Making a positive difference
for energy consumers

This document sets out the draft Direction required to implement the six month grace period for the System Performance Transition Year in Regulatory Year 21/22. We are publishing this document as part of our January 2021 consultation on the OPR Guidance, and as part of that consultation wish to hear stakeholder views on this draft document, which we will take into account when publishing the final version of the direction in March.

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"[1]) 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. This Direction replaces the Direction issued on 28 October 2020[2].

[1] The terms "we", "us", "our", "Ofgem" and "the Authority" are used interchangeably in this document and refers to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.
[2] See Direction published on 28 October 2020: https://www.ofgem.gov.uk/system/files/docs/2020/10/opr_review_direction_0.pdf

7. 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) May 2020 Consultation on the implementation of the Operational Performance Regime (OPR)
    c) October 2020 Decision on DCC's OPR
    d) Janaury 2021 Consultation on the OPR Guidance
    e) March 2021 Decision on the OPR Guidance

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

Dated: XX/03/2021

Rachel Clark

Deputy 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,

   $BMOPA_t$ = [SUM 1-4] + [SDM 1-4] + [DIM 1-4] + [VMM 1-4][3]

   will take the form

   $BMOPA_t = SUM1_t + SUM2_t + SDM1_t + SDM2_t + SDM3_t + VMM1_t + VMM2_t$

   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 the authority 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.

3. Section A sets out how the authority will determine the OPR performance for measures SUM 1-2, SDM 1-3 and VMM 1-2 from RY2022/23 onwards.

4. Section B sets out how the authority will determine the OPR performance for measures SUM 1-2, SDM 1-3 and VMM 1-2 in the Transition Year.

5. Note, this Direction employs the term $R(OPR)_t$ to denote the amount of revenue at risk against the OPR, which is set to the value of $BM(OPR)_t$. The Authority will further consult on the process for amending this term in 2021.

[3] As given in Part C of Licence Condition 38.8.

Definitions

6. 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*

$BM(OPR)_t$ = amount of BM at risk against OPR (this excludes BM associated with BM Project Performance Adjustment Scheme) for Regulatory Year *t*

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

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. Theretained revenue at risk 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 retainedrevenue at risk 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)

V_{rgmt} = The Performance Level at which retained revenue at risk reaches its minimum value for region *r* for meter generation *g* for measure *m* for the Transition Year RY2021/22 (as defined in the OPR Guidance)

VI = The retained revenue at risk for region *r* for meter generation *g* for measure *m* for the Transition Year RY2021/22 for performance at or below performance level X

X_{rgmt} = The Performance Level at which retained revenue at risk reaches its minimum value for region *r* for meter generation *g* for measure *m* for Regulatory Year *t* (as defined in the OPR Guidance). In the Transition Year this is the performance level at which retained revenue at risk is zero.

XI_{rgmt} = The retained revenue at risk for region *r* for meter generation *g* for measure *m* for Regulatory Year *t* (as defined in the OPR Guidance) 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 ∈ {N,C,S}), *g* is a meter generation (ie g ∈ {S1,S2}), *m* is a performance measure (ie m ∈ {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 ∈ {0-TZ}) and *t* is the Regulatory Year.

7. The Transition Year shall be RY2021/22.

Section A: General formulae

8. In general the following formulae apply for measures SUM 2 and SDM 1-3 from RY2022/23:

I. $R(OPR)_t = BM(OPR)_t$

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

III. $TPLI_{gmt} = G_{gmt} \times TPLI_{mt}$

If *g* = S2,

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

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

VI. $XI_{rgmt} = - 0.5 \times TPLI_{rgmt}$

VII. For the determination of M_{rgt}:

a. If $RPL_{rgmt} > TPL_{rgmt}$ then M_{rgt} = 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 $M_{rgt} = -TPLI_{rgmt} + XI_{rgmt}$

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

If *g* = S1,

IX. For the determination of M_{gt}:

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

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

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

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

XI. $M_t = \Sigma_g(M_{gt})$

9. In general the following formulae apply for measure SUM1:

I. $R(OPR)_t = BM(OPR)_t$

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

a. If $RPL_{mt} > TPL_{mt}$ then M_t = Zero

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

$M_t = -[1 - [(RPL_{mt} - MPL_{mt})/(TPL_{mt} - MPL_{mt})]] \times [TPLI_{mt} - MPLI_{mt}]$

c. If $RPL_{mt} < MPL_{mt}$ then $M_t = -TPLI_{mt}$

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

I. $R(OPR)_t = BM(OPR)_t$

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

III. $Z_{mt} = \Sigma_c(Z_{cmt} \times ACW_{cmt})$

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

Section B: General formulae – Transition Year

11. In general the following formulae apply for measures SDM 1-3 during the Transition Year:

I. $R(OPR)_t = BM(OPR)_t$

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

III. $TPLI_{gmt} = G_{gmt} \times TPLI_{mt}$

If *g* = S2,

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

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

VI. $VI_{rgmt} = -0.5 \times TPLI_{rgmt}$

VII. For the determination of M_{rgt}:

a. If $RPL_{rgmt} > TPL_{rgmt}$ then M_{rgt} = 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:

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

d. If $V_{rgmt} \leq RPL_{rgmt} < X_{rgmt}$ then:

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

e. If $RPL_{rgmt} < V_{rgmt}$ then $M_{rgt} = - TPLI_{rgmt} + VI_{rgmt}$

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

If *g* = S1,

V. For the determination of M_{gt}:

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

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

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

c. If $X_{gmt} \leq RPL_{gmt} < MPL_{gmt}$

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

d. If $RPL_{gmt} < X_{gmt}$ then $M_{gt} = -TPLI_{gmt}$

VI. $M_t = \Sigma_g(M_{gt})$

12. In general the following formulae apply for measure SUM1 during the Transition Year:

I. $R(OPR)_t = BM(OPR)_t$

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

a. If $RPL_{mt} > TPL_{mt}$ then M_t = Zero

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

$$M_t = -[1 - [(RPL_{mt} - MPL_{mt})/(TPL_{mt} - MPL_{mt})]] \times [TPLI_{mt} - MPLI_{mt}]$$

c. If $RPL_{mt} < MPL_{mt}$ then $M_t = -TPLI_{mt}$

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

I. $R(OPR)_t = BM(OPR)_t$

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

III. $Z_{mt} = \Sigma_c(Z_{cmt} \times ACW_{cmt})$

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

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: $M_t = SUM1_t$

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:

TPL_{SUM1t} = 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.

MPL_{SUM1t} = 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.

RPL_{SUM1t} = 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: $M_t = SUM2_t$

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:

TPL_{SUM2t} = 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.

MPL_{SUM2t} = 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.

RPL_{SUM2t} = 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: $M_t = SDM1_t$

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:

TPL_{SDM1t} = 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.

MPL_{SDM1t} = Minimum Performance Level for $SDM1_t$, a function of the minimu service level for SEC CPM (Code Performance Measure) 6A at the beginning of *t*, as set out in the OPR Guidance.

RPL_{SDM1t} = 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: $M_t = SDM2_t$

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:

TPL_{SDM2t} = 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.

MPL_{SDM2t} = 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.

RPL_{SDM2t} = 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: $M_t = SDM3_t$

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:

TPL_{SDM3t} = 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.

MPL_{SDM3t} = 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.

RPL_{SDM3t} = Reported Performance Level for SDM3t – is equal to the actual performance level for SDM3t 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.