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Fraser Murray,
DCC Regulatory Review, Ofgem

By email only: DCCregulation@ofgem.gov.uk

Consultation on DCC Remuneration Policy Guidance

Dear Fraser,

E.ON Next Energy Limited and npower Commercial Gas Limited ('E.ON') welcome the opportunity to review and comment on Ofgem's proposals.

As a fundamental principle it is essential that all DCC2 employees understand how their performance influences DCC2's overall performance, and how this positively or negatively impacts DCC Users and energy customers.

The DCC Remuneration Policy Guidance published by Ofgem should be designed to encourage DCC2 employees to cost effectively deliver the operational services that have been agreed by DCC Users. Associated performance targets, key performance indicators (KPIs), and industry input to monitoring regimes will be crucial elements that underpin the Remuneration Policy arrangements. We have highlighted concerns around certain elements in Appendix One.

Ofgem's guidance on this topic must be prescriptive on the funding mechanisms that underpin bonuses and other rewards offered to eligible DCC2 employees. It is unclear whether Remuneration Policy Guidance proposals would increase DCC2's costs, and therefore impact DCC Users and ultimately energy customers. There must be a direct relationship between the performance achieved and the appropriate level of reward incentivisation offered. Bonuses should only be paid where DCC2 employees demonstrate over-performance and sustainable improvements, rather than for delivery of the basic levels of service expected and funded by DCC Users.

Clarity on the timeframes for implementing the Remuneration Policy Guidance and any transitional arrangements is also crucial. The DCC Business Handover and associated TUPE processes currently taking place could be unsettling for DCC2 employees, and any uncertainty around broader reward principles could cause unintended outcomes.

Our responses to the consultation questions are not deemed confidential. We would be happy to discuss our response further if this is required.

Yours sincerely,

Martin Christie

Industry Smart Metering Lead

Appendix One - E.ON Response (August 2026)

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

The design of Ofgem's Remuneration Policy Guidance should reiterate that DCC2's priorities include the efficient, cost-effective delivery of operational services as agreed by DCC Users. Doing so will clearly influence the subsequent development of DCC2's Remuneration Policy. It is essential that DCC2's policy addresses the agreed scope of core services, the efficient delivery of service enhancements and major programmes, plus DCC User expectations around service stability and operational performance. We recognise that individual DCC2 staff members will play differing roles in the delivery of these elements depending on their seniority and role, but their remuneration needs to be directly linked to DCC User and energy customer expectations.

The current draft Remuneration Policy Guidance does not appear to describe the scope or likely value of the 'remuneration package', nor any incentive scheme element. DCC2 and any subsequent Smart Meter Communication Licensee should be required to define their total 'remuneration' budget through their Business Plan submissions. This should cover elements such as salary, bonus, pension, and any other staff reward schemes. Doing so will provide visibility and support scrutiny by consumers, DCC Users and other stakeholders.

Where DCC2 is permitted to offer additional reward schemes (e.g., bonuses), then the Remuneration Policy Guidance should define key expectations and principles. This should include:

- The funding source and arrangements of any scheme (e.g., is the DCC2 scheme funded from realised cost savings, or increasing DCC's cost base).
- The comparator industry sectors that the DCC2 Remuneration Committee should consider when setting up a scheme (e.g., not-for-profit; telecoms; energy; other sectors).
- The expected frequency of independent benchmarking of the scheme.
- Whether the scheme rewards an individual achieving an 'on target' rating, or only those delivering sustained exceptional performance.
- How the scheme considers broader company performance metrics (e.g., customer satisfaction; service availability; incident frequency and management; etc.).

Finally, the current consultation does not confirm the governance structure or framework that would independently monitor DCC2's performance. This, plus the *Specific*, *Measurable*, *Achievable*, *Relevant*, and *Timebound* (SMART) targets and associated key performance indicators (KPIs) will be crucial to the effective operation of a DCC2 Remuneration Policy. Selected KPIs must be robustly measured and be designed to consider energy customer impacts (e.g., PAYG vend performance; scheduled read performance; SMWAN connectivity performance; etc.). Appropriately selected metrics and KPIs must influence both in-year reward schemes, and any longer multi-year corporate level schemes.

