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# Decision

## DCC Operational Performance Regime Guidance

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In January 2021, we consulted on the guidance for the revised Operational Performance Regime (OPR). The regime financially incentivises DCC's performance in three main areas: system performance, customer engagement and contract management.

The consultation set out our proposals relating to the OPR Guidance to enable implementation. This included setting the performance levels and values for the system performance penalty mechanisms; and detailed processes for the customer engagement and contract management incentives. It also included proposals for a transitional year to provide greater certainty to stakeholders around the implementation of the new regime.

This document sets out our decisions and the reasons for them. Alongside this document we have published the final versions of the OPR Guidance, Terms of Reference and direction to implement our decisions on the OPR, incorporating stakeholder feedback.

# Contents

## Executive summary

The aim of the Operational Performance Regime (OPR) review is to optimise the financial incentives placed on Data Communications Company (DCC) to drive better performance. As a monopoly company it is important that DCC faces sufficient incentives to play its role well, delivering value for money and high quality services to support smart metering. This is key to ensure consumers are able to fully take advantage of the benefits of the smart meter rollout.

We became concerned, following DCC's submission of its performance under the OPR for the RY18/19 price control, that the OPR metrics may not be providing the best incentives to DCC. We asked stakeholders in our DCC Price Control RY18/19 consultation[1] for their views on how the OPR could be modified and improved. All respondents, including DCC, agreed with our concerns and supported a review of the current OPR framework.

Following consultation, in October 2020 we published our decision[2] to financially incentivise three areas under a revised OPR: system performance, customer engagement and contract management. As part of our decision, we also implemented a licence change to enable Ofgem to publish guidance, regarding the process, procedures and criteria of the OPR.

In January 2021, we published a consultation on the draft OPR Guidance[3] to enable implementation. This included setting the performance levels and values for the system performance penalty mechanisms; and detailed processes for the customer engagement and contract management incentives. It also included proposals for transitional arrangements to provide greater certainty to stakeholders around the implementation of the new regime.

## Financial Incentive Areas

### System Performance

DCC will be financially incentivised initially using three performance measures: service availability, prepayment and install and commission. Where relevant, these measures will

[1] DCC Price Control Consultation: Regulatory Year 2018/19 | Ofgem
[2] DCC Operational Performance Regime Review: October 2020 Decision | Ofgem
[3] OPR Guidance Consultation January 2021 | Ofgem

be assessed by meter generation (SMETS1/2) and region; and a new penalty mechanism applied for regional measures, as set out in the OPR Guidance. We consulted on setting the levels of Minimum Performance Level (MPL) and Target Performance Level (TPL), as well as the values of X and Y to be used in the penalty mechanisms.

Following consideration of responses, we have decided to maintain our position to set MPL and TPL equal to the Minimum Service Level (MSL) and Target Service Level (TSL) as set out in the Smart Energy Code (SEC). We will set X as double the distance between MPL and TPL, and we will set Y at 50%. We have also included some worked examples as an appendix to the OPR Guidance to illustrate DCC's retained margin for different levels of performance.

**Customer Engagement**

Under the new OPR, DCC's customer engagement will be financially incentivised. DCC's performance in this area will be assessed based on qualitative submissions from both DCC and SEC panel. The assessment will cover the timing and frequency of engagement; quality of information provided by DCC and the incorporation of customer views. We consulted on additional guidance around the criteria, as well as specific requirements upon the SEC Panel and DCC for preparing their submissions, including guidelines for the length and content.

Following consideration of all responses, we will implement the incentive as proposed in the OPR Guidance with a minor change to increase clarity over the scoring framework.

**Contract Management**

Under the new OPR, DCC's contract management will be financially incentivised. DCC's performance in this area will be assessed by an independent auditor using the National Audit Office (NAO) Framework. We consulted on a detailed timeline and process for the audit, as well as our proposed scope. We also published the draft Terms of Reference to be used to procure the auditor, alongside the consultation.

Following consideration of all responses, we will implement the incentive largely as proposed in the OPR Guidance, but allowing a further three weeks in the timeline for the procurement in the first year.

## Transition Period

We consulted on our proposals for potential transitional arrangements for each incentive area. We set out two different approaches for a transition year for the System Performance incentives in RY21/22. We also proposed a trial run without margin attached for the Customer Engagement and Contract Management incentives in RY20/21.

Following consideration of all responses, we have decided to implement a 12 month grace period for System Performance in RY21/22, for the new regime to come into effect in RY22/23. We maintain our position on a trial run in RY20/21 for both Customer Engagement and Contract Management, for these incentives to come into effect with margin attached in RY21/22.

## Next steps

Following this decision, we are implementing a trial run of the Customer Engagement and Contract Management incentives, without margin attached, as part of the RY20/21 Price Control. Following completion of the trials, we will consider whether to review the OPR Guidance in these areas.

On System Performance, we expect DCC to use the 12 month grace period to work transparently with its customers to find a reporting solution for the OPR measures, as set out in the Smart Energy Code (SEC), which could be based on service provider data, DCC Technical Operations Centre (TOC) data, or other reporting arrangements. Once DCC has analysed its performance, we encourage DCC to engage with their customers on improvements to its service that, where additional costs are required, represent value for money. Potentially these discussions may also involve changes to the performance levels as defined in the SEC. We note that this could require a further SEC modification as part of implementation, and in this case we would expect DCC to engage formally with the SEC committees.

# 1. Introduction

## Context

1.1. DCC is the central communications body licensed to provide the communications, data transfer and management required to support smart metering across GB. It is responsible for linking smart meters in homes and small businesses with energy suppliers, network operators and energy service companies. It is important that as a monopoly company DCC faces sufficient incentives to play its role well, delivering value for money and high quality services. This is key to ensure consumers are able to take full advantage of the benefits of the smart meter rollout.

1.2. The Licence stipulates that DCC's Baseline Margin be put at risk each Regulatory Year under the relevant performance incentive regimes. These comprise the Baseline Margin Project Performance Schemes and the Operational Performance Regime (OPR). DCC's Baseline Margin is 100% at risk against these incentive regimes, with the majority at risk against the OPR.

1.3. Following DCC's submission of its performance under the current OPR for the RY18/19 price control, we became concerned that the OPR metrics may not be providing the best incentives to DCC.

## Our decision making process

1.4. As part of our DCC Price Control RY18/19 consultation, we asked stakeholders for their views on how the OPR can be modified and improved. All respondents, including DCC, supported a review of the current OPR framework.

1.5. Through our stakeholder engagement, we identified three broad categories where stakeholders wished to see improved DCC performance: System Performance, Customer Engagement and Contract Management. In March 2020, we published a working paper[4] setting out our initial thinking on how to financially incentivise each of the three areas through a revised OPR. Based on this feedback, we developed our initial thinking from the

[4] DCC Operational Performance Regime Working Paper March 2020: https://www.ofgem.gov.uk/publications-and-updates/dcc-operational-performance-regime-working-paper

working paper into the proposals set out in our formal consultation[5] on the OPR review, published in May 2020. Respondents largely agreed with our proposals, and in October of that year we published our decision[6] to implement the new OPR.

1.6. As part of our October decision, we implemented a licence change to enable Ofgem to publish guidance, regarding the process, procedures and criteria of the OPR. The decision highlighted some specific issues regarding implementation that would be set out in the OPR Guidance. In January we consulted on those specific issues, alongside publishing a draft of the OPR Guidance[7].

1.7. We received 8 responses to this consultation. All non-confidential responses are published on our website. We have fully considered all responses received to our consultation. We have summarised the key points received from the consultation and provide an explanation of the reasons for our decisions in light of these.

