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For the attention of SEC parties,
DCC and other interested parties.

Direct Dial: 020 7901 7000
Email: smartmetering@ofgem.gov.uk

Date: 4 September 2017

Dear Stakeholder

Decision on DCC's Operational Performance Regime and direction to populate Schedule 4 of the Smart Meter Communication Licence

This letter sets out our decision on the implementation of the DCC's Operational Performance Regime (OPR). The attached Direction to this letter sets out the changes to Schedule 4 of the Smart Meter Communication Licence ('Licence'), which reflect the policy intent outlined in this decision.

We have determined that the specific measures and incentive structure should be consistent with our June 2017 minded-to decisions and proposals.

We have summarised and addressed industry responses to our June 2017 proposals in Appendix 1.

Background

The government has provided a framework in the DCC licence for Ofgem to establish an OPR that will place performance incentives on DCC's operations. The OPR will place 100% of the value of DCC's smart meter-related margin at risk.

In March 2016 we consulted on the key principles underpinning the design of the OPR.[1] We also asked for suggestions on potential reporting areas and performance metrics for the two measures outlined in Schedule 4 of the licence that we proposed to focus on initially: Service User Measure (SUM) and Service Delivery Measure (SDM).

In November 2016 we consulted on our final proposals on the OPR.[2] This included the specific metrics for measuring DCC's operational performance and the incentive structure. We also proposed that the regime should start with an interim regime in April 2017 that recognised that DCC would face a period of stabilisation after go-live when performance may be lower. The enduring regime would then start in April 2018.

In June 2017 we consulted on the implementation of the OPR[3]. We set out our minded to decision on the specific measures and incentive structure of the OPR, considering responses from industry. We asked three further questions relating to:

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[1] https://www.ofgem.gov.uk/publications-and-updates/dcc-operational-performance-regime-principles-and-objectives
[2] https://www.ofgem.gov.uk/publications-and-updates/dcc-operational-performance-regime-final-proposals
[3] https://www.ofgem.gov.uk/publications-and-updates/consultation-implementation-operational-performance-regime

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- Whether the draft direction reflects our policy intent
- The removal of the proposed interim regime in RY 17/18
- The arrangements for dealing with 'exceptional events' within the performance reporting for the OPR.

Our decision

Measures and Incentives

The regime will begin in April 2018, without an interim year, and will be structured as proposed in the November 2016 and June 2017 consultations. This structure is set out in Appendix 2.

Governance and operational structure of the OPR

For clarity, we have set out how the OPR will work in practice, including relevant documents and policies.

The licence states that Ofgem must develop and populate the Operational Performance Regime in schedule 4 of the Smart Meter Communications Licence (the Licence). The outcome of the regime is the monetary value of DCC's Baseline Margin Operational Performance Adjustment (BMOPA)[4]. The equation is expressed in condition 38 of the Licence:

$$BMOPA_t = [SUM\ 1–4] + [SDM\ 1–4] + [DIM\ 1–4] + [VMM\ 1–4]$$

The direction published alongside this decision sets out the framework for the OPR in schedule 4 of the Licence, in accordance with the above formula. This includes what DCC is incentivised to do and how this translates into monetary incentives under SUM and SDM measures. The direction states that the methodology documentation and reporting structure will be set out in the Regulatory Instructions and Guidance (RIGs).

The RIGs template will model the relevant calculations in the licence and direction. It will also provide a methodology to translate DCC's Performance Measurement Methodology from monthly to yearly reporting. Where more than one SEC or Service Provider measure is included within one OPR measure, it will also include calculations to weigh DCC's Target and Minimum Service Levels. This will ensure consistency between the expected service levels in the SEC and OPR.

From 31 July 2019, DCC will submit a completed Quality of Service RIGs template annually alongside their main price control submission for assessment and determination of their OPR performance. We intend for DCC to start reporting to us informally once the RIGs documentation has been fully developed.

Quality of reporting

We consider it important that DCC reports reliable information under the OPR.

As part of DCC's annual RIGs submission, we will request assurance from DCC that their reporting is of the appropriate quality, including that exceptional events policies have been applied correctly.

