mandated set of performance objectives and the rest of DCC2's staff could be subject to different rules. We will continue with our current approach where all staff are subject to a set of Team Objectives to ensure there is complete clarity and alignment on what the organisation is seeking to achieve as well as personal objectives to reflect the specifics of each colleague's role. This has worked well in the past.

Ofgem's proposed four pillars are all outcomes-focussed. While we understand these outcomes are important, incentivising the enablers of those outcomes is also important. These enablers span several different areas, from ensuring our staff contribute to the safety of our own network through compliance with security standards, to contributing towards sustainability goals, and ensuring that our staff are engaged and their achievements are recognised. We currently have Team Objectives in these areas and they are an important part of our remuneration framework.

At present we are developing a set of Team Objectives and underlying measures to comply with the new Licence requirements for submission in the draft Remuneration Policy due on 14 October 2026. However, until we have more information on the likely outturn of those measures in Reporting Year (RY) 26/27, it would be impractical to propose specific target, threshold and stretch numbers. In addition to the challenge presented by Ofgem's timeline, we would also not want to lock targets in too far ahead of 1 April 2027 given the potential for there to be changes to programmes, timelines and system performance.

We also have concerns that Ofgem's proposals would make the Remuneration Policy a detailed methodology document for the measures we have chosen. The number and scale of obligations Ofgem is proposing is excessive for a public-facing Remuneration Policy and is inconsistent with the approach it has adopted for the National Energy System Operator (NESO). Although we understand Ofgem wants assurance that the measures we have chosen are objective and have the support of customers, the methodology to implement this should not be included within the policy document.

1 Introduction

We are pleased to submit our response to Ofgem's consultation[1] on the Remuneration Policy Guidance that was published on 8 July 2026. On 2 November 2026 when the Authorised Business transfers to DCC2, Smart DCC Ltd's staff will TUPE transfer to the successor licensee and will be subject to the new remuneration policy rules.

Our response is set out below, with the main body of the document setting out Smart DCC Ltd's view of the proposals. Appendix 1 provides a summarised set of responses to Ofgem's questions. Appendix 2 summarises the key obligations on DCC2.

2 Application to Variable Pay Only

Ofgem's consultation and guidance document does not clearly specify that the Remuneration Policy should apply to DCC2's discretionary bonus scheme only. It is critical that colleagues' contractual pay arrangements are unaffected by Ofgem's proposed guidance.

In previous consultations, Ofgem has been clearer that this is the case, but the wording in the consultation document does not provide sufficient clarity on this matter. DCC2's Remuneration Policy will apply solely to discretionary bonuses, as has previously been discussed with Ofgem.

DCC2 will continue to have a separate pay policy.

3 Principles and Framework

The Remuneration Policy regime should be based on clear principles that deliver good outcomes for our staff and customers. Above all, because of the complexity of transferring the Authorised Business from DCC1 to DCC2, we must adopt a minimal change approach to the remuneration arrangements for DCC colleagues. We must avoid a position where we inadvertently create an increased risk of employment disputes over pay and conditions or an increase in staff attrition. Failing to do so would jeopardise DCC2's ability to conduct its Authorised Business effectively.

3.1 Remco and Board Autonomy

UK corporate governance rules (Companies Act 2006) require Board directors to promote the success of the business and exercise independent judgement (s.172 and s.173 respectively). To allow DCC2 to be compliant with these requirements, the DCC2 Remco and Board must continue to have autonomy to award bonuses. Given that the DCC2 Remco is to be an independent body, Ofgem should have no concern with preserving its existing autonomy to award bonuses. Obviously, the availability of funds for bonuses will depend on the financial situation of the organisation, which DCC2's Remco and Board will take into account when making its remuneration decisions.

DCC2 should also be free to set the values for threshold, target and stretch to ensure that it has full autonomy in challenging the business to deliver effectively for its customers.

[1] www.ofgem.gov.uk/consultation/draft-new-smart-meter-communication-licence

3.2 No Strengthening or Weakening of Contractual Rights

DCC's employees have a range of different contractual provisions relating to bonuses. Some colleagues have legacy arrangements inherited from Capita, while others have bespoke rules negotiated in their contract. Because of this there is a risk that departing from the current remuneration rules on bonuses will conflict with colleagues' contractual provisions. We want to avoid this situation given the potential for legal claims to be made against DCC2, and the impact this could have on delivering the Authorised Business effectively.

