Guidance

Data Communications Company (DCC) Remuneration Policy

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Executive summary

People, capability and performance will be central to a successful DCC transition and realising its longer-term potential in delivering critical system services. Delivering the right outcomes will depend not only on effective systems, planning and governance but also on having the right incentives for those leading delivery. This includes ensuring that staff renumeration supports accountability, reflects performance fairly and encourages strong organisational and individual performance.

This document provides guidance to DCC, as the Licensee, on the preparation and operation of Remuneration Policy for Senior Managers under Condition 20 of the Smart Meter Communication Licence.[1] This Guidance applies specifically to Senior Managers for the purposes of Condition 20 and applies to relevant discretionary remuneration arrangements. It does not prescribe DCC's wider reward framework, including the design of fixed pay, pensions or other contractual benefits. The Licensee may choose to apply similar principles more broadly across its wider workforce. Under the Licence, DCC must have a policy that explains how Senior Manager remuneration is linked to Operational Performance and is prepared in accordance with any guidance issued by Ofgem.

The purpose of this guidance is to support a clear, fair and evidence-based link between Senior Manager pay and the performance of the organisation in delivering secure, reliable and cost-effective services, while considering individual performance against individual objectives.

Ofgem's expectation is that remuneration should support delivery of the DCC's statutory and Licence duties by reinforcing accountability for the outcomes Senior Managers are responsible for influencing. That means linking pay decisions to performance evidence in a way that is fair, transparent and focused on delivery of secure, reliable and cost-effective services.

This is not simply about rewarding near-term delivery. The Remuneration Policy should also support value for money, encourage sustainable long-term decision making, and ensure remuneration decisions can be clearly explained and justified. In practice, this means balancing organisational performance with individual contribution and ensuring that reward arrangements support the behaviours and outcomes the wider regulatory framework is designed to promote.

In developing this guidance, we have taken account of the wider framework for *ex-ante* cost control and business planning, including the role of customer challenge and scrutiny. The remuneration approach is intended to reinforce that framework, not cut across it. It should support credible upfront business planning, meaningful challenge

[1] Ofgem (2026), Smart Meter Communication Licence. Accessible at: www.ofgem.gov.uk/consultation/draft-new-smart-meter-communication-licence

and scrutiny, efficient delivery within an approved cost envelope, and transparent accountability for both performance and pay outcomes.

DCC must submit its Remuneration Policy to Ofgem within 6 months of the Licence Commencement Date (14 April 2026), unless directed otherwise. Ofgem will then assess the Policy and may approve it, request further information or direct modifications to the Policy. Once approved, the policy must be published, and DCC must act in accordance with it.

This Guidance sets out an initial framework for the period from 1 April 2027 to 31 March 2028. It is intended to provide a practical starting point for the first year of operation, recognising that the underlying performance framework will continue to develop and mature over time. We expect experience from this first period to provide important insight into how well the framework works in practice.

During this period, we will continue to engage with DCC and review the effectiveness of the framework, including the suitability of the performance measures used and the extent to which remuneration outcomes align with value for money. This review will be informed by experience from the first Price Control Period, as well as continued engagement with industry stakeholders. The intention is that this learning will inform decisions on the approach to remuneration policy from April 2028 onwards, including whether and how the framework should evolve into a more enduring model.

1. Framework and design principles

1.1 Purpose, scope and legal basis

Purpose of this document

1.1 This guidance sets out Ofgem's expectations for how the Licensee should structure, evidence and apply its Remuneration Policy for Senior Managers. It is issued under Part C of Condition 20 of the SMCL, which allows Ofgem to provide guidance on the format of the Remuneration Policy matters to be considered when determining Senior Manager remuneration (including the meaning of "Senior Manager") and any other information relevant to the preparation of a Remuneration Policy.

Remuneration Policy objectives

1.2 The Remuneration Policy should be designed to support the Licensee in carrying out its Authorised Business in a manner that is most likely to achieve the ongoing development, operation, and maintenance of an efficient, economical, co-ordinated, and secure system for the provision of Mandatory Business Services under the Smart Energy Code and, where relevant, the Retail Energy Code, having regard to the impact on consumers.