## Related publications

OPR Guidance March 2021: https://www.ofgem.gov.uk/publications-and-updates/decision-opr-guidance-march-2021

OPR Guidance Consultation January 2021: www.ofgem.gov.uk/publications-and-updates/opr-guidance-consultation-january-2021

Decision on DCC Operational Performance Regime Review October 2020: https://www.ofgem.gov.uk/system/files/docs/2020/10/dcc_operational_performance_regime_review_-_october_2020_decision.pdf

Consultation on DCC Operational Performance Regime Review May 2020: https://www.ofgem.gov.uk/system/files/docs/2020/05/opr_review_consultation.pdf

DCC Operational Performance Regime Working Paper March 2020: https://www.ofgem.gov.uk/publications-and-updates/dcc-operational-performance-regime-working-paper

[5] DCC Operational Performance Regime Consultation May 2020: https://www.ofgem.gov.uk/system/files/docs/2020/05/opr_review_consultation.pdf
[6]Decision on DCC Operational Performance Regime Review October 2020: https://www.ofgem.gov.uk/system/files/docs/2020/10/dcc_operational_performance_regime_review_-_october_2020_decision.pdf
[7] OPR Guidance Consultation January 2021: www.ofgem.gov.uk/publications-and-updates/opr-guidance-consultation-january-2021

Decision on increasing the revenue at risk against the OPR January 2021:
www.ofgem.gov.uk/publications-and-updates/decision-increasing-dcc-s-revenue-risk-against-opr

Consultation on increasing the revenue at risk against the OPR October 2020:
https://www.ofgem.gov.uk/publications-and-updates/consultation-increasing-dcc-s-revenue-risk-against-operational-performance-regime

2018/19 Price Control Decision: https://www.ofgem.gov.uk/publications-and-updates/dcc-price-control-decision-regulatory-year-201819

2018/19 Price Control Consultation:
https://www.ofgem.gov.uk/system/files/docs/2019/10/dcc_price_control_consultation_-_regulatory_year_2018-19.pdf

Decision on DCC's Operational Performance Regime September 2017:
https://www.ofgem.gov.uk/system/files/docs/2017/09/1._decision_on_dcc.pdf

Consultation on the implementation of the Operational Performance Regime June 2017:
https://www.ofgem.gov.uk/system/files/docs/2017/06/consultation_on_the_implementation_of_the_operational_performance_regime.pdf

DCC Operational Performance Regime: Principles and Objectives March 2016:
https://www.ofgem.gov.uk/system/files/docs/2016/03/dcc_operational_performance_regime_principles_and_processes.pdf

## Your feedback

1.8. We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this report. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments?

Please send any general feedback comments to smartmetering@ofgem.gov.uk.

# 2. System Performance

**Section summary**

This section covers our decision on the OPR Guidance for the system performance incentives. We consulted on setting the levels of MPL and TPL, as well as the values of X and Y to be used in the penalty mechanisms.

Following consideration of responses, we have decided to maintain our position to set MPL and TPL equal to the MSL and TSL as set out in the SEC. We will set X as double the distance between MPL and TPL, and we will set Y at 50%.

Finally, we have included some worked examples as an appendix to the OPR Guidance to illustrate DCC's retained margin for several different levels of performance, and have added some further detail on the appeals process.

**Question 1: What are your views on our proposals for the level of MPL and TPL?**

**Question 2: What are your views on our proposals for the values of x and y?**

2.1. System Performance measures the reliability of DCC systems, which is fundamental for the successful delivery of the smart meter rollout and business-as-usual operations.

2.2. In October 2020, we set out our decision to financially incentivise three System Performance measures: service availability, install and commission and prepayment. We decided to measure performance, where relevant, by meter generation (SMETS1/2) and region. We also established a new penalty mechanism, which would allow for poor performance in a single communications region to result in a penalty of 50% of the total margin for that measure.

2.3. In the OPR Guidance, we set out more technical detail around the system performance measures, how they will be measured and the applicable penalty mechanisms. We have set out our decisions below for setting the performance levels (MPL and TPL); the values of X and Y to be applied in the penalty mechanisms; as well as address further comments from stakeholders on the measures, penalty mechanisms and appeals process in the OPR Guidance.

## MPL and TPL

*Proposal at consultation: Set the MPL equal to the MSL; and TPL equal to the TSL, as set out in the SEC.*

*Decision: Remains unchanged from consultation.*

**Respondents' views**

2.4. The majority of respondents supported our proposals.

2.5. Two respondents suggested that the MPL/TPL should increase. One of these respondents suggested that in future the TPL should increase to 99.5%. The other respondent stated they understood why we are aligning the performance levels to those in the SEC but noted that this offered no improvement to current levels.

2.6. DCC stated the MPL/TPL levels must align to their service provider contracts, without which DCC has no levers to ensure performance meets these levels. It also noted that it was not clear how the MSL and TSL as set out in the modified SEC were determined.

**Reasons for our decision**

2.7. Given strong stakeholder support for our proposals, we maintain our consultation position to set MPL and TPL equal to MSL and TSL respectively.

2.8. We consider DCC's customers best placed to determine the level of performance they need from DCC, taking value for money into account. If DCC customers wish to change these performance levels in future, we encourage this to be raised through the formal SEC process.

2.9. We note DCC's comments that MPL/TPL levels must align to their service provider contracts. We expect DCC to work with its service providers to meet performance levels set by the MPL/TPL, and encourage DCC to explore all options with its customers to make improvements. However, we consider contractual change to be one of several levers that DCC can use to improve its performance, and consider there may be other options that customers may consider better value for money. As DCC engages its customers around improvements, this may also include further discussion around the performance levels set out in the SEC.

## Setting the value of Y

*Proposal at consultation: Set the value of Y - the level of margin DCC retains at MPL – between the range of 50% to 70%.*

*Decision: Set the value of Y to 50%.*

**Respondents' views**

2.10. The majority of stakeholders argued in favour of setting Y at 50%. Respondents argued that this would ensure a stronger incentive to reach the TPL, which was a performance level strongly desired by stakeholders, and ensure MPL is seen as the minimum satisfactory level of performance, rather than good performance.

2.11. One respondent noted that the negative impact of MPL performance on the service they provided to customers was significant, especially for prepayment customers.

2.12. DCC argued that Y should not be set lower than 70% as this would result in diluting the margin, which will further fragment the incentive given the volume of metrics.

**Reasons for our decision**

2.13. Given stakeholder views that MPL does not represent a good level of performance, we have decided to set Y at 50% to ensure the strongest incentive to reach TPL. This also ensures a greater marginal incentive on DCC to improve performance from MPL to TPL.

2.14. In addition, as we have decided to provide DCC with a 12 month grace period for System Performance (see chapter 5) to make improvements without the risk of losing margin, we consider it appropriate for DCC to aim to achieve TPL when this incentive regime comes into effect in RY22/23.

2.15. In response to DCC's concerns that this would dilute the margin to the extent of undermining the effectiveness of the incentive, in our May consultation on the OPR, we were mindful of the risk that the effectiveness of the System Performance incentives could be undermined by too much fragmentation. This underpinned our rationale to limit the number of System Performance measures to three to ensure there was sufficient margin against each incentive.

2.16. We expect this risk to be further mitigated as the level of Baseline Margin at risk against the incentive is set to increase compared to previous years. In addition, we have decided to increase the revenue at risk by the full value of External Contract Gain Share in each Regulatory Year across all three incentive areas of the OPR from RY22/23 onwards[8].

## Setting the value of X

*Proposal at consultation: Set X – the performance level at which DCC's retained margin in a region reaches its lowest negative point - at double the distance between MPL and TPL.*

*Decision: Remains unchanged from consultation.*

### Respondents' views

2.17. Four respondents supported our proposal to set X at double the distance between MPL and TPL.

2.18. Three respondents stated that the value of X should be set at half the distance between MPL and TPL to clearly demonstrate that performance below MPL is totally unacceptable. One of these respondents argued this was appropriate given the amount already invested in DCC and the time it has had to resolve performance issues.

