Decision

DCC Operational Performance Regime Review			
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In May 2020, we consulted on a revised OPR framework that aimed to optimise the incentives placed on DCC and drive better performance. This included proposals for incentivising DCC's system performance under four new outcome based measures, broken down by meter type and region where relevant. In addition, we proposed incentivising DCC under two new areas that have caused concern among DCC's stakeholders: DCC's engagement with its customers (energy suppliers, networks and others), and contract management and procurement.

This document sets out our decisions and the reasons for them. Overall we received strong support for our proposals to financially incentivise the DCC in all three areas.

Alongside this document we have published a further consultation to consider options to increase the incentive pot attached to the OPR.

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Executive summary

The aim of the Operational Performance Regime (OPR) review is to optimise the financial incentives placed on Data Communications Company (DCC) to drive better performance. As a monopoly company, it is important that DCC faces sufficient incentives to play its role well, delivering value for money and high quality services to support smart metering. This is key to ensure consumers are able to take full advantage of the benefits of the smart meter rollout.

At present, the OPR focuses on a range of metrics measuring DCC's technical outputs to assess system performance. We became concerned, following DCC's submission of its performance under the current OPR for the RY18/19 price control, that the OPR metrics may not be providing the best incentives to DCC and may not be reflective of customer experiences.

In May 2020, we consulted on a revised OPR framework. This included proposals for incentivising DCC's system performance under four new outcome based measures, broken down by meter type and region where relevant. We also proposed incentivising DCC under two new areas: customer engagement, and contract management and procurement. Finally, we proposed an appropriate weighting between these three areas and a licence modification to implement the amended OPR.

Overall we received strong support for our proposals to financially incentivise DCC in all three areas, although stakeholders shared concerns that the OPR incentive pot was of an insufficient magnitude. We have published a further consultation alongside this decision document to consider options to increase the OPR incentive.

System Performance

In our consultation, we proposed to financially incentivise four areas using SEC performance measures: install and commission, prepayment, firmware management and service availability. We proposed that each of these four areas should hold a 25% weighting against the margin at risk for the system performance incentive. We also proposed to assess the applicable metrics by meter type (SMETS1, SMETS2) and to assess performance separately in the three DCC regions (north, south and central) for each metric. Finally, we proposed a new penalty mechanism that allows for poor performance in a single region to result in a penalty of 50% of the total margin.

Following consideration of responses, we still intend to incentivise all of the four of proposed areas. However, given the progress of the SEC modification implementing the SEC performance measures, initially we will only financially incentivise three of these measures: install and commission; prepayment and service availability. These three measures will each hold an equal 33.3% weighting against the margin at risk for the system performance incentive. We will include the measure for firmware management in the direction with a 0% weighting, and increase this weighting upon its inclusion in the SEC. In addition, we will also include change of supplier as part of the direction, again with a 0% weighting that can be amended for later regulatory years via the OPR Guidance if deemed appropriate.

We maintain our consultation position on assessing performance for relevant metrics by meter type and by region, and on the proposed penalty mechanism.

Customer Engagement

In our consultation, we proposed that DCC's customer engagement would be assessed against three areas: the timing and frequency of engagement, the quality of the information provided, and how customer views have been taken into account in decision making. The assessment process would involve DCC and the SEC Panel each preparing a submission, providing an assessment of DCC's performance over the previous year. Ofgem would review both submissions to award a score.

Following consideration of all responses, we will implement the incentive largely as proposed, but with a revised scoring framework.

Contract Management and Procurement

We proposed placing a relatively small proportion of DCC's margin at risk against the quality of its contract management activity to drive improvements. We proposed that the assessment be carried out by an independent auditor with performance measured against a subset of qualitative metrics from the National Audit Office (NAO) framework. In addition, we proposed to use a five-point scoring system to assess DCC's performance.

Following consideration of the consultation responses, we maintain our position on the use of the NAO framework and an independent auditor. However, we have reverted to the three-point scoring system set out in the NAO framework.

Weighting

We proposed a 70% weighting on system performance, with an equal weighting of 15% for both customer engagement and contract management and procurement. Following consideration of consultation responses, we maintain our position on the weighting, which we will set out as part of the OPR Guidance.

Licence modification

Our decision to amend Licence Condition 38.9 to allow for amendments to the OPR framework and the publication of additional guidance remains unchanged from the consultation.

Next steps

Following this decision, we will implement a trialling period to run the customer engagement and contract management and procurement incentives without margin attached as part of the regulatory year 2020/21 Price Control.

We plan to publish a formal consultation on the OPR Guidance in January 2021 to enable implementation of the OPR for regulatory year 2021/22 ie from 1 April 2021. This will include proposals for a limited trialling period for system performance during the regulatory year 2021/22.

Finally, given stakeholder concerns on the size of the incentive pot, we have published a further consultation.[1] This sets out options to increase the incentive pot attached to the OPR.

We plan to publish our decision on this second consultation in December 2020.

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[1] Link to the consultation on increasing the revenue at risk against the OPR: https://www.ofgem.gov.uk/publications-and-updates/consultation-increasing-dcc-s-revenue-risk-against-operational-performance-regime

1. Introduction

Context

1.1. DCC is the central communications body licensed to provide the communications, data transfer and management required to support smart metering. It is responsible for linking smart meters in homes and small businesses with energy suppliers, network operators and energy service companies. It is important that as a monopoly company DCC faces sufficient incentives to play its role well, delivering value for money and high quality services. This is key to ensure consumers are able to take full advantage of the benefits of the smart meter rollout.

