

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 amend the provisions of Schedule 4 of the Licence by giving a direction.
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 amended as set out in the Appendix to this Direction.
5. This Direction shall take effect on 1 April 2021.
6. The following documents constitute notice pursuant to section 38A of the Gas Act 1986 and section 49A of the Electricity Act 1989:
 - a) this Direction
 - b) October 2020 Decision on DCC's Operational Performance Regime
 - c) May 2020 Consultation on the Implementation of the Operational Performance Regime

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

Dated: 28/11/2020

Rachel Clark

Director, Retail Systems Transformation

Authorised for that purpose by the Authority

APPENDIX – MODIFICATIONS TO SCHEDULE 4 OF THE LICENCE

Form of the OPR

1. The formula for the OPR given in the Licence,

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

will take the form

$$\text{BMOPA}_t = \text{SUM1}_t + \text{SUM2}_t + \text{SDM1}_t + \text{SDM2}_t + \text{SDM3}_t + \text{VMM1}_t + \text{VMM2}_t$$

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

SUM 1 = Service Availability

SUM 2 = Firmware Management

SDM 1 = Install and Commission

SDM 2 = Prepayment

SDM 3 = Change of Supplier

VMM 1 = Customer Engagement Incentive

VMM 2 = Contract Management Incentive

2. The following describes how we will determine the value of each of these performance measures to be made with respect to DCC's performance. In accordance with Licence Condition 38.9, the Authority may issue guidance (the "OPR Guidance") regarding the process, procedures and criteria used to determine the value of the terms applied in the BMOPA calculation described in this direction.

Definitions

3. The variables used throughout this direction are defined below:

ACW_{cmt} = The weighting given to assessment criteria c for performance measure m for Regulatory Year t

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

¹ As given in Part C of Licence Condition 38.8.

$R(OPR)_t$ = the amount of revenue at risk for Regulatory Year t of the OPR (as outlined in the OPR Guidance)

G_{gmt} = The weighting given to meter generation g for measure m for Regulatory Year t (as outlined in the OPR Guidance)

M_{rgt} = The margin deducted for measure m in region r for meter generation g , and for Regulatory Year t

MPL_{rgmt} = Minimum Performance Level for region r for meter generation g for measure m for Regulatory Year t

$MPLI_{rgmt}$ = Minimum Performance Level Incentive. The margin retained for measure m by reaching the minimum performance level for region r for meter generation g for Regulatory Year t

PMW_{mt} = Performance Measure Weighting for measure m for Regulatory Year t (proportion of $R(OPR)$ allocated to measure m , as outlined in the OPR Guidance)

RPL_{rgmt} = Reported Performance Level for region r for meter generation g for measure m for Regulatory Year t

TPL_{rgmt} = Target Performance Level for region r for meter generation g for measure m for Regulatory Year t

$TPLI_{rgmt}$ = Target Performance Level Incentive. The margin retained for measure m by reaching the target performance level for region r for meter generation g for Regulatory Year t

TZ_{mt} = The target score for performance measure m for Regulatory Year t (as defined in the OPR Guidance)

X_{rgmt} = The Performance Level at which retained margin reaches its minimum value for region r for meter generation g for measure m for Regulatory Year t (as defined in the OPR Guidance)

XI_{rgmt} = The margin retained for region r for meter generation g for measure m for Regulatory Year t for performance at or below performance level X

Y_{rgmt} = The proportion of the TPLI retained at MPL for region r for meter generation g for measure m for Regulatory Year t (as outlined in the OPR Guidance)

Z_{cmt} = The score attained for assessment criteria c for performance measure m for Regulatory Year t (as outlined in the OPR Guidance)

Where r is a region (ie $r \in \{N,C,S\}$), g is a meter generation (ie $g \in \{S1,S2\}$), m is a performance measure (ie $m \in \{SUM\ 1-2, SDM\ 1-3, VMM\ 1-2\}$), c is the assessment criteria (as defined in the OPR Guidance), z is the score attained (ie $z \in \{0-TZ\}$) and t is the Regulatory Year.

