

DCC Operational Performance Regime

Citizens Advice consultation response



General comments

Citizens Advice is pleased to respond to Ofgem's consultation on implementing an Operational Performance Regime (OPR) for the Data and Communications Company (DCC). Broadly, we believe that Ofgem is adopting a sensible approach to the design of the OPR. Our detailed comments in relation to each question can be found in the following section.

The DCC's activities are novel and there are no comprehensive comparators in the UK to benchmark good performance (though, as we remark in our response to Question 5, there are likely to be imperfect comparators that Ofgem should make use of). This presents significant risk that incentives could, particularly at the start of the DCC's activities, drive the wrong behaviours or incentivise behaviours inefficiently. It will therefore be crucial to review the Operational Performance Regime's success early on in its existence. **We recommend a thorough review of the OPR within two years of its operation.**

One of the significant challenges for designing the OPR is making relatively little at-risk margin drive the right behaviours as successfully as possible. However, it is possible to overstate this challenge. While the £2-3m put at risk each regulatory year is far smaller than many incentives for other monopoly businesses Ofgem regulates (you highlight the £30m per year available through the Balancing Services Incentive Scheme), characterising incentives purely in absolute terms could understate the potential for this incentive to drive behaviour change. £2-3m is roughly 10% of the DCC's revenue in the last regulatory year — proportionately, its potential value is in excess of many network company incentives. This does not undermine the case for a tightly defined, limited and focussed set of incentives, but nor should it dilute Ofgem's ambition for the scale of behaviour change that these incentives should seek to drive.

The scope for incentives to drive behaviour is also determined by how challenging it is for the DCC to meet their targets. We note that the Licence only permits downside risk and forbids any reward for outperformance. While a balance must be struck to ensure that incentive targets can be realistically achieved, we believe that the incentives must be high risk for the DCC in order to drive excellent performance within the Operational Performance Regime.

Finally, we would like to reiterate our call for greater clarity regarding the timetable for transition to ex-ante regulation. We understand the case for opting for ex-post regulation in the first instance, when the DCC's costs are uncertain and - to a considerable degree - unforecastable. We welcome the OPR as part of a transition towards ex-ante regulation, and recommend that a timetable for implementing ex-ante regulation for all of the DCC's core activities should now be set out.

Question Responses

Question 1: Do you agree with our approach to apply the OPR to core smart metering activities only?

We agree that the OPR should apply only to core smart metering activities. This will enable a stable and predictable incentive regime and allow for a tightly defined set of incentives.

This should not diminish the fact that separate projects, such as the enrolment of SMETS1 meters, are vital to delivering the benefits of the smart meter rollout to all consumers. This project (and any further one off projects) may require a different oversight regime. This could resemble the implementation milestones system, in order to ensure that the enrolment happens in a timely manner which limits costs.

It is possible that providing separate regimes for different activities could incentivise the DCC to attach greater priority to either projects or the OPR incentives, depending on which carried the most risk or reward. We therefore recommend that Ofgem separately sets out how projects will be incentivised and overseen and ensure that there is no conflict between successful delivery of projects and core smart metering activities. This should be included in the review of the OPR we recommend above.

Question 2: Do you agree with complementing the OPR with further reporting in order to provide transparency and potentially form the basis of future OPR metrics?

We recognise that there is scope for improving the DCC's reporting outputs. We therefore welcome further reporting through the DCC's annual service report to provide transparency and flag areas of concern for industry. The extent to which this is the case will depend on these complementary reporting metrics being tightly defined and robustly reported. To drive any improvement in performance of these areas it may be necessary to provide benchmarks which the DCC is expected to meet, even if they are not linked to a financial risk.

Requiring further reporting metrics could be the best way to realise the Development and Innovation Measure, rather than including it as a separate incentive. The metrics you identify regarding responsiveness to requests for Elective Communication Services, facilitating Smart Energy Code modifications and maximising coverage for the end of the rollout, could all be addressed through reporting requirement rather than financial incentive.

Question 3: Do you agree with our proposed principles for developing the OPR metrics?

Responsive to User needs

As currently set out the principle suggests that the User's needs flow ultimately from the consumer's needs. However, the DCC Users are diverse, and have differing levels of interaction and consideration for consumers. In the context of the smart meter rollout Users will be subject to competing pressures from consumers, but also from regulators and government, and operational constraints. As consumers ultimately pay for the DCC, the metrics which are designed should give priority weighting to areas where consumer impact is highest. For example, business critical needs relating to the first time installation and functioning of PPM smart meters should be given greater weight than networks' information needs.

Furthermore this principle should ensure that the DCC is responsive to the needs of all Users, and takes consideration of the impact of its decisions on potential future DCC Users. While the charging User groups will dominate the user base in the early period, over time we expect that new entrants and non-traditional businesses will want to become DCC Users. Current User needs should be met in such a way that does not compromise the needs of future DCC Users.

Flexible

We agree that the OPR must be flexible to reflect changing priorities throughout the smart meter rollout. Decisions of how and when these changes are made should be driven by regular stakeholder feedback on the performance and suitability of the OPR.

Output focused

We agree that the OPR should focus on outputs which are closely linked to consumer experience of smart meters. More certainty for Users is also a welcome aim, since this has been lacking at times under the implementation milestones regime. However, we consider that the OPR is unlikely to provide certainty in its early period, as there will be no baseline (or comparison) for performance, and the DCC will face rapidly rising demand on its services and unexpected issues as the rollout ramps up. As such, other, more regular reporting mechanisms may need to be in place to ensure that Users are able to plan effectively. Citizens Advice understands that in the early period after DCC go-live there will be other, more regular reporting mechanisms that will be facilitated through other fora (for example the DECC transitional smart meter governance programme), and recommends Ofgem work with DECC to ensure that the DCC is held to a high standard that directly ties DCC's performance to consumers' experience of smart meters.

Clear and credible

We agree that the OPR should be set to have clear incentives. These should be designed to ensure that there is minimal room for interpretation to ensure that the

DCC can be held to account for its performance. Credible targets will also be important, although we acknowledge that in the early period of acknowledging that targets will be hard to set without any baseline performance. We discuss this further in our response to question 5.

Question 4: Do you agree with our proposal to prioritise the Service User and Service Delivery measures only in the immediate term?

As outlined in our initial comments, we agree that it is important to limit the number of incentives at this time. Given that the smooth functioning of the DCC is critical to the smart meter rollout, we believe it is appropriate to prioritise Service User and Service Delivery Measures at this stage and not include a Value For Money or Development and Innovation Measure. Ongoing costs' value for money is currently addressed by ex-post incentives and will in time be transitioned to ex-ante incentives. Value for money for the whole smart meter programme is best achieved by efficiently incentivising excellent delivery and services to users.

However, it is important that the incentives ensure stakeholders are engaged effectively by the DCC. Given the novelty of the DCC's activities, stakeholder engagement is particularly vital for the excellent delivery of the DCC's core smart metering activities. It is our understanding that the DCC has not been as successful at stakeholder engagement as it might have been during the implementation phase. As such we believe it is necessary to incentivise this behaviour in the immediate term: a way of doing so might be through one of the priority performance objectives.

While the Development and Innovation objective may not be an immediate priority, we foresee that this will become more important as the rollout goes on and new services using smart meter data develop. However, we are content that this can be addressed through requiring reporting metrics, as set out in our response to Question 2.

Question 5: Do you have views on how DCC's operational performance can be measured without a baseline to compare it to?

While we agree that the DCC has novel elements, it does not necessarily follow that it is impossible to benchmark the DCC's activities in their entirety. Ultimately, Ofgem will have to form a view about what realistic, yet challenging, performance from the DCC will look like. In forming this view, it should — where possible — set performance expectations relative to other regulated companies. It may be possible to identify discrete comparators with, for example, customer service or stakeholder engagement incentives for network companies. These will necessarily

be imperfect, but Ofgem should seek real world comparators and then exercise judgement as to how far they expect the DCC's performance to diverge.

Whichever operational performance measurement system is used, the DCC should be expected to demonstrate sustained improvement over time and the design of the incentives should take this into account. This will avoid the possibility of the DCC meeting a certain standard of performance and then not facing incentives to exceed it. It should be accompanied by appropriately challenging initial performance targets, to avoid the possibility of rewarding the DCC for improving rapidly against a bar set too low.

In addition to incentivising the DCC to improve performance, the metrics must also ensure that performance meets a minimum level required in order for the rollout to be successful. These requirements could be determined in association with stakeholders, for example engaging with suppliers on the time they are allocating each installation for the smart meter commissioning process to be completed.

Question 6: What specific performance metrics do you think will drive good consumer outcomes under each measure if incentivised?

As discussed above, we agree that it is most appropriate to prioritise Service User and Service Delivery Measures at this stage. However, we also set out our views on what behaviours should be incentivised under the Value for Money and Development and Innovation Measures if taken forward.

Service User Measure

Service User Measures are likely to be the most important incentives for the OPR. Further to the example metrics, Citizens Advice recommends that Ofgem consider the introduction of a responsiveness metric. This metric could measure the speed with which the DCC provides requested data to a DCC user. This could include measuring how long consumers have to wait between submitting a request to a switching site and receiving a quote based on their smart meter reading.

The Service User metrics should be designed to ensure that the commissioning process is completed as quickly as possible. The DCC will need to use the six month de-minimis SMETS2 period after go-live to identify issues and resolve these by the time that installation levels peak. Citizens Advice recommends Ofgem consider whether the metric could be based on a wide variety of data, including the average time for commissioning, the percentage of commissions which fail, or the percentage which exceed a set time period beyond which the smart meter appointment is likely to be extended.

The provision of communications hubs will also be key for installers of smart meters. A metric in this regard, such as the percentage of orders of comms hubs which are (or are not) fulfilled by the DCC on time, will be useful.

Similarly, incentives should minimise the 'install and leave' process as part of the rollout. A possible metric could require the DCC to record and report all instances where this process is required in areas where suppliers reasonably expected that WAN communications were available ('reactive' install and leave).

Any metric on the Service Desk should be based on a variety of components. This could incentivise the DCC to reduce the average response and resolution times to incidents, as well as the number of cases which breach the target resolution time. The targets may need to be more strict for more serious categories of complaints. Citizens Advice recommends that when the DCC assigns incidents to incident categories, it actively considers the consumer, as well as User, impact. This metric will need to be take a wide-scale approach to avoid incentivising the DCC to focus on particular areas (eg average resolution time) at the expense of difficult problems (eg those which breach the target time). The metric could also include some measure of the User satisfaction, for example through surveys, with the process and final resolution to ensure that these are of adequate quality.

Service Delivery Measure

Any metric should be based more on the DCC's ability to resolve, clear and prevent 'Problems' (service issues leading to Users raising incidents with DCC) from reoccurring, rather than simply reducing the volume of Problems. This is likely to incentivise the DCC to be open about these Problems when they arise and act quickly to resolve them.

Value for Money Measure

As outlined above, we agree that Value for Money Measures should not be prioritised at this stage.

However, in future iterations of the OPR there may be scope for the DCC to develop a business plan in consultation with stakeholders, and that this should be scrutinised by a Stakeholder Panel. This would ensure transparency and help both Users and other stakeholders to hold DCC to account. This could be financially incentivised either as part of the Value for Money measure, or through a discretionary reward for stakeholder engagement. As the DCC is already developing such a plan this could be reported as a complementary performance metric, although this approach may be less successful at driving improvements in stakeholder engagement by the DCC.

As set out by Ofgem, a further benefit of setting a robust business plan is that it could expedite the transition to an ex ante price control system. We support this transition as rapidly as possible to ensure that the DCC focuses on long term costs.

Without detail on the possible timeline for this transition it is difficult to comment on whether long term cost control should be incentivised through the Value for Money measure. This may be more appropriate as a financially-incentivised metric if the process to transition to an ex-ante price control system is likely to take a long period of time.

Development and Innovation Measure

Our comments on the Development and Innovation Measure are contained in Question 2. As outlined there, we believe that this Measure can best be realised through requiring reporting metrics rather than through financial incentives.

Question 7: What other metrics do you propose DCC should report on as part of wider reporting and/or which could become part of the OPR in the longer term?

As set out earlier in this response, stakeholder engagement is a key activity that Citizens Advice recommends should be incentivised for the DCC to ensure that there is a productive relationship with Users and that the needs of Users, consumers and other stakeholders are taken into account by the DCC in its work.

Question 8: Are there any other points we should consider when designing the OPR?

It is unclear from the consultation document whether the regulator's assessment of the OPR metrics will be published and consulted on as part of the annual Price Control Consultation, as the assessment of the Implementation Milestones currently is. We would appreciate more clarity on this from Ofgem.