1.2. The Licence stipulates that DCC's Baseline Margin be put at risk each Regulatory Year under the relevant performance incentive regimes. These comprise the Baseline Margin Project Performance Schemes and the Operational Performance Regime (OPR). DCC's Baseline Margin is 100% at risk against these incentive regimes, with the majority at risk against the OPR. At present, the OPR focuses on a range of metrics measuring DCC's technical outputs to assess system performance.

1.3. Following DCC's submission of its performance under the current OPR for the RY18/19 price control, we became concerned that the OPR metrics may not be providing the best incentives to DCC. In particular, we became concerned that the system performance measures may not be sufficiently reflective of customer experiences. In addition, the scope of the current OPR is limited to system performance, while other areas of DCC's performance also have the potential for high customer impact.

Our decision making process

1.4. As part of our DCC Price Control RY18/19 consultation, we asked stakeholders for their views on how the OPR can be modified and improved. All respondents, including DCC, supported a review of the current OPR framework.

1.5. Through our stakeholder engagement, we identified a range of issues and mapped them to three broad categories where stakeholders wished to see improved DCC performance: system performance; customer engagement; and contract management and procurement. In March 2020, we published a working paper[2] setting out our initial thinking on how to financially incentivise each of the three areas through a revised OPR.

1.6. In the working paper, we invited stakeholders to informally share their views. The feedback we received largely welcomed the paper, while highlighting the key trade-off between widening the scope and diluting the margin attached to each incentive.

1.7. Based on this feedback, we developed our initial thinking from the working paper into the proposals set out in our formal consultation[3] on the OPR review, published in May 2020.

1.8. We received 12 responses to this consultation. All non-confidential responses are published on our website. We have fully considered all responses received to our consultation. We have summarised the key points received from the consultation and provide an explanation of the reasons for our decisions in light of these.

1.9. Following stakeholder responses, we have decided to consult on options to increase the incentive pot attached to the OPR. This consultation is published alongside this decision document.[4]

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[2] DCC Operational Performance Regime Working Paper March 2020: https://www.ofgem.gov.uk/publications-and-updates/dcc-operational-performance-regime-working-paper

[3] DCC Operational Performance Regime Consultation May 2020: https://www.ofgem.gov.uk/system/files/docs/2020/05/opr_review_consultation.pdf

[4] Link to the consultation on increasing the revenue at risk against the OPR: https://www.ofgem.gov.uk/publications-and-updates/consultation-increasing-dcc-s-revenue-risk-against-operational-performance-regime

Related publications

Consultation on increasing the revenue at risk against the OPR:
https://www.ofgem.gov.uk/publications-and-updates/consultation-increasing-dcc-s-revenue-risk-against-operational-performance-regime

DCC Operational Performance Regime Consultation May 2020:
https://www.ofgem.gov.uk/system/files/docs/2020/05/opr_review_consultation.pdf

DCC Operational Performance Regime Working Paper March 2020:
https://www.ofgem.gov.uk/publications-and-updates/dcc-operational-performance-regime-working-paper

2018/19 Price Control Decision: https://www.ofgem.gov.uk/publications-and-updates/dcc-price-control-decision-regulatory-year-201819

2018/19 Price Control Consultation:
https://www.ofgem.gov.uk/system/files/docs/2019/10/dcc_price_control_consultation_-_regulatory_year_2018-19.pdf

Decision on DCC's Operational Performance Regime:
https://www.ofgem.gov.uk/system/files/docs/2017/09/1._decision_on_dcc.pdf

Consultation on the implementation of the Operational Performance Regime:
https://www.ofgem.gov.uk/system/files/docs/2017/06/consultation_on_the_implementation_of_the_operational_performance_regime.pdf

DCC Operational Performance Regime: Principles and Objectives:
https://www.ofgem.gov.uk/system/files/docs/2016/03/dcc_operational_performance_regime_principles_and_processes.pdf

Your feedback

1.10. We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this report. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments?

Please send any general feedback comments to smartmetering@ofgem.gov.uk.

2. System Performance

Section summary

This section covers our decision on the system performance incentive.

In our consultation, we proposed to financially incentivise four areas using SEC performance measures: install and commission; prepayment; firmware management and service availability. These four areas would each hold a 25% weighting against the margin at risk for the system performance incentive. We also proposed to assess the applicable metrics by meter type (SMETS1, SMETS2) and to assess performance separately in the three DCC regions (north, south and central) for each metric.

Following consideration of responses, we still intend to incentivise all of the four of proposed areas. However, given the progress of the SEC modification implementing the SEC performance measures, initially we will only financially incentivise three of these areas in RY21/22 with an equal weighting of 33.3%. We will include the fourth area once the relavant performance measure is included in the SEC.

Our position on the penalty mechanism and the assessment by region and meter type remains unchanged.

Question 1: Do you agree that System Performance should be financially incentivised?

Question 2: What are your views on our proposal for the System Performance Incentive?

Question 3: Do you agree with the four areas we propose incentivising? Provide explanation.

2.1. System performance measures the reliability of DCC systems, which is fundamental for the successful delivery of the smart meter rollout and business-as-usual operations.

2.2. The OPR is currently entirely focussed on system performance. It consists of five groups of metrics that are part of the Smart Energy Code (SEC) performance measures: DCC Service Desk, Communication Hubs, DCC WAN Coverage, Core Service Requests, and System Availability. Most of these metrics measure technical outputs, which do not appear to be strongly correlated with customer experiences.

