



DCC Operational Performance Regime: Final Proposals

Consultation

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Overview:

As a monopoly, the Data and Communications Company (DCC) needs incentives, which in the absence of competitive pressure, ensure it delivers an appropriate quality of service to its customers, while also efficiently managing its costs. A key performance incentive in its licence is that DCC's smart meter-related baseline margin be at risk each Regulatory Year.

Under current arrangements, DCC's margin is tied to meeting certain Implementation Milestones (IMs). Once the IMs are complete, an Operational Performance Regime (OPR) will take over. We are responsible for developing the OPR, based on the framework provided in the licence.

This document outlines our final proposal on the structure and implementation of the OPR, and associated additional reporting requirements. We will give effect to the OPR by issuing a direction to populate the provisions in the framework. We expect the OPR to be in place by April 2017.

We would like to hear stakeholders views on our final proposal for the OPR, including views on the performance measures that we propose to incentivise, additional reporting measures and implementation timescales. This consultation will be of particular interest to the Licensee, the SEC Panel and SEC parties. Responses should be sent to smartmetering@ofgem.gov.uk by 12 January 2017.

Context

The Data and Communications Company (DCC) is the central communications body licenced under the Smart Meter Communication Licences¹ to provide the communications, data transfer and management required to support smart metering. To counter its monopoly position, price control arrangements restrict DCC's revenue and performance incentive regimes put 100% of its smart meter-related baseline margin at risk.

The performance incentive regime for the implementation phase was set by the Government. As DCC moves towards becoming operational, we are responsible for developing and implementing an Operational Performance Regime (OPR).

The licence stipulates that the OPR must be in place no earlier than 31 March 2016 and no later than 31 October 2018. In May 2016 we consulted on the principles and objectives of the OPR. This included our view that, initially, only performance metrics under the Service User Measure (SUM) and Service Deliver Measure (SDM) of the OPR should be financially incentivised. This will allow DCC to focus on facilitating the roll out and system stability in the near term, which we consider to be users' priorities in the initial stages of operations.

Associated documents

- DCC Operational Performance Regime: Principles and Objectives
<https://www.ofgem.gov.uk/publications-and-updates/dcc-operational-performance-regime-principles-and-objectives>
- Data Communications Company (DCC): Price Control Decision 2014/15
<https://www.ofgem.gov.uk/publications-and-updates/dcc-price-control-decision-regulatory-year-201415>
- Data Communications Company (DCC): Regulatory Instructions and Guidance
<https://www.ofgem.gov.uk/ofgem-publications/88046/dccrigs2014.pdf>
- Smart Meter Communication Licence
<https://epr.ofgem.gov.uk/Document>
- DCC Price Control Guidance: Processes and Procedures:
<https://www.ofgem.gov.uk/publications-and-updates/dcc-price-control-guidance-processes-and-procedures>

¹ The Smart Meter Communication Licences granted pursuant to Sections 7AB (2) and (4) of the Electricity Act 1989 and Sections 6(1A) and (1C) of the Gas Act 1986. This consultation is in respect of both those licences. Those licences are together referred to as 'the licence' throughout this document.

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Executive Summary

Introduction

DCC has an essential role to play in the energy market. Its performance is critical to the success of the smart meter roll out and enabling suppliers to provide a good service to their customers. However, as a monopoly, DCC is not subject to competitive pressures which drive effective performance. Incentive-based regulation can be used to ensure that DCC is responsive to the needs of its users and delivers good consumer outcomes.

The Government has provided a framework in the licence for Ofgem to develop and populate by direction an Operational Performance Regime (OPR) which will place performance incentives on DCC once operational. The OPR will place 100% of DCC's smart meter-related margin at risk.

In March 2016 we consulted with stakeholders on the key principles to underpin the design of the OPR. We also asked for suggestions on potential reporting areas and performance metrics for the two measures in the licence we propose to focus on initially: Service User Measure (SUM) and Service Delivery Measure (SDM).

Proposed reporting areas and metrics for SUM and SDM

We have chosen reporting areas from the DCC Performance Measurement Report to reflect the five areas identified in responses from our March 2016 consultation which should be captured under SUM and SDM. Initially, we propose to weight each of the five reporting areas equally. These reporting areas seek to achieve the following outcomes:

- **Service Desk: Resolution of incidents** – Incentivises DCC to provide a high quality service to Users through the resolution of incidents in a timely and efficient manner. Quick resolution of incidents could also minimise any potential disruption to the consumer experience of smart meters.
- **Communication Hubs: Delivery and quality** – Incentivises DCC to ensure Communication Hubs are delivered on a timely basis, and are not faulty. This should avoid unnecessary delays to installations of smart meters and prevent DCC incurring additional costs associated with replacements for faulty Communication Hubs.
- **Wide Area Network (WAN): Coverage and reliability** – Helps ensure that the agreed levels of coverage are delivered, coverage information is accurate, and communications are reliable, reducing the need for multiple installation visits. This allows as many customers as possible to access smart meters, which in turn will give energy consumers a better experience and prevents additional costs for energy suppliers.
- **Core Service Requests: Response time** – Incentivises DCC to ensure that communications are reliable and that Users and ultimately consumers receive an efficient service.

- **Service/Systems: Availability of services** – Helps to ensure that systems and services are reliable for Users and therefore end consumers.

Our proposed incentive metrics are all based on existing reporting, which will help to minimise any burdens from the incentive arrangements. They are primarily based on existing SEC Performance Measures and Service Provider Performance Measures.² DCC report monthly on these measures in the DCC Performance Measurement Report.³ See table 1 for the list of proposed metrics.

We also propose that DCC will report on additional measures which do not have any monetary incentives attached. Detailed reporting enables us to create a baseline performance level across different areas of DCC services and identify areas of poor performance. Table 2 lists our proposed additional reporting measures. Requiring DCC to publish this information should also create reputational incentives as they seek to build and maintain a positive reputation with their Users and wider energy sector.

Over time we may consider including in the OPR other performance metrics to help incentivise DCC's performance as Users' needs and expectations of DCC evolve.

Incentive structure

We recognise that following go-live, DCC will face a period of stabilisation where performance may be lower than the enduring level of performance. It is important that the OPR reflects this, and ensures that DCC is not unfairly penalised. We therefore propose to introduce an interim OPR from April 2017 and enduring OPR from April 2018. Under both the interim and enduring regimes, DCC will be required to meet a minimum service level before it is able to retain any of the margin that is risk. However, we propose the minimum service level will be lower for the interim OPR.

Implementation and next steps

We will issue a final direction early next year confirming the arrangements for the interim regime and reporting requirements in time for April 2017. We have included a draft of the direction as a supplementary annex and welcome feedback on this.

This consultation is the final consultation on the development of the OPR. Please provide your views by 12 January 2017.

