12 June 2020

Andrew Roberts
Metering & Market Operations
Ofgem
10 South Colonnade
Canary Wharf
London E14 4PU

Email: alisonrussell@utilita.co.uk

Dear Andrew,

Re: DCC Operational Performance Regime Review

Thank you for the opportunity to comment on the consultation for the Operational Performance Regime (OPR) Framework. The submission comprises this letter, and the attached Appendix 1, which includes overarching comments and specific questions from the consultation document.

Utilita has 1.4million supply points, of which 82.7% are smart meters. Of these meters, 93.8% (or 1.1million) are prepayment supply points. This is the largest uptake of smart meters as a percentage of a customer base of any supplier. Utilita has the largest number of smart prepayment customers of any supplier. We have therefore, focused our comments on prepayment customers and the heightened vulnerability of this customer group to system errors, outages and delays.

The OPR should be a reflection of the overall performance of DCC's services. Care must be taken to ensure that the financial incentives available do not cause DCC to focus exclusively on those aspects of their service that are financially incentivised and offer the opportunity to earn extra revenue.

No performance metric like the OPR can completely cover every area which requires focus without extreme complexity. Historical evidence from such complex schemes in the industry has repeatedly proved this point. It is therefore crucial to remember that the DCC is a service provider to all of industry and ultimately to all types of end consumers. DCC must also listen to its customers' needs and feedback outside of financially incentivised performance metrics to ensure that it delivers high quality, good value, services which meet those needs, both for prepayment and credit customers. Furthermore, the DCC should always take into account that energy suppliers must be allowed to operate efficiently. It shall not be admissible for the DCC to force process changes onto suppliers that save DCC money or earn it incentives by shifting unreasonable burden onto its customers, the energy suppliers.

We broadly support the concepts underpinning this OPR Review, however, further attention is needed in the following areas:

1. Prepayment metrics should be more detailed, address requirements for prioritisation, and specifically include top-up service requests and other prepayment critical requests;
2. Scoring mechanisms for all financial incentives need to be amended to reflect the impact and align the achieved performance more accurately with the penalty/reward. This change would ensure a non-linear approach, incentivising excellence and penalising more effectively where scoring is average or poor.
3. OPR performance metrics and incentive mechanisms should be reviewed annually such that they can be fine-tuned to continually deliver the best outcomes over time;
4. Penalties should directly affect the DCC's bottom line and there should be no pass through of penalties to their customers and hence end consumers; and
5. The split of SMETS1 and SMETS2 meters in the System Performance metric must be explicit and appropriately balanced to protect consumers.

Please see below Utilita's answers to the specific questions posed by the consultation. We would welcome an opportunity to discuss any questions Ofgem has on our submission in more detail.

Yours sincerely,

By email only

Alison Russell
Director of Policy & Regulatory Affairs

Appendix 1

Overarching comments:

Utilita is generally supportive of the introduction of the incentive mechanisms, and we respond to each in turn, aligned to the questions in the consultation. In addition, we have 3 overarching comments which apply to each of the proposed incentive mechanisms.

1. Penalty/reward ratio against performance score

Appropriate reward and penalty mechanisms are necessary to reflect the impact of the performance on the industry participants. For example, if there is an issue with system performance, this will also impact how we serve our customers. A high reward should not be given for a poor outcome in performance. Therefore, a more stringent penalty/reward ratio against performance should be introduced.

We suggest aligning the performance scoring to other consulted upon and implemented mechanisms, and taking learnings from network price control incentive mechanisms. For example, applying similar logic from the RIIO-ED1 price control Stakeholder Engagement and Consumer Vulnerability (SECV) incentive mechanism to the OPR, highlights that DCC is also subject to a price control for similar reasons as network companies and should be treated similarly. Overall, we believe this will help DCC present the performance of all three financially incentivised areas in a clearer, non-linear manner.

Example: Proposed scoring for all three areas (similar to RIIO-ED1 SECV incentive mechanism):

Score	Below 5	5	6-7	8-9	10
Description	Weak*	Average*	Fair	Good	Excellent
Financial weight	-33%	-16%	30%	65%	100%

(where penalties may be included)*

2. Review of OPR performance metrics and incentive mechanisms

Incentives should be created in such a way that metrics can be added/amended/removed in order to deliver the best outcomes over time. By consulting regularly, Ofgem can aim to achieve fair, transparent, and open information based on evidence.