2.3. The SEC Operations Sub-Group (SEC Ops Group) reviewed the SEC performance measures to identify improvements and define new metrics that better measure system performance. Given various technical challenges, the new SEC performance measures will be implemented via two SEC modifications: MP122a for the February 2021 SEC release and MP122b for the November 2021 SEC release.

2.4. We proposed to draw on a subset of these performance measures under the governance of the SEC Panel as the basis for the revised OPR.

System Performance Metrics

Proposal at consultation: To financially incentivise four areas using SEC performance measures: install and commission; prepayment; firmware management and service availability. These four measures should each hold a 25% weighting against the margin at risk for the system performance incentive.

Decision: To financially incentivise the four proposed areas. Incentivising three of the areas from RY21/22: install and commission, prepayment and service availability. These three measures should each hold a 33.3% weighting against the margin at risk for the system performance incentive. We have included the measures for firmware management and change of supplier as part of the direction, but with a 0% weighting that can be amended for later regulatory years via the OPR Guidance. We will increase the weighting for firmware management once the relevant performance measure has been included in the SEC. We also intend to implement a trial period in RY21/22 which will be consulted on as part of the OPR Guidance.

Respondents' views

2.5. All respondents agreed that system performance should be financially incentivised.

2.6. All respondents agreed with the four areas proposed in the consultation to incentivise system performance.

2.7. Seven respondents highlighted the need for flexibility in the metrics to ensure they remain fit for purpose as DCC service evolves; five of which requested a more defined process for amending the metrics in the future.

2.8. Five respondents believed we should include additional metrics, of which, four requested change of supplier, three supported billing and one supported communication hubs.

2.9. Three respondents believed we should measure other areas within the prepayment metric to capture requirements of operating prepayment: tariff change; the non-disconnect calendar; and changing of meter modes.

2.10. Three respondents stated they believed the system availability metric should account for factors such as the timing of outages and how DCC aims to reduce downtime for DCC Users.

2.11. DCC broadly agreed with the areas proposed in the consultation, subject to the implementation of the measures in the SEC. DCC argued that regional reporting should be limited to two regions, as central and south are served by the same provider, meaning that a significant incident affecting both central and south could result in DCC losing all margin via the penalty mechanism. DCC also requested for a trialling period without margin attached for the system performance measures to allow for necessary adjustments in its reporting.

Reasons for our decision

2.12. Based on stakeholder support for our proposals, we intend to incentivise all of the four proposed areas: install and commission, prepayment, service availability, and firmware management. However, given the progress of the SEC modification we will not be incentivising firmware management in RY21/22. We will give each of the remaining three areas an equal weighting of 33%.

2.13. There was stakeholder support for our proposal to financially incentivise firmware management under the OPR. However, due to the challenges of implementing this particular metric for RY21/22, we have decided to include the metric in the OPR direction with a 0% weighting for the first year of the OPR's operation. If approved, we expect DCC to be required to implement the firmware management metric as part of modification MP122b for the November SEC release in 2021. As such, we expect to give this metric a positive weighting for RY22/23, meaning each of the four metrics would have a weighting of 25% as per our original proposal.

2.14. With respect to install and commission, the SEC performance metrics will separately measure DCC's performance regarding eight separate business processes involved in the install and commission of a smart meter. Our current position is to take the mean of these eight business processes to calculate the install and commission metric. If in the future it becomes apparent that DCC's performance regarding a specific process was of particular concern, we may adjust the weighting between these eight processes in subsequent years. This will be set out in, and consulted on as part of, the OPR Guidance.

2.15. For change of supplier, we acknowledge this is an important process with consumer impact, but to date, DCC's role in the process has not been an area of concern. On this basis, we believe that the limited benefit of including change of supplier is outweighed by the cost of further fragmenting the incentive with the addition of a fifth metric. As such, we will include change of supplier in the OPR direction with a 0% weighting. If at a later date DCC's role in the change of supplier process becomes a concern, we may amend the weighting of this metric such that it is financially incentivised.

2.16. In relation to prepayment, DCC's reporting on this measure will consist of three service request variants, which are sent for: updating the change of mode on the device, updating the prepayment configuration, and topping up the prepayment meter. We intend to financially incentivise DCC's performance in prepayment based on the service request variant for topping up the prepayment meter, as we consider this area to have the greatest consumer impact. However, as in the case for change of supplier, we will include the other two aspects of prepayment with a 0% weighting that can be amended at a later date, if we deem this appropriate.

2.17. In regards to service availability, the SEC performance metrics will separately measure the availability of five DCC's interfaces and their supporting sub-systems, these are: the DCC User Interface, the Registration Data Interface, the Metering Key Infrastructure (SMKI) Repository Interface, the SMKI Services Interfaces, and the Self-Service Interface (SSI). Our current position is to take the mean of these five metrics to calculate the service availability metric. Consistent with our approach to install and commission, we may amend the weighting between these five metrics if we deem it appropriate at a later date. Again, this will be set out in, and consulted on as part of, the OPR Guidance.

2.18. Considering further changes and improvements to the SEC performance measures, we plan to continue to engage with the SEC Ops Group and encourage them to continuously monitor the effectiveness of these metrics. If suppliers believe there is a need to modify the available metrics or include new metrics not currently included in the SEC, they should first engage with the SEC Ops Group. This is the forum for making further refinements to, for example, the prepayment and service availability metrics.