² With the exception of OPR measure 1a: WAN coverage, which is reported on annually in the Statement of Service Exemptions (see Table 1)

³ The DCC Performance Measurement Report is provided to the SEC Panel, Parties and the Authority and (on request) the Secretary of State.

1. Introduction

The Data and Communications Company

1.1. DCC is a central communications body licensed to provide the communications, data transfer and management required to support smart metering. It is responsible for linking smart meters in homes and small businesses with the systems of energy suppliers, network operators and other companies.

1.2. The Government granted the Smart Meter Communication Licence ('the Licence') to DCC on 23 September 2013 following a licence competition. The Licence is for 12 years and will remain in place until 22 September 2025, unless it is extended or revoked. As part of this licence, the Government also established price control arrangements that restrict DCC's revenue, to counter its monopoly position. Ofgem is responsible for determining DCC's Allowed Revenue for each Regulatory Year as part of the price control.

1.3. In addition to the price control, DCC needs incentives which in the absence of competitive pressure, ensure it delivers an appropriate quality of service to its customers, while also efficiently managing costs. As part of the price control arrangements, the Licence requires that at least 100% of DCC's smart meter-related margin should be put at risk through performance incentive regimes.

1.4. During the implementation stage, DCC is subject to an implementation performance regime whereby its margin is at risk if it does not meet a series of Implementation Milestones (IMs) by specified dates. Once operational, DCC will be subject to an Operational Performance Regime (OPR) whereby its margin will be at risk if it does not meet specified performance targets.

The Operational Performance Regime

1.5. Ofgem is responsible for developing and implementing the OPR no earlier than 31 March 2016 but no later than 31 October 2018 following consultation with DCC, the SEC Panel and SEC Parties.⁴

1.6. The OPR framework⁵ sets out four measures against which the operational performance of the DCC will be assessed. These are:

- Service User Measure;
- Service Delivery Measure;
- Development and Improvement Measure; and

⁴ LC 38 Part C of the Licence

⁵ As set out in Schedule 4 of the licence

- Value for Money Measure.

1.7. DCC's performance against the metrics established under the regime will determine the value of the margin that DCC is entitled to in each Regulatory Year. This is reflected in the DCC's price control through the Baseline Margin Performance Adjustment (BMPA) term that forms part of the Licensee's Allowed Revenue.

1.8. Under the OPR, the BMPA term is known as the Baseline Margin Operational Performance Adjustment (BMOPA) term. The effect of applying this term is to adjust the Allowed Revenue of the Licensee where appropriate to reflect the Licensee's performance against the OPR.⁶

The transition from the IM regime to the OPR

1.9. We propose that the OPR will come into effect in April 2017, which marks the beginning of the first regulatory year following DCC 'go-live' and reflects changes made to the IM regime as a result of the revised plan⁷ to allow delivery of full 'go-live' functionality over two releases (referred to as R1.2 and R1.3). We will issue a direction confirming the date that the OPR will come into effect early next year. We have included a draft of the direction as a supplementary annex to this document and welcome feedback on this.

Purpose of this consultation

1.10. This consultation sets out:

- Our final proposal for the OPR that will populate Schedule 4 of the Licence.
- Our final proposals on additional reporting we will require from DCC to provide greater transparency of the quality of service provided.
- Our final proposal for how and when to implement the OPR.

1.11. We would like stakeholders' views on our final proposals. Prior to directing changes to the BMOPA, Licence Condition 38.9 requires us to consult with the Licensee, the SEC Panel and SEC Parties. This consultation serves that purpose. We also welcome views from other parties.

⁶ Licence condition 38.4 of the Licence.

⁷ Approved by the Secretary of State in December 2015.

2. Principles and objectives

Chapter Summary

We outline the principles and objectives of the OPR following feedback from stakeholders on our March 2016 consultation. These remain unchanged from the principles we first set out in March and we remain convinced that only performance metrics under the Service User Measure and Service Delivery Measure should initially be financially incentivised in the OPR.

Principles and Objectives of the OPR

2.1. In March 2016 we consulted on the principles and objectives we should consider when designing the OPR.⁸ We also asked for stakeholders' views on which parts of DCC's performance should be incentivised and how. We received 9 responses.⁹ These responses can be found on our website.¹⁰

2.2. This chapter outlines our guiding principles and decisions on performance measures following the March 2016 consultation. Appendix 2 sets out a summary of stakeholder feedback following the March 2016 consultation and how this feedback informed our final proposals.

The principles and scope of the OPR

2.3. Our proposal to focus the OPR on core smart metering activities remains unchanged from the March consultation. The OPR will not consider new scope projects such as enrolment and adoption given the level of uncertainty on the scope of this work at this stage. We agree with some stakeholders' views that we need to have the flexibility to amend the OPR in the future when it may be necessary to bring new activity in to the scope of the OPR.

2.4. We are satisfied that the majority of the principles suggested by stakeholders are already covered by the principles we set out in our March Consultation. These are:

- Responsive to users' needs;
- Flexible;
- Output focused; and
- Clear and credible.

⁸ <https://www.ofgem.gov.uk/publications-and-updates/dcc-operational-performance-regime-principles-and-objectives>.

⁹ We received responses from DCC, the SEC Panel, Citizens Advice and six energy suppliers.

¹⁰ <https://www.ofgem.gov.uk/publications-and-updates/dcc-operational-performance-regime-principles-and-objectives>.

2.5. There are some principles suggested by stakeholders that we do not propose to take forward:

- **Value for money:** we will not consider value for money (VfM) as part of each measure in the OPR. There is a separate category in the OPR framework (the Value for Money Measure), which we propose to populate at a later date and the price control already provides strong incentives to encourage DCC to deliver VfM. We therefore do not think that it necessary for VfM to be considered as part of each OPR measure.
- **Upside incentive:** we will not include an upside incentive or reward in the OPR. We do not think it is appropriate to include an upside due to the ex post nature of DCC's price control. Over the longer term our ambition is to move DCC to an ex ante price control and we will make sure the incentive regime remains fit for purpose as part of those changes.
- **Focusing on certain groups:** initially, we do not plan to design parts of the OPR that are differentiated by customer or supplier type. We will continue to look at performance and any issues that arise, and we may revisit this in future iterations of the regime.

What areas should the OPR drive DCC to focus on?

2.6. The licence identifies measures in four areas against which DCC's performance should be monitored against. These are:

- Service User Measure (SUM);
- Service Delivery Measure (SDM);
- Development and Improvement Measure (DIM); and
- Value for Money Measure (VMM).

2.7. Following our March 2016 consultation, we remain convinced that only performance metrics under SUM and SDM should initially be financially incentivised in the OPR at this time.¹¹ Performance metrics under VMM and DIM can be introduced over time. This is because we expect Users' priorities in the near term to be facilitating the smart meter roll-out and experiencing system stability.

