

DRAFT – SUBJECT TO CONSULTATION

To: Smart DCC Ltd

**DIRECTION ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY
PURSUANT TO LICENCE CONDITION 38.9 OF THE SMART METER
COMMUNICATION LICENCE GRANTED PURSUANT TO SECTION 7AB(2) AND (4)
OF THE GAS ACT 1986 AND SECTION 6(1A) AND (1C) OF THE ELECTRICITY ACT
1989 (the “Direction”)**

WHEREAS

1. The company to whom this Direction is addressed (the “Licensee”) holds a Smart Meter Communication Licence pursuant to section 7AB(2) and (4) of the Gas Act 1986 and section 6(1A) and (1C) of the Electricity Act 1989 (the “Licence”).
2. The Gas and Electricity Markets Authority (the “Authority”) has the power pursuant to condition 38.9 of the Licence to develop and populate the provisions of Schedule 4 of the Licence by giving a direction for that purpose after complying with the requirements of Part C of the condition 38 of the Licence.
3. The Authority has complied with the requirements of Part C of condition 38 by consulting with the Licensee, the SEC Panel and SEC Parties.

NOW THEREFORE

4. The Authority hereby directs that Schedule 4 be developed and populated as set out in the Appendix to this Direction.
5. This Direction shall take effect on [*TO BE DETERMINED*]
6. The following documents constitute notice pursuant to section 49A of the Electricity Act 1989 and section 38A of the Gas Act 1986:
 - a) This Direction
 - b) JUNE 2017 CONSULTATION
 - c) NOVEMBER 2016 CONSULTATION

These documents are available on the Ofgem website: www.ofgem.gov.uk

Dated : [*TO BE DETERMINED*]

Partner, Consumers and Competition

Authorised for that purpose by the Authority

APPENDIX – MODIFICATIONS TO SCHEDULE 4 OF THE LICENCE

$$\text{BMOPAt} = [\text{SUM 1-4}] + [\text{SDM 1-4}] + [\text{DIM 1-4}] + [\text{VMM 1-4}]$$

1. The performance measures to be included under the OPR are as follows:

SUM 1 = DCC Service Desk

SUM 2 = Communication Hubs

SUM 3-4 = 0

SDM 1 = DCC WAN Coverage

SDM 2 = Core Service Requests

SDM 3 = Service/ system availability

SDM 4 = 0

DIM 1-4 = 0

VMM 1-4 = 0

2. The following describes how we will determine the baseline margin adjustment to be made with respect to the DCC's performance against each individual measure under the OPR.

Definitions

BM_t = has the meaning given to that term in Part C of Condition 36 (Determination of the Licensee's Allowed Revenue)

$\text{BM}(\text{OPR})_t$ = the amount of margin at risk for year t of the OPR (as outlined in table 3 below).

TPL_{nt} = Target Performance Level

MPL_{nt} = Minimum Performance Level

RPL_{nt} = Reported Performance Level

PMW_{nt} = Performance Measure Weighting

$TPLI_{nt}$ =Target Performance Level Incentive. The value of BM_t allocated to this measure for reaching the target performance level for this measure.

$MPLI_{nt}$ = Minimum Performance Level Incentive. The margin allocated to this measure for reaching the minimum performance level for this measure.

3. Where n equals the value of the specific performance measure in question (eg SUM 1-2, SDM 1-3) and t is the Regulatory Year.
4. In general the following formula applies to the determination of n_t , with the exception the interim regime:

I. If $RPL \geq TPL$ then $n_t = \text{Zero}$

II. If $RPL < MPL$ then $n_t = - TPLI_{nt}$

III. If $RPL = MPL$ then $n_t = - (TPLI_{nt} - MPLI_{nt})$

IV. If $MPL < RPL < TPL$ then:

$$n_t = - [1 - [(RPL_{nt} - MPL_{nt}) / (TPL_{nt} - MPL_{nt})]] * [TPLI_{nt} - MPLI_{nt}]$$

5. The boxes below provide incentive structures for each performance measure value (n) based on the approach outlined above.

SUM1 – DCC service desk: DCC is incentivised to provide a high quality service to Users through the resolution of incidents in a timely and efficient manner.

Algebraic term: $n_t = \text{SUM1}_t$

OPR performance measure methodology: Percentage of 1-5 incidents which met the DCC Target Resolution Time over a year, calculated as specified in the amended DCC Regulatory Instructions and Guidance.

Amount of term: The amount of SUM1_t is calculated in accordance with the general formulas outlined at para 4, using the following values for the variables:

$\text{TPL}_{\text{SUM1}_t}$ = Target Performance Level for SUM1_t equivalent to the target service levels for SEC CPM (Code Performance Measure) 4 and 5 at the beginning of t , combined as reflected in the OPR performance measure methodology set out in the RIGs.