2.19. With regards to the flexibility around the choice of metrics used in the OPR, we will place a standing question in the annual price control consultation each year to seek feedback from stakeholders on whether the measures are appropriate for the coming year. If stakeholders express sufficient concerns, then we may adjust the selection of metrics, if necessary, through further consultation.

2.20. Regarding DCC's request for a trialling period, as the delivery of MP122a has shifted from a November 2020 SEC release to a February 2021 SEC release, and DCC will not start reporting the relevant metrics until April 2021, we consider that it is potentially appropriate to implement a trial period in RY21/22. This would allow DCC time to adjust its performance to meet the standards required by the new metrics. We will consult on the form of this trial period as part of the OPR Guidance.

Performance Across Meter Type

Proposal at consultation: Assess the applicable metrics by meter type (SMETS1, SMETS2) and split the margin based on the proportion of meters that are of each meter type.

Decision: Remains unchanged from consultation position.

Respondents' views

2.21. Seven respondents including the DCC approved of our proposal to assess relevant metrics separately for each meter type.

2.22. One respondent wanted more clarity on the methodology and at what point a SMETS1 meter is included in the calculation.

Reasons for our decision

2.23. We acknowledge strong stakeholder support for this area. We maintain our consultation position to assess SMETS1 and SMETS2 meters separately, ensuring that a significant fault in either meter type would result in a penalty on DCC.

2.24. For clarity, prepayment and firmware management will be reported to the SEC Panel (and Ofgem) broken down by SMETS1 and SMETS2 meters, while install and commission will be reported on only for SMETS2 meters. The interfaces the service availability metrics monitor are common across both meter generations, and therefore will not be broken down by meter generation.

2.25. The precise methodology for this reporting will be set via the SEC panel process and DCC's Performance Measure Methodology consultation.

Performance Across Regions

Proposal at consultation: Assess performance separately in the three DCC communication service regions (north, central and south) for SMETS2 meters. In addition, we proposed to weight the regions equally given that they have approximately equal populations.

Decision: Remains unchanged from consultation position.

Respondents' views

2.26. Seven respondents who commented on this area approved of our proposed position to assess performance separately in the three DCC communication service regions (north, central and south) for SMETS2 meters and to weight the regions equally.

2.27. Respondents did not express any strong views on the weighting for each area.

Reasons for our decision

2.28. Given stakeholder support for this area, we maintain our consultation position to assess the performance separately in the three DCC regions for SMETS2 meters and to weight the three regions equally. The breakdown of performance by region will increase the likelihood DCC faces a penalty for poor performance in any one region.

2.29. For clarity, all of the metrics will be reported on broken down by region, apart from service availability (as the interfaces are mostly common across regions). The regional breakdown will be for SMETS2 meters only.

Penalty Mechanism

Proposal at consultation: Establish a new penalty mechanism that would allow for poor performance in a single region to result in a penalty of 50% of the total margin. The new penalty mechanism would also incentivise marginal improvements to performance below the minimum performance level.

Decision: Remains unchanged from consultation position.

Respondents' views

2.30. Four respondents explicitly supported our proposed penalty mechanism.

2.31. Five respondents believed the system performance incentive should be more punitive on DCC in the form of a negative margin. One respondent believed failure in one region should result in DCC losing 100% of its margin for a metric.

2.32. DCC expressed concern on losing margin in the central and south regions as these are both served by Telefonica, and therefore any issue from Telefonica will likely affect both regions. DCC argued that under the new proposed penalty mechanism, this could result in DCC losing 100% margin and would as a result, disincentivise striving for high performance in the north.

2.33. DCC also highlighted concern around the uncertainty regarding the setting of the Minimum Performance Level (MPL) and Target Performance Level (TPL) performance levels, as well as X (the performance at which -16.7% margin is retained) and Y (the margin retained at MPL) levels.

Reasons for our decision

2.34. On the basis of stakeholder support for the new penalty mechanism and the proposed regional split more generally, as well as the need to balance the views of DCC and its customers, we maintain our consultation position to assess DCC's performance using the new penalty mechanism.

2.35. In regards to the stringency of the system performance penalty, if we use a mechanism where failure in one region would result in a 100% loss of margin, it would undermine the incentive to perform better in the other regions. We consider the proposed mechanism is sufficiently punitive as DCC can lose 50% of total margin for poor performance in a single region.

2.36. Regarding DCC's concerns on setting the X and Y values, we will consult on them with stakeholders to ensure they are set at appropriate levels through the OPR Guidance.

2.37. With respect to the performance levels (MPL and TPL), these will be set through the SEC panel, as is the case in the original OPR.

2.38. In response to DCC's concerns around losing 100% margin based on poor performance in the central and south regions, we believe it is important to represent consumers in the central and south as two separate regions, given the population distribution across regions. In the event of a fault causing poor performance in both central and south and an appeal is made by DCC, we will take into consideration its wider performance (including its performance in the North) and any external factors which are out of DCC's control.

2.39. For clarity, we will also consider any appeal made to us by DCC as part of its annual price control submission evidencing that an OPR metric has been materially impacted by external factors outside of DCC's control. In such an event, any adjustment made to the margin retained would be consulted on through the subsequent price control consultation.

3. Customer Engagement

Section summary

This section covers our decision on the customer engagement incentive.

