Energy UK

The voice of the energy industry

Energy UK Response to Ofgem Consultation on the DCC Operational Performance Regime Review

12th June 2020

About Energy UK

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership. We represent the diverse nature of the UK's energy industry with our members delivering almost all (90%) of both the UK's power generation and energy supply for over 27 million UK homes as well as businesses. The energy industry invests over £13.1bn annually, delivers around £85.6bn in economic activity through its supply chain and interaction with other sectors, and supports over 764,000 jobs in every corner of the country.

Introduction

This is Energy UK's response to Ofgem's consultation on the DCC Operational Performance Regime (OPR) review. We welcome the opportunity to respond to this Ofgem consultation; our response is not confidential.

Energy UK responses to consultation questions:

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

Energy UK agree that System Performance should be financially incentivised.

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

Energy UK agree with the proposals for the system performance incentive. However, it also highlights that there is still a disparity between the DCC's performance incentive mechanism and other similar mechanisms within industry, such as the National Grid's ESO performance panel. Other incentive mechanisms include provision for a negative margin where performance is poor to such a degree that industry participants experience significant financial detriment. Whilst the provision of a negative margin within the specific SMETS2 delivery mechanisms is welcomed, the same principle should be applied to the Baseline Margin (comprising of the Baseline Margin Project Performance Schemes and the OPR) itself; poor performance should result in negative margin being offset against the DCC's recoverable costs.

DCC poor performance is already causing a direct financial impact on its customers, potentially threatening the long-term viability of the smart meter roll-out. The current Price-cap limits the amount which suppliers can collect from their customers to fund Smart costs; whilst direct DCC costs themselves may be passed on, poor service leads to accrual of supplier costs that cannot be passed on, including multiple home visits and premature replacement charges. Accrual of these costs effectively inhibits the ability for suppliers to undertake the continued roll-out of smart meters at pace and in an economic and efficient manner.

At a time when the Price Cap is requiring suppliers to make greater efficiency savings within the industry, it is inappropriate that the DCC can effectively be run as a zero-cost enterprise. The need for greater efficiency should apply across industry, and as such, greater consideration should be given towards ensuring that wider DCC cost accrual is done so in an efficient manner, and that where the DCC fails to provide an adequate standard of service, suppliers and their customers are not required to unduly bear the cost.

Alternatively, some Energy UK members believe that the amount of DCC's Baseline Margin could be considered for an increase so that more of that margin is put at risk depending on DCC's performance[1]. This suggestion by some Energy UK members is based on the view that the lower the Baseline Margin, the lower the risk to DCC, and that this may inadvertently not focus DCC's attention enough to greatly improve its performance. However, it is accepted by some members that any increase to the DCC margin in gross terms may not drive the correct performance outcomes. That said, there is consensus amongst Energy UK members that poor DCC performance should translate to negative margin being applied to the DCC's recoverable costs.

Energy UK would welcome further Ofgem consideration of this area.

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

Energy UK are broadly in favour of the areas proposed and welcome the reflection of the SEC Operations Group's proposed metrics within the consultation. It would be helpful if Ofgem clarifies the intended OPR interaction with the current in-flight SEC Modification Proposal on Operational Metrics[2]. Whilst there is confidence that the SEC Modification Proposal will be approved for implementation, it would be useful for Ofgem to clarify what the potential impact would be on the OPR review process if there is a substantial change to the Modification's business requirements before it is implemented – our assumption is that a substantial change is likely to trigger further Ofgem assessment of the planned OPR changes.

Energy UK also highlight three areas where more focus is required in order to ensure that DCC activities are continuously correctly prioritised:

Prepayment Metric
More detail is needed on the metrics that will be used to assess prepayment performance, noting that the metrics of good prepayment service go beyond remote top-ups only, to ensure that prepayment consumers are receiving the best standard of service. Energy UK's members have suggested inclusion of additional performance measures that accurately capture the requirements of operating prepayment, for example updating prepayment configuration (including change of mode, non-disconnect calendar etc.) and activating Emergency Credit. Whilst monitoring top-ups is important, fundamentally it is the interplay of all of these functions that should be used as a measure of the true performance of DCC in providing a fit-for-purpose solution.

Billing and Change of Supplier Metrics
Whilst we understand Ofgem's rationale for not including these metrics, these areas are arguably the most important business processes after Install and Commission, so not including them seems surprising given the Ofgem and industry focus on consumer switching and accurate billing. Furthermore, DCC has a fundamental role in ensuring the relevant messages for the gaining and losing supplier are delivered to / from devices via its central solution to enable switching – any issues on DCC's Service Providers aspects or Communications Hubs will impact the Change of Supplier process to the detriment of consumers and suppliers. This is similar to the situation with regard to Billing, insofar as the DCC has the same fundamental role in ensuring that messages are communicated and in a timely manner, between devices and the responsible supplier. If the Change of Supplier and Billing metrics are not included in the OPR, it is not clear how DCC performance in these processes that are critical to the consumer experience of smart metering, will be delivered or achieved.

Inter-year Metric alterations
Energy UK note that whilst the four areas proposed for incentivisation are currently the primary areas for focus for DCC Customers in Ofgem's view, this is likely to change as the rollout continues. Energy UK therefore seek further clarity around how quickly the areas comprising SDM 1-4 can be changed, in order to ensure flexibility in how DCC service is incentivised. A good example here is, as mentioned above, if the Change of Supplier process needs to be included in future (as an addition or to replace an

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[1] *Ofgem's consultation document, paragraph 5.5 notes the indicative value of the Baseline Margin: "To give an indication of the value of these incentives, the total Baseline Margin (OPR) at risk for RY18/19 was £6.336m".*
[2] *MP122: https://smartenergycodecompany.co.uk/modifications/operational-metrics/*

existing one) then having the suggested "inter-year" alteration mechanism would facilitate this. Our assumption is that the Ofgem Price Control framework allows for such flexibility. We therefore expect that Ofgem through its regular engagement with SEC Panel (and its SEC Ops Group) to be in position to propose potential changes on this specific aspect for a future Regulatory Year; such a proposal could be presented by Ofgem for stakeholder review as part of the existing annual Price Control consultation or via a separate short consultation.

Question 4: Do you agree that customer engagement should be financially incentivised?

Energy UK agree that there should be a financial incentive for Customer engagement, however as discussed in the answer to Question 5, there must be a greater degree of focus applied to the methods to derive benchmarks for DCC performance.

Question 5: What are your views on our proposal for the Customer Engagement Incentive?

Whilst Energy UK note that the areas focused on in the consultation capture the engagement process for DCC customers, there are a number of areas that need amendment in order to ensure that DCC is fairly assessed and awarded for the customer service duty it performs.

Assessment Framework
In order for assessment of DCC customer service performance to be as streamlined and as fair as possible, it must incorporate a defined process for customers to supply specific information to inform the SEC Panel submission process. Whilst by nature this is a qualitative metric, there is still likely to be a significant requirement for DCC customers to evidence their views on DCC performance. As such, we propose that Ofgem provide a subsidiary framework that clarifies what specific items of evidence should be reviewed by both the SEC panel and the DCC when providing their report.

Assessment Weightings
Energy UK note that there is broader work to ensure that the DCC is more accountable to its customers, and welcome to-date efforts by the DCC to make improvements. With that in mind, it is Energy UK's position that the 'Taking into account customer views' section (in Table 3.1) should have the highest weighting of the three areas identified in the consultation, in order to ensure that an appropriate feedback loop is developed and maintained as part of wider efforts to improve DCC transparency and really taking its customers' views into account. We would suggest the weighting for this should account for 60% of the overall weighting.

Incentive curve
Energy UK do not agree with the current incentive curve (in Table 3.2); given the significant commercial detriment experienced by suppliers where the DCC communicates poorly, it is not appropriate to have a 'poor' category that has a 25% margin being retained. There is a wider need for the DCC to make continuous improvements to process and as such, the incentive should drive improved behaviours. Therefore, where there are multiple areas for concern and missed requirements, no incentive should be awarded. As such, an incentive of 0% should apply to any rating below 'fair'.

Question 6: Do you agree that contract management and procurement should be financially incentivised?

Energy UK agree that contract management and procurement should be financially incentivised, however, as discussed in the response to Question 2, there is a need to ensure that any detriment suffered by suppliers for poor performance is reflected fairly in the wider passed through costs.

Question 7: What are your views on our proposal for the Contract Management and procurement Incentive?

Energy UK do not have any specific views on the proposals for Contract Management beyond those stated in Question 6. However, as in the response to Question 5, Energy UK reiterate that no incentive should be retained for performance graded below an appropriate minimum level of performance that provides relative value for money for DCC customers.

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

Energy UK broadly agree with the proposed weighting between the three incentives. However, some members of Energy UK have suggested that the weighting could go further and be split as follows: 80% for Service Delivery, 10% for Customer Engagement and 10% for Contract Management and Procurement – given system performance has the highest impact on DCC customers and ultimately consumers.

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

Energy UK agree that the proposed licence modifications achieve the policy intent. However, as noted in the responses to questions 2 and 6, further consideration should be given to recovering industry losses due to DCC inefficiencies from the wider DCC cost base through applying an overall negative margin.

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

Energy UK note that the draft direction is an accurate reflection of the proposed incentive mechanism. However, industry would benefit from having a worked example, for ease of review – we would suggest Ofgem considers issuing this via SECAS so that it is available to all relevant SEC Parties (Energy UK would also be happy to receive it directly from Ofgem so we can share it with our members).