Decision

DCC2 Remuneration Policy Guidance

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Contents

Executive summary

This Guidance sets out Ofgem's expectations for how DCC2 must develop, submit and apply its Remuneration Policy under the Smart Meter Communication Licence. It explains how relevant discretionary remuneration for Senior Managers should be linked to DCC2's performance and to the delivery of outcomes that matter to DCC users and energy consumers.

Its purpose is to provide clear expectations so that DCC2 can design a transparent, evidence-based Remuneration Policy that supports delivery, accountability and value for money. DCC2 will retain appropriate flexibility over the detailed design of its Remuneration Policy but must explain and justify the choices it makes.

This final Guidance reflects consultation feedback. Respondents broadly supported its focus on delivery, customer outcomes, system performance, accountability and value for money. We have clarified DCC2's flexibility in developing its Remuneration Policy and Ofgem's expectations when assessing it.

Strategic context

The establishment of DCC2 marks an important next step for smart energy in Great Britain. As electricity demand grows and more renewable generation connects to the electricity system, smart metering will become increasingly central to a cleaner, more flexible energy system. DCC's network provides the essential infrastructure and data to support that transition, helping consumers and the wider energy system respond more effectively to when and where electricity is available.

DCC2 will operate as a not-for-profit monopoly service provider whose costs are ultimately borne by energy consumers. DCC's new regulatory framework is designed to support reliable and efficient service delivery with clear links between DCC2's performance, its Required Revenue, its business planning obligations and the outcomes it delivers for users and consumers.

The Remuneration Policy sits within that wider framework. It is one of the tools for aligning Senior Manager incentives with DCC2's obligations and performance expectations, including service quality, system reliability, credible business planning, efficient delivery and value for money. Used well, variable remuneration can recognise and encourage efficient delivery where Senior Managers have influence over outcomes, while supporting a clear connection between leadership decisions, organisational performance and consumer value.

DCC2 remains responsible for designing its remuneration arrangements, identifying the Senior Managers in scope, selecting appropriate measures and targets, determining weightings, and deciding how organisational and individual performance should be reflected. This flexibility is important, as DCC2 is best placed to understand its structure, roles and delivery responsibilities. However, that flexibility must be accompanied by transparent reasoning, evidence and governance so that Ofgem can assess whether the Renumeration Policy provides a credible link between remuneration, performance and consumer value.

DCC2 must establish a Remuneration Committee comprising Sufficiently Independent Directors, as defined in the Licence. The Committee will have ultimate responsibility for designing and maintaining oversight of the Remuneration Policy, including translating Ofgem's expectations into meaningful incentives for Senior Managers.

The outcomes remuneration should support

Relevant discretionary remuneration should be linked to performance across four pillars:

- Customer Satisfaction
- System Performance
- Business Plan Quality
- Business Plan Delivery

Together, the pillars are expected to provide a balanced view of how effectively DCC2 is serving its customers, operating its systems and translating its plans into value for money delivery. They will provide the basis for assessing both DCC2's organisational performance and the individual performance of its Senior Managers.

The framework is intended to encourage sustained performance across all four areas. No single pillar is designed to be treated in isolation, and DCC2's approach should reflect the contribution each individual makes to the effective and efficient delivery of its services.

Transparency and Ofgem's assessment

The Remuneration Policy should clearly explain how performance will be assessed, how targets will be set and how judgement will be exercised. It should be supported by appropriate evidence and governance.

Ofgem will assess whether the Renumeration Policy complies with the Licence and this Guidance, including whether it establishes a credible link between remuneration, performance and value for consumers. Following DCC2's submission of a draft Remuneration Policy, Ofgem may approve it, require further information or direct DCC2 to modify and resubmit it in accordance with the Licence.

Transitional arrangements

RY27/28 will be a transition year. DCC2 will be operating under new licence and regulatory arrangements while the Operational Performance Regime and Business Plan framework continue to mature. We recognise that some measures underpinning the framework will continue to develop following the transfer from DCC1 to DCC2. The transitional approach for RY27/28 is intended to minimise unnecessary disruption during this period of wider change, while enabling DCC2 to establish a meaningful remuneration framework that can be refined in future years.

While the Operational Performance Regime and Business Plan framework mature, DCC2 should set prudent, achievable targets. The relevant Licence requirements, including consultation on System Performance measures and targets where applicable, will continue to apply. Experience from RY27/28 is expected to inform the further development of the remuneration framework for RY28/29.