In our consultation, we proposed that DCC would be assessed against three areas: the timing and frequency of engagement, the quality of the information provided, and how customer views have been taken into account in decision making. The assessment process would involve DCC and the SEC Panel each preparing a submission, providing an assessment of DCC's performance over the previous year. Ofgem would review both submissions to award a score.

Following consideration of the consultation responses, we have revised the scoring framework for the incentive. In addition, given the strong support for the importance of 'taking account of customer views', our current position is to weight this area 50%. We will also implement a trialling period to run the incentive without margin attached as part of the regulatory year 2020/21 Price Control.

Question 4: Do you agree that customer engagement should be financially incentivised?
Question 5: What are your views on our proposal for the Customer Engagement Incentive?

3.1. DCC's decisions should be strongly informed by an understanding of its customers' needs, replicating the pressures a company would experience in a competitive market to drive better value for money.

3.2. Customers have repeatedly raised concerns that DCC's engagement, around both its decision making processes and wider informative engagement, has not been sufficiently transparent, timely or relevant. Furthermore, we have not yet seen evidence in a price control submission that fully meets our expectations in this area.

3.3. We consulted on financially incentivising customer engagement to further and faster drive DCC's customer engagement to an appropriate standard. Overall, respondents to the consultation supported the inclusion of a financial incentive on customer engagement.

Assessment Criteria

Proposal at consultation: DCC's customer engagement would be assessed against three main areas: 'timing and frequency of engagement'; 'quality of the information provided by DCC'; and 'taking account of customer views'. DCC would be assessed in each area against a set of sub-questions. The first two areas would be weighted between 25% and 33%, with the latter area weighted between 33% and 50%.

Decision: The assessment criteria remain unchanged, with the exception of the removal of one sub question from 'quality of information provided by DCC'. The OPR Guidance will set out the position to weight 'taking account of customer views' at 50%, with a 25% weighting for the other two areas.

Respondents' Views

3.4. Overall, respondents largely supported the inclusion of a financial incentive on customer engagement and the proposed assessment criteria.

3.5. Two respondents were concerned about the subjectivity of the framework. In particular, DCC was concerned around the potential interpretation of 'taking account of customer views' as demonstrable only if DCC has followed the recommendations of its customers.

3.6. Three respondents explicitly supported the higher weighting on 'taking customer views into account', with two respondents suggesting it should be weighted at 60%.

Reasons for our decision

3.7. We acknowledge that the use of a set of qualitative criteria introduces an element of subjectivity to the assessment. However, this qualitative approach draws on Ofgem's wider experience in engagement incentives, from the RIIO-1 Stakeholder Engagement Incentive and the Discretionary Recovery Mechanism from the Switching programme, where such an approach has been shown to be successful. Given this experience, we believe that through our adjudication, following the receipt of a range of views, we will be able to provide a sufficiently robust assessment.

3.8. With regards to ‘taking account of customer views’, DCC demonstrating that it followed the recommendations of its customers in its decision making processes would be strong evidence of high performance. However, DCC would also be able to demonstrate high performance by clearly communicating to its customers the rationale behind why, in certain instances, DCC made a decision which diverged from the views of its customers.

3.9. We have removed one sub question from ‘quality of information provided by DCC’: “When assessing the quality of the information, we will consider: customers’ ease of access to the information, the readability/comprehensibility of the information, and the content.” This is on the basis that this information is best placed in the OPR Guidance, rather than the criteria itself. It also means that each assessment area consists of three sub questions.

3.10. Finally, given the strong support from respondents on the importance of ‘taking account of customer views’, our current position is to weight this area 50%. This position will be set out in the OPR Guidance.

Table 3.1: Final customer engagement assessment criteria

Aspect of customer engagement	Assessment questions	Weighting
Timing and frequency of engagement	• Has DCC engaged proactively with customers, enabling them to feed in views at appropriate points in decision-making cycles? • Has DCC set clear time frames such that customers understand when they can contribute views with sufficient lead times to enable them to do so? • Has DCC's broader engagement (eg general updates, reactive engagement on unplanned issues impacting customers) been delivered in a timely manner and with sufficient frequency?	25%
Quality of information provided by DCC	• Has DCC provided its customers with information of sufficient quality and detail to enable them to compare costs and benefits of different options, and understand the drivers of those costs and benefits? • Has DCC provided sufficient quality of information in its broader engagement (eg general updates, reactive engagement etc) for customers to understand the issues and the actions DCC is taking? • Has DCC provided the appropriate information to the relevant audiences when engaging with customers?	25%
Taking account of customer views	• Has DCC ensured its customers understand on which issues their views will inform decision-making? • Has DCC taken customer views into account in its decision-making? • Has DCC communicated a clear rationale for decisions it has made to customers, explaining how customer views have informed its decision making, and where relevant why DCC has decided not to incorporate customer views?	50%

Assessment Process

Proposal at consultation: DCC and the SEC Panel should each prepare a submission providing an assessment of DCC's performance over the previous year. Ofgem should undertake the final assessment, by reviewing the two submissions from DCC and the SEC Panel, and following our consultation process to allow for further stakeholder input.

Decision: Remains unchanged from consultation proposal, but will set out in the OPR Guidance that the SEC Panel must seek wider views beyond the Panel as part of their assessment process. We will also implement a trialling period to run the incentive without margin attached as part of the regulatory year 2020/21 Price Control.