2.19. DCC argued that there is no real-world evidence underpinning why X should be set at double the distance. DCC suggested that Ofgem should keep an open mind on this value during the transition period, and that DCC will perform its own analysis on the appropriate level of X.

[8] Decision on increasing DCC's revenue at risk against the Operational Performance Regime (OPR) (ofgem.gov.uk)

**Reasons for our decision**

2.20. After consideration of stakeholder views, we will maintain our consultation position to set X at double the distance between MPL and TPL. This means DCC's retained margin in a region reaches its lowest negative point at the highest level of performance, which ensures there is a marginal incentive on DCC to improve its performance over the widest range of performance.

2.21. In response to DCC's comments, setting X at double the distance between MPL and TPL for prepayment would mean a performance level of 90%. This is a level of performance significantly below what DCC's customers would consider as the minimum acceptable level of performance. To put this into context, under prepayment, where DCC is incentivised to ensure that prepayment top-ups are successfully made to devices, a 90% level of performance would mean that 1 in 10 prepayment tops were unsuccessful. This would have a very real impact on both DCC's customers and consumers. Although we will keep X under review, we do not consider it appropriate to lower X below 90%.

## Penalty mechanisms and appeal process

*Proposal at consultation: The OPR Guidance set out penalty mechanism A and B in detail, as well as an appeal process in the event that DCC does not meet the required performance levels for reasons outside of DCC's control.*

*Decision: Remains unchanged from consultation, though we have added an appendix on the penalty mechanisms and further detail on the appeals process to the OPR Guidance for further clarification.*

**Respondents' views**

2.22. DCC argued that penalty mechanism B should be reconsidered, as the mechanism does not drive performance in the North. Instead it would incentivise DCC to focus on the Central and South regions to ensure both perform above MPL, with the majority of smart meters located in these two regions. DCC stated that as Central and South are effectively the same region, this means if performance drops in one, there will be a parallel drop in the other. Furthermore, in the event all regions perform below MPL, DCC are likely to focus on Central and South, as this would deliver a double uplift in performance.

2.23. DCC also expressed concern at the use of the term "penalty mechanism". DCC argued that the licence is based on the principle of incentives to encourage certain behaviours, and that introducing a penalty scheme would be a fundamental change to DCC's licence.

2.24. One respondent suggested it would be useful to include some worked examples of the penalty mechanisms as part of the Guidance.

2.25. On the appeals process, DCC requested clarification over whether this was intended to replicate the OPR Exceptional Events process as set out in sections H13.7 – 13.14 in the SEC. DCC also suggested that it would be practical to make an appeal when an issue occurs, rather than waiting for the annual price control cycle.

**Reasons for our decision**

2.26. We will maintain our position on the penalty mechanisms, and have added a further appendix to the OPR Guidance with worked examples to illustrate the retained margin associated with different levels of performance for both penalty mechanisms.

2.27. As we set out in our October 2020 decision, we believe it is important to represent consumers in Central and South as two separate regions, to reflect the proportion of consumers that are located in those regions.

2.28. Nevertheless, as DCC highlights, there is a risk that this approach could result in insufficient focus on performance in the North region, which is of particular concern to customers. Penalty Mechanism B, which allows DCC to lose 50% of its margin for poor performance in one region, mitigates this risk. For example, if DCC's performance in the North reached performance level X, DCC would lose 50% of the total margin associated with the measure, regardless of whether DCC reached TPL for Central and South. We consider that this provides sufficient incentive for DCC to maintain focus on the North, alongside Central and South. It is important that DCC faces strong incentives to perform well in all regions.

2.29. On the use of the term "penalty mechanism", we have used this term since the working paper on the OPR review published in February 2020[9]. We note that our 2017 consultation[10] on the original OPR used the term "incentive structure" to describe the

[9] DCC Operational Performance Regime: Working Paper | Ofgem
[10] DCC Operational Performance Regime: Final Proposals | Ofgem

relationship between DCC's performance levels and retained margin. However, both describe mechanisms to the same effect; the OPR is a downside-only incentive regime with all of DCC's Baseline Margin at risk, as set out in the licence. Our use of the term "penalty mechanism" does not make any change to the structure of the incentives.

2.30. On the appeals process, this was not intended to replicate the SEC process on OPR Exceptional Events. However, we consider that DCC's engagement with the SEC Panel around an OPR Exceptional Event could satisfy the requirement for DCC to seek the Panel's view on any adjustment to the reduction of the System Performance incentive as set out in the Guidance.

2.31. Furthermore, DCC is welcome to collect and submit evidence for an appeal to Ofgem immediately following the occurrence of an issue. However, Ofgem will only make a determination on the evidence associated with an appeal during the price control process. We have made some amendments to the description of the appeals process to better reflect this in the OPR Guidance.

## Service Availability and Firmware Management

*Proposal at consultation: Service availability to be determined as an average of the availability across all five DCC interfaces. Firmware management will carry a 0% weighting until the corresponding SEC performance measure has been implemented as part of SEC Modification 122B.*

*Decision: Remains unchanged from consultation.*

**Respondents' views**

2.32. On firmware management, two respondents suggested that we should retain SEC Code Performance Measure 2, which measures core service requests, while awaiting for the new firmware management measure to be implemented.

2.33. One respondent argued that the DCC User Interface should be weighted 40-60% within the service availability measure, as issues with this interface have an impact across the system.

2.34. Conversely, DCC argued that because the DCC User Interface has an impact across the system, it would affect performance across other measures, which would result in double counting and should be reconsidered.

### Reasons for our decision

2.35. We will maintain our consultation position in this area. Given the conclusions of the SEC Operations Group report, we do not consider Code Performance Measure 2 to be a sufficiently fit for purpose measure of firmware management. We consider the benefits of including this measure in the regime are outweighed by the disadvantages of further fragmenting the system performance incentives.

2.36. On service availability, we acknowledge that the DCC User Interface is critical as issues with this interface have an impact across the system. It is therefore important that DCC is sufficiently incentivised to ensure high performance on this specific interface. However, as performance for this interface can affect performance in other incentivised measures, we consider that DCC already faces a strong incentive to perform well without further increasing the weighting. Considering the critical nature of this interface, we consider the potential for double counting appropriate to ensure DCC is incentivised to reach TPL for this measure.

# 3. Customer Engagement

**Section summary**

This section sets out our decision for the OPR Guidance on the Customer Engagement Incentive. This includes additional guidance for the assessment criteria and assessment process; specific requirements upon the SEC Panel and DCC in preparing their submissions; and guidance on the required format for the submission.

Following consideration of responses, we have not made material changes to the content of the Guidance.

**Question 3: Do you have any comments on the drafting of the OPR Guidance for the Customer Engagement Incentive?**

**Question 4: What are your views on the proposed submission requirements?**

## Background

3.1. We want to see DCC's decisions strongly informed by an understanding of its customers' needs, replicating the pressures a company would experience in a competitive market to drive better value for money. DCC's customers have consistently raised customer engagement as an area which requires significant improvement, raising concerns that DCC's engagement around both its decision-making processes and wider informative engagement has not been sufficiently transparent, timely or relevant. While we acknowledge that DCC has demonstrated recent improvements in customer engagement, it continues to be an area which requires greater focus.

3.2. In October 2020 we published our decision to implement a financial incentive on customer engagement. This decision set out the assessment process, requiring both DCC and SEC Panel to prepare a submission on DCC's performance during the previous Regulatory Year against a defined set of criteria. These submissions will then be provided to Ofgem for us to assess as part of our annual price control assessment, which will then be consulted on, and subsequently make a decision on DCC's performance against the incentive.