Including an annual review of the targets proposed allows for timely intervention to counteract dips in the quality of System Performance, Customer Engagement, and Contract Management and Procurement. A regular review of the target will drive continuous improvement of results, ensuring that the system changes with demand. This approach will reduce the risk of a target either being too easy to achieve (and therefore not achieving best outcomes) or being too hard to achieve and so acting as a disincentive. If meeting the target will need investment in excess of the incentive, the incentivised party should not invest, which would potentially lead to poor outcomes for the consumer.

3. Non-pass through of penalties

Utilita would like to clarify, where penalties are applied throughout the OPR, that these are considered from an Allowed Revenue perspective and are not treated as pass-through costs i.e. are not recharged to suppliers.

Financial Incentive Areas

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

Yes, Utilita agrees, with the understanding that a financial incentive is likely to be the best solution to evoke change and improvements for a company with no direct competition.

By financially incentivising DCC's System Performance this should:

1. Incentivise behaviour which results in higher efficiency;
2. Drive increasingly high standards to ensure performance improvement; and
3. Focus on the areas of most importance (the metric includes install and commission, prepayment, firmware management and service availability).

Although there are many advantages of financially incentivising DCC's System Performance, this can also create implications of poorer system performance in other essential areas that are not incentivised. For example, 'Change of Supplier' was included as a possible option for this OPR but removed as other areas took precedence.

While we understand Ofgem's reasoning for not including 'Change of Supplier', it is important that a mechanism should exist for critical system performance metrics to be reviewed annually. That is, the ability to add/change/remove metrics according to the environment in which DCC operates, in order to ensure that the best overall consumer outcomes are incentivised based on the most up to date and appropriate metrics.

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

Utilita sees the purpose of the System Performance Incentive as an indication of the level of confidence in system reliability and we support the principle of the proposals. However, the four metrics should be reviewed regularly, starting as soon as their actual impact becomes clear.

The impact of the proposed metrics is still relatively obscure. Until the scale-up of both Enrolment and Adoption and SMETS2 installation across all regions occurs, the impact is an estimate. Utilita proposes there is a trigger, e.g. an annual review, whereby the metrics are reviewed as the landscape changes. This would ensure that the metrics are fit for purpose and deliver the desired outcomes.

We approve of dividing system performance metrics into SMETS1/SMETS2. However, further clarity is needed on how these calculations will be applied, as we seek to understand that all SMETS1 meters are accounted for fairly:

1. When, how often and by whom is the splitting of the margin between SMETS1 and SMETS2 meters calculated?
2. In the process of Enrolment and Adoption, at what point does a SMETS1 meter start to be included in this calculation (e.g. does failed enrolment due to system outage exclude meters from being counted)?

We also welcome the change to the incentive and penalty mechanism as a regional split, as it has the potential to drive greater system performance efficiencies across GB.

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

Yes, we agree with the areas proposed, and strongly support the introduction of a new prepayment metric. Due to its direct impact on consumers (see below), it should be monitored very closely and without allowing for any degradation/setting of tolerance levels. In addition, the prepayment metric should include assessment of not only top-ups but also other Service Requests for:

- tariff change;
- the non-disconnect calendar; and
- changing of meter modes.

The four areas (install and commission, prepayment, firmware management and service availability) all impact the end consumers' usability of their smart meter. The prepayment metric must be a central feature. Compared to credit customers, prepayment customers have a different, more active, and 'on-demand' relationship with their meter, and as such they are more dependent on DCC's system performance to handle various service requests without disruption or delay. These include successful top-ups, speedy warnings of low credit to prevent self-disconnection, and the timely activation and availability of emergency credit. The system's effectiveness at handling these interactions has the power to strongly impact the consumer positively or negatively, due to the prepayment customers' heightened vulnerability to system errors, outages, delays etc.

We note that the uptake of SMETS2 prepayment has increased in recent months, however there are still significant issues outstanding. Incentivising DCC with regard to SMETS2 prepayment is likely to encourage the right focus onto these prepayment issues and support the scale up of good quality solutions. If we can create a system that works effectively for prepayment customers, the system will work effectively for all customers.

We agree that poor performance in this area would have a high impact on consumers, especially those who are most vulnerable, and greater detail is required regarding what is to be included in the prepayment metric. The SEC Ops Group reviewed the need to focus on the delivery of Service Requests for top-ups in response to the initial OPR which we support. In addition, including Service Requests for tariff change, the non-disconnect calendar and changing of meter modes should all be assessed under this metric for better results.