2.8. The majority of stakeholders supported our proposals to require DCC to provide additional reporting on other measures. We agree with respondents that publishing additional reporting may act as a reputational incentive on DCC. We will aim to ensure that relevant reporting can be published if it is not commercially sensitive. We also acknowledge DCC's request to consider the regulatory burden of excessive reporting.

¹¹ We provide further detail in Chapter 3 on the five metrics we consider DCC should be financially incentivised under SUM and SDM.

3. Our proposals

Chapter Summary

This chapter outlines our final proposal for the DCC Operational Performance Regime (OPR). We will consider stakeholder responses to the questions below before issuing the direction.

Question 1: Do you agree with our proposed measures and weightings, and proposal that the performance levels for each measure should be consistent with the SEC and service provider contracts in the enduring regime?

Question 2: What are your views on our proposals for the interim regime?

Question 3: What proportion of its margin DCC should be able to retain for reaching minimum performance levels under the enduring regime? Please provide justification / evidence to support your view.

Question 4: Do you have any specific comments on the draft direction which will implement our proposals included in the supplementary annex?

Question 5: Do you have any suggested methodologies for the 'new' reporting metrics for DCC?

The performance measures

3.1. The sections below describe our proposed measures, weightings, performance levels and structure of the OPR.

3.2. The licence stipulates that the OPR should monitor the Licensee's performance against four measures:

- Service User Measure (SUM);
- Service Delivery Measure (SDM);
- Development and Improvement Measure (DIM); and
- Value for Money Measure (VMM).

3.3. As explained in Chapter 2, we propose that the OPR will initially focus only on performance metrics under SUM1-2 and SDM1-3. Performance metrics under SUM3-4, SDM4, DIM1-4 and VMM1-4 may be introduced in time. To account for this, we will include variables for these measures in our OPR direction; however the value of them will be set to zero until we direct otherwise.

Proposed measures

3.4. Having considered the views of stakeholders, the incentive measures we are proposing are all based on existing reporting. They are primarily based on existing

SEC performance measures and Service Provider Performance Measures.¹² DCC report monthly on these measures in the DCC Performance Measurement Report,¹³ and these reports already include minimum and target service levels.¹⁴ There are benefits in aligning with DCC's existing reporting requirements as it helps to minimise regulatory burden.

3.5. We have chosen reporting areas from the DCC Performance Measurement Report to reflect the five areas identified in responses from our initial consultation. These reporting areas seek to achieve the following outcomes:

- **Service Desk: Resolution of incidents-** Incentivises DCC to provide a high quality service to Users through the resolution of incidents in a timely and efficient manner. Quick resolution of incidents could also minimise any potential disruption to the consumer experience of smart meters.
- **Communication Hubs: Delivery and quality** – Incentivises DCC to ensure Communication Hubs are delivered on a timely basis, and are not faulty. This should avoid unnecessary delays to installations of smart meters and prevent DCC incurring additional costs associated with replacements for faulty Communication Hubs.
- **Wide Area Network (WAN): Coverage and reliability** – Helps ensure that the agreed levels of coverage are delivered, coverage information is accurate, and communications are reliable, reducing the need for multiple installation visits. This allows as many customers as possible to access smart meters, which in turn will give energy consumers a better experience and prevents additional costs for energy suppliers.
- **Core Service Requests: Response time** – Incentivises DCC to ensure that communications are reliable and that Users and ultimately consumers receive an efficient service.
- **Service/Systems: Availability of services** – Helps to ensure that systems and services are reliable for Users and therefore end consumers.

3.6. Table 1 lists our proposed measures, the related reporting area and the associated metric.

3.7. Unlike the DCC Performance Measurement Report, which reviews performance monthly, we intend to assess average performance against measures over the entire

¹² With the exception of OPR measure 3a: WAN coverage, which is reported on annually in the Statement of Service Exemptions (see Table 1)

¹³ The DCC Performance Measurement Report is provided to the SEC Panel, Parties and the Authority and (on request) the Secretary of State.

¹⁴ As set out in the SEC or in Service Provider Contracts

reporting period. This is because the volume of services DCC is required to provide will grow between the beginning and the end of the reporting period. If we averaged and assessed DCC's performance on a monthly basis, this would concentrate incentives on low volumes in the early months, and dilute incentives for large volumes later in the reporting period. Averaging over the whole reporting period enables the incentive to be based on overall service levels throughout the reporting period.

3.8. We may, over time, consider including in the OPR other performance metrics to help incentivise DCC's performance,¹⁵ for example a customer satisfaction metric to incentivise DCC to focus on its User experience or metrics to measure DCC's contribute to SEC modifications.

Weightings

3.9. Initially, we propose to weight each of the five reporting areas equally. However we are particularly interested in views from stakeholders as to whether there are any areas they consider should be given higher or lower weightings. In future we may consider adjusting the weighting from one period to the next in response to poor performance in one area.¹⁶ This is consistent with the provisions in the Service Provider (SP) contracts.

3.10. Two of the reporting areas (DCC WAN coverage and Communication Hubs) have more than one metric to determine performance. We have split these areas as we considered that there are separate but complimentary outcomes that DCC should achieve in order to retain their margin.

3.11. DCC WAN coverage is split by coverage and reliability. This is to reflect that DCC should ensure that the WAN reaches the levels set out in the CSP contracts. At the same time WAN should be reliable. Since WAN coverage in the CSP contracts is an absolute target, rather than a minimum and target level, we propose that DCC will need to meet the CSPs coverage targets in order to be eligible to retain the proportion of their margin achieved for WAN reliability.

3.12. In the case of Communication Hubs, stakeholders thought that both delivery and quality were important factors. Energy suppliers should have a reliable supply of functioning Communication Hubs during the rollout. We therefore propose to split the 20% of DCC's margin for Communications Hubs equally between delivery and quality:

- **Delivery (10%):** DCC is incentivised to make sure Communication Hubs are delivered on time.

¹⁵ For example, to incentivise how DCC supports code modifications or how it manages contracts.

¹⁶ We have drafted the direction in a way that allows flexibility to do this.

- **Quality (10%):** DCC is incentivised to ensure that deliveries of Communication Hubs are accepted by Users (5%) and DCC is incentivised to minimise the occurrences of Communications Hubs being discovered as faulty at installation (5%).

3.13. We consider that the quality aspect of the Communication Hubs measure should encompass both issues at delivery and at installation, and therefore proposed to split quality aspect of this incentive between the two. We are however interested in stakeholders' views as to whether they consider these weightings are appropriate and reflect the service they expect from DCC.

