

# Guidance

## Guidance for the Discretionary Recovery Mechanism (DRM) for DCC under the Design, Build and Test Phase of the Switching Programme

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This document sets out the governance and administration of the Discretionary Reward Mechanism (DRM) term within the 03 May direction of the Centralised Registration Service Performance Adjustment (CRSPA) term. The DRM Guidance outlines the scope of the incentive scheme, the application and assessment processes, and the reporting requirements. It sets out the detail behind the proposed incentive scheme consulted on in October 2018<sup>1</sup>, and set out in the 03 May 2019 decision document.

This guidance document is only relevant for DCC during the programme DBT Phase, which will end at the Authority's Go Live decision.

We have attempted to make this document accessible and informative to a range of stakeholders, especially those that are interested in understanding how we incentivise and drive DCC to understand their role in a wider, expanded programme.

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<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/switching-programme-regulation-and-governance-way-forward-and-statutory-consultation-licence-modifications>

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## 1. Introduction

This document acts as guidance and further elaboration of the DRM term within the direction issued by the Authority on 03 May 2019 to define the CRSPA term for the Design, Build and Test (DBT) phase of the Switching Programme. The CRSPA term is a term within the DCC licence that is used to calculate the performance adjustment on DCC's economically incurred costs.

The aim of the DRM is to ensure that:

- DCC is continually motivated to keep the programme on track to achieve Go Live (including on areas not directly incentivised); and
- DCC embraces and demonstrates consideration of the wider impacts of its activities on other programme participants, both from a timing, quality and engagement perspective.

The DRM allows for DCC to recover a portion (up to 30%) of lost margin from previous milestones which have not been achieved if:

- the baselined programme Go Live date is subsequently met; and
- certain outcomes in relation to engagement and communication are achieved.

Key programme stakeholders will be affected by decisions made by DCC that impact delivery of the Centralised Registration Service (CRS) and Centralised Switching Service (CSS), and we want to see that DCC's approach to engagement and decision making is strongly informed by an understanding of their stakeholders' needs. As such, DCC needs to take their wider impact on the GB energy retail market into account and engage with programme stakeholders in new ways.

The DRM encourages DCC to consider medium to long term quality impacts (as well as short term impacts) and encourages DCC to be transparent with Ofgem and the Programme Coordinator when new programme decisions need to be made, including how these will affect stakeholders, to enable them to proactively manage their own delivery programmes. This will include communicating early and transparently as soon as any possible impact on other programme stakeholders is identified e.g. early communication with Ofgem and the Programme Coordinator as soon as a possible delay is identified, allowing appropriate messaging to stakeholders to be developed, and for DCC to work co-operatively to minimise any potential impact on stakeholders and the programme.

Proactive stakeholder identification and engagement is necessary for economic and efficient business practice across the programme. The stakeholder engagement element of the DRM incentivises DCC to perform beyond 'business as usual' standards and to seek timely input and feedback from stakeholders on relevant issues, business activities and other developments. We expect that DCC will use this feedback to inform their current business operations and planning for future decision making.

In the event that DCC achieves all of their Incentivised Milestones there would be no lost margin to recover via the DRM. However, we would still encourage DCC to formally demonstrate to its stakeholders that it evolved and updated its engagement approach, and that this updated approach was beneficial to the programme and stakeholders. This is with a view to looking ahead and setting DCC up for success during their role operating the CSS post Go Live of the new switching arrangements.

## Purpose of the Guidance

The DRM Guidance outlines the scope of the incentive scheme, the application process, the assessment process and the reporting requirements. This document sets out the governance and administration of the

DRM. It sets out the detail behind the proposed incentive scheme consulted on in October 2018<sup>2</sup>, and set out in the 03 May 2019 decision document.

This guidance document is only relevant for DCC during the programme DBT Phase which will end at the Authority's Go Live decision.

To be considered eligible for the reward, DCC must demonstrate that it meets the criteria set out in the DRM Guidance including all eligibility or minimum requirements. We have attempted to make this document accessible and informative to a range of stakeholders, especially those that are interested in understanding how we incentivise and drive DCC to understand their role in a wider, expanded programme.

For the avoidance of doubt, this document is subordinate to the Licence and the direction to define to CRSPA term. This document does not change any definition or obligations contained within the Licence or direction and, if in the event of any dispute, the Licence and direction will take precedence.

## 2. Scope of the Incentive Scheme

Stakeholders are individuals or organisations that can be impacted by the activities of the DCC and its service providers during the DBT Phase of the programme. The DCC service providers include, but are not limited to, the CSS address service, the CSS registration service, the system integration service, the core systems assurance service, the service management service and the Switching related role of the Data Services Provider.

