SEC
Smart Energy Code

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SEC Panel Consultation Response – Data Communications Company Renumeration Policy Guidance

Dear Fraser,

The SEC Panel welcomes the opportunity to respond to the consultation on Ofgem's proposed guidance for the preparation and operation of the Data Communications Company (DCC) Remuneration Policy for Senior Managers.

The Panel supports the overall principle of aligning senior management remuneration with the delivery of positive customer outcomes, effective system performance and value-for-money services. Appropriate remuneration arrangements can play an important role in reinforcing accountability and incentivising delivery against the objectives of the DCC Licence.

The Panel also notes that the SEC Customer Challenge Group (CCG) is submitting its own independent response to this consultation. The CCG has an established role in providing independent challenge of the DCC's Business Plan on behalf of SEC Parties and is therefore particularly well placed to comment on the detailed design, governance and operation of the proposed Remuneration Policy. As an independent body, the CCG's views should be considered separately from those of the SEC Panel.

Accordingly, the Panel's response focuses on those aspects of the consultation that are most closely aligned with its oversight of the SEC and the interests of SEC Parties.

The Panel supports the principle that remuneration should ultimately reflect the outcomes experienced by DCC users and customers, rather than focusing solely on internal organisational measures. In particular, the Panel considers it important that performance measures continue to evolve so that they more accurately reflect the operational experience of SEC Parties and the outcomes that matter most to users.

While the proposed four-pillar framework appears capable of providing an appropriate basis for assessing organisational performance, the Panel considers that confidence in any remuneration framework will depend upon the use of sufficiently mature, transparent and independently verifiable performance measures. Until the detailed performance measures, particularly those relating to System Performance and Customer Satisfaction, have been further developed, it is difficult for stakeholders to assess whether remuneration outcomes will consistently reflect delivery of the intended customer and service outcomes.

Finally, the Panel considers that additional clarity would be beneficial regarding the operation of the framework during the transition from DCC1 to DCC2. As governance arrangements, reporting frameworks and performance measures continue to evolve during this period, it will be important that the framework is introduced at an appropriate stage of organisational maturity and that remuneration outcomes remain transparent, proportionate and clearly linked to measurable performance.

The SEC Panel hopes these comments are helpful and looks forward to continuing to engage with Ofgem as the Remuneration Policy develops. Should you have any queries or wish to discuss our response further, please contact Oli Meggitt, Senior Strategy Manager (oli.meggitt@seccoltd.com), or email consultations@seccoltd.com.

Yours Sincerely,

Angela Love
SEC Panel Chair

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

The Panel supports the overall objective of aligning senior management remuneration with customer outcomes, organisational performance and value for money. The Panel considers that the proposed objectives provide an appropriate direction of travel. However, confidence in the proposed framework will depend upon remuneration decisions being supported by sufficiently mature, transparent and independently evidenced performance measures that demonstrate delivery of the service outcomes valued by DCC users.

The Panel also notes that the SEC Customer Challenge Group (CCG), through its independent role in reviewing the DCC Business Plan, is particularly well placed to comment on the detailed design principles underpinning the proposed Remuneration Policy.

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?

The Panel has no specific comments on the proposed definition of "Senior Manager" or the treatment of programme delivery leadership roles. The Panel considers this to be primarily a matter for Ofgem and the Licensee, provided that the final arrangements support appropriate accountability for delivery of DCC services.

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

The Panel supports retaining appropriate flexibility to develop and refine performance measures over time. In particular, the Panel considers that additional or revised measures may be appropriate where they better reflect the outcomes experienced by SEC Parties and DCC users, or where they improve the transparency and objectivity of performance assessment. The Panel considers that this flexibility will be particularly important as DCC2 arrangements mature and more meaningful measures of customer and service outcomes become available.

Any future changes should be subject to appropriate stakeholder engagement and supported by clear governance arrangements.

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

The Panel considers that the proposed four pillars appear capable of providing an appropriate framework for assessing organisational performance. However, the effectiveness of the framework will ultimately depend upon the maturity and quality of the supporting performance measures. In particular, the Panel notes that the System Performance KPIs referenced in paragraph 3.15 of the consultation have not yet been defined. Until these measures are developed, it is difficult for stakeholders to assess whether they will provide an objective, transparent and sufficiently robust basis for remuneration decisions.

The Panel also considers it important that Customer Satisfaction measures (referenced in paragraph 3.22) are based upon robust, representative and transparent engagement methodologies that appropriately reflect the experience of different categories of DCC users and SEC Parties.

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)?

The Panel supports providing the Licensee with an appropriate degree of flexibility, provided that any proposed weighting is clearly justified, transparent and capable of independent scrutiny. Stakeholders should be able to understand how the chosen weightings support the overall objectives of the Remuneration Policy and the delivery of customer and service outcomes.

Where pillar weightings change over time, or where a pillar is not reassessed in a particular year, the rationale for any redistribution should be clearly explained to stakeholders.

The Panel has no specific preference regarding how weightings should be redistributed, provided the approach remains transparent and consistent with the overall objectives of the framework.

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

The Panel has no specific view on the appropriate balance between organisational and individual performance measures. However, the Panel considers that the overall framework should incentivise behaviours that support delivery of the outcomes valued by SEC Parties and DCC users, while maintaining confidence that remuneration decisions are objective, proportionate and evidence based.

The CCG is likely to be better placed to comment on the detailed operation of remuneration arrangements.

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

The Panel considers that stakeholder confidence will depend upon remuneration decisions being supported by sufficiently mature, transparent and independently verifiable performance measures. In particular, care should be taken to avoid incentives that encourage optimisation against metrics that do not accurately reflect the service outcomes experienced by SEC Parties and DCC users.

The Panel also considers that the transition from DCC1 to DCC2 presents a particular challenge. During this period, performance measures, governance arrangements and reporting frameworks are expected to evolve. It will therefore be important that remuneration outcomes remain fair, understandable and appropriately linked to measurable performance throughout the transition, and that the framework is implemented at a point where sufficient evidence exists to support objective assessment.

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

The draft Guidance is broadly clear regarding the intended direction of the proposed Remuneration Policy.

However, the Panel considers that further clarity would improve stakeholder confidence in its implementation. In particular, additional detail on the proposed System Performance KPIs (paragraph 3.15), the methodology supporting Customer Satisfaction measures (paragraph 3.22), and the operation of the framework during the transition to DCC2 would assist stakeholders in understanding how remuneration decisions will be reached in practice and how those decisions will be supported by objective evidence.

The Panel also notes that the CCG's independent response is expected to provide further observations on the detailed design and operation of the proposed framework.