3.3. In January 2021 we consulted on the OPR Guidance, which provides further detail on the Customer Engagement Incentive and sought customer views on its drafting. We provided additional detail in the Guidance outlining what we would consider when making our assessment. We also set out guideline requirements for the submissions from DCC and the SEC Panel, in order to provide an expected structure and length of the submission as a guide, without being too prescriptive of its form.

## Guidance drafting and submission requirements

*Consultation proposal: Guideline requirements on DCC and the SEC Panel for the submission process and format.*

*Decision: Remains unchanged from consultation proposal. Minor clarification has been added around the scoring framework.*

**Respondents' views**

3.4. All respondents broadly supported the proposed guidance and submission requirements for the Customer Engagement Incentive. In general, respondents considered that the level of detail provided in the OPR Guidance was suitable.

3.5. Three respondents specifically noted that they supported the proposed less-prescriptive approach toward the submissions.

3.6. One respondent questioned whether there was a need for additional guidance on how the scoring is allocated, ie whether whole or part values should be awarded.

3.7. One respondent highlighted the need for Ofgem to remain pragmatic in its assessment and to remain flexible, to ensure the submission requirements do not become too restrictive. For example, to avoid the risk of genuine feedback being excluded because of a technicality with a submission.

3.8. DCC broadly supported the assessment areas covered by the Customer Engagement Incentive. However, DCC raised concerns over ensuring feedback on its customer engagement remained objective, and was not influenced by customers' concerns over wider issues not relating to engagement. DCC highlighted that Ofgem should avoid giving any weight to unsupported statements.

3.9. DCC stated that an assessment of its performance should be based on views of SEC Parties rather than SECAS[11] itself, and noted that its customer engagement activity is broader than those which SECAS observes through its forums.

3.10. DCC also provided an estimation of resource it expected to need as a result of the Customer Engagement Incentive, including estimations regarding recruitment. DCC anticipates 1-2 full-time equivalent (FTE) to run the annual assessment and submission process, 1-2 FTE to overhaul existing strategy and processes, and 2-3 FTE to deliver change required to attain the highest level of performance.

**Our decision**

3.11. In light of stakeholder support, we are maintaining our position and are not making material changes to the customer engagement chapter of the OPR Guidance document proposed at consultation. The assessment process and criteria, and submission requirements, remain unchanged.

3.12. We have amended the OPR Guidance to provide a clearer explanation of how the scores should be allocated.[12] Only whole scores of 0, 1, 2 or 3 will be awarded for each of the nine assessment criteria questions. However, as the overall score will be calculated using a weighted average of the individual scores, it will be possible for the overall score to be a decimal value from 0-3. We consider this is a helpful addition to the Guidance to add clarity to the assessment process.

3.13. In relation to the submission requirements potentially being too restrictive, we intend to be pragmatic in our assessment and consider that we should not be overly prescriptive over the format of the submission to allow flexibility in how DCC and the SEC Panel choose to prepare their submissions. The Guidance sets out several guidelines to provide a common structure for DCC and the SEC Panel to follow, such as a suggested length of the submission. This aims to ensure the two submissions follow a similar basic structure and format to allow a consistent assessment approach to be taken for both submissions, without being too restrictive.

[11] SECAS, "Smart Energy Code Administrator and Secretariat"
[12] Additional detail provided in paragraphs 4.45 and 4.49 in the OPR Guidance.

3.14. Regarding the objectivity of the assessment, we require any justification to be supported by additional evidence, and we consider that the assessment criteria are suitably defined to ensure we will only be assessing DCC's performance with regards to customer engagement, rather than wider issues.

3.15. In response to DCC's concerns about ensuring its performance is assessed based on its customers' views, we have consistently underlined the importance of the SEC Panel taking account of wider stakeholder views when preparing its submission and consider the Guidance addresses this. While we do not consider it appropriate for Ofgem to prescribe the process the SEC Panel must follow to achieve this outcome, we have stated explicitly in the Guidance that the SEC Panel must:

- seek wider views as part of their assessment of DCC's customer engagement; and
- consider DCC's wider engagement, such as bilateral engagement with stakeholders, rather than limiting its assessment to DCC's engagement with the Panel itself.

3.16. In addition, following our initial assessment of DCC's and the SEC Panel's submission, we will consult on our minded-to position as part of the price control. This will provide a further opportunity for all stakeholders, including DCC, to share their views and provide additional evidence on DCC's performance.

3.17. We note that DCC has outlined its expected resourcing requirements as a result of the Customer Engagement Incentive. As DCC has an existing customer engagement team within its Corporate Management cost centre, we would expect DCC to utilise its existing resource to drive improvements rather than seeking to hire additional staff without a strong business need. As set out in our Price Control Processes and Procedures Guidance, we do not approve costs ex-ante, and we will assess any costs DCC incurs as part of our ex-post price control process to determine whether those costs were incurred economically and efficiently.

3.18. We plan to review the OPR Guidance following the Trial Run (see chapter 5) for the Customer Engagement Incentive to determine if any changes to the guidance are required. If changes are necessary the Guidance will be amended and published in advance of the following Regulatory Year.

## Contract Management

**Section summary**

This section covers our decision on the Contract Management Incentive.

In our consultation, we set out our detailed proposals on the timeline and process for the auditor assessment. We define the scope of the assessment across three areas, contract management, procurement and re-procurement. We also published the draft Terms of Reference for comment alongside the consultation.

Following consideration of the consultation responses, we largely maintain our position on the scope and the timeline of the audit, but have allowed a further three weeks for the procurement in the first year. We have also made some small amendments regarding the process in the OPR Guidance and the Terms of Reference. We are open to further review the Guidance in this area after the trial is complete.

**Question 5: What are your views on the timeline and process for the auditor assessment?**

**Question 6: What are your views on the scope of the assessment?**

**Question 7: What are your views on the draft Terms of Reference?**

3.19. DCC was appointed using an outsourced service model, to manage contracted smart metering service providers. As such, external costs compose the largest proportion of DCC's costs, and it is critical that these contracts are entered into, managed and closed out effectively and efficiently. We outlined our concerns around DCC's contract management and procurement processes in both our RY18/19 and RY19/20 price control consultations[13]. Given the size and volume of DCC's contract portfolio, and that several original service provider contracts will require extension and/or reprocurement, it is important that DCC increases focus on this area in the coming years.

3.20. In October 2020, we published our decision to financially incentivise DCC's contract management as part of the revised OPR. This put a small proportion of DCC's margin at risk

[13] See price control consultations for RY19/20 and RY18/19.

against an independent audit of DCC's contract management and procurement activities using the National Audit Office Contractual Relationships Framework (NAO Framework).

In January, we consulted on the detailed timeline and process for the auditor assessment, and its scope. Overall, respondents supported our proposals for the guidance on contract management, and we have set out our decisions below.

## Timeline and Process for Auditor Assessment

*Proposal at consultation: Contract management and procurement to be audited on an annual cycle. The evaluation will begin in June with a final report issued in August.*

*Decision: Timeline and process for auditor assessment remains largely unchanged. A further three weeks will be allowed for the procurement in the first year for the final report to be issued in September. We are open to reviewing the timeline after the trials are complete.*

**Respondents' Views**

3.21. All 8 respondents broadly supported our proposed timeline and process for the auditor assessment.

3.22. Three respondents commented on the timeline. One respondent suggested that the audit cycle should fit into one Regulatory Year to ensure enough time to implement lessons learnt for subsequent auditor assessments, and that the evaluation stage should be extended from the current 6 weeks to 6-8 weeks. DCC noted that the timing of the audit conflicts with the annual price control process, and asked Ofgem to reconsider the burden of an annual audit. SEC Panel noted that the timeline to appoint an auditor for June was challenging.