3.3 Structure

DCC has operated a remuneration regime whereby a proportion of colleagues' bonuses depends on the corporate objectives ("Team Objectives") and their personal objectives. This ensures that all colleagues pull together to achieve shared goals while their individual responsibilities are also incentivised. This has been refined over time and has proven to be effective. Preserving the structure will help avoid any legal claims relating to employment rights.

3.4 Controllability

For any measure to incentivise DCC2 to act in a certain way, we must have the levers to influence it. The more control we have, the stronger the incentive effect. As DCC2 is unable to deliver Fundamental Service Capability itself, the levers it has over the service its customers receive, is limited by the levers in the contracts it has with its service providers. For example, if a contract specifies a level of 95% for a KPI, there is no incentive effect of requiring DCC2 to meet 99%. DCC2 would need to renegotiate the terms of its contract to deliver improved performance, which would entail costs that customers would need to pay. Our general principle is that the stronger our levers the less risk there is to DCC2 of including a measure. In particular, we are keen that any measure we are held to account to deliver is not unduly influenced by customer or supplier performance or behaviour.

Notwithstanding the above, any measures and targets we propose will be realistic but challenging.

3.5 Continuity

Although we recognise that Ofgem is seeking to incentivise a range of behaviours from DCC2's senior managers, it must recognise that there cannot be a sharp decline in their bonus entitlement because of a regulatory intervention.

As much as possible, we want to ensure that there is no cliff edge in bonus awards for our colleagues before 1 April 2027 and from 1 April 2027. If there were, we would expect there to be an increase in attrition and potential legal claims.

We intend to set our measures and targets in a way that will be comparable to prior years' outcomes while respecting Ofgem's rules. To help with this, where it is possible and desirable, we will extend elements of the RY26/27 remuneration framework.

3.6 Application beyond "Senior Managers"

The new Licence requires that the Remuneration Policy rules must apply to Senior Managers. The Remuneration Policy guidance is permissive about whether we should apply the rules beyond this group. Senior Managers and the rest of the organisation should not be subject to different bonus policies or Team Objectives.

We will be applying the same set of Team Objectives to all DCC2's colleagues and will use the personal objective element of the remuneration framework to incentivise staff, including Senior Managers, according to the requirements of their role.

4 Measures

4.1 Introduction

Because some of the measures we are proposing to use in the Remuneration Policy are being introduced for the first time, we need to ensure that there is enough time for these to be baselined and tested before target, threshold and stretch numbers are set. This is particularly important where the measures are not contractual ones.

To avoid negatively impacting the morale of DCC2's staff base, we consider it sensible to carry over several pre-existing measures from the RY26/27 Team Objectives to RY27/28. This will have the effect of providing a familiar framework for colleagues and help prevent a material improvement or worsening in the performance of the Team Objectives at year end. We want to avoid a situation where we negatively impact staff morale through lower performing measures caused simply by choosing a set that do not perform as well as those we have previously chosen. Avoiding this cliff edge in performance-related pay is important to prevent a worsening of attrition at a crucial period. Carrying over some of the previous objectives also helps meet Ofgem's aims for DCC to plan over a longer time horizon rather than adopting a short-termist view.

4.2 Additional Measures

While we recognise Ofgem wants DCC2 to prioritise its four pillars, we are concerned that they are all outcome-based. It is important to incentivise a full range of measures that are important to DCC2's customers and its staff. Similarly, we also think the four pillars do not fully capture the licence conditions on DCC2 on sustainability and expected to see this incorporated in one of Ofgem's proposed measures.

We propose that DCC2's staff should be incentivised on a range of enabling measures, including some of the existing measures our staff have historically been held to account to deliver, such as our Security capability, Blended Positivity Score and Sustainability. Ofgem should consider a fifth pillar "Enabling Measures" covering these important elements, which contribute towards achievement of the other four pillars. This approach would be better than having to artificially create a link between, for example, DCC2's Blended Positivity Score and the availability of the network.

While we do not have a strong view of the appropriate weightings at this point, we believe the fifth "Enabling Measures" pillar is of equivalent importance to the other four.

4.3 Customer Satisfaction

DCC has been operating a new customer satisfaction survey for more than a year. We have presented the methodology and findings of our survey to Ofgem on several occasions. We therefore believe that the existing approach we have exceeds the requirements of the licence and is fit for inclusion in our Remuneration Policy.