1.3 Senior Manager Remuneration Policy therefore compliments and supports this by:

1. Strengthening accountability for delivery by linking pay outcomes to performance evidence in areas where there is the potential for Senior Managers to exert influence.
2. Reinforcing consumer value by keeping attention on efficient, economical delivery and prudent cost management in a regime based on forecast costs and an approved cost envelope.
3. Supporting long-term outcomes by preventing undue focus on short-term performance that undermines long-term efficiency, resilience, security, or sustainable service improvement.
4. Being transparent and auditable so that Ofgem, DCC staff and other stakeholders can understand how decisions were reached and whether discretion was applied appropriately.

1.4 Transparency and public reporting are important because they allow Ofgem, DCC staff and wider stakeholders to understand how performance evidence has informed remuneration decisions. That external scrutiny can strengthen accountability and, in turn, create reputational incentives to ensure pay outcomes are justified.

1.5 The Policy should explain what information will be published and how this will support external scrutiny. As a minimum, this should include the approved Policy and a summary of how remuneration decisions were reached, including the principal evidence sources relied on, in a form that protects personal data.

1.6 We expect the Policy to complement the relationship between reputational incentives as set out in our Governance decision[2] and the development of financial incentives for Senior Managers.

DCC's obligations in relation to the remuneration policy

1.7 Condition 20 of the Licence requires the Licensee's draft Remuneration Policy to include a description of how Senior Manager remuneration is linked to Operational Performance and to be prepared in accordance with any Remuneration Policy Guidance.

1.8 Operational Performance is defined (for Condition 20) as the results of the System Performance Report and the Customer Satisfaction Survey, and any other matter specified in guidance issued by the Authority.

1.9 The Licensee must submit a Remuneration Policy to the Authority by 14th October 2026, unless the Authority has extended that deadline. Once a Remuneration Policy has been submitted, the Authority will respond within 60 days of submission and may approve, direct modifications, or request further information. Once approved, the Policy must be published by the Licensee, and the Licensee must act in accordance with it.

1.10 For the purposes of this Guidance, Operational Performance is supplemented by additional matters specified by the Authority, including the assessment of Business Plan quality and delivery, to ensure that remuneration reflects the full range of outcomes under the DCC regulatory framework.

Ongoing governance arrangements

1.11 This guidance takes effect from publication and may be revised by the Authority from time to time.

1.12 The Licensee is required to review its Remuneration Policy within 12 months beginning with the day on which the Remuneration Policy is approved. Where revisions are made, the Licensee must submit the updated policy to the Authority for re-approval.

1.13 Where the Authority has updated this guidance, the Licensee must consider whether any changes to its Remuneration Policy are required. Where the Licensee concludes that no changes are necessary, it should be able to explain and evidence this position to the Authority upon request.

[2] Ofgem (2026), DCC Review Phase 2: Governance arrangements - conclusions. Accessible at: www.ofgem.gov.uk/decision/dcc-review-phase-2-governance-arrangements-conclusions

1.14 The Authority may, in accordance with its powers under the Licence, approve any updated Remuneration Policy, request further information or direct the Licensee to make modifications where, in the Authority's view, and having regard to the broader context in which DCC operates, modifications are appropriate. Any direction issued that requires modifications to the Policy may be specific in the requirements (e.g. "include X at Y") or this may be left to the discretion of the Licensee.

1.15 Where Ofgem has issued a direction to modify the policy, this direction will provide a date for compliance and the Policy must be resubmitted to the Authority for approval.

1.16 The Remuneration Policy should be written so that it remains workable when supporting documents evolve (for example, when further performance guidance is issued), without needing constant iterative redesign.

1.17 The Remuneration Policy should include a date or timetable for when the Licensee will next review the document.

Definition of a Senior Manager

1.18 The Remuneration Policy must apply to "Senior Managers" as defined in the Licence. This guidance also sets expectations for how the Licensee should apply that definition in practice, including to programme delivery leadership roles.

Definition of Senior Manager in the Licence

1.19 For the purposes of Condition 20, Senior Manager means a person:

a) in a position of Significant Managerial Responsibility or Influence, or
b) who plays a significant role in making decisions about how the whole or a substantial part of a programme is delivered, and as may be further specified within the Remuneration Policy Guidance.

1.20 Significant Managerial Responsibility or Influence means where a person plays a role in:

a) making decisions about how the whole or a substantial part of the Licensee's activities are to be managed or organised, or
b) the actual managing or organising of the whole or a substantial part of those activities.