Respondents' Views

3.11. Respondents largely supported our proposed assessment process.

3.12. Four respondents were unsure how wider views will be incorporated into the SEC Panel's submission, with three respondents requesting a defined process. One respondent suggested that Ofgem should implement a 'call to evidence' for stakeholders to submit evidence directly to Ofgem that would then be presented in an anonymised form to SEC Panel.

3.13. DCC was concerned that SEC Panel is unaware of DCC's bilateral engagement with stakeholders and would not take account of it. DCC also suggested that there should be a trialling period to implement the incentive.

3.14. Two respondents suggested that both quantitative as well as qualitative evidence should be used, such as customer satisfaction surveys. One respondent requested further clarity on the specific evidence that would be used in the assessment.

Reasons for our decision

3.15. Following our review of all respondents' views, we maintain our consultation position on the assessment process.

3.16. Our consultation proposal underlined the importance of the SEC Panel taking account of wider stakeholder views. While we do not consider it appropriate that Ofgem define a process the SEC Panel must follow to achieve this outcome, we will explicitly set out in the OPR Guidance that the SEC Panel must seek wider views as part of their assessment of DCC's customer engagement. We will also set out that the SEC Panel should consider DCC's wider engagement, such as bilateral engagement with stakeholders, rather than limiting their assessment to DCC's engagement with the Panel itself.

3.17. Following our initial assessment of DCC's and the SEC Panel's submission, we will consult on our minded-to position as part of the price control. This will provide a further opportunity for all stakeholders to share their views and provide additional evidence on DCC's performance.

3.18. With regards to specific evidence, it will be up to DCC and the SEC Panel to determine which forms of evidence best support their assessment of DCC's performance. This evidence, though we expect it to be largely qualitative, could also be supported by quantitative surveys conducted by either DCC or the Panel. We will provide further examples of specific evidence in the OPR Guidance.

3.19. Finally, in regards to a trialling period, we acknowledge this would have benefits to all parties involved in the process. We will implement a trialling period to run the incentive without margin attached as part of the regulatory year 2020/21 Price Control. This will ensure the financial incentive will be implemented as originally envisaged for the regulatory year 2021/22.

Scoring and Penalty Mechanism

Proposal at consultation: An individual score should be given to each of the three main assessment areas using a five-level scoring framework. The final score would be a weighted average across all three areas.

Decision: Adjusted scoring framework to four levels. A score will be awarded to each sub-question outlined in the assessment criteria, with a simple average used to produce the score for each assessment area. A weighted average of the assessment area scores would then produce the final score.

Table 3.2: Final scoring framework

Score	Description	Margin retained
3	Strong evidence that DCC meets the required standard with minor areas of improvement – DCC is performing to the expected standard.	100%
2	Evidence that DCC meets the required standard with very few material areas of concern and/or some minor areas of concern.	66.67%
1	Evidence that DCC meets the required standard but inconsistent with some material areas of concern.	33.33%
0	Limited evidence that DCC has met the required standard with multiple material issues of concern.	0%

Respondents' Views

3.20. Five respondents believe that DCC should not retain 25% of margin for performance defined as 'poor'.

3.21. In contrast, DCC felt that the highest level of attainment was set too high as it did not allow any room for improvement.

Reasons for our decision

3.22. In response to feedback, we have adjusted the scoring framework. This ensures that performance levels are not set too low, enabling DCC to retain margin for poor performance, but also that they are not set too high, preventing DCC from retaining margin when it has performed well.

3.23. As this adjustment resulted in a compression of the overall range of scores, we have reduced the number of scoring levels from five to four. We believe this provides greater clarity to differentiate between levels of performance.

3.24. In addition, we will be awarding a score for each individual sub-question of the assessment framework. The score for each assessment area will then be derived from a simple average across the three sub-questions. A final score will then be produced from a weighted average of the scores given to each area. This ensures that even small, incremental changes to performance will pass through to the final score, ensuring that DCC is incentivised to make granular improvements.

4. Contract Management and Procurement

Section summary

This section covers our decision on the contract management and procurement incentive.

In our consultation, we proposed placing a relatively small proportion of DCC's margin at risk against the quality of its contract management activity to drive improvements. We proposed that the assessment be carried out by an independent auditor with performance measured against a subset of qualitative metrics from the National Audit Office (NAO) framework. In addition, we proposed to use a five-point scoring system to assess DCC's performance.

Following consideration of the consultation responses, we maintain our position on the use of the NAO framework and an independent auditor. However, we have reverted to the three-point scoring system set out in the NAO framework. We will also implement a trialling period to run the incentive without margin attached as part of the regulatory year 2020/21 Price Control.

Question 6: Do you agree that contract management and procurement should be financially incentivised?
Question 7: What are your views on our proposal for the Contract Management and procurement Incentive?

4.1. A key component of DCC's role is the management of contracted smart metering service providers. External Costs compose the largest proportion of DCC's costs. As such, it is critical that these contracts are entered into, managed and closed out effectively and efficiently.

4.2. Small adjustments to the proactive management of procurements and contracts, given the value of existing and potential new contracts, can have significant cost impacts on DCC customers and the consumer. As such, we consider that it would be beneficial to further incentivise DCC in this area.

4.3. We consulted on financially incentivising DCC's contract management and procurement to ensure efficient and effective management of its procurements and contracts. Overall, respondents to the consultation supported the inclusion of a financial incentive on contract management and procurement.

Assessment Criteria

Proposal at consultation: Measure DCC's performance against a subset of qualitative metrics from the National Audit Office (NAO) framework.