Table 1: Proposed metrics

	Measure	Area of reporting	Weighting		Outcome	Metric	Existing reporting obligations for this metric
1	Service User Measure 1	DCC service desk	20%	a	Resolution of incidents <i>Incentivises DCC to provide a good service to Users by dealing with incidents in a timely and efficient manner. Quick resolution of incidents could also minimise potential any disruption to the consumer experience of smart meters.</i>	Percentage of Incidents which DCC is responsible for resolving and which fall within Category 1-5 are resolved in accordance with the Incident Management Policy and within Target Resolution Time.	Combined SEC CPM (Code Performance Measure) 4 and 5*
2	Service User Measure 2	Communication hubs	10%	a	Delivery <i>DCC is incentivised to ensure Communication Hubs are delivered on a timely basis, avoiding unnecessary knock on delays to installations of smart meters.</i>	Percentage of Communications Hubs delivered on time	Reported List of Service Provider Performance Measures Schedule 11 PM 1.1
			5%	b	Quality <i>Incentive for DCC to ensure that Communications Hubs are of the appropriate quality. This should avoid unnecessary delays to installations of smart meters and prevent DCC incurring additional costs associated with replacements for faulty Communication Hubs</i>	Percentage of Communications Hubs accepted by DCC service users	Reported List of Service Provider Performance Measures Schedule 11 1.2
			5%	c		Percentage of Communications Hubs not faulty as installation	Reported List of Service Provider Performance Measures Schedule 11 1.3*
3	Service Delivery Measure 1	DCC WAN coverage	20%	a	Coverage <i>Achieving the agreed level of coverage is incentivised. This allows the benefits of smart meters to be realised by as many consumers as possible.</i>	DCC meets contractual coverage commitments in CSP contracts (all Milestone Dates in the financial year must have been met)	Included in CSP contracts, as reported annually by DCC in the Statement of Service Exemptions ¹⁷
				b	Reliability <i>DCC are incentivised to ensure that coverage information is accurate and communications reliable, reducing the need for multiple visits. This results in a better consumer journey and prevents additional costs for energy suppliers.</i>	Percentage of first time SMWAN connectivity at install	Schedule 2.2 Performance Measure (PM) 1.1 of Reported List of Service Provider Performance Measures*
4	Service Delivery Measure 2	Core service requests	20%	a	Response time <i>Incentivises DCC to ensure that communications are reliable and that Users receive an efficient service. Users are then able to pass down this efficient service to end consumers.</i>	Percentage of service responses delivered within the applicable Target Response Time	Combined SEC CPM 1, 2 and 3*
5	Service Delivery Measures 3	Service/System Availability	20%	a	Availability of services <i>DCC incentivised to ensure that systems and services are reliable for Users and therefore consumers</i>	Percentage availability of: - Data Service - User Gateway - Service Management System - Self Service Interface	Reported List of Service Provider Performance Measures Schedule 2.2 PM 2.1 -2.4

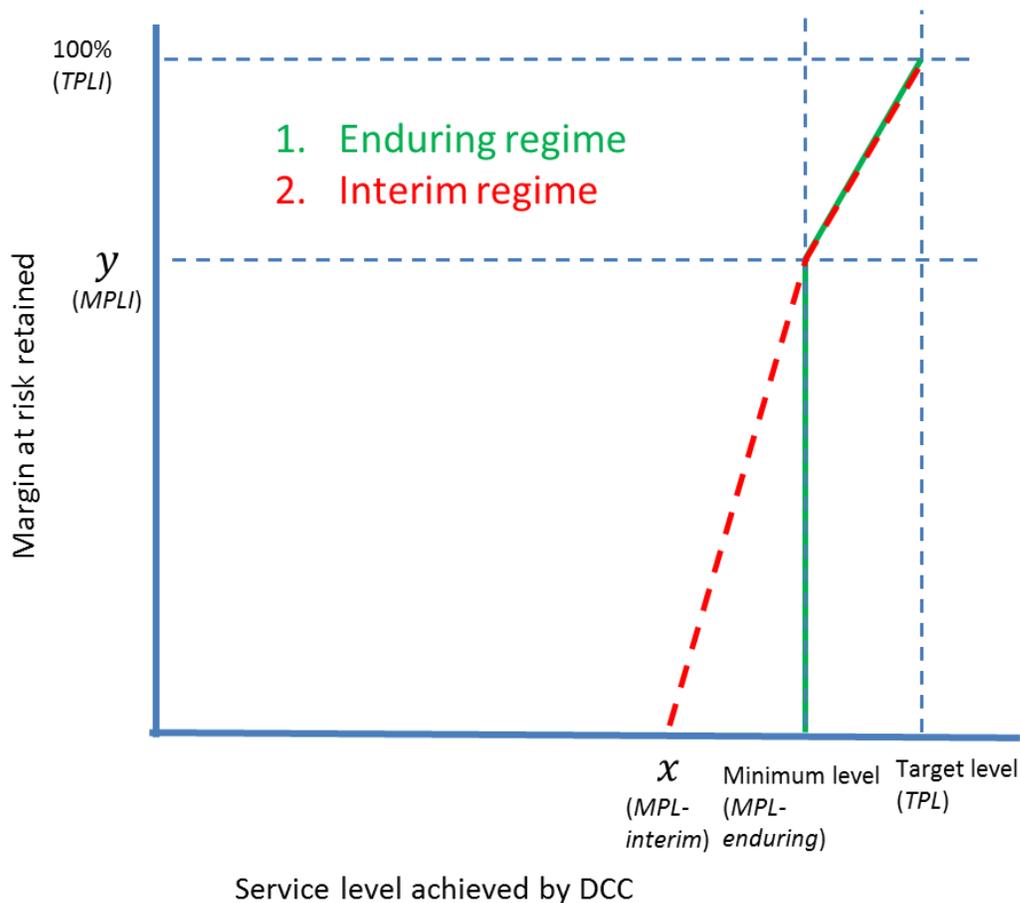
¹⁷ DCC report annually on CSP performance in the Statement of Service Exemptions. The most recent publication (March 2016) can be found here: https://www.smartdcc.co.uk/media/387459/dcc_statement_of_service_exemptions_march_2016_v2.2_final_clean.pdf

Structure and value of the incentive

3.14. We propose to introduce an interim and an enduring incentive structure for the OPR. We recognise that following go-live, DCC will face a period of stabilisation where performance may be lower than the enduring performance levels. It is important that the OPR reflects this, ensuring that the incentives are stretching but attainable and that DCC is not unfairly penalised.

3.15. Figure 1 shows the proposed incentive structures for both the interim and enduring OPR. Please see Appendix 3 for an algebraic representation of the incentive structure and the supplementary annex containing the draft direction for detail on how we will determine BOMPA.

Figure 1: Incentive structure for the interim and enduring OPR¹⁸



¹⁸ Bracketed terms as outlined in the accompanying draft direction and example workings in the supplementary annex and appendix 3.