1.21 DCC is responsible for identifying the roles that fall within the definition and must explain its approach in the Remuneration Policy. As a minimum, the scope must include all members of the Licensee's Executive Committee and at least one

Senior Manager for each Service Family (as defined in the RIGs[3]) with responsibility for its budget and delivery, including, where and as appropriate, Business Plan outcomes. Depending on the Service Family, this may include responsibility for managing existing contracts and business-as-usual operations, delivering and implementing change, and meeting relevant performance targets.

Guidance on programme delivery leaders

1.22 Ofgem expects the Remuneration Policy to apply to programme delivery leadership roles where those roles materially shape delivery outcomes, particularly where the programme represents a substantial part of the Licensee's activities or risk profile.

1.23 In practice, the Licensee should set out (in plain terms) how it determines whether a programme is "substantial" and how it identifies the roles that "play a significant role" in programme delivery decisions.

1.24 The Policy should also explain how the Licensee treats individuals who hold programme delivery authority without being appointed or acting as Executive Directors (for example, where delivery responsibility is delegated but decision-making remains material).

1.2 Linking performance to remuneration

Demonstrable link between individual and organisational performance and remuneration

1.25 The Policy should go further than a generic statement that describes how Senior Manager remuneration is linked to Operational Performance. It should set out the mechanism that translates performance evidence into pay outcomes and explain how the Policy distinguishes between:

- organisational performance (what the Licensee delivered), and
- individual contribution (what the Senior Manager was accountable for influencing).

1.26 The Policy should explain how different levels of performance (e.g. delivery above, in line with, or below expectations) translate into differentiated remuneration outcomes.

1.27 Where a Senior Manager's objectives are largely programme-based, the Policy should show how programme delivery accountability is reflected in the

[3] Ofgem (2025), Data Communications Company (DCC): Regulatory Instructions and Guidance 2025. Accessible at: www.ofgem.gov.uk/guidance/data-communications-company-dcc-regulatory-instructions-and-guidance-2025

assessment model in a way consistent with the Licence definition of Senior Manager and as amplified by this Guidance.

1.28 The Policy should set out the intended balance between fixed pay and variable pay and explain how that balance supports the objectives of the regime.

1.29 Where the Licensee proposes to include additional performance measures beyond those set out in this Guidance, the Policy should explain how those measures support or complement the delivery of the core performance pillars and do not dilute the focus on value for money, customer outcomes and efficient delivery.

1.30 In determining discretionary remuneration arrangements, DCC should demonstrate that the resulting remuneration outcomes provide value for money for consumers.

2. Senior Manager performance assessment

Assessment criteria

2.1 The ex-ante price control framework emphasises upfront business planning, stronger customer challenge, and efficient delivery within an approved cost envelope. The Remuneration Policy should reinforce those behaviours by assessing Senior Managers against a targeted set of clearly defined measures, supported by published performance outputs as required under the Licence.

2.2 Consistent with the wider framework, the assessment criteria should be structured around the following four pillars which must form the foundation of performance assessment:

1. Customer Satisfaction
2. System Performance
3. Quality of Business Plan and Price Control Information
4. Business Plan delivery

2.3 Performance measures should focus on the outcomes intended by the four pillars. Additional measures, for example relating to enabling or corporate activities, may be included within a pillar where the Licensee demonstrates that they contribute to the outcomes intended by that pillar.

Relationship between Remuneration and Operational Performance

2.4 The Licence, under LC20.5(a)(i) requires the Remuneration Policy to contain a description of how Remuneration is linked to Operational Performance. Historically, the Operational Performance Regime (OPR) has relied on:

- **System Performance** metrics by way of a subset of performance measures reported under the Smart Energy Code (SEC) framework[4], selected to focus on matters that are within the Licensee's control.
- **Customer Engagement** metrics, by way of measures capturing the quality and effectiveness of the Licensee's engagement with its users, including the extent to which feedback is sought, appropriately considered and reflected in decision making and service development.
- **Contract Management** metrics, by way of measures reflecting the Licensee's effectiveness in managing its contractual arrangements, including with service providers and delivery partners, with a focus on ensuring that contracts are operated in a manner that supports efficient delivery, maintains service quality and protects value for money for users.

[4] Section H13 of SEC: smartenergycodecompany.co.uk/documents/sec-sections/sec-section-h-dcc-services/

2.5 Condition 20 and 21 of the Licence define a new OPR regime that DCC must operate under as a combination of System Performance, Customer Satisfaction and any other matters specified in guidance provided by Ofgem.