General formulae

4. In general the following formulae apply for measures SDM 1-4:

I. $TPLI_{mt} = PMW_{mt} \times R(OPR)_t$

II. $TPLI_{gmt} = G_{gt} \times TPLI_{mt}$

If $g = S2$,

III. $TPLI_{rgmt} = TPLI_{gmt} / 3$

IV. $MPLI_{rgmt} = Y_{rgmt} \times TPLI_{rgmt}$

V. For the determination of M_{rgt} :

a. If $RPL_{rgmt} > TPL_{rgmt}$ then $M_{rgt} = \text{Zero}$

b. If $MPL_{rgmt} \leq RPL_{rgmt} \leq TPL_{rgmt}$ then:

$$M_{rgt} = - [1 - [(RPL_{rgmt} - MPL_{rgmt}) / (TPL_{rgmt} - MPL_{rgmt})]] \times [TPLI_{rgmt} - MPLI_{rgmt}]$$

c. If $X_{rgmt} \leq RPL_{rgmt} < MPL_{rgmt}$ then:

$$M_{rgt} = - TPLI_{rgmt} + [1 - [(RPL_{rgmt} - X_{rgmt}) / (MPL_{rgmt} - X_{rgmt})]] \times XI_{rgmt}$$

d. If $RPL_{rgmt} < X_{rgmt}$ then $M_{rgt} = - TPLI_{rgmt} + XI_{rgmt}$

VI. $M_{S2,t} = \max[M_{N,S2,t} + M_{C,S2,t} + M_{S,S2,t}, - TPLI_{S2,mt}]$

If $g = S1$,

VII. For the determination of M_{gt} :

a. If $RPL_{gmt} > TPL_{gmt}$ then $M_{gt} = \text{Zero}$

b. If $MPL_{gmt} \leq RPL_{gmt} \leq TPL_{gmt}$ then:

$$M_{gt} = - [1 - [(RPL_{gmt} - MPL_{gmt}) / (TPL_{gmt} - MPL_{gmt})]] \times [TPLI_{gmt} - MPLI_{gmt}]$$

VIII. If $RPL_{gmt} < MPL_{gmt}$ then $M_{gt} = - TPLI_{gmt}$

IX. $M_t = \sum_g(M_{gt})$

5. In general the following formulae apply for measures VMM 1-2:

X. $TPLI_{mt} = PMW_{mt} \times R(OPR)_t$

XI. $Z_{mt} = \sum_c (Z_{cmt} \times ACW_{cmt})$

XII. $M_t = - [1 - (Z_{mt} / TZ_{mt})] \times TPLI_{mt}$

Performance Measures

The boxes below provide the definitions of each performance measure (m) to which the approach outlined above is applied.

SUM1 – Service Availability: DCC is incentivised to ensure full availability of the total service including the DCC User Interface, Registration Data Interface, SMKI Repository Interface, SMKI Service Interfaces, and Self-Service Interface.

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

OPR performance measure methodology: A function of the separate Performance Measures for each of the five listed interfaces, which compose CPM (Code Performance Measure) 6 averaged across months for the Regulatory Year, as specified in the OPR Guidance and Regulatory Instructions and Guidance.

Value of term: The value of SUM1_t is calculated in accordance with the general formulae outlined in paragraph 4, using the following values for the variables:

$\text{TPL}_{\text{SUM1}t}$ = Target Performance Level for SUM1_t , a function of the target service level for SEC CPM (Code Performance Measure) 6 at the beginning of t , as set out in the OPR Guidance.

$\text{MPL}_{\text{SUM1}t}$ = Minimum Performance Level for SUM1_t , a function of the minimum service level for SEC CPM (Code Performance Measure) 6 at the beginning of t , as set out in the OPR Guidance.

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

This performance measure is common across all meter generations and regions, therefore for the purpose of the calculation $g \in \{S1\}$ and $r \in \{\}$, and G_t will take the value 1.

SUM2 – Firmware Management: DCC is incentivised to ensure that firmware payload images are successfully delivered to communication hubs.

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

OPR performance measure methodology: The SEC CPM (Code Performance Measure) 6A relating to SRV11.1 averaged across months for the Regulatory Year, as specified in the OPR Guidance and Regulatory Instructions and Guidance.

Value of term: The value of SUM2_t is calculated in accordance with the general formulae outlined in paragraph 4, using the following values for the variables:

$\text{TPL}_{\text{SUM2}_t}$ = Target Performance Level for SUM2_t , a function of the target service level for SEC CPM (Code Performance Measure) 6A at the beginning of t , as set out in the OPR Guidance.

$\text{MPL}_{\text{SUM2}_t}$ = Minimum Performance Level for SUM2_t , a function of the minimum service level for SEC CPM (Code Performance Measure) 6A at the beginning of t , as set out in the OPR Guidance.