We continue to have concerns that the relationship we have with REC parties is materially different to SEC parties meaning we cannot use the existing customer satisfaction survey. REC parties interact with DCC about incident management and related issues, rather than through a business-as-usual relationship. This makes the nature of our engagement much more infrequent and targeted at resolving problems. If the requirement to be incentivised through a customer satisfaction survey for REC parties remains, it would need to be designed differently to the SEC party version and would be subject to more variability due to the smaller sample size and nature of the contact.

4.4 System Performance

DCC has worked with Ofgem and customers over several years to create a reporting regime for the performance of our system. A transitional Operational Performance Regime (OPR) has been in effect since 2023/24, which has resulted in some improvements to the granularity and coverage of our reporting. However, it has also resulted in compromises due to the tension between what customers perceive as the service DCC was providing and the contracted measures DCC (and therefore our customers) pay our service providers to deliver. This tension is borne out of customers' expectations not matching what DCC could deliver under its existing contracts without incurring significant extra costs.

While we recognise customers' desire for DCC to be held to account for the service they receive, we cannot be held to account for factors that are materially beyond our control – that is not an incentive regime, that is a penalty regime. This would go against Ofgem's own policy in other sectors it regulates.

However, we have recently undertaken a significant amount of work to develop a more customer-centric set of measures covering availability, reliability, install and commission and non-communicating comms hubs. We have taken much of our thinking through SEC governance already via Ops Group and are engaging other stakeholders, including DESNZ as appropriate.

4.5 Business Plan Quality

Ofgem is proposing that DCC2 is held to account for the quality and credibility of its ex-ante Price Control Business Plan. Ofgem expects this measure to only apply in the Regulatory Year that a Business Plan is submitted, meaning it will only apply one in every three years. The first year it will apply is RY27/28, which makes timing a challenge as we would be required to submit the draft Remuneration Policy covering this element around nine months before the ex-ante business plan is due to be submitted to Ofgem. For the incentive to be effective, we would need Ofgem to issue its Business Plan Guidance well in advance of the business plan being submitted and before DCC2's Remco makes its decision on the Business Plan Quality measure.

Putting the issue of timing aside and focussing on the substance, we understand that Ofgem intends to refresh the Business Plan guidance to reflect lessons from the first ex ante business planning cycle and consult on proposed changes. Given this will form the basis for the assessment of the Business Plan it is important the refresh achieves three objectives:

- The Business Plan Guidance must establish a clear framework for what Ofgem constitutes a good business plan should include. This framework should thereafter be the basis on which the quality of DCC2's Business Plan is assessed by both the Customer Challenge Group (CCG) and Ofgem.

- It should clearly set out how Ofgem intends to evaluate the quality of the Business Plan. In the RIIO-3 price control, Ofgem set out a clear description of the Business Plan Incentive regime it intended to apply in assessing the quality of the business plan. [2] DCC believes this is a best practice approach which should also be applied in the revised Business Plan Guidance for DCC2.

[2] RIIO-3 Business Plan Guidance pages 71-86

- It must be published sufficiently before DCC2 has to submit its Draft Business Plan to the CCG to enable DCC2 to reflect proposed changes in the preparation of the business plan.

Establishing a clear framework for what a good business plan constitutes is vital. In the first ex ante business planning cycle, there was a divergence between what the CCG considered to be a good business plan (which was only revealed to DCC when its report was published after DCC's Business Plan was submitted) and what Ofgem expected to see included. The CCG's focus was far more on an overarching strategic narrative whereas Ofgem was looking for detailed justification of costs presented in the RIGS data template. There must be a single, coherent framework for assessing the quality of the Business Plan and DCC would encourage Ofgem to work with the CCG to agree this. For clarity, our expectation is that the only basis that the Business Plan should be assessed against is the requirements of the Business Plan Guidance.

We do not believe DCC should determine how this evaluation framework operates, in the same way network companies do not set the assessment framework for the RIIO price controls as it would present a clear conflict. DCC would encourage Ofgem to draw on the experience of the RIIO-3 price control where Ofgem provides a clear evaluation framework through the Business Plan Incentive methodology as part of the Business Plan Guidance. While this operates as a financial incentive in a for-profit sector, many of the attributes of that methodology could be applied to DCC in a not-for-profit sector.