$\text{MPL}_{\text{SUM1}_t}$ = Minimum Performance Level for SUM1_t equivalent to the minimum service levels for SEC CPM (Code Performance Measure) 4 and 5 at the beginning of t , combined as reflected in the OPR performance measure methodology set out in the RIGs.

$\text{RPL}_{\text{SUM1}_t}$ = Reported Performance Level for SUM1_t – is equal to the actual performance level for SUM1_t as reported to Ofgem by 31 July following the end of Regulatory Year t

$\text{TPLI}_{\text{SUM1}_t} = \text{BM}(\text{OPR})_t \times \text{PMW}_{\text{SUM1}_t}$

Where $\text{BM}(\text{OPR})_t$ is outlined in table 3 and $\text{PMW}_{\text{SUM1}_t}$ is the figure aligned to SUM1 and RY_t in table 1.

$\text{MPLI}_{\text{SUM1}_t} = \text{TPLI}_{\text{SUM1}_t} \times \text{Y}_{\text{SUM1}_t}$

Where Y_{SUM1_t} is the proportion of TPLI_{nt} the Licensee is awarded for meeting MPL_{nt} and is equal to the figure aligned to SUM1 and RY_t in table 2.

SUM2 – Communication Hubs: DCC is incentivised to ensure Communication Hubs are delivered on a timely basis, and are not faulty.

Algebraic term: $n_t = \text{SUM2}_t$

Where $\text{SUM2}_t = \text{SUM2a}_t + \text{SUM2b} + \text{SUM2c}_t$

SUM2a – Communication Hubs Delivery (a): DCC is incentivised to ensure Communication Hubs are delivered on a timely basis.

Algebraic term: $n_t = \text{SUM2a}_t$

OPR performance measure methodology: Percentage of Communications Hubs delivered on time, as specified in the amended DCC Regulatory Instructions and Guidance.

Amount of term: The amount of SUM 2a_t is calculated in accordance with the general formulas outlined at para 4, using the following values for the variables:

$\text{TPL}_{\text{SUM 2a}_t}$ = Target Performance Level for SUM2a_t equivalent to the target service levels for the reported List of Communications Service Provider Performance Measures Schedule 11 Appendix 2.2 CH 1.1 at the beginning of t, combined as reflected in the OPR performance measure methodology set out in the RIGs.

$\text{MPL}_{\text{SUM 2a}_t}$ = Minimum Performance Level for SUM2a_t equivalent to the minimum service levels for the reported List of Communications Service Provider Performance Measures Schedule 11 Appendix 2.2 CH 1.1 at the beginning of t, combined as reflected in the OPR performance measure methodology set out in the RIGs.

$\text{RPL}_{\text{SUM 2a}_t}$ = Reported Performance Level for SUM2a_t – is equal to the actual performance level for SUM2a_t as reported to Ofgem by 31 July following the end of Regulatory Year t

$\text{TPLI}_{\text{SUM 2a}_t} = \text{BM(OPR)}_t \times \text{PMW}_{\text{SUM 2a}_t}$

Where BM(OPR)_t is outlined in table 3 and where $\text{PMW}_{\text{SUM 2a}_t}$ is the figure aligned to SUM2a and RY_t in table 1.

$\text{MPLI}_{\text{SUM 2a}_t} = \text{TPLI}_{\text{SUM 2a}_t} \times Y_{\text{SUM 2a}_t}$

Where $Y_{\text{SUM 2a}_t}$ is the proportion of TPLI_{n_t} the Licensee is awarded for meeting MPL_{n_t} and is equal to the figure aligned to SUM2a and RY_t in table 2.

SUM2b – Communication Hubs Delivery (b): DCC is incentivised to ensure that deliveries of Communication Hubs are accepted by Users.

Algebraic term: $n_t = \text{SUM}2b_t$

OPR performance measure methodology: Percentage of Communications Hubs accepted by DCC service users, as specified in the amended DCC Regulatory Instructions and Guidance.

Amount of term: The amount of $\text{SUM}2b_t$ is calculated in accordance with the general formulas outlined at para 4, using the following values for the variables:

$\text{TPL}_{\text{SUM}2b_t}$ = Target Performance Level for $\text{SUM}2b_t$ equivalent to the target service levels for the reported List of Communications Service Provider Performance Measures Schedule 11 Appendix 2.2 CH 1.2 at the beginning of t , combined as reflected in the OPR performance measure methodology set out in the RIGs.

