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By email only

DCC2 FEEDBACK ON OFGEM'S DCC REMUNERATION POLICY GUIDANCE

Dear Ayena,

Thank you for the opportunity to provide DCC2's feedback on Ofgem's DCC Remuneration Policy Guidance.

It was useful to discuss this with you last month, alongside DCC colleagues, and our response (set out by subject-matter below) builds on this meeting, as well as our bilateral engagement with the existing DCC team as they develop the draft policy.

<u>Ofgem's Strategic Approach</u>

We support Ofgem's move towards an outcomes-based approach to regulation, which focuses on the results delivered for consumers, customers and the wider energy system. We agree that the focus for DCC2 should be on delivery, performance, value for money, customer experience and accountability for outcomes. We welcome Ofgem's intent to work with us to develop a practical, proportionate and evidence-based approach.

Design Principles and leading indicators

We agree that the 4 pillars that Ofgem sets out as its design principles (Customer Satisfaction; System Performance; the Quality of Business Plan and Price Control information; and the delivery of the Business Plan) are important and will provide a solid foundation on which to base our approach to remuneration. However, we consider that there will be some metrics which are important to measure and incentivise that do not fit easily into these pillars but believe that they should not be discounted purely on this basis.

In addition, we believe that what we measure and judge performance against should not be solely limited to lagging indicators (i.e. those which report on something that has already happened) but should also include leading indicators (which can provide management with an early view on the effectiveness of key interventions). This will allow DCC management to focus on inputs that drive the necessary outputs but which often have a time lag. The most obvious of these is colleague engagement, which is proven in academic studies to drive efficiency, safety and customer satisfaction.

We would therefore suggest a 5th, enabling pillar to support these design principles.

DCC Objective setting and customer feedback

The DCC team has shared with us its proposed Team Objectives for the forthcoming Regulatory Year (27/28). These look well put-together, with a focus on putting consumers and DCC's customers first (e.g. metrics for programme delivery and service reliability), driving cost efficiency (e.g. financial performance and tangible initiatives), and the underpinning core-enablers for these (e.g. security controls).

We consider that they are reflective of the views of industry (gathered through the DCC2 Board Advisory Forum), fed back to both DCC and Ofgem. These views include the removal of incentives for Capita, more emphasis on programme delivery, and a review of how the customer satisfaction data is gathered to ensure it reflects the views of key and informed users. DCC's Chief People Officer and HR function have relevant experience in designing and operating remuneration schemes based on objectives such as these.

Ensuring a smooth transition and enduring Board oversight

Relying on DCC expertise will be especially important through this transitional period, as the enduring DCC2 Board is appointed and mobilises. Continuity around the structure of renumeration including the bonus scheme is key during this period and should provide stability for DCC staff. This will simplify the TUPE process and help to mitigate the risk of staff churn. It is vitally important that key resources are retained during this important period.

Given the TUPE risk and the fact that the enduring DCC2 Board is still being mobilised, we would recommend that structural changes to the bonus arrangements are minimised at this time. Any significant changes should be decision for the future Remuneration Committee when it convenes post November 2026.

As part of the DCC2 bid, we consulted with third party consultancies to provide us with expert insight into the current DCC remuneration arrangements. Their feedback was that they are reflective of best practice, which provides us with confidence that a more incremental approach to changing remuneration policy is appropriate during the transition.

Staff Objectives

Whilst we broadly support the notion of ensuring that senior leadership's objectives should be skewed towards organisational measures (versus personal) as part of any variable pay, we note that DCC's existing personal objectives for Senior Leaders are already highly aligned with corporate targets and delivery. This means that the outcome – senior leaders being heavily incentivised to deliver corporate success – is the same. We expect this alignment to continue to form the core of senior leader performance irrespective of whether objectives are classified as organisational or personal. We support the inclusion of programme leadership within corporate focussed targets and note that DCC's proposed team objectives include metrics for programme delivery.

Finally, we also support the position that staff objectives for both senior leadership and more junior staff should include an element of organisational delivery, and where applicable this should be linked to variable pay. We consider that this drives performance for more junior staff who contribute so much towards DCC's successes.

I trust this feedback is useful as you finalise your guidance. If you have any queries or would like to discuss further, please reach out to the DCC2 team via alina.bakhareva@seccoltd.com

Yours sincerely,

Colin Sempill

Interim DCC2 Chair