We will have particular regard to the consistency of OPR reporting compared to that in DCC's Performance Measurement reports. If there are robust, transparent and accountable reporting processes under the SEC, that SEC parties support, we would consider this to be strong (although not necessarily determinative) evidence that the necessary scrutiny of

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[4] BMOPA is defined in the Licence, the value is ultimately is reflected in DCC's allowed revenue formula.

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DCC's reporting has been undertaken. We therefore encourage DCC and other SEC parties to consider if the current SEC processes are fit for purpose.

Other types of evidence DCC may provide in their submissions could include:

- Assurance DCC has undertaken on reporting received from their Service Providers
- Internal policy processes and procedures
- Independent auditor reports
- Appropriate senior level management and oversight of quality assurance processes.

Additional reporting

As consulted upon in November 2016, we intend to include additional performance reporting in the RIGs. This is to better inform our understanding of DCC's performance and, where published as part of price control consultations, act as reputational incentives on DCC. Where additional reporting is adapted or related to OPR measures, reporting requirements will be included in the initial development of the Quality of Service RIGs[5].

Where additional reporting is new, we accept that it may take some additional time to develop methodologies and establish processes. As well as monitoring performance under the OPR, we are also considering whether there is any wider monitoring we should include in the RIGs now that DCC is operational. We intend to consider the inclusion of the additional reporting as part of these wider monitoring considerations.

Next steps

We intend to publish DCC's Quality of Service RIGs later this year. Once this documentation has been determined, we intend to ask DCC to report informally on performance. This has the mutual benefit of DCC gaining early experience of how the submission process will work, while providing us with data on early operational performance.

We expect to regularly review the OPR and ensure it is fit for purpose. As the operation becomes more established, we may look to introduce additional or alternative measures.

Yours sincerely

Rob Salter-Church
Partner
Consumers and Competition

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[5] These existing/adapted measures are included in Appendix 2.

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Appendix 1 Summary of consultation responses

Question 1: Do you agree that the accompanying draft direction reflects the policy intent for the enduring regime? If not, please explain using evidence.

Respondents' views

Respondents largely agreed that the draft direction reflected policy intent. Two respondents considered that there should be additional information to clarify policy intent.

One supplier considered that there needed to be additional visibility of how DCC's 16/17 and 17/18 margin is redistributed over the licence. DCC believe that there needs to be additional detail so there is no ambiguity as to how TPL, MPL and RPL are calculated from the SEC, and should reference the licence location of the BMOPA term. Therefore DCC consider that the direction should also include:

- An OPR measurement methodology
- An explicit mention of treatment of events outside of DCC's control
- The framework for reporting measures without economic incentives

Our response

We consider that the direction reflects policy intent. We have however made some minor changes to the direction to address typographical errors, as well as remove a now unnecessary reference to the interim regime[6].

To clarify respondents points above:

Margin Distribution: The direction defines – as term BM(OPR) - how margin at risk is distributed for the purposes of the OPR. The distribution of margin over the licence is expressed algebraically at the end of the direction. The result being that 16/17 and 17/18 margin will be used in incentivise performance between 18/19 and 20/21 under the OPR.

How terms are calculated: As set out in the previous consultation, we intend the detailed methodology of how the SEC definitions translate to those in the OPR to be included in the Quality of Service RIGs. The reasoning for this is that we are able to maintain more flexibility to reflect any minor changes made to the SEC (such as a change in definition or algebraic term), and would not need to reopen the OPR. This RIGs document and accompanying excel reporting template will be published on our website once finalised.

Suggested additional inclusions to the direction: We do not consider that content suggested by DCC is necessary to include in the OPR direction. We have clarified and addressed the relevant issues in the main body of this decision.

Question 2: Do you agree with our minded to position to begin the enduring OPR in April 2018 without an interim regime in this regulatory year? If not, please explain using evidence.

Respondents' views

All but one respondent accepted our proposal, including spreading the margin at risk for 16/17 and 17/18 across the remaining years of the rollout. One supplier considered that an interim regime was important after DCC's 1.3 release, as suppliers will be reliant on DCC meeting their SLAs. There is a risk if DCC does not have economic incentives to encourage stabilisation of early performance, then suppliers may restrict the rate at which they install

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[6] We have set out a tracked changed version in Appendix 3

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meters. DCC would have preferred the start date of the OPR to be linked to activity volumes, but accept that April 2018 leaves enough time to ensure the relevant processes are in place.