Enduring regime

3.16. The enduring OPR, which will place sharper incentives on DCC to deliver the target performance level, will take effect from April 2018.

3.17. We propose that DCC should retain:

- none of the available margin assigned to a metric if it fails to reach the minimum service level for that metric.
- a proportion of the available margin assigned to a metric if it reaches minimum service levels for that metric ('y' in figure 1).
- 100% of the margin assigned to a metric if it reaches the target performance level for that particular metric.
- A linear proportion of the margin between 'y' in figure 1 and 100% if its performance level is between the minimum and target levels.

3.18. This gives DCC a strong incentive to ensure they reach minimum levels but aim for the target levels.

Performance levels

3.19. In the enduring regime we propose that the minimum and target performance levels in the OPR will be consistent with the service levels in the SEC and Service Provider contracts at the beginning of the regulatory year in question. However, we may need to keep this under review based on the operational experience during the interim regime. Consistency between the OPR performance levels, and minimum and target code and service provider service levels, ensures DCC performance incentives are aligned and will help ensure flexibility in the regime. We would welcome stakeholders' views on this proposal.

3.20. SEC performance measures were set before the DCC's service was operational and can be changed to reflect experience and the needs of SEC parties through the code modification process. DCC is able to change the service provider measures where it has undertaken reasonable consultation with the SEC Panel and parties.¹⁹ This will help ensure DCC's incentives are achievable and, in the case of SEC related measures, means that any changes to service levels are informed by SEC parties' requirements. The OPR performance levels will reflect any change to the SEC or service provider contracts, unless otherwise directed by the Authority.

¹⁹ EC H13.2 and 13.3

3.21. To be an effective incentive for good DCC performance, which is in all parties' interests, it is important the value set strikes the balance between DCC receiving a margin for delivering a moderate service, and motivating it to improve performance. We consider a range of 60- 80% of DCC's margin would be a reasonable proportion for DCC to retain for reaching minimum service levels ('y' in figure 1). We are interested in stakeholder views on this. We propose the percentage of margin retained for reaching minimum level should be consistent across all measures.

Interim regime

3.22. The interim regime will cover the first year of the OPR (ie April 2017 to March 2018). The interim regime is the same as the enduring regime for any reported performance level equal to or above the enduring minimum performance level.

3.23. The interim regime also includes a interim minimum performance level that DCC must achieve before receiving any margin. The interim minimum performance level will be lower than the minimum service level that it must reach in the enduring regime. We will determine what this level is ('x' in figure 1) in time for the start of the regime. In deciding the value this should be set at we will take consideration of actual performance between go-live and the start of the interim OPR, any evidence from DCC on what achievable and realistic performance levels are likely to be, and any other relevant evidence.

Total Margin at risk under the OPR

3.24. As the OPR is a downside only incentive regime, it is important that there is a balance between ensuring it is possible for DCC to retain 100% of their margin and making sure they are sufficiently challenged to achieve good outcomes.

3.25. The licence requires 100% of DCC's smart related baseline margin to be at risk. The baseline margin at risk under the implementation regime²⁰ includes DCC's margin as stated in the licence for the three years covering 2013/14 to 2015/16 and any price index adjustment. BMIT has not been adjusted to account for delays in go-live which means that, although go-live will be achieved in 2016/17, baseline margin for 2016/17 is not included within BMIT.

3.26. To ensure that 100% of DCC's smart related baseline margin remains at risk, the 2016/17 baseline margin will be subject to the interim OPR regime (rather than the implementation milestones – see figure 2 at the end of this chapter). This means that the margin for both 2016/17 and 2017/18 will be at risk based on DCC's performance reporting during 2017/18.

²⁰ Referred to as Baseline Margin Implementation Total (BMIT) in the licence.

3.27. In the enduring regime, the margin at risk under the OPR will be subject to the performance reporting in the same regulatory year (ie DCC's margin in 2018/19 will be subject to performance in 2018/19).

Commencement of the OPR and reporting periods

3.28. We propose for the OPR and associated reporting periods to commence in April 2017. This is the beginning of the next full regulatory year following go-live and provides a few months to allow DCC services to bed-in before formal performance reporting begins.

3.29. We recognise that in the absence of a stability Implementation Milestone this leaves a window where DCC's performance is not subject to an incentive. However we believe that the commencement of the OPR in April 2017 provides sufficient incentive on DCC to continuously deliver stable and reliable services as soon possible after go-live. This period will also provide useful baseline evidence to inform interim minimum performance levels.

3.30. DCC's performance against the OPR will be reported on and assessed over each regulatory year, consistent with DCC's price control reporting. Its performance against the interim OPR will therefore be assessed in the price control for the 2017/18 regulatory year.

Additional reporting

3.31. As well as DCC reporting on measures with monetary incentives, there was strong support from stakeholders for DCC to also report on additional measures which do not have any monetary incentives attached. Potential publication of performance against these measures will be an additional reputational incentive on DCC, as well as contribute to the transparency of DCC operational performance.

3.32. Detailed reporting enables us to create a baseline performance level across different areas of DCC services and identify areas of poor performance. This can give flexibility as to where monetary incentives should be applied in the future. Therefore we envisage additional reporting to be comprehensive. Table 2 lists our proposed additional reporting measures.

3.33. We intend reporting measures to be flexible. Over time, Users or DCC may find there are other areas that would be beneficial on which for DCC to report and potentially incentivise under the OPR in future years. Alternatively we may remove reporting obligations that are no longer relevant. Therefore we retain the flexibility to review reporting.

Existing and adapted measures

3.34. In order to minimise regulatory burden on DCC, the majority of the proposed additional reporting measures are based on metrics already established and reported on by DCC under SEC or Service Provider reporting requirements. However we also intend to adapt these metrics and require DCC to provide us with further breakdowns within them to inform our measures.

3.35. For example, DCC already report on the *percentage* of 'First time WAN connected within 30 days'. However we will require it to report on the total *number* of first time WAN connections within 30 days in the reporting period. This will give us a better understanding of the types and volumes of services DCC is delivering, as well as the service level.

3.36. A number of the reporting metrics also ask for further breakdowns of the measures that we propose to put monetary incentives on. This enables us to better understand reasons behind DCC's performance within the incentivised regime.

New measures

3.37. We also propose to introduce some new reporting measures, to reflect stakeholder suggestions, on other services DCC provides. We list these in Table 2. We particularly welcome views from stakeholders on potential methodologies for these reporting measures.

3.38. We recognise that DCC may need some additional time to set up reporting processes on new metrics, therefore we may allow DCC to just report on existing and adapted measures initially.