2.6 This Guidance therefore sets out details on these 2 mandatory pillars and two others which must form part of Operational Performance for the purposes of the Remuneration Policy.

2.7 Where If the Licensee proposes to include measures relating to enabling or corporate activities, the Policy must identify the relevant pillar and explain how those measures demonstrably contribute to the outcomes intended by that pillar.

2.8 Summary of Operational Performance Pillars

Pillar	What is it	How is it measured
Pillar 1: Customer satisfaction	The quality of the Licensee's service as experienced by its users, including how effectively it meets customers' needs and expectations.	Results of the Customer Satisfaction Survey, including how the survey is designed, assured and applied within the Remuneration Policy.
Pillar 2: System Performance	The delivery of secure, reliable and resilient services, reflecting how effectively the DCC system performs in operation.	Performance against Key Performance Indicators selected under LC21 Part A and the published System Performance Report.
Pillar 3: Quality of Business Plan and Price Control Information	The quality, credibility and robustness of the Licensee's Business Plan and supporting information, including responsiveness to challenge and alignment with user's needs.	Ofgem's assessment of the Business Plan and associated submissions, including the extent to which the plan meets the Licence and Guidance requirements, demonstrates clear linkage between activities, costs and outcomes, and responds effectively to Government and Customer Challenge Group input.
Pillar 4: Business Plan delivery	The effectiveness of delivery against the approved Business Plan, including management of the cost envelope and focus on value for money and on timeliness and quality of	Assessment of delivery against the approved Business Plan and Required Revenue, including the quality of programme delivery for programmes of work in the Business Plan, including performance against time, cost,

	specific projects within the Business Plan.	quality and the management of risk, based on the Licensee's reporting of cost and delivery performance, taking into account Ofgem's assessment of delivery and value for money where available, informed by other input, such as the outcomes of regulatory audits, including the contract management and procurement audit under LC21 Part C.

Pillar 1: Customer satisfaction

2.9 Customer satisfaction should be assessed using the results of the Customer Satisfaction Survey, which forms part of Operational Performance for Condition 21 Part B.

2.10 The Policy should explain: (i) how the survey results are used, (ii) how the Licensee assures the survey is practically robust and the results comparable over time, and (iii) how the assessment avoids unduly rewarding short-term actions that may improve customer survey scores without genuinely improving the underlying service and at the expense of service reliability and security.

2.11 Where the Licensee considers that survey results have been materially affected by factors outside management control, the Policy should set out how this is evidenced and how (if at all) discretion is applied.

2.12 The Policy should ensure that customer satisfaction measures are anchored to defined delivery expectations and are capable of evidencing value for money rather than perception alone. In particular, the Policy should explain how:

- It takes account of results disaggregated by customer group (for example large suppliers, small suppliers, network operators and consumer representatives), and not solely presented as a composite score;
- Performance assessment considers both absolute satisfaction levels and trends over time, recognising that a declining trajectory may indicate deteriorating service even where thresholds continue to be met.

Pillar 2: System performance

2.13 System performance is assessed using the Licensee's reporting against its system performance targets (Key Performance Indicators) in a System Performance Report, under Condition 21 Part A.

2.14 Condition 21 requires the Licensee to choose system performance targets (KPIs) before a Reporting Period in accordance with any performance guidance issued by the Authority; where such guidance has not been issued, the Licensee must Consult SEC Parties and REC Parties before choosing KPIs.

2.15 The Policy should therefore set out how:

- In the absence of an OPR Guidance, KPIs have been selected in Consultation with SEC and REC parties per LC 21.3
- These KPIs reflect actual user experience of the System Performance, and specifically verified via Consultation with Users
- Performance is assessed over the assessment period (not only at year-end)
- Performance is assessed during periods of material operational change, including how service stability and resilience are maintained during such periods.

2.16 This Remuneration Policy Guidance is issued under the Authority's powers in Condition 20 of the SMCL. It does not seek to replicate a detailed OPR Guidance document or specify a technical KPI suite. However, where this guidance addresses matters relating to Operational Performance, it draws on the Authority's powers in LC21. It does however seek to set out the assurance principles the Remuneration Policy should follow so that remuneration outcomes remain transparently linked to published performance evidence, while preserving the ability for KPI selection and refinement to be developed through SEC/REC governance and consultation where appropriate.

2.17 Ofgem retains the discretion to issue further or more detailed OPR Guidance in future to specify mandatory KPIs.

2.18 The absence of such guidance places a requirement on the Licensee to select KPIs through the consultation process as required by the Licence.