Our response

We have decided to go ahead as proposed and start the enduring incentive regime as of April 2018. Although there is no monetary incentive on DCC's performance between release 1.3 and April 2018, there is a reputational incentive to demonstrate to industry that they can deliver services, as well as monthly reports under the SEC on their performance. It is in DCC's interests to establish a reliable service so that it has the experience to maximise its ability to reach OPR performance targets once the OPR comes into effect.

Question 3: Do you agree that the treatment of exceptional events in DCC's performance reporting needs to remain consistent between the OPR and SEC and Service provider performance measures reported in DCC's Monthly Performance Measures report? If not, please explain using evidence.

Respondents' views

All respondents agreed in principle that the treatment of exceptional events should be consistent between the OPR and SEC and Service Provider reporting. However, some respondents mentioned that currently there is a lack of transparency and consultation with industry on the content of DCC's allowed exceptions. DCC also has concerns that the current exceptional events list is not fit for purpose for the OPR. DCC may raise a SEC modification to make amendments.

Our response

It is encouraging that industry agree that exceptional events should be consistent across the OPR, SEC and Service Provider reporting. We support the idea of additional transparency and industry consultation on what is considered an exceptional event. If SEC parties believe that current processes can be improved, they should take actions to do so through SEC governance processes such as code modifications.

Other points raised

Monthly incentives

DCC suggested that performance should be calculated on a closed monthly basis, with the annual margin at risk effectively split between 12 months. Their rationale was that this would mitigate a scenario where DCC could perform poorly early in the year, to the extent that it was unable to retain any margin for that year. In this scenario DCC argue there is a risk there would be no incentive to perform well for the remaining duration of the year.

The OPR is designed to incentivise DCC to develop performance over time. If DCC's performance is assessed monthly, this reduces the incentive on DCC to think long term about maintaining and improving performance. Annual incentive periods, unlike monthly, take into account variations in volumes of incidents/activity over the year, which better reflects the numbers of users and end customers that are likely to be affected by DCC's performance.

We consider the risk of the scenario DCC describes as low, there are a number of other considerations to take into account: for example, the risk of this situation arising is a strong incentive for DCC to perform well right from the start of the regime.

Quality of reporting

One supplier raised concerns that DCC's reporting under monthly Performance Measurement reports does not reflect their experience of DCC's service. We have explained our position on quality of reporting in the main body of this letter.

PPM specific measures

One supplier encouraged Ofgem to consider PPM related measures in additional reporting.

We recognise that PPM functionality is an important service provided by DCC. We will gain understanding of how PPM specific core service requests are performing through our additional reporting. We are also happy to consider suggestions of additional measures for future iterations of the OPR.

List of Respondents

DCC
EDF
E.ON
SSE
Utilita
One confidential response

Appendix 2 – Our decision on performance measures and incentive structure, as set out as our minded-to decision in our June 2017 consultation

Our decision

The minimum and target performance levels for the OPR measures will be the same as those stated in the SEC and service provider contracts. Where the measures relate to more than one service provider or service, the OPR performance levels will be weighted based on the number of observations per provider or service and their respective minimum and target performance levels as stipulated in the SEC or service provider contracts. These calculations will be formalised via the OPR regulatory instructions and guidance or 'RIGs'.

A detailed table outlining the measures are set out on the next page, but in summary the measures and weightings are as follows:

Measure reference	Description	Weighting (Proportion of margin in year t at risk for each measure)
SUM 1	Service Desk (Percentage of severity 1-5 incidents DCC is responsible for resolving which are raised and met within the DCC target resolution time)	20%
SUM 2	Communication hubs (delivered on time and of sufficient quality)	20%
SDM 1	WAN connectivity (Percentage of first time connections at install)	20%
SDM 2	Service requests (Service responses delivered within the target response times)	20%
SDM 3	Service availability (Percentage of time that services do not have unscheduled downtime)	20%

If the DCC fails to meet the minimum performance level for any measure then it will lose all the margin at risk attached to that measure. If DCC meets the minimum performance level it will retain 70% of the margin at risk for that measure. If DCC meets the target performance level, it will retain 100% of the margin at risk for that measure. The margin DCC will retain for any performance level between the minimum and target will be calculated on a simple linear basis.