3.23. One respondent suggested that the costs associated with the audit should be shown on DCC's charging statement for transparency.

3.24. SEC Panel requested that a full non-redacted report should be shared with SECCo Chair to help ensure that the final report shared with the SEC Panel is fit for purpose.

3.25. One respondent suggested a secure platform should be used to share documents relating to the audit, instead of email as prescribed in the guidance.

3.26. DCC suggested that the scoring system should be reviewed to make it an achievable incentive. DCC contends it is likely that no organisation would ever be capable of achieving full marks across all 21 questions of the framework. DCC also reiterated their concerns that the NAO Framework is inappropriate to assess a private company.

3.27. Finally, DCC has estimated the incentive's cost and resource burden to be 5-10 FTEs across auditor support (2-3 FTEs), new contract management strategy (1-2FTEs) and delivering performance (2-5 FTEs).

**Reasons for our decision**

3.28. Given stakeholders' broad support for the proposed timeline and process for the auditor, we will maintain our consultation position with some small adjustments to the OPR Guidance and Terms of Reference.

3.29. In respect of the timeline, we have incorporated a further three weeks to allow sufficient time for the procurement. This means in the first year the auditor will produce the interim report for DCC by 30 July, and the final report will be issued to Ofgem by 10 September.

3.30. We are open to reviewing the timeline after the trial is complete. In particular, we will consider bringing the audit forward in future years to complete the assessment by the end of July, mitigating a direct conflict with the price control period and ensuring more time to make improvements. We will also consider whether a longer evaluation period is necessary for future years.

3.31. In respect of the costs associated with the audit, as set out in our October 2020 decision, SECAS will undertake the procurement process for the auditor on behalf of Ofgem and the funds for the auditor will be included in the SECCo budget.

3.32. In regards to DCC's costs, while we expect DCC to administer the audit using existing resources, we recognise that DCC may incur further costs to deliver improvements as a result of the audit's findings. We will assess any costs DCC incurs as part of our ex-post price control process to determine whether those costs were incurred economically and efficiently. In addition, we support DCC providing further transparency to its customers over costs, and request DCC to consider whether it would be appropriate to include any additional costs in the charging statement, or otherwise consider how to make these costs clear to its customers.

3.33. We acknowledge the concerns of the SEC Panel regarding the usefulness of a heavily redacted report. In response, we have set out a clear process in the final OPR Guidance and Terms of Reference to show how Ofgem will produce the non-commercially confidential version of the report. Ahead of circulation, DCC will have the chance to comment on the report to highlight any areas of commercial confidentiality, and it will be up to Ofgem to decide whether to make redactions. As a guideline, we expect the report to be redacted only in areas where there are strict commercial confidentiality concerns with the aim of as much transparency as possible. Ofgem's final report will then be shared with the SEC Panel for comment prior to wider circulation. This provides opportunity for the Panel to question the report and comment if they are concerned that areas may have been overly redacted.

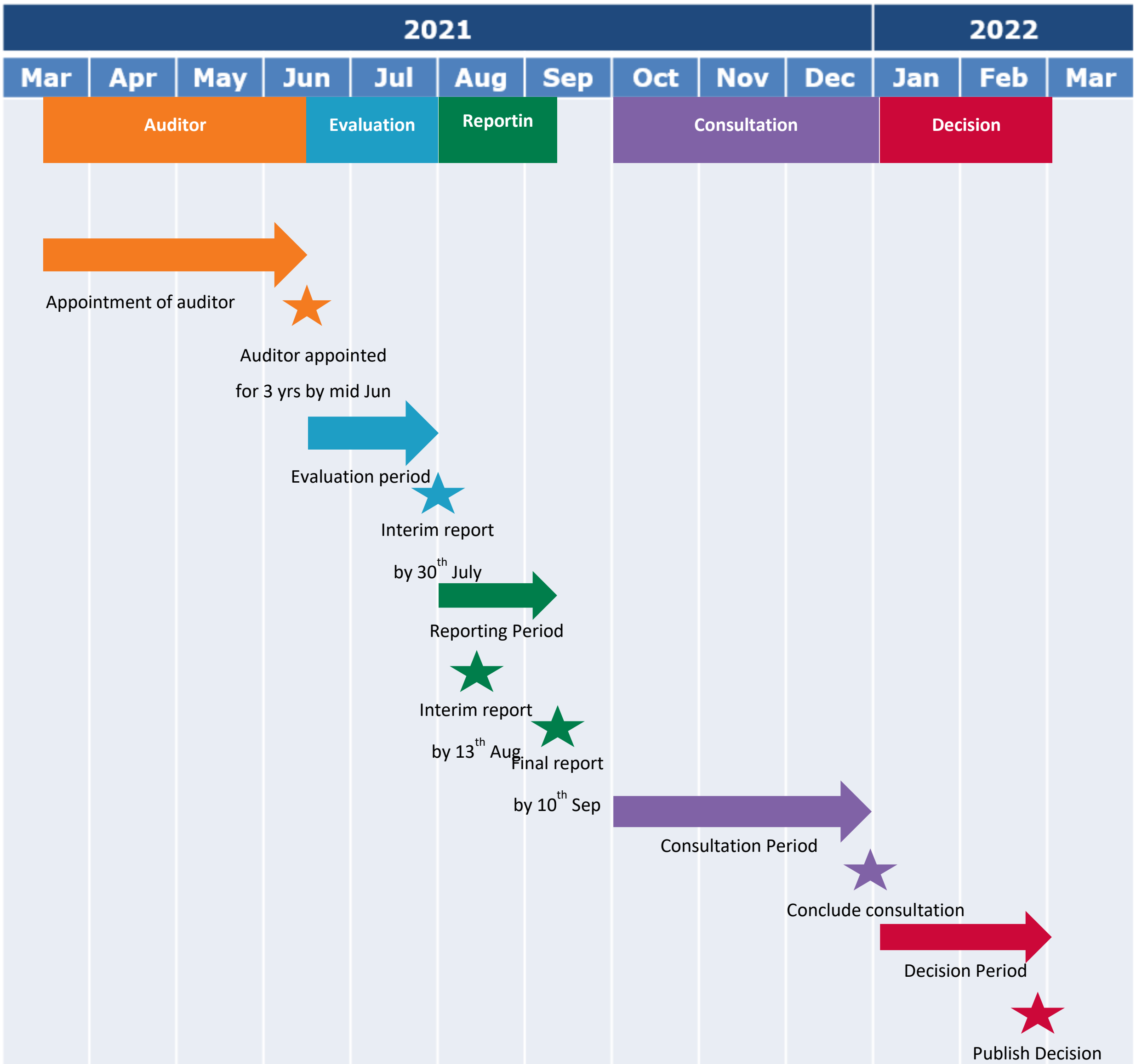
3.34. We acknowledge the observation that it is more appropriate for the auditor to define the most secure process to submit documentation relating to the report. We have amended the Guidance and Terms of Reference accordingly.

3.35. In respect to the scoring, the NAO Framework is clear that it is seeking to encourage good practice behaviours. As such, we consider that the top score set out in each question of the NAO framework represents good contract management, rather than perfect contract management, and is therefore an achievable expectation of DCC. Nevertheless, we will consider whether to review the scoring system after the trials are complete.

3.36. In regards to the use of the NAO framework, as we set out in our May 2020 consultation, we regard DCC's position in relation to contract management comparable to other central energy industry bodies, other private sector businesses with significant outsourcing, and indeed many government departments. Whilst the scale and content of the outsourcing being managed varies significantly between different types of organisations; at the highest level, the core considerations for good practice contract management are consistent, and the NAO framework itself sufficiently high-level and flexible for it to be appropriate to apply to DCC.