Stakeholders may include DCC customers / users, regulatory authorities, other (new and existing) service providers within the programme eco-system and any other interested organisations. Mapping and identification of stakeholders will make up an aspect of the minimum requirements. We expect DCC to pay attention to all stakeholders and to consider the impact on the programme as a whole as well as the likely impact on the end consumer. This includes the impact on programme parties with consideration for differences in size, structure and efficient operating models.

Through the DRM, we aim to reward high quality engagement activities undertaken by DCC and the service providers they manage and the outcomes these activities deliver. DCC's approach to, and scope of, engagement will be shaped by, and aligned with, the overall Switching Programme Stakeholder Engagement Strategy. These activities and outcomes must go beyond DCC's Business As Usual activities i.e. regular delivery meetings.

## 3. Application Process

The Authority invites DCC to put forward a submission within three months following Go Live of the new switching arrangements in relation to activities carried out during the DBT Phase of the Switching Programme. Go Live is currently baselined to take place in early-mid Regulatory Year (RY) 2021/22. Therefore, the submission should take place in the same RY as Go Live and would be formally determined as part of the RY2021/22 annual price control submission. If the timings for Go Live shift so that the submission can no longer fall within the same RY, then the RY for submission will be updated.

We expect DCC's submission to include two parts:

- **Part 1:** Demonstration that DCC has met the minimum requirements (pass / fail).
- **Part 2:** Demonstration that DCC has met the requirements of the three areas of the discretionary reward (scored).

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<sup>2</sup> <https://www.ofgem.gov.uk/publications-and-updates/switching-programme-regulation-and-governance-way-forward-and-statutory-consultation-licence-modifications>

This document is intended to be guidance for DCC to be able to assemble an application, but does not dictate how they gather and present relevant evidence to meet each requirement. In assessing the quality of DCC's activities and the effectiveness of their outcomes, we will need to be satisfied that the evidence presented is robust and verifiable.

## Part 1 Submission – Minimum Requirements

The minimum requirements fall into two categories:

- 1) the baselined programme Go Live window has been met; and
- 2) a clear stakeholder engagement strategy is in place and being appropriately followed.

We have set out below further guidance on what we would expect to see demonstrated in relation to the stakeholder engagement strategy. This should not be seen as exhaustive, but as a guide to what could demonstrate best practice in this area.

- 1) DCC has a comprehensive, effective and fit for purpose stakeholder engagement strategy, which is aligned with the overall Switching Programme Stakeholder Engagement Strategy, that is regularly updated and sets out:
  - a) how DCC keeps stakeholders informed about relevant issues, business activities, decision-making and other developments;
  - b) how different stakeholders may be differently impacted by DCC's activities, and those of its service providers, and how DCC tailors its engagement with stakeholders accordingly;
  - c) how DCC enables timely input and feedback from stakeholders via appropriate mechanisms to inform programme decision-making; and
  - d) how DCC will work with Ofgem and the Programme Coordinator to ensure their stakeholder engagement strategy is aligned to the wider Switching Programme Stakeholder Engagement Strategy to minimise duplication and confusion of messaging for stakeholders i.e. which party (Ofgem, the Programme Coordinator or DCC) is responsible for communicating which messages to which stakeholders and at what times.
- 2) DCC demonstrates that it has a clear understanding of how stakeholders want to be engaged and what they want to be engaged on. DCC has used a variety of appropriate mechanisms to inform and engage their stakeholders, which:
  - i) have been tailored to meet the needs of various stakeholder groups;
  - ii) are fit-for-purpose in allowing a detailed analysis of a breadth of stakeholder perspectives, with tailored messages to different target groups;
  - iii) proportionate, in that customers have greater input for those decisions with greater potential impact.
  - iv) engagement at multiple levels (other than face-to-face, e.g. through use of technology) and takes into account stakeholder location when determining the most appropriate routes and channels of engagement;
  - v) regular testing of whether their understanding remains aligned to what customers want.
- 3) DCC demonstrates clear and prompt communication of possible changes giving consideration to the information (time/quality/cost) programme parties, including DCC customers, need to help the programme stays on track ensuring:
  - i) Industry feels engaged and understands why a change to the programme is required;
  - ii) Customers are clear about when and how they can contribute views, DCC has taken these views into account;
  - iii) DCC provides information and clarity of change including scope, impact assessments, business case consideration, benefits and governance approval process before decisions

are made. DCC must include clear justification and communication of what the benefits are to the programme as a result of the changes.