$\text{MPL}_{\text{SUM}2b_t}$ = Minimum Performance Level for $\text{SUM}2b_t$ equivalent to the minimum service levels for the reported List of Communications Service Provider Performance Measures Schedule 11 Appendix 2.2 CH 1.2 at the beginning of t , combined as reflected in the OPR performance measure methodology set out in the RIGs.

$\text{RPL}_{\text{SUM}2b_t}$ = Reported Performance for $\text{SUM}2b_t$ – is equal to the actual performance level for $\text{SUM}2b_t$ as reported to Ofgem by 31 July following the end of Regulatory Year t .

$\text{TPLI}_{\text{SUM}2b_t} = \text{BM}(\text{OPR})_t \times \text{PMW}_{\text{SUM}2b_t}$

Where $\text{BM}(\text{OPR})_t$ is outlined in table 3 and where $\text{PMW}_{\text{SUM}2b_t}$ is the figure aligned to $\text{SUM}2b$ and RY_t in table 1.

$\text{MPLI}_{\text{SUM}2b_t} = \text{TPLI}_{\text{SUM}2b_t} \times \text{Y}_{\text{SUM}2b_t}$

Where $\text{Y}_{\text{SUM}2b_t}$ is the proportion of TPLI_{n_t} the Licensee is awarded for meeting MPL_{n_t} and is equal to the figure aligned to $\text{SUM}2b$ and RY_t in table 2.

SUM2c – Communication Hubs Quality: DCC is incentivised to minimise the occurrences of Communications Hubs being discovered as faulty at installation.

Algebraic term: $n_t = \text{SUM}2c_t$

OPR performance measure methodology: Percentage of Communications Hubs not faulty as installation, as specified in the amended DCC Regulatory Instructions and Guidance.

Amount of term: The amount of $\text{SUM}2c_t$ is calculated in accordance with the general formulas outlined at para 4, using the following values for the variables:

$\text{TPL}_{\text{SUM}2c_t}$ = Target Performance Level for $\text{SUM}2c_t$ equivalent to the target service levels for the reported List of Communications Service Provider Performance Measures Schedule 11 Appendix 2.2 CH 1.3 at the beginning of t , combined as reflected in the OPR performance measure methodology set out in the RIGs.

$\text{MPL}_{\text{SUM}2c_t}$ = Minimum Performance Level for $\text{SUM}2c_t$ equivalent to the minimum service levels for the reported List of Communications Service Provider Performance Measures Schedule 11 Appendix 2.2 CH 1.3 at the beginning of t , combined as reflected in the OPR performance measure methodology set out in the RIGs.

$\text{RPL}_{\text{SUM}2c_t}$ = Reported Performance Level for $\text{SUM}2c_t$ – is equal to the actual performance level for $\text{SUM}2c_t$ as reported to Ofgem by 31 July following the end of Regulatory Year t

$\text{TPLI}_{\text{SUM}2c_t} = \text{BM}(\text{OPR})_t \times \text{PMW}_{\text{SUM}2c_t}$

Where $\text{BM}(\text{OPR})_t$ is outlined in table 3 and where $\text{PMW}_{\text{SUM}2c_t}$ is the figure aligned to $\text{SUM}2c$ and RY_t in table 1.

$\text{MPLI}_{\text{SUM}2c_t} = \text{TPLI}_{\text{SUM}2c_t} \times Y_{\text{SUM}2c_t}$

Where $Y_{\text{SUM}2c_t}$ is the proportion of $\text{TPLI}_{\text{SUM}2c_t}$ the Licensee is awarded for meeting $\text{MPL}_{\text{SUM}2c_t}$ and is equal to the figure aligned to $\text{SUM}2c$ and RY_t in table 2.

SDM1 – DCC WAN Coverage and Reliability: DCC is incentivised to achieve the agreed levels of coverage, coverage information is accurate, and communications are reliable.

This measure is a two-part conditional performance measure. DCC must meet the contractual WAN coverage commitments to be able to report against the reliability performance measure.

Algebraic term: $n_t = \text{SDM1}_t$

OPR performance measure methodology: Percentage of first time SMWAN connectivity at install, provided DCC has met the contractual coverage commitments in CSP contracts (all Milestone Dates, as defined in the CSP contracts, in the financial year must have been met), as specified in the amended DCC Regulatory Instructions and Guidance.