In developing the evaluation framework, DCC believes it is important that there is a single scoring regime that is owned by Ofgem with input from the CCG. In the first ex ante business planning cycle, the CCG scored DCC's Business Plan and then Ofgem issued its Draft Determination. It was not clear what the relationship was between these two outputs and how the former informed the assessment in the latter. There must be a single assessment that can feed into DCC's Remuneration Policy, which should result in a quantitative assessment that removes the need for qualitative interpretation when it comes to making decisions on remuneration.

The timing of guidance is important because late publication makes it extremely challenging for DCC to prepare a high-quality business plan. In the first ex-ante planning cycle, the ex-ante framework (the way Ofgem intends the price control to operate and the period covered by the price control) was only published 16 weeks before the Draft Business Plan was required to be submitted, with the subsequent Business Plan Guidance published less than seven weeks before the Draft Business Plan deadline. DCC must have clarity on the requirements of the Business Plan and how it will be assessed in sufficient time for it to reflect them in its preparation and decision-making on the Draft Business Plan.

Our preference is that Ofgem establishes a clear assessment framework, agreed with the CCG and DCC, that would form the basis for a Business Plan Quality score that would be published as part of Ofgem's Draft and Final Determinations. This would then need to be reflected in DCC's approach to remuneration. Assuming such an approach could be agreed, the Business Plan Quality (BPQ) element of the Remuneration Policy would work by taking the BPQ score and feeding into a scaled remuneration model. For instance, if the BPQ element accounted for 20% of the total of the remuneration policy and Ofgem scored the business plan as 80 out of 100 this would mean 16% of the maximum 20% possible would be achieved. If Ofgem scored the business plan as 40 out of 100 it would mean 8% of the maximum 20% would be achieved. Applying this approach would remove the need for judgement to be applied by the DCC2 Remco in determining the quality of the Business Plan.

One issue that requires clarification is the status of the BPQ in the years where no business plan is submitted. We expect Ofgem will want DCC2 to reflect the BPQ measure for the duration of the second ex ante period (Apr 28 to Mar 31). This means that once the measure is set it will last for three years. Given this, we propose that the BPQ measure has a lower weighting as it has three times the power of the other measures which will be re-set by the DCC2 Remco every year.

Regarding the specific requirements Ofgem sets out in paragraph 2.24, we note the following:

- It would be helpful for Ofgem to clarify what it means by 'independent assurance'. In the first business plan cycle, assurance activity was undertaken by teams other than those who prepared the forecast, but we did not use external assurance to validate cost forecasts. If Ofgem's expectation is that DCC should bring in external parties to provide 'independent assurance' it would be helpful for this to be clear.
- Ofgem refers to the need to reflect material concerns from the CCG regarding 'cost, deliverability or value for money'. In the first planning cycle, DCC did not raise specific concerns about costs. It did however raise some concerns about value for money, though these concerns were not substantiated by evidence. If the CCG report is to hold such weighting in the assessment of the business plan, DCC believes that such concerns are substantiated by analysis. It is important that the remuneration of staff is not negatively impacted by assertions which are not underpinned by evidence.

DCC would be willing to support Ofgem in the development of the business plan evaluation framework ahead of the proposed consultation on the Business Plan Guidance for the second ex ante business plan.

4.6 Business Plan Delivery

Delivering the business plan in an economic and efficient manner is of paramount importance to DCC2. We recognise the importance of financial accuracy and delivering our commitments on time and to budget. Ofgem's guidance reinforces this by stating that DCC2 should be incentivised to go beyond simple budgetary outcomes.

However, while we agree with this, we also need to ensure that any measure we are held to account to deliver is within our control. Where milestones or costs are change controlled for good reason, DCC2's obligations should be re-baselined to reflect this to avoid us being unfairly penalised.

Tracking business plan performance will need to cover three key areas:

- Cost versus plan
- Meeting commitments (milestones)
- Service performance (this will merely report CSAT and System Performance as per Pillars 1 and 2.)

The principle of basing the performance assessment on Ofgem's assessment (as per para 2.34) would introduce some objectivity to scoring. However, Ofgem's assessment (i.e. its annual report) will be too late. Ofgem's annual report will be based on the end of year RIGS and DCC report which will be submitted on 31 July, so it is unlikely to be published until the autumn meaning bonuses would not be issued until the end of the calendar year. This timing does not work for DCC's employees who have an expectation to receive their bonus payments shortly after the end of the financial year (historically either May or June).