## **Part 2: Ensuring Quality delivery of the DBT phase**

If the above Part 1 requirements have been met then DCC will be assessed against their efforts to go above and beyond this and setting a strong example across the programme in using co-operative actions to help ensure the success of the programme.

- 1. Demonstrate DCC has gone above and beyond in pro-actively providing prompt, transparent and co-operative engagement on programmes changes including, but not limited to, time, cost and scope that helps ensure delivery changes minimise impact or disruption to the programme and its participants:**
  - a. Where DCC initiates change
    - i. Early communication of delays or early warning of potential disruption to Ofgem, the Programme Coordinator, and programme stakeholders (where relevant) that has enabled stakeholders to make informed programme decisions.
    - ii. DCC has ensured that an updated communication plan is in place for any potential issue escalation (including but not limited to where a milestone may be missed), working within the programme structures to communicate changes to parties as soon as reasonably possible, as well as working collaboratively with such parties to ensure that any consequential impact on the programme are identified and minimised.
    - iii. DCC submits high quality change requests via the Switching Programme Change Control and Management Process, with fully developed impact assessments (including financial and timing implications of the change – derived from robust consideration and challenge), including input from impacted stakeholders.
    - iv. Transparency on the drivers of DCC cost increases (compared to its forecast programme costs set out and reported against by DCC) so that stakeholders understand what they are paying for, why, and how DCC is managing those costs.
    - v. Customers feel that they have had timely opportunities to inform DCC's decisions, allowing for a collaborative approach to managing change
    - vi. DCC operates according to the "Fix First, Dispute Later" principle for immediacy in resolving issues.
  - b. Where external parties initiate change
    - i. DCC will be timely in responding to change initiated by stakeholders, including being transparent in contributing financial, timing and quality / scope information into change requests submitted by stakeholders. This includes information relating to DCC's service providers.
    - ii. DCC operates according to the "Fix First, Dispute Later" principle for immediacy in resolving issues.
  - c. DCC has demonstrated depth, as well as breadth, when engaging with the full range of stakeholders.
- 2. Demonstrate balancing short term change to minimise larger impacts later in the programme or in early life. This impact could be in cost to wider programme, time, or quality of the service itself.**
  - a. Allowing for short term delays to be considered where it can be demonstrated to have benefits to the programme in terms of time, quality or cost-saving to the whole of industry in the delivery of DBT or in early life.

- b. Maximise opportunities for improving quality and/or minimising whole of industry cost when introducing change
  - i. Demonstrate that an early decision to change has led to or brought benefits and improvements to the programme; and
  - ii. Operate according to the relevant principles for immediacy in resolving issues, as set out in the Policy for Incentivised Milestone Management.

## Provision of evidence

For Part 1, we encourage DCC to seek a range of evidence, including but not limited to:

- Stakeholder engagement plan(s) with evidence of evolution;
- Outputs from engagement events;
- Results and feedback from stakeholder engagement surveys only if response rates are material (note this is different from customer satisfaction surveys); and/or
- Evidence that DCC's approach to customer engagement is endorsed by senior management;

For Part 2, we recommend that evidence consist of the following:

- Documentation of when potential issues were identified and when / how this was communicated and who to;
- Output of co-operative and collaborative re-planning for any shifts in time, scope or cost; Documentation to demonstrate that where a milestone has been missed, the approach for resolving it followed the relevant principles as set out in the Policy for Incentivised Milestone Management;
- Evidence that re-planning has been in the best interest of the programme e.g. likely to minimise time / cost in future phases and / or to improve quality / efficiency.

## 4. Format of the application and timescales of reporting

### Format of application

DCC's application must consist of one document that sets out their case, including supporting evidence, to be considered for the DRM. Supporting evidence may be submitted appended to the submission document and referenced in the body of the document. The submission document must be emailed to the [Ofgem Switching Programme \(switchingprogramme@ofgem.gov.uk\)](mailto:switchingprogramme@ofgem.gov.uk) team.

The submission document must be submitted in PDF format and should not exceed 20 sides of A4 (excluding diagrams, tables and appendices) with text no smaller than font size 11. The submission document must be signed (electronically or by hand) by a representative who is authorised to make the submission on behalf of the DCC Board. There should be no embedded documents within the submission document – any additional documents should be appended to the submission document.

### Timescales for the application

The submission must be made within three months of Go Live date of the new switching arrangements (currently anticipated to fall within RY2021/22. Ofgem will make and publicise its decision on whether or not to award DCC the DRM, or a proportion of it, within the same RY as the submission is made. This is unless the submission is made within two months of the end of a RY, in which case Ofgem will make and publicise its decision in the following RY.