Each regulatory year the DCC's margin for that year will be at risk based on the annual performance under the OPR. DCC's margin from RY16/17 and 17/18 will be spread across the remaining years of the smart meter roll out (RY18/19 – RY20/21) in order to provide sharper incentives on DCC to perform in the run up to the 2020 target. This ensures that DCC's margin remains at 100% at risk as required by its licence. This is set out in the accompanying Direction and includes an adjustment for any interest earned by DCC from recovering margin for 16/17 and 17/18 which is later at risk under the OPR.

	Incentivised Measures	Area of reporting	Weighting		Outcome	Metric	Existing reporting obligations for this metric
1	Service User Measure 1	**DCC service desk**	20%	a	**Resolution of incidents** *Incentivises DCC to provide a good service to Users by dealing with incidents in a timely and efficient manner. Quick resolution of incidents could also minimise potential any disruption to the consumer experience of smart meters.*	Percentage of Incidents which DCC is responsible for resolving and which fall within Category 1-5 are resolved in accordance with the Incident Management Policy and within Target Resolution Time.	Combined SEC CPM (Code Performance Measure) 4 and 5
2	Service User Measure 2	**Communication hubs**	10%	a	**Delivery** *DCC is incentivised to ensure Communication Hubs are delivered on a timely basis, avoiding unnecessary knock on delays to installations of smart meters.*	Percentage of Communications Hubs delivered on time	Reported List of Service Provider Performance Measures Schedule 11 PM 1.1
			5%	b	**Quality** *Incentive for DCC to ensure that Communications Hubs are of the appropriate quality. This should avoid unnecessary delays to installations of smart meters and prevent DCC incurring additional costs associated with replacements for faulty Communication Hubs*	Percentage of Communications Hubs accepted by DCC service users	Reported List of Service Provider Performance Measures Schedule 11 1.2
			5%	c		Percentage of Communications Hubs not faulty at installation	Reported List of Service Provider Performance Measures Schedule 11 1.3
3	Service Delivery Measure 1	**DCC WAN coverage**	20%	a	**Coverage** *Achieving the agreed level of coverage is incentivised. This allows the benefits of smart meters to be realised by as many consumers as possible.*	DCC meets contractual coverage commitments in CSP contracts (all Milestone Dates in the regulatory year must have been met)	Included in CSP contracts, as reported annually by DCC in the Statement of Service Exemptions[7]
				b	**Reliability** *DCC are incentivised to ensure that coverage information is accurate and communications reliable, reducing the need for multiple visits. This results in a better consumer journey and prevents additional costs for energy suppliers.*	Percentage of first time SMWAN connectivity at install	Schedule 2.2 Performance Measure (PM) 1.1 of Reported List of Service Provider Performance Measures
4	Service Delivery Measure 2	**Core service requests**	20%	a	**Response time** *Incentivises DCC to ensure that communications are reliable and that Users receive an efficient service. Users are then able to pass down this efficient service to end consumers.*	Percentage of service responses delivered within the applicable Target Response Time	Combined SEC CPM 1, 2 and 3
5	Service Delivery Measures 3	**Service/System Availability**	20%	a	**Availability of services** *DCC incentivised to ensure that systems and services are reliable for Users and therefore consumers*	Percentage availability of: - Data Service -User Gateway -Service Management System - Self Service Interface	Reported List of Service Provider Performance Measures Schedule 2.2 PM 2.1 -2.4