Table 2: Additional reporting measures

	Measure	Activity	Report	Unit	Related to incentive measures?	Existing/adapted/new reporting metric	Existing reporting obligations
1	Service User Measures	Communications Hubs	Report number delivered on time by region and manufacturer	Volumes and %	Yes (4a)	Adapted	Reported List of Service Provider Performance Measures Schedule 11 PM 1.1
2	Service User Measures	Communications Hubs	Report number faulty by manufacturer	Volumes and %	Yes (4b)	Adapted	Reported List of Service Provider Performance Measures Schedule 11 1.2 and 1.3
3	Service User Measures	Core service requests	Success of each type of service request	Volumes and %	Yes (3a)	Adapted	Combined SEC CPM 1, 2 and 3
4	Service User Measures	DCC service desk	Incidents raised and resolved by category	Volumes and %	Yes (2a)	Adapted	Combined SEC CPM (Code Performance Measure) 4 and 5
5	Service Delivery Measures	Service/System Availability	DCC self-service interface availability	%	Yes (5)	Existing	Reported List of Service Provider Performance Measures Schedule 2.2 PM 2.1 -2.4
6	Service Delivery Measures	Service/System Availability	DCC user gateway availability	%	Yes (5)	Existing	
7	Service Delivery Measures	Service/System Availability	Service management availability	%	Yes (5)	Existing	
8	Service Delivery Measures	Service/System Availability	DCC data service availability	%	Yes (5)	Existing	
9	Service User Measures	DCC WAN coverage	First time WAN connected within 30 days	Volumes and %	Yes (1a)	Existing/adapted	Schedule 2.2 Performance Measure (PM) 1.2 of Reported List of Service Provider Performance Measures
10	Service User Measures	DCC WAN coverage	First time WAN connected within 90 days	Volumes and %	Yes (1a)	Existing/adapted	Schedule 2.2 Performance Measure (PM) 1.3 of Reported List of Service Provider Performance Measures
11	Development and Innovation	DCC service desk	Frequency of reoccurrence of incidences	Volumes	Yes (2a)	New	N/A
12	Service User Measures	DCC service desk	Number of incidents escalated to SEC, and if outcome favourable to DCC	Volumes and %	No	New	
13	Service User Measures	Elective Communication Services	Responsiveness to requests by category within target response time	Volumes and %	No	New	
14	Development and Innovation	SEC	Number of IAs DCC is required to complete for SEC modifications, how many completed within agreed timescales	Volumes and %	No	New	

Reporting to the Authority

3.39. We will determine the DCC's performance under the OPR and will determine the adjustment to DCC's baseline margin for each regulatory year as part of the annual price control process. The process the Authority must follow in doing so is outlined in the licence.²¹ This is the same process currently in place for the Implementation Performance Regime.

3.40. DCC will be required to submit their performance against the OPR and additional reporting measures as part of their price control submission. This will require an amendment to the Regulatory Instructions and Guidance (RIGs) to make provisions for the reporting of Quality of Service Information.²²

3.41. Since the proposed OPR performance measures are based on existing measures under the SEC and service provider contracts, we expect consistency between the information submitted under the price control and the information submitted in the DCC's monthly performance reports.²³ The methodology for how DCC and the Service Providers will calculate the Service Levels for each performance measure is documented in the Performance Measurement Methodology, as required by the SEC.²⁴ The exact methodology outlining how these measure will be combined for OPR reporting will be outlined in the RIGs.

Performance audit

3.42. We will require DCC to submit evidence providing assurance on the validity of the reporting data. We consider that the reporting to be provided as part of the OPR should be assured by an independent performance auditor. This mirrors the arrangements under the implementation performance regime. We envisage that this requirement will be outlined in the RIGs.

Transparency of reporting

3.43. As stated above, DCC will report on the OPR performance as part the price control submission. In the spirit of transparency we intend to either publish, or direct DCC to publish, as much of the OPR reporting as we consider being beneficial to the SEC, DCC Users or consumers. In some cases SEC parties may be able to access additional details of DCC performance against particular metrics. We will consider commercial sensitivities in deciding what is appropriate to be distributed to stakeholders.

²¹ Licence condition 36 part E and condition 38 of the Licence.

²² Licence condition 31 of the Licence.

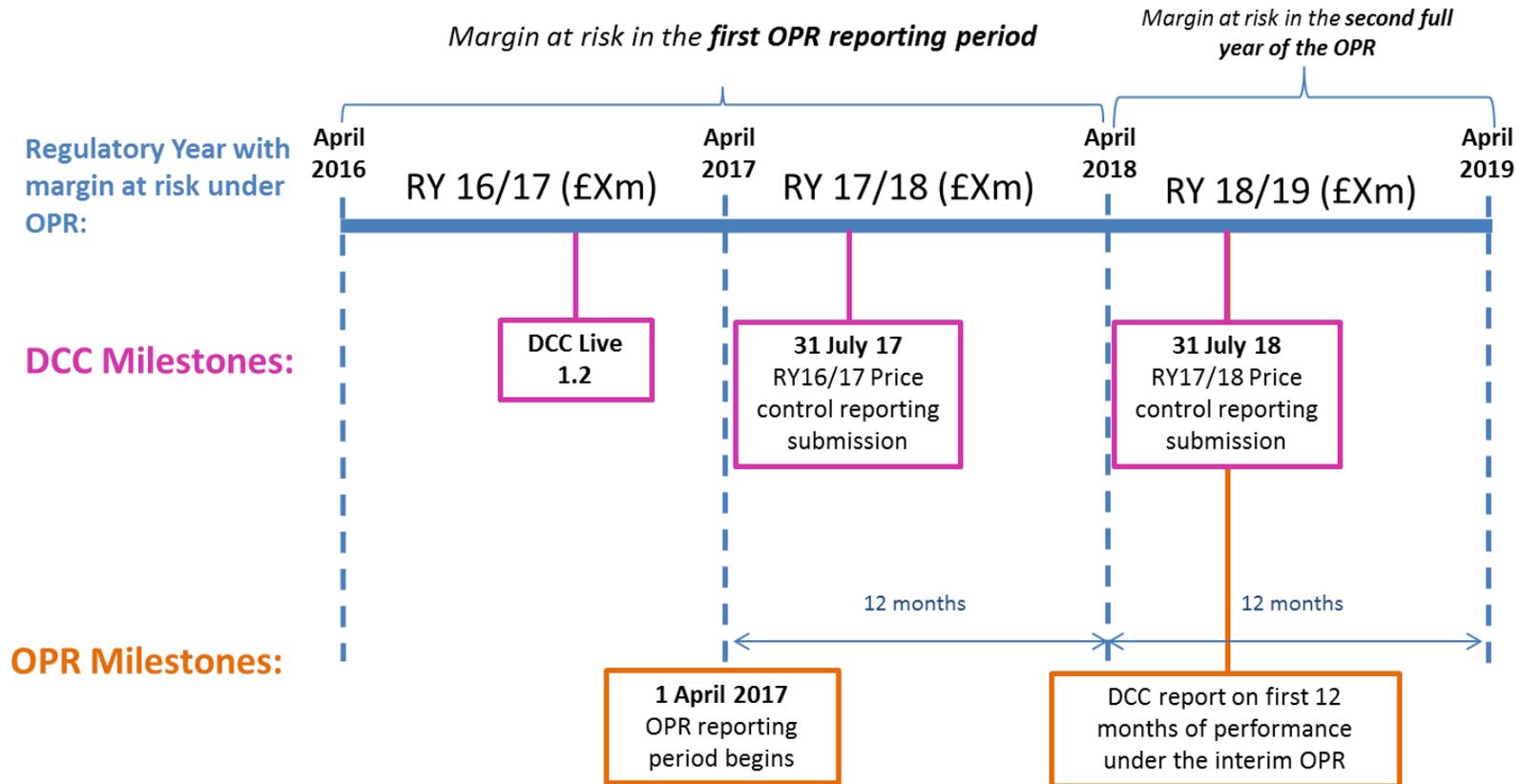
²³ In accordance with Section H13.4 of the SEC