Next steps

DCC2 must submit its draft Remuneration Policy to Ofgem by 14 October 2026. Ofgem will assess whether the Remuneration Policy complies with the Licence and the final Guidance, including whether it provides a clear and transparent link between Senior Manager remuneration, performance against the four pillars and value for consumers.

1. Introduction

Context and related publications

Document	Link
Ofgem (2026), Smart Meter Communication Licence	www.ofgem.gov.uk/consultation/draft-new-smart-meter-communication-licence
Ofgem (2026), DCC Review Phase 2: Governance arrangements - conclusions	www.ofgem.gov.uk/decision/dcc-review-phase-2-governance-arrangements-conclusions
Ofgem (2025), Data Communications Company (DCC): Regulatory Instructions and Guidance 2025	www.ofgem.gov.uk/guidance/data-communications-company-dcc-regulatory-instructions-and-guidance-2025
Section H13 of the SEC	www.smartenergycodecompany.co.uk/documents/sec-sections/sec-section-h-dcc-services/
Ofgem (2025), Business Plan Guidance & Cost Control Processes and Procedures for Smart Meter Communication Licence holder v1	www.ofgem.gov.uk/sites/default/files/2025-05/Draft%20Business%20Plan%20Guidance.pdf
Ofgem (2025), Data Communications Company (DCC): Regulatory Instructions and Guidance	www.ofgem.gov.uk/sites/default/files/2025-06/DCC%20RIGs%20main%20guidance%201.pdf
Ofgem (2025), DCC Review Phase 2: Determination of Allowed Revenue	www.ofgem.gov.uk/consultation/dcc-review-phase-2-determination-allowed-revenue

Ofgem (2024) Revised OPR Guidance March 2024	www.ofgem.gov.uk/sites/default/files/2024-03/Revised-OPR-Guidance-March-2024

Decision-making stages

Stage 1 Consultation opened: 6 July 2026

Stage 2 Consultation closed: 3 August 2026

Stage 3 Responses reviewed and published: 7 September 2026

Stage 4 Consultation outcome (decision or policy statement): 7 September 2026

Questions posed at consultation

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

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?

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

Q4. Do you agree with the proposed role of customer satisfaction, system performance, Business Plan quality and Business Plan delivery within that framework?

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)?

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

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

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

Send us your feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this decision. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

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

2. Overview of responses and our decision

2.1 We received responses from DCC1, DCC2, the SEC Panel, the SEC Customer Challenge Group, ScottishPower and E.ON.

2.2 Respondents generally supported the principal objective that remuneration should be linked to delivery, customer outcomes, system performance, accountability and value for money. However, respondents raised a range of views on the design, timing, scope and operation of the proposed Guidance.

2.3 The main areas, where respondents sought clarification, were the proposed four-pillar framework, the treatment of Senior Managers, the maturity and independence of performance measures, the funding and value of bonus arrangements, the balance between organisational and individual performance, the role of DCC2's Board and Remuneration Committee, and implementation during the transition from DCC1 to DCC2.

2.4 We have considered the points raised by respondents question-by-question. Where similar points were raised in response to more than one question, we have addressed them under the question where they most directly affect our decision.

Question 1

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

Summary of responses

2.5 Several respondents supported the overall objective of linking remuneration to customer outcomes, organisational performance, delivery, accountability and value for money. Respondents generally considered that the proposed objectives provided an appropriate direction of travel, particularly where remuneration outcomes are linked to reliable service performance, consumer value and delivery against outcomes valued by DCC users.

2.6 Respondents also emphasised the importance of transparency, evidence and independent scrutiny. Several respondents said confidence in the framework would depend on remuneration decisions being supported by mature, transparent and independently evidenced measures, rather than measures defined or assessed solely by DCC or DCC2.

2.7 Some respondents said the Guidance should provide greater clarity on the wider remuneration package and incentive scheme value. These comments covered salary, bonus, pension, total reward benchmarking, comparator sectors, market positioning, the balance between base pay and bonus, and the proportion or value of bonus opportunity. Related comments asked whether bonus arrangements would be funded from realised savings, existing or approved Business Plan allowances, or an increase to DCC's cost base.

2.8 Some respondents also asked whether bonuses are intended to reward target performance or only stretch or exceptional performance. One respondent was concerned that, without clearer guidance, the policy could create a bonus culture in which senior leaders or wider staff are rewarded for delivering core expectations already funded by DCC users.