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	Additional Reporting	Related measure	Report	Unit
1	Service User Measures	SUM1: DCC service desk	Incidents raised and resolved by category	Volumes and %
2	Service User Measures	SUM2a: Communications Hubs	Report number of comms hubs delivered on time by region and manufacturer	Volumes and %
3	Service User Measures	SUM2b and SUM2c: Communications Hubs	Report number faulty by manufacturer	Volumes and %
4	Service Delivery Measures	SDM1: DCC WAN coverage	First time WAN connected within 30 and 90 days	Volumes and %
5	Service Delivery Measures	SDM2: Core service requests	Success of each type of service request	Volumes and %
6	Service Delivery Measures	SDM3: Service/System Availability	DCC self-service interface availability	%
7	Service Delivery Measures	SDM3: Service/System Availability	DCC user gateway interface availability	%
8	Service Delivery Measures	SDM3: Service/System Availability	Service management availability	%
9	Service Delivery Measures	SDM3: Service/System Availability	DCC data service availability	%

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[7] DCC report annually on CSP performance in the Statement of Service Exemptions. The most recent publication (March 2016) can be found here:
https://www.smartdcc.co.uk/media/387459/dcc_statement_of_service_exemptions_march_2016_v2.2_final_clean.pdf

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Appendix 3: Tracked changed direction from June 2017 draft

~~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 1 April 2018~~[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) September 2017 Decision on DCC's Operational Performance Regime
   ~~b)~~c)   June 2017 Consultation on the implementation of the Operational Performance Regime~~JUNE 2017 CONSULTATION~~
   ~~c)~~d)   November 2016 DCC Operational Performance Regime: Final Proposals~~NOVEMBER 2016 CONSULTATION~~

These documents are available on the Ofgem website: www.ofgem.gov.uk
Dated : 4 September 2017~~[TO BE DETERMINED]~~

Rob Salter-Church
Partner, Consumers and Competition

Authorised for that purpose

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BMOPAt= [SUM 1-4] +]+ [SDM 1-4] +]+ [DIM 1-4] +]+ [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)

$BM(OPR)_t$= 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

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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 nt, with the exception the interim regime:

    I.   If RPL$\geq$TPL then n$_t$= 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: $n_t = SUM1_t$

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 $SUM\text{-}1_t$ is calculated in accordance with the general formulas outlined at para 4, using the following values for the variables:

$TPL_{SUM\text{-}1t}$ = 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.

$MPL_{SUM\text{-}1t}$ = 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.

$RPL_{SUM\text{-}1t}$ = 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~~they~~ end of Regulatory Year t

$TPLI_{SUM\text{-}1t} = BM(OPR)_t \times PMW_{SUM\text{-}1t}$

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

$MPLI_{SUM\text{-}1t} = TPLI_{SUM\text{-}1t} \times Y_{SUM\text{-}1t}$

Where $Y_{SUM\ 1t}$ 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: $n_t = SUM2_t$

Where $SUM2_t = SUM2a_t + SUM2b_t + SUM2c_t$

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

Algebraic term: $n_t = SUM2a_t$

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 $SUM2a_t$ is calculated in accordance with the general formulas outlined at para 4, using the following values for the variables:

TPL_{SUM2at} = 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.

MPL_{SUM2at} = 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.

RPL_{SUM2at} = 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~~they~~ end of Regulatory Year t

$TPLI_{SUM2at} = BM(OPR)_t \times PMW_{SUM2at}$

Where $BM(OPR)_t$ is outlined in table 3 and where PMW_{SUM2at} is the figure aligned to SUM2a and RY_t in table 1.

$MPLI_{SUM2at} = TPLI_{SUM2at} \times Y_{SUM2at}$

Where Y_{SUM2at} is the proportion of $TPLI_{nt}$ the Licensee is awarded for meeting MPL_{nt} and is equal to the figure aligned to SUM2a and RY_t in table 2.

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SUM2b – Communication Hubs Quality (1~~Delivery (b~~): DCC is incentivised to ensure that deliveries of Communication Hubs are accepted by Users.

Algebraic term: n_t= $SUM2b_t$

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 SUM–$2b_t$ is calculated in accordance with the general formulas outlined at para 4, using the following values for the variables:

$TPL_{SUM–2bt}$ = Target Performance Level for $SUM2b_t$ 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.

$MPL_{SUM–2bt}$ = Minimum Performance Level for $SUM2b_t$ 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.

$RPL_{SUM–2bt}$ = Reported Performance for $SUM2b_t$ – is equal to the actual performance level for $SUM2b_t$ as reported to Ofgem by 31 July following the~~they~~ end of Regulatory Year t.