With regards to the proposed "Service Availability" system performance metric, we believe this ties in closely with the needs of prepayment customers. According to the SEC Ops group, Service Availability metric should include "the ability of DCC services to be accessible as needed, whenever and wherever they are required by Users": We wish to highlight the responsibility DCC should always have towards keeping the systems working and maintained, and this is especially important for prepayment customers. The incentive should therefore include where and how DCC aim to reduce downtime for DCC Users in any given month (including unplanned and planned maintenance). It cannot be overstated how vulnerable prepayment customers are to system downtime.

Customer Engagement

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

Yes, Utilita supports these changes to include customer engagement as one of the metrics to be financially incentivised. Please see our response to question 5 as there are some outstanding concerns regarding:

- Existing reliance on qualitative feedback – we propose more quantitative feedback;
- The scoring and penalty mechanism – we propose changing the incentive-to-score-ratio from being a linear relationship, to a staggered relationship (see Question 5)

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

Although we agree with a customer engagement metric being included in the OPR, there are two main areas which should be changed to better reflect customer engagement:

1. detailed quantitative feedback in addition to qualitative feedback; and
2. the scoring and penalty mechanism needs amendment such that a higher score leads to a higher incentive, and vice-versa.

For a robust assessment of performance, there must be a balance between anecdotal evidence and quantitative feedback scores. For example, a timely and informative notification of an unplanned outage looks very different to a timely and informative response to a consultation. We propose there should be a 50:50 split between the two approaches to ensure even coverage, and issuing clear guidance (with contribution from DCC Users) on the appropriate responses expected from DCC.

We don't believe that the scoring and penalty mechanism for the Customer Engagement Incentive as currently drafted will encourage improvements to communication. The current proposals would mean that DCC would receive a quarter of the incentive for poor communication, and half the incentive if performance is only 'fair' (see example of current proposal). We do not believe that this is fair to consumers, or a good use of consumer expenditure.

Current Proposal for Scoring Framework

Score		Description	Margin Retained
4	Excellent	Strong evidence that DCC meets all or almost all of the required criteria fully, with no areas of concern. Performing to the expected standard.	100%
3	Good	Strong evidence that DCC meets the required criteria in most areas, with a few minor issues of concern.	75%
2	Fair	Evidence that DCC meets the required criteria in most areas, with a few material issues of concern.	50%
1	Poor	Evidence that DCC has met some required criteria, but inconsistent and with multiple material issues of concern.	25%
0	Very Poor	Limited evidence that DCC has met any of the required criteria, with multiple material issues of concern.	0%

We propose an alternative distribution that is weighted more strongly towards 'Excellent' and 'Good' communication. We recommend achieving this by focusing on a non-linear, staggered approach, weighted towards excellent performance (see Overarching comments for further detail). We believe this will generate better quality outcomes for consumers than rewarding potentially poor performance.

Contract Management and Procurement

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

Yes, Utilita firmly agrees 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?

This is an important incentive to have in the OPR for the following reasons:

1. Contract management is interconnected to issues around Service Availability and System Performance (with regards to CSP).
2. The External Costs form the largest proportion of DCC's costs in 2018/2019. Therefore, it is right to review the management and development within these contracts.
3. The Contract Management and Procurement incentive suppliers to better understand the nature of these external contracts, the efficiencies of these contracts, and where deadlines are not being met.

Weighting Across Performance Categories

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

Yes, we agree with the proposed weighting between the three areas of incentives, notwithstanding our answers to Question 5 and the Overarching Comments around the content/design of the in scoring and penalty mechanism.

Licence Change to Enable Implementation

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

The metrics reflect areas that significantly impact suppliers' relationships with customers, e.g. DCC's System Performance and reliability has a direct impact on suppliers' interactions with smart meters and therefore on the provision of services to customers. Utilita proposes that metrics should be consulted upon before revision: industry-wide consultation is necessary to ensure no unintended consequences, and to ensure that the metrics drive the right behaviours to ultimately achieve the best outcomes for customers.

We therefore recommend amending 38.9 (b); rather than "and may from time to time revise after consulting with the Licensee" we propose "may from time to time revise after <u>industry</u> consultation".

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

No further comments.