2.9 Other respondents raised points about implementation and autonomy. These included whether the Guidance should apply only to discretionary bonus arrangements, whether contractual pay should be unaffected, whether a minimal change approach should be taken during transition, and whether DCC2's Board and Remuneration Committee should retain autonomy to make remuneration decisions, including setting threshold, target and stretch values.

Our assessment

2.10 We note the broad support for linking remuneration to delivery, customer outcomes, accountability and value for money. These objectives are central to the Guidance and remain appropriate for a monopoly, not-for-profit licensee whose costs are ultimately borne by consumers.

2.11 We agree that remuneration outcomes should be supported by transparent and evidence-based measures. The Guidance is intended to ensure that DCC2's remuneration policy links variable remuneration to performance in areas that matter to DCC users and consumers, while allowing DCC2 sufficient flexibility to develop its own policy and supporting measures.

2.12 We do not consider that the Guidance needs to prescribe the full design of DCC2's wider reward framework. The Guidance is concerned with the remuneration policy for Senior Managers and the link between remuneration and relevant performance outcomes. Issues such as salary, pension, wider reward benchmarking and total reward design are primarily matters for DCC2, subject to the requirements of the Licence and the wider price control framework.

2.13 We recognise respondents' questions about funding and bonus value. The Guidance does not create a separate entitlement to additional funding for bonus arrangements. Bonuses are paid from Internal Costs and are therefore subject to Price Control and DCC2 will need to explain how its remuneration policy is consistent with consumer value and efficient delivery.

2.14 We do not agree that the Guidance requires bonuses to reward only exceptional performance. The framework allows for a mix of minimal targets and stretch performance, depending on the nature of the measure and the pillar. For example, some measures may focus on expected delivery against core obligations, while others may reward stretch delivery or demonstrable outperformance.

2.15 We also recognise the importance of DCC2 Board and Remuneration Committee autonomy. The Guidance does not seek to duplicate or minimise the role of the Board or its Remuneration Committee in making remuneration decisions. It remains for the Remuneration Committee to design and apply the Remuneration Policy including: identifying the Senior Managers in scope, selecting measures and setting targets, determining pillar weightings as well organisational and individual performance balance, as set out further in this decision.

2.16

Decision

2.17 We have decided to retain the proposed objectives and design principles. The Guidance is intended to apply to relevant discretionary remuneration arrangements for Senior Managers and does not prescribe DCC2's full reward framework. The Guidance already allows DCC2 to adopt stretch targets for cost efficiency and delivery where these are supported by clear evidence, realistic delivery plans and a demonstrable link to improved value for money for consumers.

Question 2

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?

Summary of responses

2.18 Most respondents supported, or did not object to, the proposed approach to defining the scope of the term "Senior Manager". Respondents recognised that the scope should include individuals who can materially influence outcomes relevant to DCC service delivery.

2.19 Several respondents raised concerns that the proposed interpretation could create uncertainty or inconsistent treatment, particularly for programme delivery roles. These concerns included possible misalignment with DCC1 or DCC2 role banding structures, uncertainty about whether roles linked to a "substantial programme" would move in and out of scope, and possible disparities between individuals in similar grades or roles.

2.20 Some respondents questioned whether the approach should apply only to Senior Managers. One respondent suggested the Guidance could apply to all directly employed DCC2 staff, subject to consideration of the cost implications. Other respondents said DCC2 should not distinguish between Senior Managers and other staff in relation to Team Objectives, and that personal objectives should be used to incentivise staff according to their role.

2.21 Two respondents said greater transparency was required on how the DCC2 Board or Remuneration Committee would determine awards for eligible staff. This included transparency over the criteria and evidence used to determine awards and the balance between organisational and individual performance.

Decision DCC2 Remuneration Policy Guidance

Our assessment

2.22 We do not consider it appropriate to extend the Guidance to all DCC2 staff as this would fall outside the scope of LC 20.7 supported by LC 20.1. DCC2 may choose to operate wider remuneration arrangements for its employees, and may choose to align wider staff objectives with organisational performance. However, the Guidance and the Policy DCC submits to Ofgem for approval should remain focused on Senior Managers.

2.23 We recognise the concern that programme delivery roles may be less straightforward to identify than more traditional senior management roles. We consider it important that the definition of Senior Manager captures individuals who exercise material influence over major programmes or delivery outcomes, regardless of their job grade or title. However, we maintain the position that DCC2 should identify the individuals to whom the definition applies. The Guidance instead requires that at a minimum, this should include all Executive Committee members and at least one Senior Manager for each Service Family defined in the RIGs, with responsibility for its budget and delivery.