The other challenge is arriving at a balanced assessment. There will be lots of trade-offs as we perform well in certain areas and less well in others. Bringing this all together in a coherent way will be challenging. If it is left to DCC to i) set the evaluation criteria and ii) to complete the assessment, we are likely to face accusations of marking our own homework.

4.7 Linkage with OPR

The Remuneration Policy guidance requires DCC2 to continue to report on Operational Performance Regime measures. However, it requires DCC2 to have consulted with SEC Parties and REC Parties on which ones to use for reporting purposes by the First Transfer Date, 2 November 2026. This creates two problems. First, that is an extremely short period of time to develop, test and baseline any new measures, which could cause DCC2 to need to change them relatively soon after first reporting on them. This would create confusion among customers.

Second, because the licence requires DCC2 to use the same System Performance measures for OPR and the Remuneration Policy, we will need to have developed the system performance measures for the Remuneration Policy several months before Ofgem has given its decision on the policy. We may find we run these measures for two months before Ofgem determines they should not be used, which would not be an efficient use of DCC2 resources. It would be better if the date for reporting was 1 April 2027 to align with the application of the new Remuneration Policy.

We were expecting there to be new OPR guidance from the 2 November 26, but it appears Ofgem is not planning to issue any. Given this, it would be helpful if Ofgem were to withdraw the current guidance from 2 November 2026 to avoid any confusion on what rules apply from the Transfer Date. Alternatively, Ofgem could issue new guidance and clarify, for example, that the reporting of the new System Performance measures should be from 1 April 2027.

5 Remuneration Policy Document

To avoid risking increasing attrition, we want to minimise changes to the existing bonus regime. We therefore intend for all aspects of the existing arrangements to stay the same with the exception of the Team Objectives element of the existing discretionary bonus arrangements. This will help ensure a smooth transition from Smart DCC Ltd to DCC2.

We consider that Ofgem's requirements can be met while preserving this key principle of minimal change. We are concerned, however, that Ofgem wants to introduce a wide range of obligations into the Remuneration Policy that will fundamentally alter its current form. This detail does not belong in a Remuneration Policy that should be easy to engage with and be clear and simple for those using it – principally DCC2's staff.

We are asking Ofgem to reconsider the amount of detail and number of obligations it proposes the Remuneration Policy to cover. To illustrate one of the more extensive requirements, paragraph 2.21 requires the policy to "reflect how well the Business Plan and Price Control Information meet the requirements of the Licence and associated Guidance, including the Business Plan Guidance issued under Condition 22 Part C and the Regulatory Instructions and Guidance (RIGs) issued under Condition 23 Part B." This obligation could extend to dozens of pages and is not suitable for inclusion in a Remuneration Policy. There are many similar requirements that constitute a significant regulatory burden and are unnecessary. We have summarised these in Appendix 2 and would welcome the opportunity to discuss Ofgem's expectations in these areas.

Taking the example of the National Energy System Operator (NESO), Ofgem has allowed it to develop and apply a high level, principles-based Remuneration Policy. Allowing DCC2 to develop and apply a similar policy would be a significant improvement compared with the current proposals. There is no compelling reason why DCC2 should be subject to materially different obligations given we are a similar not for profit network company.

If Ofgem wants DCC2 to maintain a detailed methodology for the measures it has chosen, we would suggest that this belongs in a separate document.

6 Future Development

The licence specifies that once approved, DCC2 must review the Remuneration Policy within one year and propose any changes to Ofgem for approval. We will not include the detailed methodology for how the measures are calculated within the Remuneration Policy as this would mean that any minor change to methodology would trigger a requirement to submit to Ofgem for approval.

The guidance also specifies that the Remuneration Policy should stipulate when it will next be reviewed. There are no provisions about what then happens following this review by DCC2. We would expect DCC2's Remco and Board to have discretion over most changes, and the Authority would only expect to be consulted on major changes. In practice, DCC reviews and amends its Team Objectives annually to ensure they are challenging and relevant. If any changes to the Remuneration Policy were needed, it would make sense for this to happen as part of the review process.

Appendix 1 – DCC's response to Ofgem's Consultation Questions

Q1. Do you agree with our proposed objectives and design principles for the Remuneration Policy Guidance? Please explain your answer.

