



Robyn Daniell

Smarter Metering
Ofgem
9 Milbank
London
SW1P 3GE

Adarsh Trivedi
Phone: 07920 878380
E-mail:
adarsh.trivedi@rwe.com

Dear Robyn,

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Consultation - DCC Operational Performance Regime: Principles and Objectives

RWE npower welcomes the opportunity to offer its views on the DCC's proposed Operational Performance Regime (OPR).

We think that value for money should be a principle formally underpinning the OPR. This will promote greater accountability, a timely response to change, and the will to provide Users and consumers with suitable advance notice and visibility of performance. This approach aims to minimise any additional cost burden on consumers.

We agree that the OPR should place considerable importance on establishing a stable and reliable DCC. However we have concerns about the proposal to restrict the OPR to 'core activities' only, and we recommend that flexibility is built in to enable the OPR to be changed in the light of developments.

RWE npower also calls for a sophisticated OPR; one which supports a culture of constant improvement and review, with rigorous data reporting within the OPR and beyond. The DCC is a new venture, and the OPR, without the benefit of true benchmarking, must be comprehensive enough to allow and incentivise the DCC to respond and innovate proactively.

I hope our above comments are helpful. If you would like to discuss our response, please feel free to contact me.

Yours sincerely,

Adarsh Trivedi
Future Regulatory Development
RWE npower

RWE npower
2 Princes Way
Solihull
B91 3ES
T: 07920878380
I: www.npower.com

Registered office:
RWE Npower Group plc
Windmill Hill Business Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

Appendix 1 – Ofgem consultation questions on DCC Operational Performance Regime: Principles and Objectives

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

RWE npower agrees with the basic idea that the OPR should prioritise core activities in order to ensure a functional DCC during the early phase of the company. It is felt however, that while this would be a reasonable starting point, the list of core activities should be revisited regularly and amended where necessary.

RWE npower seeks clarification as to which activities constitute core activities. We agree with the need to establish stability. We question, however, the omission of projects under the OPR regime, as larger industry projects are often major undertakings which require significant expenditure, and which have a vast industry impact. Furthermore, why incentivise one-off activities and not projects? Npower feels that this is slightly too insular an approach.

RWE npower does not agree that there should be a formal period of stabilisation during which no activity will be incentivised under the OPR. We do not feel that this is appropriate as DCC should strive to make a fluid transition from the incentive regime of implementation milestones (IM) to that of the OPR. RWE npower believes that the targets should already be in place to ensure a cost-effective and functional DCC.

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?

RWE npower believes that complementing the OPR with additional reporting is a realistic and astute way of providing greater transparency of DCC's performance. Transparency is of particular importance to suppliers who are keen to understand DCC's plans and operations in the earliest timeframe possible. DCC is to play a major role in the smart metering ecosphere, and it is important that Users and regulators are given the greatest visibility possible to ensure that performance and standards of service remain at the highest level. This is a major concern as DCC will go live with neither prior experience nor prior benchmarking. The complimentary metrics will provide a rounded, more granular view of performance, promoting greater accountability within DCC.

It is important however that the process of complementary reporting should go beyond purely after-the-event reporting. That is to say, DCC should have the processes in place to give stakeholders a timely view, with consultations in place for Users and suppliers to determine with DCC, which metrics will be added. This is a more proactive reporting ethos which would allow suppliers and regulators to understand at the earliest which areas of DCC's performance should be monitored. The ultimate emphasis on DCC here is to provide detailed and accurate information in time for suppliers to adapt their processes accordingly.

In relation to the possibility of promoting supplementary metrics to the OPR, RWE npower believes, in theory, that this would be a good idea. Reporting for the Annual Service Report will give Ofgem the visibility required to judge whether any new metrics should be added to the OPR.

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

RWE npower agrees with the suggested principles for developing the OPR metrics, as a flexible and output-focused OPR will allow achievable and realistic targets to be incentivised. We believe that the OPR must incorporate a development plan which has the potential to increase the amount of margin at risk, over time.

The purpose of the OPR is to measure the performance and output of DCC. Incentivising performance is key to creating a de facto competitive market, which will enhance performance standards, but the success of the OPR will boil down to how comprehensively the framework can hold DCC to account for its performance. While value for money is mooted as an overriding measurement to be incorporated through performance metrics, we feel that it is essential that value for money or cost-effectiveness is formally installed as a principle underpinning the OPR itself. We feel that the OPR should go further than incorporating individual metrics to determine whether DCC has acted cost-effectively enough to retain margin. Instead, the emphasis should be on DCC from the outset, both qualitatively and quantitatively, to ensure it delivers a service which is cost-effective to the suppliers charged with underwriting the company.

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

RWE npower does not entirely agree with the proposal to prioritise the Service User and Service Delivery measures. Such an approach would risk undermining the measure of value for money which npower believes should underpin the effective running of DCC. We see no good reason for leaving out value for money and feel that the effort to prioritise the reliable user and service needs should be cost-conscious.