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?

It is unclear if the Remuneration Policy Guidance proposals and use of the term '…*Senior Manager*…' naturally align with the role banding structure or role titles in use in DCC1 or planned for DCC2. The proposals indicated in Paragraph 2.7 of the consultation document could lead to disparity between individuals in the same grade. The focus on the term '…*substantial programme*…' could also mean a DCC2 employee deemed eligible in one year, and then ineligible the following year. While this may be the outcome Ofgem is intending, both scenarios could negatively impact the retention of key DCC staff who are critical to the delivery and operation of services. Such a scenario could result in unintended consequences and impact DCC users and energy customers.

An alternative approach could see suitably revised Remuneration Policy Guidance applied to all directly employed DCC2 staff members. However, Ofgem would need to consider the implications of a broader scope and ensure that energy customers and specific DCC Users are not expected to fund a material increase in DCC's cost base. E.ON would expect an industry consultation to be issued on the cost-benefit case of a broader DCC2 Remuneration Policy.

To support appropriate scrutiny, the finalised guidance document should also require the DCC2 Board or Remuneration Committee to formally explain the criteria and evidence that will be used to determine awards for in-scope employees. This could include the balance between overall DCC2 organisational performance, and that of the individual in-scope employee.

We recognise Ofgem's concerns that a remuneration structure could place excessive emphasis on short-term cost reduction. However, there has been a significant and continual growth in DCC's costs in the years since Smart DCC Limited was appointed as licensee. It is essential that DCC2 is driven to both identify and realise material savings in its cost base. Appropriate incentivisation may encourage DCC2's employees to deliver other sustainable savings opportunities, over and above those identified through independent oversight by Ofgem on industry forums.

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

Providing DCC2 with the ability to incorporate additional metrics appears reasonable, on the basis their scope is appropriately focused, and the reporting overhead is not significant or costly. Where DCC2 identifies new pillars, these should be aligned to the expectations of funding DCC Users or needs of energy customers. As Ofgem has indicated, additional metrics could focus on longer-term organisational performance (e.g., workforce development) to ensure that DCC2 is prepared for future challenges and evolving operational needs.

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

The selection of robust and appropriate metrics that underpin each of the pillars proposed by Ofgem is clearly crucial, and we have outlined suggestions in the following sub-sections.

Customer Satisfaction

E.ON does not currently support the use of the metrics generated through the DCC's Customer First initiative, given its lack of transparency and independent oversight. It would not be appropriate for DCC2 staff to shape or influence the survey questions or approach used to determine their own bonus or other reward payments. Customer First survey invites are also currently issued to a broad range of industry recipients, meaning the implications of scores and feedback may not be clear to all those contacted.

Instead, we believe that DCC2 should be required to set up an independent, externally managed customer satisfaction survey as an evidence base for this specific pillar. Appropriate survey recipients would be nominated by individual DCC User organisations, with results being collated and shared with industry stakeholders (e.g., SEC Panel and SEC Sub-Committees).

System Performance

The current Performance Measurement Report (PMR) should not feature as an input to an assessment on the System Performance pillar. For several years, the PMR has not reflected the actual performance of DCC services and DCC's External Service Providers, or the operational experience of the DCC Users that fund them. For example, long-running issues experienced in a specific CSP region did not materially alter the status of associated PMR metrics. Had the PMR been an input to remuneration decisions this could have meant DCC Senior Managers being rewarded for under-performance by a critical External Service Provider.

We would expect DCC2 to commit to developing alternative, robust, and stretching metrics with DCC Users for the System Performance pillar. A robust reporting and review regime would also need to be developed.

Business Plan Quality

Provided the appropriate criteria is defined by Ofgem, we agree that the SEC Customer Challenge Group could provide scoring input and verbatim feedback to help assess DCC2's performance on this pillar. This pillar must focus on the credibility and robustness of DCC2's Business Plan, rather than how key individuals have engaged with DCC Users or how polished in presentation terms the document output is. We agree that DCC2's Remuneration Policy should also be required to describe how feedback on the Business Plan Quality pillar will influence subsequent remuneration assessments for in-scope DCC2 employees.