The objectives are entirely outcome-focussed and ignore key enablers necessary to deliver these outcomes for customers. For example, it does not include incentives for DCC to deliver a positive and rewarding workplace. This is a key shortfall in the guidance.

Q2. Do you agree with our proposed interpretation of the term "Senior Manager", including the treatment of programme delivery leadership roles? If not, what alternative approach should we adopt?

We do not see a need to distinguish between Senior Managers and other DCC staff and we will not be applying our Team Objectives differently based on grade or seniority. We will ensure that personal objectives appropriately incentivise our staff to deliver key outcomes for their roles.

Q3. Do you consider that the Remuneration Policy should allow additional performance measures beyond the four pillar framework? If so, under what circumstances?

Yes, there is a clear need for DCC2 to go beyond pure outcome-based measures and incentivise the enablers of these outcomes.

Q4. Do you agree with the proposed role of Customer Satisfaction, System Performance, Business Plan quality and Business Plan delivery within that framework?

As a set of outcomes, these cover most of the important areas we would incentivise, but there is a notable absence of sustainability and security-related measures, as well as other enabling measures.

Q5. Do you agree that the guidance should allow the Licensee flexibility in determining the weightings applied across the four pillars, subject to appropriate justification? In particular, do you have views on how weighting should be treated in years where Pillar 3 (Business Plan assessment) is not reassessed (for example, whether its weighting should be reallocated to another pillar specifically or distributed across the remaining pillars)?

Yes DCC2 should have flexibility over the weightings across the four pillars, and in particular, the weightings of individual measures within those pillars. Where measures are more variable or are new and their performance untested, it would make sense for these to have lower weightings to avoid creating unnecessary risk.

As a general principle, however, we agree that wherever possible, weightings should reflect the importance of the measures to our customers and stakeholders.

Q6. What are your views on a balance between organisational and individual performance in determining remuneration outcomes?

Our priority for the new Remuneration Policy is to minimise unnecessary changes, not least because of the potential impact it could have on staff retention. As our current policy makes provision for both organisational and individual performance outcomes, we do not believe there should be any change.

Q7. Are there any aspects of the process that could create unintended behaviours or reduce confidence in outcomes?

The guidance would require the Remuneration Policy to be a detailed methodology document with a wide array of obligations contained within it. This is not necessary and ill-suited to a Remuneration Policy that needs to be published on DCC's website. Without change, the guidance imposes a significant regulatory burden on DCC2 without any benefit.

Q8. Do you consider that the draft Guidance is sufficiently clear and unambiguous in supporting the intended policy outcomes?

Ofgem's proposed measures are all outcomes based. We believe there must be space for enabling measures to ensure that DCC2 is able to incentivise not just what we have achieved (outcomes) but how we have achieved it (enablers). Without both, the intended policy outcomes will not be met effectively.

Appendix 2 – Summary of Obligations in the Remuneration Policy Guidance

Governance and Maintenance of the Remuneration Policy

- The Licensee should review the Policy at least annually.
- The Licensee should submit any updated version of the Policy to Ofgem for approval.

Scope and Identification of Senior Managers

- The Policy should identify how the Licence definition of "Senior Manager" is applied in practice.
- The Policy should include roles with clear accountability for delivery performance, not necessarily only executive roles.
- The Policy should include programme or service delivery leads where they are accountable for a Service Family or substantial programme.
- The Policy should explain how the Licensee determines whether a programme is substantial.
- The Policy should explain how objectives for programme and service leaders are linked to the delivery outcomes for which they are accountable.
- Each Service Family identified in the RIGs should have at least one Senior Manager within scope of the Remuneration Policy who is accountable for delivery.

Linking Remuneration to Performance

- The Policy should explain how remuneration is linked to performance in practice.
- The Policy should set out the evidence used to assess performance.
- The Policy should explain how evidence informs remuneration outcomes.
- The Policy should distinguish between organisational performance and matters an individual Senior Manager can influence.
- The Policy should explain the intended balance between fixed and variable remuneration and why that balance supports the regime's objectives.
- The Policy should explain how individual objectives are set.
- The Policy should explain how individual objectives are combined with broader organisational measures.

Long-Term Delivery and Safeguards

- The Policy should include safeguards to ensure remuneration reflects sustainable performance.
- The Policy should explain what safeguards apply.