Pillar 3: Quality of Business Plan and Price Control Information

2.19 Pillar 3 assesses the quality and credibility of the Licensee's Business Plan and Price Control Information submitted to Ofgem pursuant to Conditions 22 and 23.

2.20 This pillar applies in each year in which a new Business Plan is submitted under the Licence. For the avoidance of doubt, this is expected to include Regulatory Years 2027/28, 2030/31 and 2033/34.

2.21 The Policy should recognise that early engagement with Ofgem and transparent interaction with customers are important inputs to the quality of business planning and delivery. Where this leads to stronger and more deliverable plans, this should be reflected in performance assessment and in turn remuneration outcomes.

2.22 The Policy should reflect how well the Business Plan and Price Control Information meet the requirements of the Licence and associated Guidance, including the Business Plan Guidance[5] issued under Condition 22 Part C and the Regulatory Instructions and Guidance (RIGs)[6] issued under Condition 23 Part B.

2.23 The new regulatory model describes an ex-ante regime built on a costed Business Plan that provides the basis for upfront approval of costs. It also describes a Customer Challenge Group model intended to scrutinise the Plan and provide a written report to the Authority. The Policy should reflect this framework and the role of scrutiny and challenge in determining Business Plan quality.

2.24 Where Ofgem has provided a view on the quality, credibility or compliance of the Business Plan and associated submissions, the Remuneration Policy must take this view into account. In practice, this may include Ofgem's assessment of the submission against regulatory requirements, published as part of the Price Control process or otherwise communicated in writing to the Licensee.

2.25 In applying these criteria, the Policy should not rely solely on the quality of presentation or narrative. It should also reflect:

- Whether cost estimates for material programmes have been subject to independent assurance;
- Whether the plan identifies and quantifies efficiency improvements, rather than relying on baseline cost assumptions with inflationary uplift;
- The views of the Customer Challenge Group, including whether its independent report[7] raises material concerns regarding cost, deliverability or value for money.

2.26 The Policy should translate this evidence into a structured and graduated assessment of performance, rather than a binary pass/fail test, and should explain the basis on which different levels of performance lead to different remuneration outcomes.

Pillar 4: Business Plan delivery

2.27 This Pillar aims to ensure that the Licensee delivers its Business Plan, both business-as-usual and change activities, in a manner that is timely, economic and efficient and provides good value for money for consumers by appropriately linking these outcomes to Senior Manager remuneration. In doing so, the Policy

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[5] Ofgem (2025), Business Plan Guidance & Cost Control Processes and Procedures for Smart Meter Communication Licence holder v1. Accessible at: www.ofgem.gov.uk/sites/default/files/2025-05/Draft-Business-Plan-Guidance.pdf

[6] Ofgem (2025), Data Communications Company (DCC): Regulatory Instructions and Guidance - www.ofgem.gov.uk/sites/default/files/2025-06/DCC-RIGs-main-guidance.pdf

[7] Ofgem (2025), Customer Challenge Group ToR - https://www.ofgem.gov.uk/sites/default/files/2025-07/Customer-Challenge-Group-ToR.pdf

should recognise that the Licensee must strike a balance between pursuing cost efficiency and providing a high-quality service for customers.

2.28 The Policy should take account of delivery against the approved Business Plan and the expenditure against the approved cost envelope determined pursuant to Condition 24. Once Ofgem has determined the Licensee's Required Revenue under LC 24 Part A, the Licensee is expected to operate within the agreed cost envelope (Required Revenue), with defined approaches for managing overspends, under-delivery and uncertainty.

2.29 In applying this framework, the Policy should emphasise judgement and proportionality, recognising that variance from the approved plan is not inherently positive or negative and should be assessed in the context of delivery outcomes and value for money. The Policy should avoid incentivising rigid adherence to the approved plan where this is not consistent with the Remuneration Policy Objectives. The Policy should therefore explain how it:

- distinguishes between efficient variance (for example, renegotiated contract with suppliers, justified reprioritisation within envelope) and inefficient variance (poor cost control or inefficient deferral of expenditure);
- avoids rewarding inefficient under-delivery or an inefficient focus on short-term cost reduction at the expense of long-term value for money;
- recognises the role of uncertainty mechanisms and contingency without allowing them to become default headroom.