$TPLI_{SUM–2bt}$ = $BM(OPR)_t$ x $PMW_{SUM–2bt}$

Where $BM(OPR)_t$ is outlined in table 3 and where $PMW_{SUM–2bt}$ is the figure aligned to SUM2b and RY_t in table 1.

$MPLI_{SUM–2bt}$ = $TPLI_{SUM–2bt}$ x $Y_{SUM–2bt}$

Where $Y_{SUM–2bt}$ is the proportion of $TPLI_{nt}$ the Licensee is awarded for meeting MPL_{nt} and is equal to the figure aligned to SUM2b and RY_t in table 2.

SUM2c – Communication Hubs Quality (2): DCC is incentivised to minimise the occurrences of Communications Hubs being discovered as faulty at installation.

Algebraic term: n_t = $SUM2c_t$

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

Amount of term: The amount of $SUM2c_t$ is calculated in accordance with the general formulas outlined at para 4, using the following values for the variables:

TPL_{SUM2ct} = Target Performance Level for $SUM2c_t$ 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.

MPL_{SUM2ct} = Minimum Performance Level for $SUM2c_t$~~$SUM2b_t$~~ 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.

RPL_{SUM2ct} = Reported Performance Level for $SUM2c_t$ – is equal to the actual performance level for $SUM2c_t$ as reported to Ofgem by 31 July following the~~they~~ end of Regulatory Year t

$TPLI_{SUM2ct}$ = $BM(OPR)_t$ x PMW_{SUM2ct}

Where $BM(OPR)_t$ is outlined in table 3 and where $PMW_{SUM 2ct}$ is the figure aligned to SUM2c and RY_t in table 1.

$MPLI_{SUM2ct}$ = $TPLI_{SUM2ct}$ x Y_{SUM2ct}

Where Y_{SUM2ct} is the proportion of $TPLI_{nt}$ the Licensee is awarded for meeting MPL_{nt} and is equal to the figure aligned to SUM2c 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: $n_t = SDM1_t$

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:

$$SDM1_t = - TPLI_{SDM1t}$$

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:

TPL_{SDM1t} = Target Performance Level for $SDM\text{-}1_t$ 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.

MPL_{SDM1t} = Minimum Performance Level for $SDM\text{-}1_t$ 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.

RPL_{SDM1t} = Reported Performance Level for $\underline{SDM1_t}$~~$SDMa_t$~~ – is equal to the actual performance level for $SDM1_t$ as reported to Ofgem by 31 July following $\underline{the}$~~they~~ end of Regulatory Year t

$$TPLI_{SDM1t} = BM(OPR)_t \times PMW_{SDM1t}$$

Where $BM(OPR)_t$ is outlined in table 3 and where PMW_{SDM1t} is the figure aligned to SDM1 and RY_t in table 1.

$$MPLI_{SDM1t} = TPLI_{SDM1t} \times \underline{Y_{SDM1t}}$$

~~Y_{SDM1t}~~ Where Y_{SDM1t} 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.

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

Algebraic term: n_t = $SDM2_t$

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:

TPL_{SDM2t} = 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.

MPL_{SDM-2t} = 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.

RPL_{SDM-2t} = 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~~they~~ end of Regulatory Year t

$TPLI_{SDM-2t}$ = $BM(OPR)_t$ x PMW_{SDM-2t}

Where $BM(OPR)_t$ is outlined in table 3 and where PMW_{SDM-2t} is the figure aligned to SDM2 and RY_t in table 1.

$MPLI_{SD\underline{U}M-2t}$ = $TPLI_{SDM-2t}$ x Y_{SDM-2t}

Where Y_{SDM-2t} 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 <u>Services</u>~~services~~: DCC is incentivised to ensure that systems and services are reliable for Users.

Algebraic term: n_t = SDM3$_t$

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 <u>the</u>~~they~~ end of Regulatory Year t

$TPLI_{SDM3t} = BM(OPR)_t$ x 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.

$MPLI_{S\underline{D}\text{u}M3t} = TPLI_{SDM3t}$ x 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 <u>SDM3</u>~~SUM3~~ and RY_t in table 2.

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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:

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