- The Policy should explain how moderation and discretion are governed.
- Where material variable remuneration is used, the Policy should state whether deferral, downward adjustment, forfeiture or clawback arrangements apply and in what circumstances.
- The Policy should be clear at the start of each assessment year about evidence sources, assessment methods, and circumstances that would or would not trigger discretion.

Four-Pillar Performance Framework

Pillar 1 – Customer Satisfaction

- The Policy should explain how Customer Satisfaction Survey results are used.
- The Policy should explain how survey robustness and comparability over time are assured.
- The Policy should explain how assessment avoids rewarding short-term actions that improve survey scores without improving service.
- If survey results are claimed to be affected by factors outside management control, the Policy should explain the evidential requirements and how discretion may be applied.
- The Policy should demonstrate how customer satisfaction evidence links to delivery expectations.
- The Policy should explain how results are segmented across relevant customer groups.
- The Policy should explain how assessment considers both absolute satisfaction levels and trends over time.

Pillar 2 – System Performance

- The Remuneration Committee should assess the delivery of secure, reliable and resilient services.
- The Policy should explain how KPIs are selected.
- The Policy should explain compliance with Licence Condition 21 requirements.
- The Policy should demonstrate how KPIs reflect user experience.
- The Policy should explain how system performance is assessed on a graduated basis.
- The Policy should explain how performance is assessed across the reporting period in a way that supports resilience and avoids perverse incentives.

Pillar 3 – Business Plan Quality

- The Policy should assess this pillar primarily by reference to Ofgem's assessment of the Business Plan and Price Control Information.
- The Policy should explain how Ofgem's views on Business Plan quality, credibility or compliance are taken into account in remuneration assessments.
- The Policy should reflect Customer Challenge Group and stakeholder feedback.

- The Policy should explain how customer engagement and challenge evidence is reflected in assessment.
- The Policy should explain how the Customer Challenge Group report on the final Business Plan is taken into account.

Pillar 4 – Business Plan Delivery

- The Remuneration Committee should assess delivery against Business Plan commitments, including management of the approved cost envelope.
- The Policy should explain how delivery performance is assessed and how different types of variance from the approved plan are distinguished.
- The evidence base should, wherever possible, be derived from licence-based reporting, particularly LC25 reporting, supplemented where appropriate by LC21 Part C evidence.
- Where over-performance is rewarded, the Policy should explain whether efficiencies have been translated into sustainable reductions in future cost baselines.
- Where Ofgem publishes an assessment of cost envelope, cashflow or recovered revenue management, the Remuneration Committee must use that assessment exclusively to determine performance and remuneration under this pillar.
- Where no Ofgem assessment is published, the Policy should explain the evidence the Committee will use to assess delivery against the approved Business Plan and Required Revenue.

Assessment Methodology

- The Policy should explain how each pillar is assessed.
- The Policy should explain what evidence is used.
- The Policy should explain how judgement is applied.
- The Policy should explain how KPI evolution over time is handled.
- The Policy should explain how it avoids incentives to optimise for a narrow subset of indicators.
- The Policy should explain how performance is assessed over the reporting period rather than only at year-end.
- The Policy should clearly set out weightings for the four pillars.
- The Policy should explain why those weightings are appropriate.
- The Policy should ensure that no measure is merely nominal.
- The Policy should address explicitly how Pillar 3 weighting is treated in years when it is not reassessed.
- Where alternative weightings or additional measures are used, the Policy should explain how they remain aligned to the four-pillar framework.

- The Policy should avoid distortions and over-reliance on a narrow evidence base.
- The Policy should demonstrate that organisational measures are genuinely collective in nature.
- The Policy should demonstrate that individual measures align with areas of direct accountability and influence.
- The Policy should demonstrate that the overall balance does not disproportionately reward or penalise individuals for outcomes outside their control.
- The Policy should explain the rationale for the chosen organisational/individual performance balance.
- The chosen balance should be evidenced and applied consistently over time.

Annual Reporting

- The Remuneration Committee should write to Ofgem explaining how the Policy has been applied in practice.
- The annual report should confirm the Senior Manager roles within scope.
- The annual report should include performance outcomes against each measure and the evidence used.
- The annual report should explain how any discretion was applied.
- The annual report should include a summary of pay outcomes that protects personal data.
- The annual report should describe any material changes to benchmarking or pay structures.