2.30 The Policy should emphasise judgement and proportionality, recognising that variance from the approved plan is not inherently positive or negative and should be assessed in the context of delivery outcomes and value for money.

2.31 Ofgem may publish an assessment of how the Licensee has managed its cost envelope, cashflow and Recovered Revenue, and the extent to which this reflects good value for money, and is efficient, economical and transparent.

2.32 The Policy should explain how the evidence sources as set out in the below table are used to support and inform the assessment, including how multiple sources may be combined where appropriate.

Assessment area	**Relevant evidence**
Distinguishes efficient vs. inefficient variance	• Financial performance End-of-Year reporting under LC 25.11 • Ofgem's assessment of any reopener application submitted pursuant to LC 24 Part D • Cashflow management reporting under LC 25.4

Avoids rewarding inefficient under-delivery	• Financial performance End-of-Year reporting under LC 25.11 • The outcomes of any contract management and procurement audit under LC 21 Part C
Avoids short term cost focus at expense of long-term VfM	• The outcomes of any contract management and procurement audit under LC 21 Part C • Ofgem's assessment of any reopener application submitted pursuant to LC 24 Part D
Recognises role of uncertainty mechanisms (without them becoming default headroom)	• Cashflow management reporting under LC 25.4 • How DCC has managed any ringfenced Required Revenue amounts for their intended purposes, as determined pursuant to LC 24 Part B • Financial performance End-of-Year reporting under LC 25.11
Overall cost discipline and control	• Ofgem's overall assessment: synthesises all inputs into a single view of "efficient, economical and transparent management"

2.33 The Policy should also explain how its assessment of cost management performance reflects a credible and ongoing efficiency and productivity improvement challenge for Senior Managers. This should encourage Senior Managers to seek continuous and dynamic improvements in cost efficiency by including how the Licensee has identified, evidenced and embedded efficiency lessons from prior periods, and whether these have resulted in genuine and demonstrable efficiency savings that are carried forward into subsequent periods as a lower baseline which is then realised within each performance year, rather than reverting to flat cost assumptions.

2.34 The Policy should further recognise where the Licensee has adopted stretch targets in relation to cost reduction and delivery, including a voluntary or self-imposed efficiency trajectory that goes beyond any minimum requirements. In doing so, the Policy should explain how such stretch is assessed, including whether it is supported by clear evidence, realistic delivery plans and a demonstrable link to improved value for money for consumers.

2.35 Where Ofgem publishes an assessment of how the Licensee has managed its cost envelope, cashflow and Recovered Revenue then this assessment should be used as the primary evidence source in determining performance and remuneration under pillar 4.

Weightings assigned to each criterion

2.36 The Remuneration Policy should clearly state the weightings of individual pillars, explain why they are appropriate, and show that no measure is treated as nominal.

2.37 The Remuneration Policy must distinguish between organisational performance and individual performance. It is for the Licensee to determine and justify the balance between organisational and individual objectives. Both organisational and individual incentives under the Remuneration Policy must be drawn from and clearly support the four pillars identified in this Guidance.

2.38 For the first period (and unless the Licensee can justify an alternative), the Policy should apply a balanced scorecard across the four measures. One workable approach is to set each measure as material to avoid any single measure dominating pay outcomes in a way that could undermine long-term delivery.

2.39 Where the Licensee proposes different weights, it should explain: (i) the rationale, (ii) the behavioural effect intended, and (iii) how it has mitigated foreseeable perverse incentives.

2.40 The Policy should additionally explain how performance assessment captures delivery of material change programmes, recognising that these programmes represent a significant portion of cost and delivery risk. In particular:

- The Licensee is expected to set out, as part of their Business Planning for each Price Control period, a programme delivery schedule including planned delivery dates, approved budgets and agreed specifications;
- Performance should be assessed at year-end against these factors, with delivery that is late, over budget or not to specification reflected proportionately in remuneration outcomes.

Maintaining focus on long-term sustainable outcomes

2.41 The Policy should prevent a situation where Senior Managers face financial incentives to pursue short-term indicators that create longer-term cost or performance harm.