## 5. Assessment

### Evaluation Panel

DCC's submission will be assessed by a Panel of evaluators who will assess whether DCC has met the requirements against the evaluation criteria. The Evaluation Panel should be made up from:

- A senior member of the Ofgem Switching Programme team;
- An Ofgem Switching Programme Commercial team member;
- A Switching Programme Communications representative (likely from the Programme Coordinator);
- A representative of the Retail Energy Code Company Limited (RECCo)

### Evaluation Process

The evaluation process will consist of the following steps:

**Individual evaluations:** Evaluators will thoroughly read DCC's submission, independently without conferring with other evaluators or anyone outside the evaluation team. They will note the scores awarded – either pass / fail for Part 1 of the submission or award of scores for Part 2 of the submission as appropriate – and make notes on their rationale for awarding those scores, citing evidence from the submission wherever possible.

**Moderation of scores:** A moderation workshop will be facilitated by an independent moderator who has not participated in the individual evaluations. The purpose of the moderation process is to ensure that the award of scores is accurate and consistent, and to define a single, consensus score for each criterion. If anomalies are identified, the evaluators and moderators responsible for the evaluation will be requested to review and if necessary, revise their scoring. The review process will continue until the Evaluation Panel is content that the evaluation results are accurate and consistent. The aim of this review is for the Evaluation Panel to establish an overall score for DCC's DRM submission.

**DCC's right of reply:** The Evaluation Panel's evaluation of DCC's submission will be subject to an independent review by the Switching Programme Licenced Party Assurer (LPA), after which DCC will be offered the opportunity to discuss the outcome of the evaluation with the Evaluation Panel and the LPA. They will be able to submit additional evidence (within reason) and respond to the findings of the panel. For the avoidance of doubt, the final decision will lie with the Authority who will form views based on the Evaluation Panel's recommendations as well as the evidence that has been made available.

### Scoring Methodology

The scoring of Part 1 and Part 2 of the submission will be different – Part 1 will be a pass / fail score and Part 2 will be scored on a scale of 0 - 4. DCC will need to receive a pass for Part 1 to be considered for any award under the DRM, with the level of the award being dependent on the score received for Part 2 (see section 6 below). If DCC receive a fail for Part 1 of their submission then no award under the DRM will be made.

The evaluation panel will also award a score on a scale of 0 - 4 for the Quality of the Evidence provided by DCC to support their submission. This is will be evaluated against the type of evidence provided, the source of the evidence (e.g. shows active engagement with parties to the REC) and whether it shows the full scale of stakeholder views (as opposed to just the positive end of the spectrum).

The scores awarded for Part 2 of the submission and the Quality of Evidence provided will use the following scale and guidance:

Score	Degree of confidence provided by response	Scoring guidance
4	High level of confidence	Very thorough response that answers all parts of the requirement for the criterion fully, no gaps in the information provided and not even any minor issues of concern with the submission.
3	Good level of confidence	Thorough response that answers almost all parts of the requirement for the criterion fully, with only a few points not answered fully, no gaps in the information provided and only a few minor non-material issues of concern with the submission.
2	Adequate level of confidence	Response that answers most parts of the requirement for the criterion fully, with some points not answered fully, and some gaps in the information provided and a few material issues of concern with the submission.
1	Low level confidence	Limited response that only answers a few parts of the requirement for the criterion fully, with many parts not answered fully, and many gaps in the information provided and multiple material issues of concern with the submission.
0	No confidence	No response, or the response is irrelevant and does not answer a significant part of the requirement at all.

The scores for Part 2 of the submission and the Quality of Evidence will be weighted as follows:

Section	Weighting
Part 2 (a) Demonstrate DCC has been pro-active, timely and transparent on communication of changes to time, cost and scope	50%
Part 2 (b) Demonstrate balancing short term change to minimise larger impact later in the programme or in early life	30%
Quality of Evidence	20%

The weighted scores for Part 2 of the submission and the Quality of Evidence will be combined and an average of these scores will be calculated. This will provide an overall score for DCC's DRM submission.

## Converting the Overall Score into a financial reward

Once an overall score for DCC's submission has been calculated it will be converted into the proportion of margin lost that will be recovered back to DCC, up to a maximum of 30% of the margin lost from missed milestones.

This will be calculated as follows:

$$\% \text{ of margin recovered} = (\text{overall score} / 4) * 30\%$$

The sliding scale is illustrated in the graph below:

