



Sent via email only to:
smartmetering@ofgem.gov.uk

Ofgem
FAO Andrew Roberts
Metering & Market Operations
10 South Colonnade
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London, E14 4PU

12 June 2020

Dear Andrew,

Consultation on DCC Operational Performance Regime Review

Thank you for the opportunity to respond to this consultation.

Our responses to the questions posed in the consultation document are set out in Annex 1; I trust you will find them helpful.

We strongly support Ofgem in pursuing these changes to the Operational Performance Regime (OPR). We note that many of the suggestions made during the very useful DCC Price Control engagement session, which Ofgem hosted last year, appear to have been taken on board and we are greatly encouraged by this.

Should you wish to discuss with us an aspect of this response, then please do not hesitate to get in touch.

Yours sincerely,

Rhona Peat
Head of Retail Regulation

Annex 1

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

Yes.

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

We very much welcome Ofgem's proposals to reinvigorate the current System Performance incentive by shifting the focus to a set of outcome based measures. As a DCC customer, we are only too well aware of the limitations of an approach that considers only narrow technical outputs, which can result in insufficient emphasis being placed on the quality of the service actually received.

The proposal to target the System Performance Incentive on four areas (install and commission, prepayment, firmware management and service availability) is logical as they are probably a fair reflection of the areas of most concern to the majority of DCC Users.

Similarly, by looking at the DCC's performance with respect to the meter type involved, the incentive regime will help to ensure a consistency of service for all of our customers with enrolled smart meters. And by looking at the DCC's performance in respect of each region, we might expect to see it vicariously incentivise the performance of its individual service providers.

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

Yes, we agree with the four areas Ofgem proposes incentivising. We are greatly encouraged to note that the proposed approach is closely aligned with suggestions made during the very useful DCC Price Control engagement session that Ofgem hosted last year.

In particular:

- **Prepayment**

We very much welcome the plan to measure DCC's performance in delivering top-ups to prepayment meters. With prepayment customers often among the most vulnerable, it is important that the DCC is incentivised to ensure the system is operating correctly, and is pressed to ensure our prepay customers are able to vend when they wish.

- **Firmware management**

This represents another area that was of particular concern to us as it will help to ensure that the latest technology is being provided to our meters and serving our customers well.

- **Service availability**

Surely the principal reason for DCC's existence is the stable provision of its service, and yet system stability seems to have proven particularly elusive: we note that scarcely a month goes by without at least one Severity 1 defect. Therefore, with c.70% of the

margin being attributed to System Performance, the measures here need to be tight to ensure they do not amount to an easy win for DCC to achieve its margin.

- **Meter Type**

As noted in our response to Question 2, above, the proposal to consider performance in the context of meter types should help to ensure all our customers receive the same level of service, regardless of whether they have a SMETS1 or SMETS2 meter. We should not forget that DCC delays resulted in far greater prevalence of SMETS1 meters in the industry than were ever intended, so it is only right that the DCC now be pushed to make sure it is able to successfully commission and operate these devices in its system, such that customers are not disadvantaged in any way as a result of having a first generation smart meter.

- **Regional separation**

Again, as noted in our response to Question 2, we think the proposal to separately measure performance for Central, South and North Regions is an excellent one. This will mean the DCC is fully incentivised to manage all areas equally and not be permitted to target its efforts on the 'low hanging fruit'.

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

Yes, customer engagement is an essential aspect of the DCC's role and we therefore agree it is appropriate that the DCC's performance in this area be financially incentivised.

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

As the Customer Engagement Incentive will account for 15% of the overall margin at risk, we are keen to see how this will work in practice as we are unclear as to how Ofgem intends to measure Timing, Quality and Customer Views. In particular, we think these aspects will be difficult to measure objectively: for example, while customer surveys might be a useful tool, they are entirely dependent on who is being asked. Also the numbers of customers in the sample might well prove to be too small to yield compelling results.

To be clear, we fully support the proposed margin, but would highlight that just because DCC might hold some engagement meetings, that does not equate to achieving the OPR for customer engagement; rather, they need to be able to evidence their achievements in each of the three areas outlined above.

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

Yes.

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

We recognise the DCC might have been unable to exert any real influence over the original service provider contracts; however, as Ofgem notes, these contracts have significant cost impacts on DCC Users. We therefore welcome this change, which should allow Ofgem to

measure exactly how DCC manages such contracts, to ensure that the DCC challenges appropriately to get the best value for money for its customers.

We also agree it is appropriate that an independent auditor carry out the assessment of the DCC's performance, using a subset of the qualitative metrics relied upon by the National Audit Office.

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

Broadly, yes. As noted in our response to Question 5, we are concerned that measurement of the Customer Engagement Incentive, which seems rather too subjective, may be difficult to achieve and might represent an easy win for the DCC. However, we also recognise and agree with Ofgem's assessment that too many measures would fragment the overall incentive regime and potentially undermine the regime's overall effectiveness.

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

We agree that the proposed licence modifications achieve the policy intent.

However, we also note calls to introduce the concept of a negative margin. While we recognise that the limitations of the current charging and cost recovery arrangements might render significant challenges to the implementation of such an approach, it may yet be worthy of consideration in the event that the DCC's performance does not improve sufficiently; particularly with regard to system stability.

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

We have no comment on the draft direction.

ScottishPower
June 2020