2.42 In practice the Licensee should consider whether the Policy would benefit from:

- a mechanism to moderate outcomes where short-term performance has been delivered at the expense of resilience, security or sustainable delivery;
- documented, explainable discretion, which should be used sparingly, and applied in a well evidenced and transparent manner;
- arrangements for deferring a portion of performance related pay, so that outcomes can be reassessed over an appropriate time horizon and adjusted where subsequent evidence indicates an earlier performance was not sustainable;

- provisions for downward adjustment or forfeiture of deferred awards where longer-term delivery outcomes do not support the original assessment;

Implementation

Setting upfront expectations

2.43 The Policy should be explicit at the start of each assessment year about:

- the evidence sources that will be used (for example, published reports required under the Licence);
- how performance will be scored and how judgement will be applied;
- a clear explanation of the mechanism that would trigger the use of discretion to ensure that any usage of such a mechanism has clear governance arrangements and results in remuneration outcomes for Senior Managers that are objectively fair

2.44 The Policy should also state when bonuses are paid and how this date allows for consideration of relevant evidence.

2.45 This is important both for fairness to individuals and for auditability, particularly where performance outcomes are contested.

2.46 We expect the Policy to consider the provisions within section 5 of the UK Corporate Governance Code.[8]

Assessment process

2.47 A practical structure for assessment may be:

- **Step 1:** confirm evidence pack (published reports, business plan evidence, cost delivery evidence).
- **Step 2:** score each measure against pre-defined scales, recording the reason for the score and the evidence relied upon.
- **Step 3:** apply moderation and discretion only where the Policy pre-defines a basis for doing so, recording the rationale and the alternative options considered.
- **Step 4:** confirm pay outcomes and document how organisational outcomes and individual contribution have been linked.

2.48 We expect the performance framework to emphasise assessment approaches that rely on structured judgement rather than purely mechanical outcomes, with transparency about how that judgement is reached.

[8] UK Corporate Governance Code 2024 - www.frc.org.uk/library/standards-codes-policy/corporate-governance/uk-corporate-governance-code/

Methodology

2.49 The methodology used to set targets, assess performance and translate performance into remuneration outcomes must form part of the Remuneration Policy submitted to Ofgem for approval. Detailed methodology may be included in a schedule or annex to the main body of the Policy.

2.50 Once approved, the Remuneration Policy, including any schedule or annex forming part of it, must be published in accordance with paragraph 20.11 of the Licence, subject to any necessary redactions to protect personal data or commercially sensitive information. Any redactions to the published version do not affect the requirement for the Licensee to submit the complete Policy to Ofgem for approval.

2.51 Any modification to the methodology must be submitted to Ofgem as part of a revised Remuneration Policy. The Licensee must continue to act in accordance with the existing approved Policy until any revised Policy has been approved in accordance with Condition 20.8 of the Licence.

2.52 Specific targets set under the approved methodology do not form part of the Remuneration Policy and do not require separate approval by Ofgem. However, the Licensee should demonstrate how the Remuneration Policy will be applied in practice. This may include providing an appropriately anonymised sample of the objectives or targets set for Senior Managers under the approved methodology.

Annual reporting to Ofgem

2.53 Within 30 days of the conclusion of each year’s pay determinations, we expect the Licensee’s Remuneration Committee to formally write to Ofgem to explain how the Policy has been applied in practice. This should allow Ofgem to assess:

- How the approved Policy is being used in practice and whether it meets the Remuneration Policy Objectives as set out in this guidance
- Whether the remuneration outcomes are consistent with the Licence, Guidance and the approved Remuneration Policy
- Whether future modifications to the guidance or policy are required

2.54 Ofgem would expect this to cover, at a minimum:

- confirmation of the Senior Manager population in scope (and how the Licence definition has been applied);
- a high-level statement of how any discretion was applied, why it was applied, and how consistency has been maintained across individuals;
- a summary of pay outcomes (in a form that protects personal data but allows scrutiny of overall policy effect);
- benchmarking updates and any material changes to pay structures.

Transitional arrangements for the first Price Control Period

2.55 The first Price Control period is likely to involve bedding-in of new processes for business planning, challenge and performance reporting. The Remuneration Policy should therefore include transitional provisions that make the regime operable and fair, without diluting accountability.

2.56 The transitional arrangements should also:

- avoid outcomes (positive or negative) caused purely by immature metrics or one-off transition effects;
- use clear, pre-declared moderation rules where data quality or comparability is limited.

2.57 Where the Licensee proposes any temporary caps, floors or alternative scoring approaches for the first cycle, the Policy should explain: (i) why this is needed, (ii) how long it will apply, and (iii) how the Licensee will transition to the enduring approach.

Send us your feedback

We are keen to receive your feedback about this guidance. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this guidance?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.