3.37. To provide further clarity, Figure 4.1 displays a graphical representation of the timeline of the RY20/21 audit process. We have added this representation to the OPR Guidance.

**Figure 4.1: Timeline of the RY20/21 Audit Process**




## Scope of the Assessment

*Proposal at consultation: Assess DCC's activities in contract management, procurement and re-procurement, but with certain limitations to balance the breadth and depth of the assessment.*

*Decision: Remains unchanged from consultation. We will be open to reviewing the scope after the trials are complete.*

**Respondents' Views**

3.38. All 8 respondents broadly supported our proposed scope of the assessment.

3.39. Two respondents suggested the scope should be reviewed following the first trial audit.

3.40. One respondent suggested the scope should include contracts assigned, linked or owned by Capita over a £1m threshold.

3.41. DCC broadly agreed with the scope of the assessment, and agrees with our position that Baseline Margin Project Performance Adjustment (BMPPA) Scheme related activities should not be incentivised under OPR. However, since SMETS1 migration and enrolment is subject to a BMPPA Scheme, DCC requested clarity on whether SMETS1 contracts are in scope for RY20/21.

3.42. In addition, DCC was unclear whether once an aspect of their legacy contracts had been audited one year, whether this will be assessed again in the same manner the following year. If so, DCC contended this would not have value for their customers.

**Reasons for our decision**

3.43. Given stakeholders' support for the scope of the assessment, we will maintain our current position. Although we are open to reviewing the scope after the trial is complete.

3.44. In regards to SMETS1, the three SMETS1 contracts with highest cost will be in scope for RY20/21 alongside the BMPPA scheme on Enrolment & Adoption. Since there is no margin attached for RY20/21, there is no risk of double jeopardy from these incentives. As we expect the Enrolment and Adoption Scheme to conclude in RY20/21, we expect SMETS1 contracts to be in scope with margin attached for future years. Therefore, we think it is beneficial for all stakeholders, particularly DCC, for these contracts to be assessed in the trial to identify early improvements.

3.45. Regarding Capita linked contracts, as Capita is not a fundamental service provider, Ofgem assesses any procurements of Capita services as part of DCC's internal costs. Hence, such contracts are out of scope of the Contract Management incentive as it is designed to focus exclusively on external costs.

3.46. In relation to the annual assessment of legacy contracts, in the case DCC performs highly against the NAO Framework, we consider there would be some value in continuing to audit DCC in these areas to ensure DCC is incentivised to maintain a high level of performance. However, we are open to reviewing the scope of the audit after the result of the trial to ensure the incentive is targeted where it is most needed.

## 4. Transition Phase

**Section summary**

This section sets out our approach to the implementation of the new OPR, ensuring sufficient transitional arrangements are in place to offer certainty to DCC and other stakeholders.

In our consultation, we proposed two options for a transition year for the System Performance incentives in RY21/22. We also proposed a trial run without margin attached for the Customer Engagement and Contract Management incentives in RY20/21.

Following consideration of responses, we have decided to implement a one year grace period for System Performance in RY21/22, for the new regime to come into effect in RY22/23.

We maintain our position on a trial run in RY20/21 for both Customer Engagement and Contract Management, for these incentives to come into effect with margin attached in RY21/22.

**Question 8: What are your views on the proposed 6 month grace period (option 1)?**

**Question 9: What are your views on the direction required to implement the 6 month grace period (option 1)?**

**Question 10: What are your views on the proposed 1 year grace period (option 2)?**

**Question 11: What are your views on the direction required to implement the 1 year grace period (option 2)?**

**Question 12: Which is your preferred approach to the system performance transition year, option 1 or option 2?**

**Question 13: What are your views on the customer engagement and contract management trial run?**

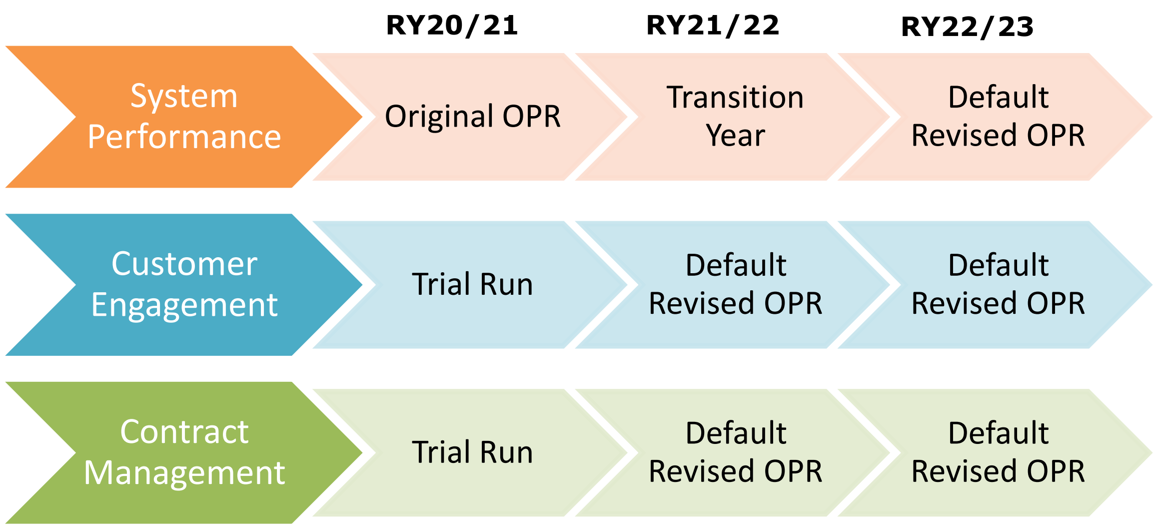
4.1. In the implementation of any incentive regime, it is important that there is a balance between ensuring that the regulated company has the chance to retain 100% of margin under that regime, while ensuring they are sufficiently challenged to achieve good outcomes.

4.2. During our May consultation, DCC raised its concerns that our timeline for implementation did not provide sufficient time to trial each area of the incentive to understand its performance, and have the opportunity to make improvements, before margin was put at risk against the incentive.

4.3. From our own observations, we believe conducting a trial of the different incentives would be beneficial to ensure stakeholders have the opportunity to engage with DCC over the cost of any improvements to ensure these represent value for money, ahead of margin being put at risk.

4.4. This section sets our decisions on the transitional arrangements for each incentive area: System Performance, Customer Engagement and Contract Management.

**Figure 5.1: Transition Phase Timeline**




## System Performance Transition Year

*Proposal at consultation: Implement either a six month or one year grace period for the system performance incentives in RY21/22.*

*Decision: Implement a one year grace period in RY21/22.*

**Respondents' Views**

4.5. The majority of respondents supported a six month grace period as this is the shortest option and would serve as a strong incentive to drive improvements to DCC's service in RY21/22. One respondent highlighted that this was particularly appropriate given that DCC has known about the intended measures of the OPR for a long time, and should have already been preparing for the new measures. One respondent argued that only reporting has changed, not expectations around DCC's level of performance.

4.6. Equally, the majority of respondents were opposed to a one year grace period as it would further delay the revised OPR coming into effect and would reduce the incentive pressure on DCC to make improvements. One respondent highlighted that the one year grace period would serve to extend a framework that is not reflective of DCC customer experiences.

4.7. Two respondents noted our concerns that the 6 month grace option could drive higher costs from rapid improvements as opposed to making changes over a longer timeframe. One of these respondents noted that though they understood the benefit of DCC having more time to assess costs, DCC should already be working towards the expected level and making improvements. The other respondent noted these concerns, but considered the risk was mitigated as these costs would undergo scrutiny.

