

# Final Proposals for Operational Performance Regime

## Annex to Letter Response



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## 1 Introduction

This annex forms part of Smart DCC's response to Ofgem's consultation on its final proposals for the DCC Operational Performance Regime.

It should be read, alongside the covering letter, and can be regarded as non-confidential and suitable for publication.

## 2 Consultation Questions

**Question 1:** *Do you agree with our proposed measures and weightings, and proposal that the performance levels for each measure should be consistent with the SEC and service provider contracts in the enduring regime?*

On a number of occasions, DCC has expressed its concern about the choice of measures and would have preferred a more consultative process with industry parties to design a suitable reporting framework.

Experience from other regulated sectors, such as the "Broad Measure of Customer Satisfaction", used in the electricity networks, would suggest that a typical way forward in establishing an incentive regime would be to operate a shadow reporting process for a period, during which an assessment could be made of the effectiveness of measures and suitable targets, and any methodological/technical issues with reporting could be ironed out.

As OPR is making use of metrics required largely for SEC reporting, then the reporting issues should be avoided, however we consider that Ofgem as a reasonable and proportionate regulator, would want to set targets based on actual operational experience, rather than notional targets, the feasibility of which has yet to be tested. In particular, DCC live operation is untested and there are no comparators to set a starting level.

As a result of our alternative proposal, there is now the time in which to trial a range of measures and assess what would be challenging, but realistic targets. Beyond this there will also be the opportunity to work through some of the detailed aspects of the reporting regime, which we highlight in the following paragraphs:

- DCC believes that the reporting should ensure that a single incident does not count negatively for more than one measure, so that any penalty is not disproportionate to the issue. For example a failed install, resulting from a system outage, should count against the system outage and not as a failed install also.

- DCC recommends that some consideration be given to the affect which “outlier” performance by SEC Parties may have on the overall result. In the event that a single SEC Party’s performance was to materially impact the results being achieved by DCC, exclusions should apply. “Outlier” performance should be considered for exclusions when a single SEC Party’s outcomes being achieved are > or <50% of the industry mean (based on at least 4 other SEC Parties). Note: Subject to further discussion with Ofgem, DCC proposes to include this within its methodology paper.

In light of the above, DCC proposes to include a list of permitted exclusions which would be factored into the assessment of DCC performance, under the OPR, in line with the DCC Performance Measurement Methodology.

We believe that the period of operation during 2017/18, which our alternative proposals would allow, will enable all such methodological issues to be defined such that there is then an agreed and unambiguous set of rules against which DCC can be judged.

Given the set of measures described in the consultation, we are content with the weightings proposed, as long as the principle that a failure will only count against one measure, is accepted. However we would recommend that both the set of measures and relative weightings are subject to annual review.

**Question 2:** *What are your views on our proposals for the interim regime?*

Ofgem is correct to recognise that no programme/service of this scale and complexity is likely to run optimally and with no issues from day one. Hence, it is wholly appropriate that this should be reflected in the design of the scheme.

However, in the light of the change in timescales for the programme, and the significant reduction in forecast installations during 2017/18, DCC wishes to makes the alternative proposal, which is outlined in our covering letter and summarised below:

- Informal reporting against the OPR measures will be made available to Ofgem as it becomes available post April 2017.
- OPR would be activated from 1 April 2018, but under the terms of Ofgem’s proposed enduring regime. The interim regime would no longer be required.
- On the assumption that Ofgem requires the 2016/17 and 2017/18 margins to be placed at risk, then this should be spread over the remaining years of the licence (2018/19 onwards).
- Subject to any further discussion, all other aspects would follow the proposals described by Ofgem for the enduring regime

We believe that this has the following benefits:

- It provides a pragmatic response to the planned go-live date for R1.3 and recognises the likelihood of low usage in the subsequent months, thus freeing up DCC to deal with early-life problems and optimise performance ahead of any significant ramp-up by users.
- The timeframe proposed better aligns with the contractual liabilities of the fundamental service providers, thus ensuring that DCC has sufficient commercial leverage to address performance issues.
- It ensures that margin for each year is placed at risk, whilst the spreading of margin further incentivises DCC to maintain and enhance service levels over the long-term.
- It removes the potential unfairness of margin at risk being front-loaded to the time when there is greatest uncertainty over performance, but simplifies the scheme by removing the requirement for an interim regime.
- It may enable elements of the enduring regime to be modified based on 2017/18 experience, for example, it would allow formal metrics to be added/changed in response to Ofgem/industry demand.
- It will allow methodological issues, such as the balance between DCC and service user responsibility, to be clarified and then codified, before the scheme comes into formal use.