$\text{RPL}_{\text{SUM2}_t}$ = Reported Performance Level for SUM2_t – is equal to the actual performance level for SUM2_t as reported to Ofgem by 31 July following the end of Regulatory Year t .

SDM1 – Install and Commission: DCC is incentivised to ensure that all DCC services required in the install and commission of a smart meter are provided at a sufficient quality.

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

OPR performance measure methodology: A function of the Performance Measures relating to the SRVs composing the Install and Commission Business Process under SEC CPM (Code Performance Measure) 6A averaged across months for the Regulatory Year, as specified in the OPR Guidance and Regulatory Instructions and Guidance.

Value of term: The value of SDM1_t is calculated in accordance with the general formulae outlined in paragraph 4, using the following values for the variables:

$\text{TPL}_{\text{SDM1}t}$ = Target Performance Level for SDM1_t , a function of the target service level for SEC CPM (Code Performance Measure) 6A at the beginning of t , as set out in the OPR Guidance.

$\text{MPL}_{\text{SDM1}t}$ = Minimum Performance Level for SDM1_t , a function of the minimum service level for SEC CPM (Code Performance Measure) 6A at the beginning of t , as set out in the OPR Guidance.

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

This performance measure is only applicable to SMETS2 meters ie for the calculation of SDM1_t , $g \in \{S2\}$ and G_t will take the value 1.

SDM2 – Prepayment: DCC is incentivised to ensure that prepayment top ups are successfully made to devices.

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

OPR performance measure methodology: A function of the Performance Measures relating to the SRVs composing the Prepayment Business Process under SEC CPM (Code Performance Measure) 6A averaged across months for the Regulatory Year, as specified in the OPR Guidance and Regulatory Instructions and Guidance.

Value of term: The value of SDM2_t is calculated in accordance with the general formulae outlined in paragraph 4, using the following values for the variables:

$\text{TPL}_{\text{SDM2}_t}$ = Target Performance Level for SDM2_t , a function of the target service level for SEC CPM (Code Performance Measure) 6A at the beginning of t , as set out in the OPR Guidance.

$\text{MPL}_{\text{SDM2}_t}$ = Minimum Performance Level for SDM2_t , a function of the minimum service level for SEC CPM (Code Performance Measure) 6A at the beginning of t , as set out in the OPR Guidance.

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

SDM3 – Change of Supplier: DCC is incentivised to ensure that all DCC services required in the change of supplier process are provided at a sufficient quality.

Algebraic term: $M_t = \text{SDM3}_t$

OPR performance measure methodology: A function of the Performance Measures relating to the SRVs composing the Change of Supplier Business Process under SEC CPM (Code Performance Measure) 6A averaged across months for the Regulatory Year, as specified in the OPR Guidance and Regulatory Instructions and Guidance.

Value of term: The value of SDM3_t is calculated in accordance with the general formulae outlined in paragraph 4, using the following values for the variables:

$\text{TPL}_{\text{SDM3}_t}$ = Target Performance Level for SDM3_t , a function of the target service level for SEC CPM (Code Performance Measure) 6A at the beginning of t , as set out in the OPR Guidance.

$\text{MPL}_{\text{SDM3}_t}$ = Minimum Performance Level for SDM3_t , a function of the minimum service level for SEC CPM (Code Performance Measure) 6A at the beginning of t , as set out in the OPR Guidance.

$\text{RPL}_{\text{SDM3}_t}$ = Reported Performance Level for SDM3_t – is equal to the actual performance level for SDM3_t as reported to Ofgem by 31 July following the end of Regulatory Year t .

VMM1 – Customer Engagement Incentive: DCC is incentivised to provide customer engagement of a sufficient standard.

Algebraic term: $M_t = VMM1_t$

OPR performance measure methodology: The assessment criteria and assessment process are outlined in the OPR Guidance.

Value of term: The value of $VMM1_t$ is calculated in accordance with the general formulae outlined in paragraph 5 and the OPR Guidance.

VMM2 – Contract Management Incentive: DCC is incentivised to perform contract management at a sufficient standard.

Algebraic term: $M_t = VMM2_t$

OPR performance measure methodology: The assessment criteria and assessment process are outlined in the OPR Guidance.

Value of term: The value of $VMM2_t$ is calculated in accordance with the general formulae outlined in paragraph 5 and the OPR Guidance.