4.8. One respondent strongly disagreed with either a six month or one year grace period, given the amount of time it has taken to implement the revised OPR and the current issues in the North. Further delay would drive additional costs into suppliers to work around DCC's underperformance.

4.9. One respondent stated that though they preferred the six month grace period as it limits delay, they were relatively comfortable with either option.

4.10. DCC disagreed strongly with the six month grace period as it is currently unable to isolate DCC performance against the SEC Code Performance Measures. DCC argue that it is impossible to derive DCC-only performance from DCC's TOC data as it measures end-to-end performance of the whole smart metering ecosystem, including the performance of DCC customer systems. DCC state that no exclusions or exemptions can be applied to make this data representative of DCC-only performance.

4.11. DCC maintain that more formal reporting arrangements must be put in place to measure DCC-only performance for this to be appropriate to incentivise under the OPR. Where relevant, this would require changes to DCC's service provider contracts. DCC suggests it needs additional time to understand the appetite of customers for funding contract changes, and to discuss the measures on which customers would wish DCC to be incentivised.

4.12. DCC does not consider six months sufficient to conclude these discussions and implement any subsequent contract changes. As such, DCC considers the one year grace period the only viable way forward to resolve misunderstandings on how to translate the SEC performance measures into OPR measures.

**Reasons for our decision**

4.13. We acknowledge the desire of DCC's customers to see the revised OPR come into effect as swiftly as possible to incentivise DCC to make improvements to its service, particularly given concerns over performance in the North.

4.14. We note that one respondent argued that only reporting has changed in the revised OPR, not expectations around DCC's level of performance. However, even though the performance levels set out in the SEC are consistent between the original and the revised OPR, we consider all three revised System Performance measures introduce new elements, in whole or in part, compared to the original OPR. For example, measures relating to prepayment were not included under the original OPR, and service availability is now expected to be measured using live data, rather than test messages. These changes to the reporting measures effectively create new expectations on DCC in terms of System Performance. It is therefore reasonable that DCC should be provided a transition period to trial the new measures and make improvements ahead of margin being put at risk.

4.15. At the time of publication of the consultation, we expected DCC to report against the OPR measures using the TOC data. This solution built on the work of the SEC Ops Group throughout 2020, in which DCC was fully engaged, and could be implemented for a February 2021 SEC release. This approach was set out in the context of DCC's Full Impact Assessment on Modification Proposal 122A, which required that DCC facilitate the necessary changes to the DCC system to implement and report on metrics outlined in the Operational Metrics Review, including the four areas targeted by the OPR. We understood that this would require DCC to establish exclusions to ensure the TOC data captured DCC-only performance, and expected DCC to consult on the Performance Measurement Methodology (PMM) with industry to determine this approach.

4.16. We are disappointed that DCC now states it cannot isolate DCC-only performance from the TOC data for the OPR, as originally envisaged during the SEC working group discussions. It is important that the reported performance levels under the OPR capture DCC-only performance, and are not affected by the performance of other parties in the ecosystem. The aim of the incentive is to ensure DCC takes appropriate action to remedy issues in performance for which it is directly accountable.

4.17. We note DCC states in their consultation response that it believes it is impossible to implement a methodology to establish exclusions that would make the TOC data representative of DCC-only performance. Though we consider that developing an appropriate methodology to apply exclusions to the TOC data may be challenging, we have not seen sufficient evidence that this is impossible, as DCC suggest.

4.18. Given that DCC were unable to develop an appropriate reporting solution for the OPR ahead of the regime coming into effect, we consider that a one year grace period is an appropriate length of time to enable DCC to understand its current levels of performance, and have the opportunity to undertake improvements.

4.19. We note that DCC states its intention to use the grace period to discuss the measures on which DCC will be incentivised. Given the efforts of the SEC working group to define a set of reporting measures to be incorporated in the SEC, and then our lengthy consultation process to select a subset of these to be incentivised under the OPR, we consider that customers have already given a clear signal as to which areas of DCC's service should be incentivised. As such, we expect the focus of DCC's engagement during the grace period to be on implementing a working reporting solution for the current measures – prepayment, service availability, install and commission - to ensure they capture DCC-only performance. Should DCC want to propose changes to the Service Reference Variants underpinning the measures, we would expect options to be discussed by DCC with customers and agreed through SEC processes.

4.20. We therefore support DCC to use a one year grace period to work transparently with customers to find a reporting solution for the OPR measures as set out in the SEC based on service provider data, TOC data or other reporting arrangements. Once DCC has sight of its performance against those measures, we encourage DCC to engage with its customers on improvements to the service and potentially changes to the performance levels as defined in the SEC that, where additional costs are required, represent value for money. We note that this could require a further SEC modification as part of implementation, and in this case we would expect DCC to engage formally with the SEC committees.

4.21. We note that DCC states that the OPR measures must be aligned with DCC's service provider contracts. In this respect, we consider there is a difference between contract changes aimed at delivering additional reporting, and contract changes aimed at incentivising DCC's service providers to reach target service levels. In its engagement with customers, it is important that DCC is transparent in differentiating between costs required to implement reporting and those required to improve performance.

4.22. In regards to achieving the service levels, we consider contractual change to be one of several levers that DCC can use to improve its performance. We encourage DCC to explore all options with its customers to identify improvements to service levels that represent value for money, which may not necessarily involve contract change. We note that the OPR framework as set out in the Licence and the OPR Guidance is independent from the service provider measures set out in DCC's contracts.

4.23. We expect DCC to make every effort to implement the OPR over the grace period for the system performance measures to come into effect for RY22/23. If DCC is not in a position to report on these new measures for RY22/23, we have set out in the guidance that for any month that DCC is unable to report a value for its performance, performance for that month will be scored as zero. This means that in the case DCC is still unable to deliver a reporting solution for system performance in RY22/23, the default position is that DCC will lose all margin attached to those measures. We will make this determination as part of our price control decision for RY22/23, and as such we will take into account the wider context, including events outside of DCC's control, when making this decision.

## System Performance Measures in RY21/22

*Proposal at consultation: Incentivise DCC's System Performance against the original OPR system performance measures, with the exception of WAN coverage.*

*Decision: Remains unchanged from consultation, but service availability to be reported across all five DCC interfaces.*

**Respondents' Views**

4.24. The majority of respondents did not express a view on the System Performance measures to be used in RY21/22 as part of the one year grace period.

4.25. We note that two respondents supported the original OPR measure on core service requests, and one respondent also expressed the importance of the DCC User Interface in measuring service availability.

4.26. DCC suggested that for service availability it could report across all five of DCC interfaces individually based on their existing contracts. This would be similar to service availability as reported under the new OPR. DCC also suggested that the measures for RY21/22 would align more closely to the new OPR measures if they only focused on system availability and core service requests.

**Reasons for our decision**

4.27. Given the comments from DCC and wider stakeholders on service availability, we have decided to modify the service availability measure in RY21/22 to be reported as an average of all five DCC interfaces based on reporting available under DCC's existing contracts. All five interfaces will be weighted equally, and service availability will maintain the same overall weighting as set out in our consultation. We have amended the direction published alongside this decision to reflect the changes to service availability in RY21/22.

4.28. Given limited stakeholder feedback, and that there could be a risk to DCC's performance if the scope of the measures are too narrow, we have decided to retain the measures on core service requests, service desk incidents and comms hubs for RY21/22.

## Customer Engagement Trial Run

*Consultation proposal: Conduct a trial run of the Customer Engagement Incentive covering RY20/21, and implement the incentive with margin attached for RY21/22.*

*Decision: Remains unchanged from consultation proposal.*

**Respondents' views**

4.29. Respondents supported our proposal for a trial run; the majority strongly supported implementing the trial over RY20/21 and implementing the OPR with margin attached for RY21/22.