It is our view that this alternative model would provide a fairer assessment of whether the DCC infrastructure or operation is really delivering as expected by our stakeholders and for current and future consumers, having given us the opportunity to address the unexpected and/or challenging issues which early life will inevitably bring.

**Question 3:** *What proportion of its margin DCC should be able to retain for reaching minimum performance levels under the enduring regime? Please provide justification / evidence to support your view.*

We have already indicated that we regard the proposed choice of metrics as being extremely challenging. Due to the downside-only nature of this scheme and the proposition that no margin will be retained for performance below the enduring 'minimum', we are driven to ask for a relatively high proportion of margin to be retained at the 'minimum performance level'.

In our view this should be 80% of margin retained.

**Question 4:** *Do you have any specific comments on the draft direction which will implement our proposals included in the supplementary annex?*

We have reviewed the draft direction and have identified no issues with it, based on Ofgem's proposals. This draft direction will be able to be simplified should Ofgem adopt our alternative proposals.

**Question 5:** *Do you have any suggested methodologies for the ‘new’ reporting metrics for DCC?*

DCC will be presenting an OPR Measurement Methodology paper defining the proposed set of OPR reporting metrics, the data sources, any required calculation methods, rules for inclusion/exclusion and whether the measure will be a direct measure or require the use of a proxy measurement etc.

Ideally, this methodology paper should include any agreed new reporting metrics, as well as those which are formally incentivised under OPR.

In developing this response, we have prepared an initial assessment of the feasibility of producing the proposed additional measures, so as to set expectations as to where development activity to capture the data and/ or develop of the reporting system might be required. This assessment is provided along with this response.

With regards to new measures these may be subject to development which will incur time and cost. Requirements may fall into 3 categories:

- 1) Data available, reportable and can be provided.
  - a. These can be provided to Ofgem with a view as to the User benefit of the measure.
  - b. Measures can be implemented with development in terms of report building.
  - c. Measures would require time between agreeing the measure and its initial publication.
  - d. Reports, once published, would include back dated values.
- 2) Data is available, but development is required to make this reportable.
  - a. Measures can be implemented with development in terms of report building.
  - b. Measures would require time between agreeing the measure and its initial publication.
  - c. Reports, once published, would include back dated values.
- 3) Data is not yet available, so development would be required to capture the data, with further subsequent development required to make this reportable.
  - a. Measures cannot be implemented without development in terms of data capture, prior to further development for report building.
  - b. Measures would require significant time between agreeing the measure and its initial publication.
  - c. Reports, once published, would not include back dated values and would only include values from the point of publication.

In finalising this methodology paper, DCC anticipates that the publication of some of the reporting metrics may raise concerns about confidentiality or might impact on service user behaviour to the detriment of the overall programme.

Hence, we would anticipate the need for further discussion with Ofgem before a set of additional metrics can be formally agreed.

***Other significant points:***

- a) At 3.42, Ofgem proposes the use of an independent performance auditor.

DCC agrees that confidence in the reporting data is crucial to the credibility of the regime. This is one of the factors that is driving our production of a methodology paper, such that there is a clear and unambiguous description of the reporting requirements, definitions, data sources, rules for inclusions/exclusion of data etc.

We would be content to see some form of independent assurance of the reporting process and outputs. An independent performance auditor, as used for the Implementation Milestones, would be acceptable, and we would propose a discussion with Ofgem as to the precise scope of the assurance activity and the best approach to identifying a suitable party to fulfil this role.