If the eventual OPR did, in the early stages, prioritise the service user and the service delivery measures only, RWE npower advises that the other two measures be proactively monitored. If this is not the case, there will be an extended period of time before sufficient data is available to monitor them. In effect, it could be two years before any statistically rigorous information has been collected. This would then impact the time-scales in which Ofgem could move to an ex-ante price control.

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

Ofgem could compare the performance measuring regimes of industry code administrators or bodies like SECAS, ELEXON, Gemserve or Electralink. From this, it should be possible to draw useful insight into appropriate measures that could be applied here. Also, there is precedent elsewhere in the industry for setting performance measures for newly operational companies and bodies eg Energy TRAS. It should also be possible to use provisional hypothetical benchmarks to ensure that the OPR can set achievable yet rigorous performance targets.

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

RWE npower believes that performance metrics measuring the timely and accurate management of Users' service requests would drive a positive consumer service. DCC must have a viable system in place which allows the company to react quickly and proactively to the needs of Users, because it is foreseeable, especially in the early stages of go-live, that DCC will receive a high volume of varied service requests from Users.

RWE npower supports Ofgem's examples of a set of metrics focusing on the service desk requests. These are measurements against the reduction of resolution and clearance times of incidents, the reoccurrence rates of incidents, and the event of escalated risks being brought before the SEC Panel, and any finding of DCC fault.

RWE npower also supports Ofgem's proposal to apply similar performance metrics to service delivery; namely the setting of a minimum threshold for the number of service problems managed, the reduction of resolution and clearance times of problems, and their reoccurrence rates.

Performance incentives must also cover how DCC identifies root causes of issues raised to it by end Users, who themselves, have obligations placed on them that depend on DCC's ability to provide appropriate services. The OPR would therefore not only need to address the issue but the time taken for resolution.

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?

Under the value for money measurement, RWE npower proposes the possibility of tolerances against the financial targets that DCC are set. The metric would measure how closely DCC meets the financial expenditure target it was set. If DCC remained under budget, it could be financially rewarded depending on the predetermined cost efficiency or saving that it could clearly demonstrate. Conversely, DCC would risk more of its margin if it exceeded the budget by a set amount. Here, we feel that as long as value for money is adequately represented in the OPR, positive performance can be responsibly incentivised.

This hands-on approach to value for money reporting would also allow for a more granular breakdown of DCC performance, as greater reporting would highlight areas in which DCC performance was operationally sound, and conversely, where additional resources or troubleshooting would be required.

RWE npower suggests the incorporation of a metric measuring the transparency of the management of service request volumes. A performance metric against 'over-capacity' or 'buffer' availability at all times, would allow the OPR to determine whether DCC has a safeguarding measure in place, to absorb an excess of service requests, useful in the event of a crisis also. The establishment of two thresholds indicating the healthy buffer capacity required, and a time measurement, would offer the ability to report on how often (what amount of time) this required service buffer capacity threshold was maintained or breached. If the service desk did not maintain a healthy buffer for an excessive period, DCC service delivery would risk underperformance, as greater demand

for service requests, could overstretch DCC resources and adversely affect resolution times. This would fall under the service delivery measurement.

RWE npower also proposes that the OPR measure the reporting of trend analyses undertaken by DCC, and the subsequent distribution to stakeholders. DCC would be required to provide reporting on a monthly, quarterly or annual basis, depending on the analysis undertaken, with reviews at appropriate work streams or sub-groups. Again, this would promote greater transparency and granular visibility to Users and to the SEC Panel also.

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

RWE npower believes that incentivising under the value for money and the development and improvement measures must not be dismissed in the early stages. These measurements should develop naturally from the outset, as a lack of accurate and rigorous data in these fields may slow down development and innovation of services in the future. This, in theory, could affect product or innovation timescales, to the detriment of suppliers and consumers.

We do not agree that DCC should be incentivised to develop a robust long-term business plan. DCC is contracted to provide smart communication services for a twelve year period, with the clear opportunity for extension. With DCC operating without competition, RWE npower believes that a robust business plan should already be at the heart of DCC and no incentivising to deliver this should be necessary.

We would like to better understand Ofgem's discretionary incentives proposed in the OPR also. Would these be solely financial? What would they likely be applied to? How would these incentives align against existing ones and how would Ofgem ensure that these do not effectively replace or usurp any measures developed within OPR?

The OPR should also look at monitoring performance improvements overtime and setting increasingly stringent tolerance levels that should align with increasing stability.

RWE npower would also be in favour of the OPR containing metrics relating to the availability of assets. As Users place orders, a metric could centre upon whether these are being fulfilled on time. This would likely apply in later years however, once DCC starts to provide elective services to Users.

Finally, RWE npower believes that the OPR must in practice reflect the values of flexibility, output focus and user-centricity . This means an OPR which continues to change, and which has the capacity to react dynamically to Users' needs. At this point, we cannot know entirely what problems, issues and performance levels are expected, but as the market moves, we should be able to ask on a case-by-case basis whether new principles, measurement frameworks, and metrics can be added. DCC will operate in a climate of change; indeed change is symbolic of DCC's existence. RWE npower supports a diligent OPR; one which maintains a culture of constant review and improvement, and which understands the great benefits that notice and foresight can bring to suppliers and most importantly, to the consumer.