2.24 We agree that DCC2 should be transparent about how it identifies the roles in scope and how remuneration decisions are made for those individuals. The Guidance already requires DCC2 to explain the criteria used to determine whether a role is in scope and how organisational and individual performance are reflected in remuneration outcomes.

Decision

2.25 We have decided to retain the definition of Senior Manager, including programme delivery leadership roles with material influence over relevant outcomes. We have expanded the Guidance on how DCC2 is responsible for applying the scope in a transparent and reasoned way, including explaining how it has identified roles that fall within the Senior Manager definition. The Guidance specifies that, 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 with responsibility for its budget and delivery. It also expands on what that responsibility may involve, including managing existing contracts and business-as-usual operations, delivering and implementing change, and meeting relevant performance targets and Business Plan outcomes.

Question 3

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

Summary of responses

2.26 Several respondents supported some flexibility to include additional or wider measures beyond the four pillars. Suggestions included a fifth "enabling" or "corporate" pillar, or the inclusion of wider organisational measures such as security capability, sustainability, health and safety, workforce development, staff training and longer-term organisational capability.

2.27 Some respondents said additional metrics may be reasonable where they are appropriately focused, aligned to DCC User expectations or energy customer needs, and do not create a significant reporting burden or unnecessary cost.

2.28 One respondent supported retaining flexibility to develop and refine performance measures over time, particularly where revised measures may better reflect outcomes experienced by SEC Parties and DCC users or improve transparency and objectivity of assessment. That respondent said future changes should be subject to appropriate stakeholder engagement and clear governance arrangements.

2.29 One respondent did not support adding measures beyond the four-pillar framework, saying the four pillars already capture the key factors underpinning DCC performance, including user service quality, operational delivery, business planning credibility and disciplined delivery within the approved cost envelope.

Our assessment

2.30 We recognise that some enabling or corporate measures can support the delivery of good outcomes. However, we have not seen sufficient evidence to justify creating a separate fifth pillar or expanding the framework beyond the four proposed pillars.

2.31 We consider that relevant enabling measures can be accommodated within the four-pillar framework where they are clearly linked to the outcomes those pillars are intended to support. For example, security may form part of the System Performance Pillar, while measures relating to sustainability (understood with reference to the protection of the natural environment in line with the Licensee's objectives) may be addressed through the Business Plan. The existence of an enabling activity is not, by itself, sufficient reason to create a separate pillar.

2.32 We agree that the framework can evolve over time. The Guidance does not prevent DCC2 from refining the measures used within the four pillars, provided those measures remain aligned to the objectives of the Guidance, subject to appropriate justification and scrutiny.

Decision

2.33 We have decided not to add a fifth pillar or expand the four-pillar framework. The Guidance continues to allow measures relating to enabling or corporate activities where they demonstrably contribute to the outcomes intended by the relevant pillar and are appropriately justified.

Question 4

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

Summary of responses

2.34 Respondents broadly accepted that the four pillars were relevant or capable of providing a framework for assessing DCC performance. However, several respondents said the effectiveness of the pillars would depend on the maturity, robustness, transparency and independence of the underlying measures.

Customer Satisfaction

2.35 Several respondents raised concerns about the proposed approach to Customer Satisfaction measures. These included concerns that DCC's *Customer First* initiative may not adequately reflect customer views, that the methodology lacks sufficient transparency or independent oversight, and that customer satisfaction measures should be based on a more robust, representative and externally managed survey. Some respondents said survey respondents should be nominated by DCC User organisations or DCC customers, and that results should be shared with the SEC Panel and SEC Sub-Committees.

2.36 DCC said it had operated a new customer satisfaction survey for more than a year, presented its methodology and findings to Ofgem, and believed the existing approach exceeded licence requirements and was fit for inclusion in the Remuneration Policy. It noted that REC Party engagement differs materially from SEC Party engagement and would require a differently designed survey if retained.

System Performance

2.37 Several respondents raised concerns about relying on existing system performance measures[1] without further development. Respondents said current measures may not adequately reflect DCC Customer or end consumer needs, actual DCC service performance, External Service Provider performance or DCC User operational experience.

2.38 DCC1 said that it has worked with Ofgem and customers for several years on system performance reporting and that the transitional Operational Performance Regime had improved granularity and coverage. However, it also said there remained tension between customer expectations and the contracted measures that service providers are paid to deliver, and that DCC could not be held to account for factors materially outside its control.