²⁴ In accordance with Section H13.6 of the SEC

Timeline

Figure 2 shows the timeline for the OPR reporting periods, the margin at risk and the relevant price control determinations.

Figure 2: OPR milestones and reporting timelines



4. Next steps

4.1. This consultation is the final consultation on the development of the OPR. We have included in a supplementary annex to this document a draft of the direction which will give effect to the OPR. We will fully consider all responses when finalising the direction. While we do not anticipate consulting again formally we may engage with stakeholders bilaterally prior to issuing the direction. We will publish the final direction early next year.

4.2. We are keen for the OPR to remain flexible so that incentives can be adjusted or amended to reflect operational experience and users' evolving needs. We may choose to amend the OPR through direction to adjust parts of the incentive mechanism such as the proportion of the margin at risk for reaching the minimum performance level or to incentivise new performance measures. Given lack of a baseline to compare service levels over time, we may also review our final decision once DCC and industry gain experience of live operations.

Appendix 1 - Consultation Response and Questions

1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document. In particular, we would like to hear from DCC Users who will have direct interactions with DCC.

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.3. Responses should be received by 12 January 2017 and should be sent to:

Robyn Daniell
Smarter Metering
Ofgem
9 Millbank
London
SW1P 3GE
smartermarkets@ofgem.gov.uk

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall consider any requests received alongside its statutory functions, as well as its obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

Question 1: Do you agree with our proposed measures and weightings, and proposal that the performance levels for each measure should be consistent with the SEC and service provider contracts in the enduring regime?

Question 2: What are your views on our proposals for the interim regime?

Question 3: What proportion of its margin DCC should be able to retain for reaching minimum performance levels under the enduring regime? Please provide justification / evidence to support your view.

Question 4: Do you have any specific comments on the draft direction which will implement our proposals included in the supplementary annex?

Question 5: Do you have any suggested methodologies for the 'new' reporting metrics for DCC?

Appendix 2 – DCC OPR: Principles and objectives

Summary of Consultation responses

1.1. We received 9 responses to our March consultation DCC Operational Performance Regime: Principles and Objectives²⁵. The responses were from DCC, the SEC panel, Citizens Advice and 6 Energy Suppliers. Their responses can be found on our website²⁶.

1.2. The remainder of this appendix summarises responses and provides our response to the feedback and how we have considered it in developing our final proposals.

Question 1: Do you agree with our approach to apply the OPR to core smart metering activities only?

1.3. The majority of respondents were generally supportive of our proposal to focus the OPR on core smart metering activities initially to ensure that stable predictable incentives are placed on the DCC. These are the activities that DCC was initially contracted to deliver which are outlined in its licence, rather than new scope projects that have been introduced since licence award (such as enrolment and adoption and switching).

1.4. Some respondents suggested that the OPR should be designed in such a way that any extensions to DCC's role beyond core activities can be easily brought into the OPR at a later date and that when this happens we avoid creating a fragmented incentive regime. A couple of respondents mentioned specifically that enrolment and adoption should be considered early on as it is a key enabling project for realising the benefits of smart metering.

Our response

1.5. We welcome stakeholders' support of our proposal to focus on core smart metering activities initially as part of the OPR. We agree that we need to have the flexibility to amend the OPR in the future when it may be necessary to bring new activity in to the scope of the OPR. However, we do not think that including enrolment and adoption in the OPR at this stage is sensible given the uncertainty on the project.

²⁵ <https://www.ofgem.gov.uk/publications-and-updates/dcc-operational-performance-regime-principles-and-objectives>

²⁶ Ibid.

Question 2: Do you agree with complementing the OPR with further reporting in order to provide transparency and potentially form the basis of future OPR metrics?

1.6. Nearly all respondents explicitly agreed the OPR should be complemented by additional reporting to give greater transparency on performance and to provide greater flexibility to shift the focus of the OPR on to other areas in the future if required. Some respondents mentioned that the additional reporting will allow the DCC to be benchmarked to other organisations and could act as a reputational incentive even if there is no direct financial incentive.

1.7. DCC also mentioned that existing reporting requirements should be considered when developing any reporting metrics to avoid unnecessary regulatory burden through excessive reporting requirements.

Our response

1.8. We agree with respondents that the publication of additional reporting may act as a reputational incentive on DCC. We will aim to ensure that relevant reporting can be published if it is not commercially sensitive. We also acknowledge DCC's request to consider the regulatory burden of excessive reporting.

Question 3: Do you agree with our proposed principles for developing the OPR metrics?

1.9. In general there was broad agreement with the our proposed principles to guide the development of the OPR such that the DCC is responsive to User needs and that the regime is flexible, output focused and provides clear and credible incentives. However, one respondent disagreed with our proposed metrics and suggest that the OPR should be designed following SMART principles (Specific, Measureable, Attainable, Relevant and Time-bound).

1.10. Some users suggested additional considerations we should follow. For example one respondent suggested we build a value for money test in to all incentives. Others mentioned that rather than focusing on User's needs, incentives should be targeted to areas where the impact on consumers is greatest. DCC agreed with the principles we proposed but suggested further principles including that the OPR should provide both risk and reward incentives, performance should be considered over a reasonable period of time, all incentives are consistent with the SEC and other codes and that incentives should only be placed on activity where DCC has control over the outcomes.

Our response

1.11. We welcome stakeholder's views on the additional principles that should be considered when developing the OPR. We agree with the majority of the additional suggestions have considered them in as part of our final proposals.

1.12. We consider that the approach used to design the OPR ensures that the performance measures are already SMART. The Quality of Service regulatory instructions and guidance which will include the OPR performance measures will further ensure this.