Amount of term:

If DCC has not met the contractual coverage commitments in CSP contracts then:

$$\text{SDM1}_t = - \text{TPLI}_{\text{SDM1}t}$$

If DCC has met the contractual coverage commitments in CSP contracts then the amount of SDM1_t is calculated in accordance with the general formulas outlined at para 4, using the following values for the variables:

$\text{TPL}_{\text{SDM1}t}$ = Target Performance Level for SDM1_t equivalent to the target service levels for the reported List of Communications Service Provider Performance Measures Schedule 2.2 PM 1.1 at the beginning of t , combined as reflected in the OPR performance measure methodology set out in the RIGs.

$\text{MPL}_{\text{SDM1}t}$ = Minimum Performance Level for SDM1_t equivalent to the minimum service levels for the reported List of Communications Service Provider Performance Measures Schedule 2.2 PM 1.1 at the beginning of t , combined as reflected in the OPR performance measure methodology set out in the RIGs.

$\text{RPL}_{\text{SDM1}t}$ = Reported Performance Level for SDM1_t – is equal to the actual performance level for SDM1_t as reported to Ofgem by 31 July following they end of Regulatory Year t

$$\text{TPLI}_{\text{SDM1}t} = \text{BM}(\text{OPR})_t \times \text{PMW}_{\text{SDM1}t}$$

Where $\text{BM}(\text{OPR})_t$ is outlined in table 3 and where $\text{PMW}_{\text{SDM1}t}$ is the figure aligned to SDM1 and RY_t in table 1.

$\text{MPLI}_{\text{SDM1}t} = \text{TPLI}_{\text{SDM1}t} \times \text{Y}_{\text{SDM1}t}$ Where $\text{Y}_{\text{SDM1}t}$ is the proportion of TPLI_{nt} the Licensee is awarded for meeting MPL_{nt} and is equal to the figure aligned to SDM1 and RY_t in table 2.

SDM2 – Core Service Requests: DCC is incentivised to ensure that communications are reliable and that Users receive an efficient service.

Algebraic term: $n_t = \text{SDM2}_t$

OPR performance measure methodology: Percentage of service responses delivered within the applicable Target Response Time, as specified in the amended DCC Regulatory Instructions and Guidance.

Amount of term: The amount of SDM2 is calculated in accordance with the general formulas outlined at 4, using the following values for the variables:

$\text{TPL}_{\text{SDM2}t}$ = Target Performance Level for SDM2_t equivalent to the target service levels for SEC CPM (Code Performance Measure) 1,2 and 3 at the beginning of t , combined as reflected in the OPR performance measure methodology set out in the RIGs.

$\text{MPL}_{\text{SDM2}t}$ = Minimum Performance Level for SDM2_t equivalent to the minimum service levels for SEC CPM (Code Performance Measure) 1,2 and 3 at the beginning of t , combined as reflected in the OPR performance measure methodology set out in the RIGs.

$\text{RPL}_{\text{SDM2}t}$ = Reported Performance Level for SDM2_t – is equal to the actual performance level for SDM2_t as reported to Ofgem by 31 July following the end of Regulatory Year t

$\text{TPLI}_{\text{SDM2}t} = \text{BM}(\text{OPR})_t \times \text{PMW}_{\text{SDM2}t}$

Where $\text{BM}(\text{OPR})_t$ is outlined in table 3 and where $\text{PMW}_{\text{SDM2}t}$ is the figure aligned to SDM2 and RY_t in table 1.

$\text{MPLI}_{\text{SDM2}t} = \text{TPLI}_{\text{SDM2}t} \times \text{Y}_{\text{SDM2}t}$

Where $\text{Y}_{\text{SDM2}t}$ is the proportion of TPLI_{nt} the Licensee is awarded for meeting MPL_{nt} and is equal to the figure aligned to SDM2 and RY_t in table 2.

SDM3 – Availability of Systems and services: DCC is incentivised to ensure that systems and services are reliable for Users.

Algebraic term: $n_t = \text{SDM3}$

OPR performance measure methodology: Percentage availability of: Data Service; User Gateway; Service Management System; and Self Service Interface, as specified in the amended DCC Regulatory Instructions and Guidance.

Amount of term: The amount of SDM3 is calculated in accordance with the general formulas outlined at para 4, using the following values for the variables:

TPL_{SDM3t} = Target Performance Level for $SDM3_t$ equivalent to the target service levels for the reported List of Data Service Provider Performance Measures Schedule 2.2 Performance Measure 2.1-2.4 at the beginning of t , combined as reflected in the OPR performance measure methodology set out in the RIGs.

MPL_{SDM3t} = Minimum Performance Level for $SDM3_t$ equivalent to the minimum service levels for the reported List of Data Service Provider Performance Measures Schedule 2.2 Performance Measure 2.1-2.4 at the beginning of t , combined as reflected in the OPR performance measure methodology set out in the RIGs.