[1] Ofgem (2024) Revised OPR Guidance March 2024 - www.ofgem.gov.uk/sites/default/files/2024-03/Revised-OPR-Guidance-March-2024

2.39 DCC said it had recently developed more customer-centric measures covering availability, reliability, install and commission, non-communicating communications hubs and related operational issues, and had taken much of that thinking through SEC governance via Ops Group while engaging other stakeholders as appropriate.

Business Plan Quality

2.40 Respondents commented on how Business Plan Quality should be assessed. One respondent said Business Plan Quality should focus on the credibility and robustness of DCC2's Business Plan, rather than how well drafted the document is or how specific individuals engaged with DCC users. Another respondent said the Business Plan Guidance will set out a clear assessment framework, agreed with the CCG and DCC, explaining what constitutes a good Business Plan and how Ofgem will assess its quality, and should be published sufficiently early to inform DCC2's Draft Business Plan.

Business Plan Delivery

2.41 Respondents said Business Plan Delivery measures should be meaningful to energy customers and DCC Users, may need to evolve over time, and should recognise cost performance, delivery commitments and service performance.

2.42 One respondent supported incentivising DCC2 to operate below its forecast cost base where there is a clear and demonstrable link to sustainable efficiency gains or delivery outcomes that benefit DCC Users or energy customers. Another respondent said commitments and costs should be re-baselined where change-controlled for good reason.

Our assessment

2.43 We consider that the four pillars remain appropriate. Together, Customer Satisfaction, System Performance, Business Plan Quality and Business Plan Delivery provide a balanced framework for linking remuneration to outcomes that matter to DCC users and consumers.

Customer Satisfaction

2.44 We recognise respondents' concerns about customer satisfaction survey methodology, transparency and independence. The Licence places obligations on DCC2 in relation to the Customer Satisfaction Survey and allows the Authority to issue guidance specifying further particulars of its design. We do not intend to issue separate OPR Guidance specifying a particular survey approach for RY27/28. However, the Remuneration Policy Guidance sets expectations for how customer satisfaction evidence should be used in assessing performance and determining remuneration outcomes, including the robustness, comparability and transparency of that evidence. These expectations do not constitute approval or endorsement of any particular survey methodology.

System Performance

2.45 We recognise concerns about simply carrying forward existing performance measures.

2.46 Unless the Authority has issued OPR Guidance specifying otherwise, the Licence requires DCC2 to select its System Performance measures and targets following consultation with SEC Parties and REC Parties. For RY27/28, we think it is appropriate to allow DCC2 to select its own KPIs in consultation with industry a pragmatic starting point.

2.47 The Remuneration Policy Guidance does not prescribe a technical KPI suite. It does, however, set expectations for how the selected measures should be used for remuneration purposes, including how they reflect user experience, how performance is assessed across the relevant period and how performance during material operational change is taken into account.

2.48 We may issue OPR Guidance for RY28/29, informed by lessons from RY27/28 and the views of DCC2 and industry parties.

Business Plan Quality

2.49 We consider that Business Plan Quality is an appropriate pillar because the quality, credibility and robustness of DCC2's Business Plan will be central to the delivery of consumer value under the ex-ante framework. The assessment should focus on the substance of the plan, including whether it is credible, robust and consistent with relevant requirements, rather than presentation alone.

2.50 We do not consider it necessary for the Remuneration Policy Guidance to prescribe a separate, detailed scoring framework for Business Plan Quality. The relevant assessment should be aligned with the Business Plan Guidance and the wider price control framework which will be issued in advance of the second ex-ante Business Plan submission date.

2.51 We expect to consult on a revised Business Plan Guidance in the Autumn of 2026, which will include the assessment framework for Business Plan quality.

Business Plan Delivery

2.52 We consider that Business Plan Delivery is an appropriate pillar because remuneration should be linked to DCC2's delivery against the commitments and cost envelope established through the ex-ante process. However, the incentive should not reward delivery only where actual costs match the ex-ante Required Revenue determination. Efficient costs may be lower than forecast where the same level of service can be delivered for less, or higher where additional expenditure is necessary and appropriately. The proposed approach therefore considers variance against the ex-ante determination, without treating either positive or negative variance as inherently adverse for remuneration purposes.

2.53 We therefore agree with respondents that delivery measures should recognise consumer value and should not reward cost reductions unless these are linked to sustainable efficiencies and delivery outcomes. We also recognise that commitments or costs may be appropriately re-baselined through agreed change control. In these circumstances, the assessment should also recognise transparency and early engagement.

Decision

2.54 We have decided to retain the four pillars of Customer Satisfaction, System Performance, Business Plan Quality and Business Plan Delivery.