Decision: Assessment criteria remains unchanged, with the exception of a few corrections to the mapping of the NAO framework criteria to DCC's assessment areas.

Table 4.1: Final Table on Mapping the NAO Framework to DCC assessment areas

	DCC Areas of work for assessment	Relevant NAO Assessment Framework (AF) Domains and Supporting Questions	Potential Gaps
1	Management of existing DCC External Service Provider Contracts and other service provider contracts	NAO AF Domain 2[5] (Capability & Governance): Does DCC have the capability needed to manage the contract and is it developing capability for the future? NAO AF Domain 4[5] (Contract Approach): Does the balance of risk and reward encourage service improvement, minimise perverse incentives and promote good relationships? NAO AF Domain 5[6] (Contract Management): Is the service being managed well with costs and benefits being realised as expected? NAO AF Domain 6[7] (Contract Lifecycle): Will the service continue to demonstrate VfM through its lifecycle?	None
2	Delivery of DCC-initiated change (including procurement or contract change) of new or varied Relevant Service Capabilities (ie those related to their Mandatory Business)	NAO AF Domain 1[5] (Commercial Strategy): Is there an overarching commercial strategy, with a clear rationale for the approach being taken? NAO AF Domain 3[5] Has sourcing supported the commercial strategy and followed recognised good practice to optimise VFM?	None

[5] Including all of the associated justification questions
[6] Except justification question 5.2
[7] Except justification question 6.3

	DCC Areas of work for assessment	Relevant NAO Assessment Framework (AF) Domains and Supporting Questions	Potential Gaps
3	Delivery of SEC Mod initiated change (including procurement or contract change) of new or varied Relevant Service Capabilities (ie those related to their Mandatory Business)	NAO AF Supporting Question 5.2 (Contract Management): Is DCC delivering in accordance with the contract and are they actively managed by the client to meet or exceed requirements? NAO AF Supporting Question 6.3: Is change controlled and well managed and does the contract remain current?	Delivery of timely and accurate impact assessments and implementation of SEC Modification driven change
4	DCC preparation for re-procurement of Relevant Service Capabilities at contract end	NAO AF Domain 7[5] (Transition and termination): Is DCC ready for the end of the contract?	None

Respondents' Views

4.4. Respondents largely agreed with our proposal to financially incentivise contract management and procurement.

4.5. The majority of respondents broadly agreed with the NAO framework to assess DCC's performance against this incentive.

4.6. DCC also broadly agreed with the use of the NAO assessment framework. Although as the NAO framework makes references to public sector procurement, DCC believed the NAO framework would need to be modified to reflect the DCC context. DCC also questioned whether the criteria will apply to all of DCC's contracts.

Reasons for our decision

4.7. Given the stakeholders' broad support for the NAO framework, we will maintain our current position on the assessment criteria.

4.8. In regards to DCC's question on the remit of the assessment, this will cover: management of existing DCC contracts, DCC-initiated change, SEC-initiated change, and DCC re-procurement. As outlined in the consultation, the assessment will not cover BEIS initiated change. When assessing DCC against this incentive, we will take account of the wider context of any issue raised by DCC and any external factors beyond DCC's control.

4.9. In response to the consultation, stakeholders identified a few inconsistencies in the NAO framework and our table mapping the NAO framework criteria to DCC's areas.

Assessment Process

Proposal at consultation: Use an independent auditor to assess DCC's contract management processes.

Decision: Assessment process remains unchanged. However, we will implement a trialling period to run the incentive without margin attached as part of the regulatory year 2020/21 Price Control. The OPR Guidance will set out the audit process in more detail and the terms of reference.

Respondents' Views

4.10. Six respondents including DCC supported the independent auditor approach. Two respondents explicitly stated this should not be limited to reviewing processes and documents or a simple tick-box exercise. Two respondents, including the SEC Panel, believed the SEC Panel should be given an increased role in terms of setting the scope of the audit and should have the ability to review and challenge the audit report.

4.11. Two respondents, including the DCC, requested for more clarity on the audit approach and process and the overall contract management and procurement incentive. In particular, DCC highlighted the need for a trialling period.

4.12. Three respondents highlighted the need for continued scrutiny of DCC's contract management and procurement as part of the annual price control review.

Reasons for our decision

4.13. Following our review of all respondents' views, we maintain our current position on the assessment process, with the exception of implementing a trialling period to run the incentive without margin attached as part of the regulatory year 2020/21 Price Control.

4.14. With regard to the risks of the auditor approach becoming a tick-box exercise, we consider the NAO framework is sufficiently broad and flexible to ensure DCC's performance is assessed holistically.

4.15. Regarding the role of the SEC Panel, as with the customer engagement incentive, it is important to strike the correct balance between the SEC Panel's role, DCC and Ofgem to ensure the incentive scheme is implemented fairly. We believe the SEC Panel has a significant role as set out in our proposals, including providing input to Ofgem while we set the terms of reference and in the procurement of the auditor.

4.16. With respect to a trialling period, we acknowledge this would have benefits to all parties involved in the process. We will implement a trialling period to run the incentive without margin attached as part of the RY20/21 Price Control. This will ensure the financial incentive will be implemented as originally envisaged for RY21/22.

4.17. We will continue to scrutinise DCC's External Costs as part of the annual price control review. Any new or modified performance incentives will not replace the annual price control review, but will ensure we assess both the process as well as the outcomes of DCC's contract management and procurement.