RPL_{SDM3t} = Reported Performance Level for $SDM3_t$ – is equal to the actual performance level for $SDM3_t$ as reported to Ofgem by 31 July following the end of Regulatory Year t

$TPLI_{SDM3t} = BM(OPR)_t \times PMW_{SDM3t}$

Where $BM(OPR)_t$ is outlined in table 3 and where PMW_{SDM3t} is the figure aligned to $SDM3$ and RY_t in table 1.

$MPLI_{SUM3t} = TPLI_{SDM3t} \times Y_{SDM3t}$

Where Y_{SDM3t} is the proportion of $TPLI_{nt}$ the Licensee is awarded for meeting MPL_{nt} and is equal to the figure aligned to $SUM3$ and RY_t in table 2.

Table 1: Performance Measure Weightings (PMW_{nt}). The Authority may, following consultation with the licensee and SEC parties direct changes to the values in this table as new measures are introduced, or in order to better incentivise performance in certain areas.

| PMW | RY18/19 | RY19/20 | RY20/21 | RY21/22 | RY22/23 | RY23/24 | RY24/25 |
|------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| SUM1 | 20% | 20% | 20% | 20% | 20% | 20% | 20% |
| SUM2a | 10% | 10% | 10% | 10% | 10% | 10% | 10% |
| SUM2b | 5% | 5% | 5% | 5% | 5% | 5% | 5% |
| SUM2c | 5% | 5% | 5% | 5% | 5% | 5% | 5% |
| SUM 3-4 | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| SDM1 | 20% | 20% | 20% | 20% | 20% | 20% | 20% |
| SDM2 | 20% | 20% | 20% | 20% | 20% | 20% | 20% |
| SDM3 | 20% | 20% | 20% | 20% | 20% | 20% | 20% |
| SDM 4 | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| DIM 1-4 | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| VMM 1-4 | 0% | 0% | 0% | 0% | 0% | 0% | 0% |

Table 2: proportion (Y_{nt}) of Target Performance Level Incentive (TPLI_{nt}) the Licensee is awarded for meeting Minimum Performance Level (MPL_{nt}). The Authority may, following consultation with the licensee and SEC parties direct changes to the values in this table as new measures are introduced, or in order to better incentivise performance in certain areas.

| | RY18/19 | RY19/20 | RY20/21 | RY21/22 | RY22/23 | RY23/24 | RY24/25 |
|---------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| SUM1 | 70% | 70% | 70% | 70% | 70% | 70% | 70% |
| SUM2a | 70% | 70% | 70% | 70% | 70% | 70% | 70% |
| SUM2b | 70% | 70% | 70% | 70% | 70% | 70% | 70% |
| SUM2c | 70% | 70% | 70% | 70% | 70% | 70% | 70% |
| SDM1 | 70% | 70% | 70% | 70% | 70% | 70% | 70% |
| SDM2 | 70% | 70% | 70% | 70% | 70% | 70% | 70% |
| SDM3 | 70% | 70% | 70% | 70% | 70% | 70% | 70% |
| DIM 1-4 | 70% | 70% | 70% | 70% | 70% | 70% | 70% |
| VMM 1-4 | 70% | 70% | 70% | 70% | 70% | 70% | 70% |

Table 3: the amount of margin at risk for regulatory year t of the OPR (£m) or BM(OPR)^t

| | RY18/19 | RY19/20 | RY20/21 | RY21/22 | RY22/23 | RY23/24 | RY24/25 |
|----------------------|--------------------------------------|--------------------------------------|--------------------------------------|---------------------|---------------------|---------------------|---------------------|
| BM(OPR) _t | BM _{18/19} + p _t | BM _{19/20} + p _t | BM _{20/21} + p _t | BM _{21/22} | BM _{22/23} | BM _{23/24} | BM _{24/25} |

Where p_t = the proportion of BM_t for RY 16/17 and 17/18 allocated equally across the three years RY18/19 to RY20/21.

The average specified rate (as defined in condition 35) will be applied to p_t and will take the following values in algebraic form:

$$p_t = \frac{1}{3}BM_{16/17} \left[\left(1 + \frac{ASR_t}{100}\right) \cdot \left(1 + \frac{ASR_{t-1}}{100}\right) \cdots \left(1 + \frac{ASR_{17/18}}{100}\right) \right] \\ + \frac{1}{3}BM_{17/18} \left[\left(1 + \frac{ASR_t}{100}\right) \cdot \left(1 + \frac{ASR_{t-1}}{100}\right) \cdots \left(1 + \frac{ASR_{18/19}}{100}\right) \right]$$