Business Plan Delivery

Measures used to assess DCC2's Business Plan Delivery pillar must be meaningful to energy customers and funding DCC Users, especially as the metrics will likely have to evolve over time. We think it is reasonable for the Remuneration Policy Guidance to mandate this as a key principle.

Provided the appropriate criteria is defined by Ofgem, it is conceivable that the SEC Finance Sub-Committee and SEC Panel could provide scoring input and verbatim feedback to help assess performance on this pillar. We support the principle that DCC2 should be incentivised 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.

The SEC Finance Sub-Committee and SEC Customer Challenge Group could also provide independent input on the validity of re-opener requests raised by DCC2 in the ex-ante regime. While certain re-openers may relate to unpredictable events (e.g., a global event, or supplier failure), other re-openers could relate to factors fully within DCC2's control or planning horizon. Factors within DCC2's control should influence the assessment of Business Plan Delivery for remuneration purposes.

We agree that DCC2's Remuneration Policy should also be required to describe how feedback on the Business Plan Delivery will influence a subsequent remuneration assessment, including where measures or deliverables may straddle multiple Business Plan periods.

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)?

We have significant concerns at the proposal that the DCC2 Board or Remuneration Committee could unilaterally amend the weightings applied across the four pillars. It is essential that the weightings reflect the priorities of DCC Users, industry stakeholders, as well as the DCC2 Board. A consultation process that reviews the relevant weightings and any new proposed applicable factors could be run by Ofgem or DCC2 at key points (e.g., around each ex-ante Business Plan publication). If DCC2 were responsible for the consultation, we would expect them to clearly explain how they had considered and acted on DCC User feedback, rather than simply pressing ahead with their original plans for weighting changes. DCC2 as an employer would then be responsible for ensuring that its own Remuneration Policy remains aligned, and for the associated processes that define awards to eligible staff.

If Pillar 3 (Business Plan Quality) is not reassessed in a specific year, the associated weighting could be allocated to Pillar 4 (Business Plan Delivery) or to any other metrics directly associated with key DCC2 programmes that are in-flight (e.g., DSP2 or SMETS1 service retirement). However, this option could cause other impacts or adverse outcomes (e.g., across Business Plan periods or calendar years).

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

It is essential that all DCC2 employees understand how their performance influences DCC2's overall performance, and how this positively or negatively impacts funding DCC Users and energy customers.

There is clearly a balance to be struck between assessments on individual performance and overall organisational performance measures. Individual employee performance would clearly be assessed by DCC2 as the employer, with organisational performance metrics being transparent to industry and external stakeholders.

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

Disparity between the policy guidance term '…*Senior Manager*…' and the role banding structure in use in DCC1 or planned for DCC2 could lead to unintended consequences, by deeming operationally critical DCC colleagues out of scope. It is also unclear how the proposals align with the current Capita / DCC1 rewards offering, especially for those deemed to fall outside of the '…Senior Manager…' role scope.

For those working in DCC2 programme delivery roles, the use of the term '…*substantial programme*…' could see employees being deemed eligible in one year, and then ineligible the following year as they transition to a new programme. This may impact the retention of experienced programme leaders who could be essential to the delivery of material initiatives in the 2027 – 2033 period, and the professional development of junior DCC2 colleagues.

The Remuneration Policy Guidance should also be clear on any transitional arrangements. The DCC Business Handover and associated TUPE processes could be unsettling for DCC employees, and any uncertainty around reward could cause unintended outcomes. During 2027/28, DCC2 is delivering very significant change programmes (e.g., DSP2 migration), and staff morale or retention issues could materially impact these activities and ultimately the DCC's service delivery to funding DCC Users and energy customers.

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

Greater clarity on the timing of the Remuneration Policy Guidance introduction and any transitional period would be welcomed.

As in earlier questions, we believe additional detail on key mechanisms is also needed (e.g., reporting, targets, industry input and oversight, acceptable evidence from DCC2, etc.). Allowing DCC2 to solely define what is relevant and acceptable evidence for a specific pillar through its DCC2 Remuneration Policy without prior agreement from industry could lead to sub-optimal outcomes.