4.30. Three respondents gave additional comment in their support of our proposal to run the trial over RY20/21, highlighting that DCC needs to make improvements in this area as swiftly as possible. Running the trial over RY20/21 would ensure full implementation for RY21/22 and incentivise DCC to address this area promptly.

4.31. DCC also supported a trial, but argued that the trial year should be pushed back to RY21/22. DCC requested the 12 month trial period starts in April 2021, rather than April 2020, which DCC notes is before Ofgem set out the requirements of the revised OPR.

4.32. DCC raised concerns that our proposed timeline means that DCC will not have any indication of Ofgem's view on what needs to be improved until we consult on the price control in October 2021, which is 6 months after the beginning of RY21/22 when DCC's margin is at risk against the new incentives.

4.33. DCC also considers that, while it has made improvements over the past 18 months, a 12 month transition period starting from 1 April 2021 would enable DCC to conduct a baseline assessment to propose an acceptable standard - agreed with customers - before DCC starts losing margin. DCC states that this would be an incentive to improve performance as opposed to an unmitigable penalty which does not encourage improvements, and would ensure any changes proposed are in line with customers' needs.

**Our decision**

4.34. After assessing the responses received, we consider it appropriate to maintain our consultation position to run the customer engagement trial over RY20/21, with the first year with margin attached remaining as RY21/22.

4.35. We have received strong support from customers in their responses to implement the Customer Engagement Incentive as soon as possible in order to incentivise rapid improvement in this area. Ofgem and DCC customers have been raising customer engagement as an area of concern for several years, for example through our RY17/18[14], RY18/19[15], and RY19/20[16] price controls. As a monopoly company, DCC does not face competitive pressures which would normally be expected to drive a high quality service. To date, DCC has not been delivering customer engagement to an acceptable standard for its customers and has faced no incentive for doing so. We therefore consider the OPR should be implemented according to the timeframe proposed in consultation. We consider pushing back implementation of this incentive another year would risk DCC delaying actions that would improve their performance and would not drive the improvements that DCC customers require within an acceptable timeframe.

4.36. We consider that DCC has had sufficient sight of the Customer Engagement Incentive in advance of margin being put at risk. Our May 2020 consultation set out clear assessment criteria we were minded to introduce, which had been refined following responses to our March 2020 working paper and subsequent bilateral meetings with DCC. These criteria remained materially unchanged for the October 2020 decision – only one sub question was removed from 'quality of information provided by DCC' on the basis that this information was best placed in the OPR Guidance, rather than the criteria itself. DCC will have had the opportunity to be able to assess its own performance and consider where to make improvements at an early stage. We also note that DCC has been working on and improving its customer engagement over the past 18 months, and has established a customer engagement team to drive these improvements.

4.37. We recognise that DCC will not have sight of Ofgem's initial view of its performance until we consult in Autumn 2021. However, the Guidance sets out that SEC Panel and DCC should work together transparently and share drafts of their submissions when preparing them. This requirement will allow DCC to respond to points raised in the SEC Panel's submission, and vice versa. Maintaining this transparency will ensure DCC has early sight of the submission from the SEC Panel, and therefore views from its customers, and can

[14] RY17/18 price control decision: https://www.ofgem.gov.uk/publications-and-updates/dcc-price-control-decision-regulatory-year-201718
[15] RY18/19 price control decision: https://www.ofgem.gov.uk/publications-and-updates/dcc-price-control-decision-regulatory-year-201819
[16] RY19/20 price control decision: https://www.ofgem.gov.uk/publications-and-updates/dcc-price-control-decision-regulatory-year-201920

identify where improvements are needed at an early stage in the Regulatory Year to make any necessary changes to its processes.

4.38. We do not agree with DCC's argument that implementing the OPR in RY21/22 would not drive improvements due to it being a penalty mechanism. As a downside-only incentive regime, we expect that the OPR should hold DCC to account in an area which is of concern to its customers. It is intended to operate without need for a baselining period, with the trial run aimed at familiarising Ofgem, DCC, SEC Panel and relevant stakeholders with the assessment process and enabling DCC to receive early feedback. We consider implementing the OPR from April 2021 will ensure DCC is facing an appropriate incentive to work with its customers and deliver the improvements they require without delay.

## Contract Management Trial Run

*Proposal at consultation: Conduct a trial run of the contract management audit covering RY20/21, and implement the incentive with margin attached for RY21/22.*

*Decision: Remains unchanged from consultation proposal.*

**Respondents' Views**

4.39. All respondents, except the DCC, supported our proposal to run the trial in RY20/21. This ensures additional transparency over DCC's performance is provided to stakeholders as soon as possible. It also ensures full implementation of the contract management incentive for RY21/22, putting strong incentives in place for DCC to make rapid improvements as desired by stakeholders.

4.40. DCC requested that it be given a one year grace period against all three incentive areas, suggesting that the trial contract management audit should take place in RY21/22 with the incentive coming into force with margin attached in RY22/23. This is principally to allow DCC enough time to benchmark its performance and make improvements to their contract management processes, ahead of margin being put at risk. Without this opportunity, DCC contends that the Contract Management incentive would constitute a penalty, rather than an incentive.

4.41. In addition, though DCC states that it has already started to compare itself against the NAO framework internally, DCC contends that it cannot identify economic and efficient changes to how they manage their contracts until the scope is clarified. DCC states that it was only in January 2021 that we communicated which of DCC's contracts were in scope of the incentive, and that it is still unclear whether SMETS1 contracts were included.

4.42. Finally, DCC highlights that since government has allowed several years for departments to adapt and demonstrate progress, DCC also seeks similar treatment by requesting a one year grace period.

**Reasons for our decision**

4.43. After assessing the responses from stakeholders, we consider it appropriate to maintain our consultation position to run the contract management trial over RY20/21, with the first year with margin attached remaining as RY21/22.

4.44. DCC was appointed using an outsourced service model, to manage contracted smart metering service providers. As such, contract management is core to DCC's business model. Proactive, best in class contract management and procurement have the potential to deliver real benefits to DCC customers and the consumer.

4.45. As set out in the RY19/20 and RY18/19 price controls, we and the industry have long held concerns around DCC's contract management. Furthermore, as illustrated in DCC's Annual Service Reports, not all of DCC's service providers are performing at the level expected by DCC. As such, we want to drive rapid improvements in this area. Given our longstanding concerns, and that DCC's contract management function should already be sufficiently mature to perform well against the framework, we consider it appropriate to run the trial in RY20/21, with margin attached for RY21/22.

4.46. In respect of clarity around the scope, we set out in our March 2020 Working Paper that the areas of assessment under the NAO Framework would include the management of existing DCC external service provider contracts, as well as the procurement and re-procurement for Relevant Service Capabilities. This has not materially changed during our consultation process. In our January consultation on the OPR Guidance we set out clearly our intention to marginally narrow the scope in the realm of SMETS1 to target the three SMETS1 contracts of highest cost. We do not consider this alteration substantial enough to merit pushing back the introduction of the contract management incentive, considering the concerns held by industry in this area.

4.47. We welcome that DCC has already started to compare itself against the NAO framework internally and identify its performance and improvements. Alongside DCC's own assessment, DCC will receive its first copy of the auditor's interim report in July 2021 to get further sight of its performance. This means DCC has eight months before the end of the Regulatory Year to implement improvements, which we consider a reasonable time frame.

4.48. Finally, we note DCC's comments on the expectations on government to demonstrate improvements in contract management and procurement over several years. As DCC is a private company with a business model based around contract management, we consider the expectations of its customers that DCC should drive significant improvements over the course a year to be reasonable.