4.18. Finally, in regards to further clarity around the audit approach, this will be set out as part of the OPR Guidance, on which we will consult with stakeholders.

Scoring and Penalty Mechanism

Proposal at consultation: Use a five-point scoring system to assess DCC's performance.

Decision: We have reverted to the three-point scoring system as set out in the NAO framework.

Respondents' Views

4.19. One respondent believed we should retain the three-point attainment level to assess DCC performance to simplify the procurement of an independent auditor for the contract management and procurement incentive.

4.20. In addition, DCC believed the five-point attainment level creates subjectivity due to the proposed discretionary half-way points.

4.21. We did not receive any responses to the weighting of the NAO Domains or supporting questions.

Reasons for our decision

4.22. In response to feedback, we have decided to revise our consultation position. We will retain the NAO three-point scoring system to assess DCC's performance, removing the discretionary half-way points set out in our consultation and providing more certainty around the assessment.

4.23. We intend to weight each of the sub-questions equally, and will set out this position in the OPR Guidance.

5. Weighting across performance categories

Section summary

This section covers our decision on the weighting across the performance categories.

In our consultation, we proposed 70% weighting on system performance, with an equal weighting of 15% for both customer engagement and contract management and procurement.

Following consideration of the consultation responses, we intend to implement the weighting as proposed. However, we are publishing a further consultation on increasing DCC's revenue at risk against the OPR alongside this decision.

Question 8: Do you agree with our proposed weighting between the three incentives?

Proposal at consultation: Weight system performance 70%; customer engagement 15%; and contract management and procurement 15%.

Decision: Remains unchanged from consultation. However, further consultation on increasing DCC's revenue at risk against the OPR may impact the preferred weightings.

5.1. The relative weighting of the three performance categories will determine the amount of margin at risk against each category.

5.2. At consultation, we believed system performance should have the largest weighting as it is fundamental to assessing the outcomes of DCC's performance and has a direct impact on the experience of end consumers.

5.3. We considered customer engagement and contract management and procurement as equally important and hence should be equally weighted at 15%.

5.4. The final weightings for each incentive will be set out in the OPR Guidance.

Respondents' Views

5.5. The majority of respondents agreed with the proposed weighting of the three incentives.

5.6. Five respondents requested believed the incentives were not strong enough and requested an increase to the revenue at risk against the OPR.

5.7. Four respondents believed that system performance should be given a weighting of 80%, rather than the proposed 70%.

5.8. Two respondents suggested we should review the weighting periodically to ensure it is fit for purpose and ensure outcomes are delivered.

Reasons for our decision

5.9. Given the strong support from stakeholders, our preferred weighting remains 70% for system performance and 15% for the other two incentive areas.

5.10. However, given requests from stakeholders to increase the incentive on DCC to perform well against the OPR, we have published an additional consultation[8] on options to increase the overall incentive pot. One of these options would impact the weightings as proposed in our consultation in May.

5.11. We will therefore gather further views as to the preferred weighting as part of this additional consultation on the OPR incentive pot. The outcome will determine our minded-to position on the weightings that we will set out in the OPR Guidance. The guidance will allow for periodic amendments to the weightings as we deem appropriate.

[8] Consultation on increasing the revenue at risk against the OPR: https://www.ofgem.gov.uk/publications-and-updates/consultation-increasing-dcc-s-revenue-risk-against-operational-performance-regime

6. Licence Change to Enable Implementation

Section summary

This section covers the modification of the licence to implement an amended OPR and publish additional guidance.

Following consideration of the consultation responses, our policy position remains unchanged.

Question 9: Do you agree that the proposed licence modifications achieve the policy intent?

Question 10: Do you have any views on the draft direction published alongside this consultation?

Proposal at consultation: A modification of Licence Condition 38.9 to allow for amendments to the OPR framework and the publication of additional guidance.

Decision: Remains unchanged from consultation proposal.

Context

6.1. Licence condition 38.9 provided for the development of the OPR, but it did not provide for a framework to amend it.

6.2. As it is important to ensure the OPR continues to be fit for purpose over the licence period, we proposed modifying the licence to add two further sub-conditions, which are consistent with the original policy intent and necessary for implementation.

6.3. The first sub-condition provides for changes to the OPR direction through consultation with DCC, the SEC Panel, and SEC Parties. The second sub-condition provides for the publication of additional OPR Guidance to support implementation.

Respondents' Views

6.4. Seven respondents explicitly agreed with our proposed licence change and that it is in line with the original policy intent.

6.5. One respondent emphasised that if the OPR metrics are revised in future, there should be an industry wide consultation.

6.6. DCC asked that we endeavour to minimise changes to the OPR.

Reasons for our decision

6.7. We maintain our position on the proposed licence modification to implement our OPR proposals and ensure that the OPR remains fit for purpose. The proposal received explicit support from the majority of respondents.

6.8. In regards to further amendments to the OPR metrics, this would require changes to the direction. The process for this is set out in our first additional sub-condition to licence condition 38.9 that states: 'these provisions may be amended… in a direction to be given to the Licensee… following consultation with the Licensee, the SEC Panel, and SEC Parties.' This ensures that any changes to OPR metrics – for example the selection of system performance measures – would require consultation with industry.

6.9. With respect to further changes to the OPR, we do not expect to amend the framework on an annual basis. We will continue to closely monitor the effectiveness of the OPR, and will only make further amendments if there is sufficient evidence that the OPR is not providing effective incentives.