2.55 For Customer Satisfaction, we have retained the proposed approach. The Guidance does not prescribe a particular survey methodology for RY27/28, but sets expectations for how customer satisfaction evidence should be used in assessing performance and determining remuneration outcomes. These expectations apply alongside the requirements of the Licence.

2.56 For System Performance, we have retained the Licence process under which DCC2 must select its measures and targets following consultation with SEC Parties and REC Parties, unless the Authority has issued OPR Guidance specifying otherwise. The Guidance does not prescribe a technical KPI suite, but sets expectations for how the measures selected through that process should be used to assess performance for remuneration purposes.

2.57 For Business Plan Quality and Business Plan Delivery, we have retained the proposed approach.

Question 5

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 is not reassessed?

Summary of responses

2.58 Respondents were divided on the appropriate level of flexibility over pillar weightings.

2.59 Some respondents supported DCC2 having flexibility to determine the weightings across the four pillars and individual measures within those pillars, provided the proposed weightings are transparent, justified and capable of independent scrutiny.

2.60 Other respondents supported constraints on flexibility. Suggestions included fixed weightings for at least the first price control period, equal weighting across all pillars, minimum weighting for each pillar, or industry consultation on any changes to weightings.

2.61 Some respondents raised concerns about DCC or DCC2 “marking its own homework” if it can determine or amend weightings without wider input. Respondents suggested that DCC User and stakeholder priorities should be reflected, and that Ofgem or wider stakeholders should have a role in scrutinising or approving the approach.

2.62 Respondents also commented on how Pillar 3 should be treated in years where Business Plan Quality is not reassessed. Some respondents said the weighting could be transferred to Pillar 4, because Business Plan Quality and Business Plan Delivery are closely related. Others suggested redistribution across other relevant delivery measures or said they had no specific preference provided the approach remains transparent.

Our assessment

2.63 We consider that the Guidance should allow DCC2 some flexibility to propose weightings, because the appropriate balance may vary depending on the regulatory year, the maturity of measures and the specific delivery context.

2.64 DCC2 should explain in the Policy why the proposed weightings are appropriate, how they support the objectives of the Remuneration Policy, and how they reflect outcomes that matter to DCC users and consumers.

2.65 We do not consider that fixed or equal weightings should be mandated in the Guidance. Equal weightings may not always reflect the relative importance, maturity or relevance of each pillar in a given year. However, we recognise the concern that a pillar could be given insufficient weight. DCC2 should therefore justify any proposed weighting that materially reduces or increases the significance of any pillar.

2.66 Where Business Plan Quality is not reassessed in a particular year, as noted in our consultation, it may be appropriate for the weighting attached to Pillar 3 to be reallocated. It is for the Licensee to justify its proposed approach as consistent with the objectives of the framework.

Decision

2.67 We have decided to retain flexibility over pillar weightings and will not mandate fixed or equal weightings. The Guidance identifies a balanced scorecard as an appropriate starting point for RY27/28, while allowing DCC2 to propose an alternative approach where this is justified. The Guidance requires DCC2 to state and explain its proposed weightings, demonstrate that each pillar is treated as material and explain the intended effect of the chosen balance, including how foreseeable perverse incentives have been mitigated. We have also not prescribed how the weighting assigned to Business Plan Quality should be treated in years when that pillar is not reassessed.

Question 6

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

Summary of responses

2.68 Respondents generally accepted that both organisational and individual performance may have a role in determining remuneration outcomes.

2.69 Several respondents said organisational performance should carry greater weight, because the four-pillar framework is fundamentally concerned with DCC's performance as an organisation and its delivery of outcomes for DCC users and consumers. One respondent said that if too much remuneration is linked to individual performance, remuneration outcomes could become disconnected from performance against the four pillars.

2.70 Respondents also recognised DCC2's role as employer in assessing individual performance. Some respondents supported a blended approach that recognises organisational performance, individual performance and, where relevant, team or functional performance. Respondents noted that staff should understand how their own performance contributes to DCC2's overall performance and affects DCC users and energy customers.

Our assessment

2.71 We consider that the four pillars should provide the basis for assessing both DCC2's organisational performance and the individual performance of Senior Managers. This will ensure that remuneration remains linked to DCC2's delivery of outcomes for users and consumers.

2.72 We will not prescribe a minimum allocation or the split between organisational and individual performance. It will be for DCC2 to determine the appropriate balance, but objectives for both elements must be drawn from the four pillars. Where specific contractual restrictions prevent this, DCC2 must explain and justify its proposed approach.

Decision

2.73 We have decided to retain the proposed approach. DCC2 will determine the balance between organisational and individual performance, with both elements assessed by reference to the four pillars.

Question 7

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

Summary of responses

2.74 Respondents identified several risks that could create unintended behaviours or reduce confidence in remuneration outcomes.

2.75 Some respondents said confidence in the Policy could be reduced if performance measures are immature, insufficiently evidenced or not independently verifiable. Respondents were concerned that incentives could encourage optimisation against measures that do not accurately reflect the service outcomes experienced by DCC users and consumers.

2.76 Several respondents raised transition and timing risks. These included the DCC1 to DCC2 transition, TUPE, Business Handover, staff morale, retention, major programme delivery and the timing of DCC2 governance mobilisation. Some respondents said the framework should be implemented only when sufficient evidence exists to support objective assessment.

2.77 Some respondents raised concerns about the perception of bonus arrangements in a not-for-profit monopoly. They were concerned that the benefits of the not-for-profit model could be perceived as being compromised if senior leaders or wider staff are rewarded in a way that appears inconsistent with consumer value.

2.78 One respondent said the Guidance could become too prescriptive and could require the Remuneration Policy to become a detailed methodology document. It said this would be unnecessary, unsuitable for a public-facing remuneration policy and could impose a regulatory burden without clear benefit.

2.79 Some respondents also raised risks linked to Senior Manager scope, including uncertainty over which roles are in scope and whether programme delivery roles may move in and out of eligibility.

Our assessment

2.80 We recognise that confidence in the framework depends on the use of transparent, evidence-based measures that are capable of scrutiny. This is one of the reasons the Guidance requires DCC2 to explain the measures used, the evidence relied on and the link between remuneration outcomes and performance.

2.81 We also recognise the transition risks identified by respondents. However, we do not consider that these risks justify delaying the introduction of the Guidance. Remuneration policy is an important lever for aligning DCC2’s leadership incentives with delivery, consumer value and accountability from the outset of the new licence arrangements.

2.82 We do not agree that the framework is intended to create or enable a bonus culture. The purpose of the Guidance is to ensure that any relevant remuneration arrangements are linked to delivery of outcomes and value for consumers, rather than being disconnected from performance.

2.83 We also do not agree that the Guidance requires DCC2's Remuneration Policy to become an excessively detailed methodology document. The Policy should be sufficiently clear to explain the framework, measures, evidence and decision-making process, but it need not include detailed information on the specific targets set for individual Senior Managers.

2.84 The methodology used to set targets, assess performance and translate performance into remuneration outcomes must however form part of the Remuneration Policy submitted to Ofgem for approval. A detailed methodology may be presented in a schedule or annex to the main body of the Policy but once approved, the Policy as a whole, 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. DCC2 must submit the complete, unredacted Policy to Ofgem for approval.

2.85 We expect the methodology to evolve between regulatory years. Any change to it will constitute a modification to the Remuneration Policy and must be submitted to Ofgem as part of a revised Policy in accordance with paragraph 20.8 of the Licence. DCC2 must continue to act in accordance with the existing approved policy until the revised Policy has been approved. Specific targets set under the approved methodology will not themselves form part of the Policy and will not require separate approval.

2.86 In finalising the Guidance, we have considered the distinction between the information that must form part of the Remuneration Policy under Condition 20 and any further information Ofgem may require to assess how the approved Policy has been applied in practice. The Guidance requires DCC2 to explain the evidence, scoring and decision making process used to translate organisational and individual performance into remuneration outcomes.

2.87 As stated in paragraph 2.85 of this Decision, specific targets or objectives set under the approved methodology are not required form part of the Policy or be separately approved. We nevertheless not respondents concerns about how the Policy will be applied in practice. We expect the Licensee to demonstrate how it will apply the Policy, for example by providing an appropriately anonymised sample of the objectives or targets set for Senior Managers. If further information is required to assess and approve the draft Policy, or to monitor the Licensee's compliance with it, Ofgem may request that information under Condition 33 of the Licence.

2.88 Issues relating to Senior Manager scope are addressed under Question 2. DCC2 should apply the scope transparently and explain how it has determined which roles fall within the Senior Manager definition.

Decision

2.89 We have decided to retain the proposed approach and amend the Guidance to clarify the status, approval and publication of any supporting methodology.

2.90 Any modification to the methodology must be submitted to Ofgem as part of a revised Remuneration Policy in accordance with paragraph 20.8 of the Licence, regardless of whether DCC2 considers the modification material. DCC2 must continue to act in accordance with the existing approved Policy until the revised Policy has been approved. Specific targets set under the approved methodology will not form part of the Remuneration Policy or require separate approval by Ofgem.

Question 8

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

Summary of responses

2.91 Respondents were mixed on whether the draft Guidance was sufficiently clear.

2.92 One respondent agreed that the Guidance was sufficiently clear in supporting the intended policy outcomes. Another respondent said the draft Guidance was broadly clear about the intended direction of the proposed Remuneration Policy, but that further clarification would improve stakeholder confidence.

2.93 Respondents asked for further clarity on timing, transition, reporting, targets, industry input, acceptable evidence, Customer Satisfaction methodology, System Performance measures and governance arrangements.

2.94 Some respondents also commented on the level of prescriptiveness. One respondent said the Guidance was too outcome-focused and should allow space for enabling measures. Another said the Guidance was premature, too detailed in some areas and insufficiently clear on higher-level remuneration concepts. Another respondent said the Guidance would require the Remuneration Policy to become an overly detailed methodology document.

Our assessment

2.95 We consider that the draft Guidance is sufficiently clear in supporting the intended policy outcomes. However, we recognise that some clarifications would improve confidence and reduce the risk of misunderstanding.

2.96 In particular, we consider it helpful to clarify the treatment of discretionary remuneration arrangements, the scope of Senior Managers, the ability to include enabling measures within the four pillars, the year-one approach to Customer Satisfaction and System Performance, the treatment of weightings, and the balance between organisational and individual performance.

2.97 We do not consider that the Guidance should be substantially expanded to cover all aspects of DCC2's wider reward framework, nor do we consider that it should prescribe all supporting methodologies in detail. The Guidance should remain focused on the key requirements for the Remuneration Policy and should allow DCC2 appropriate flexibility to develop the detailed policy and supporting arrangements.

Decision

2.98 We have decided to proceed with the Guidance, subject to targeted changes and clarifications. These address the scope and application of the Guidance, the treatment of measures relating to enabling or corporate activities within the four-pillar framework, the use of Customer Satisfaction and System Performance evidence for remuneration purposes, the transparency and approval of the supporting methodology, and the provision of further information for regulatory assurance under Condition 33 of the Licence.

Summary of changes to the Guidance

As a result of the consultation responses, we have made targeted changes and clarifications to the Guidance as follows:

- **Executive summary and Chapter 1.1, "Purpose, scope and legal basis":** clarified that the Guidance applies to relevant discretionary remuneration arrangements for Senior Managers. It does not prescribe DCC2's wider reward framework, including fixed pay, pensions or other contractual benefits.
- **Chapter 1.1, "Definition of a Senior Manager":** clarified that DCC2 is responsible for identifying and explaining which roles fall within the Licence definition. As a minimum, the Policy must cover all Executive Committee members, at least one Senior Manager with responsibility for the budget and delivery of each Service Family, and programme delivery leadership roles with material influence over relevant outcomes.
- **Chapter 2, "Assessment criteria" and "Relationship between Remuneration and Operational Performance":** retained the four-pillar framework and clarified that measures relating to enabling or corporate activities may be included within a pillar only where DCC2 demonstrates that they contribute to the outcomes intended by that pillar. We have not introduced a separate enabling or corporate pillar.

- **Chapter 2, "Pillar 1: Customer Satisfaction" and "Pillar 2: System Performance":** clarified how evidence from these two pillars should inform performance assessment and remuneration decisions. The Guidance does not prescribe a particular Customer Satisfaction methodology or technical System Performance KPI suite for RY27/28. The relevant Licence requirements continue to apply, including consultation with SEC Parties and REC Parties on System Performance measures where the Authority has not issued OPR Guidance specifying otherwise.
- **Chapter 2, "Weightings assigned to each criterion":** clarified the information DCC2 must provide about the proposed pillar weightings and the balance between organisational and individual performance.
- **Chapter 2, new subsection "Methodology and approval":** clarified that 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. The approved Policy, including any schedule or annex, must be published subject to necessary redactions to protect personal data or commercially sensitive information
- **Chapter 2, new subsection "Methodology and approval":** clarified that any modification to the methodology must be submitted as part of a revised Policy, while specific objectives and targets set under the approved methodology do not form part of the Policy or require separate approval. DCC2 must demonstrate how it will apply the Policy, and Ofgem may request further information under Condition 33 where required to assess and approve the draft Policy or monitor compliance with it.