1.13. We do not consider that DCC should receive a reward over and above their stipulated margin under the OPR. We recognise that this is unusual in an incentive regime – however it is necessary due to the ex post nature of DCC’s price control.

1.14. The ex post price control was implemented given the lack of certainty of costs. This uncertainty makes it difficult to set allowed revenues ex ante. While, at the moment, an ex post regime remains the best arrangement, it means that the regulator will always be at an informational disadvantage when assessing if costs are economic and efficient.

1.15. If DCC is able to earn an upside by surpassing targets there is a risk that it will incur cost increases in doing so that we may find challenging to assess whether economic and efficient when determining what the ex post allowed revenue should be. Under ex ante arrangements, since allowed revenue is set in advance, there is cost certainty for users and regulated entities, therefore exceeding performance targets is easier to incentivise and reward.

Question 4: Do you agree with our proposal to prioritise the Service User and Service Delivery measures only in the immediate term?

1.16. The majority of respondents agreed that the Service User Measure and Service Delivery measure are essential measures to be included in the OPR from the start and that the Value for Money (VfM) and Development and Innovation measures will be more of a priority once a reliable service has been established, although that should not preclude the DCC reporting on these measure in the meantime. One respondent did mention that not including the VfM measure from the beginning could risk neglecting the need for the DCC to be cost conscious. Another stated that it was imperative that the OPR include an incentive on enrolment and adoption from day one.

Our response

1.17. We welcome the support from stakeholders to focus on Service User and Service Delivery measures initially. We consider the price control provides strong existing incentives to encourage DCC to deliver VfM although we are keen to ensure that the OPR remains flexible enough to include the additional metrics for the VfM and Development and Innovation measures later on. As mentioned above, we do not think that enrolment and adoption should be included in the OPR initially although we may consider this as we get more certainty on the project.

Question 5: Do you have views on how DCC’s operational performance can be measured without a baseline to compare it to?

1.18. Respondents provided a range of suggestions to overcome the challenge of measuring DCC's performance as a new organisation and without a baseline. These include:

- Use other organisations performance measures as benchmarks for example Elexon and Electralink.
- Basing performance measures on improvement rates from when services go-live.
- Experience from the Foundation stage/ SMETS 1.
- Baselines/ performance targets already in SP contracts and SEC PMS.
- Minimum levels required for successful rollout and to meet customer expectations.

1.19. A couple of respondents, including DCC, suggested we be clear about what reporting requirements already exist under the SEC and in the Service Provider Contracts. They also mentioned that targets have already been agreed for certain metrics under the SEC avoiding the issue of setting a baseline.

1.20. In other related points raised by stakeholders, one mentioned that DCC shouldn't be allowed to develop its own baseline. DCC stated that a grace period where reporting doesn't count towards an incentivised measure should be allowed for teething problems.

Our response

1.21. We appreciate respondents' suggestions on this issue. We propose to base the OPR on existing performance metrics and levels already in place in the SEC and Service Provider contracts to help overcome the issue of establishing a baseline. Actual experience will still need to inform the structure of the OPR to ensure that targets are attainable yet stretching.

Question 6: What specific performance metrics do you think will drive good consumer outcomes under each measure if incentivised?

And

Question 7: What other metrics do you propose DCC should report on as part of wider reporting and/or which could become part of the OPR in the longer term?

1.22. Respondents provided a number of suggestions for potential metrics to incentivise under the Service User Measure and Service Delivery Measures. The most common suggestions can be grouped under the following headings:

- *DCC WAN coverage* – accuracy of information provided on coverage and reliability of connectivity were often stated as important measures.

- *Effective management of DCC Service desk incidents* – issue resolution times and incident reoccurrence rates were the most commonly cited example measures.
- *Core service requests* – delivery success and response times of various request types were mentioned such as read requests, prepayment vends, change of supplier requests and firmware upgrades.
- *Provision and effective commissioning of Communication hubs* – failure rates and commissioning times were the most common examples suggested.
- *Service/ System availability* – the availability of key services such as the Self Service Interface, user Gateway services and the Service Desk were mentioned as potential incentive measures.

1.23. Respondents also mentioned other metrics that would not necessarily be incentivised (or at least wouldn't initially). These included a number of reporting metrics for VMM and DIM measures such as placing incentives on long term cost management, user satisfaction scores, the time it takes for DCC to progress with SEC mods, a long-term metric for the successful implementation of enrolment and adoption and responsiveness to elective communication service requests. The development of a robust, transparent business plan was welcomed as a positive output although some respondents did not agree that this should be incentivised.

1.24. Some respondents also mentioned possible metrics that didn't fit in to any of the existing measures. Examples provided include stabilisation metrics to ensure the period straight after go-live is managed well and health and safety measures.

Our response

We propose to measure and incentivise the most commonly cited areas of activity mentioned by stakeholders. Where suggestions have not been included in the OPR we have included some measures under additional reporting if they will provide us with a more detailed picture of performance or are areas which are important to establish a baseline and which we could potentially incentivise in the future.

Question 8: Are there any other points we should consider when designing the OPR?

1.25. Respondents identified a range of further points for us to consider when designing the OPR. These can be summarised as follows:

1.26. *Type of incentives*: Although the framework for the OPR means that any incentives can be 'downside' or penalty-only, some respondents suggested designing a performance regime such that *both* rewards and penalties are included as incentives. Some respondents stated that they were unsure of how a discretionary award would work within the specific structure of the OPR.

1.27. *Level of DCC control*: DCC stated that external dependencies should be considered in the design of the OPR. They also mentioned that if any incentives are

linked to Service Provider performance then we need to consider the contractual mechanisms DCC has at its disposal to manage Service Provider outputs. Respondents mentioned that DCC has a key role to play to drive forward change and should not be a hindrance to improvements/innovations eg change request/SEC modifications.

1.28. Future-proofing: Some respondents stated that the OPR should be future-proofed as much as possible or at least have the flexibility to easily introduce new principles, measures and metrics. One respondent also suggested including 'placeholders' in the OPR for longer term activities DCC may be required to do (eg enrolment and adoption and switching developments.)

1.29. User/ Customer type: One respondent strongly recommended that requirements of PPM customers should be prioritised over credit customers in some situations and that this should be built in to the design of the OPR (for example when the impact of No WAN may be more detrimental for PPM customers.) Another respondent also mentioned that the OPR should be designed such that the DCC is neutral to the treatment of all users, for example so that a new entrant treated the same as large supplier.

1.30. Implementing the regime: Respondents asked for clarity on how we will assess the OPR and whether it will be a similar arrangement to the IMs (ie through the price control). DCC suggested that the OPR should be assessed annually and that the OPR should only begin once the IM regime has fully concluded.

Our response

1.31. We have considered the additional points raised by stakeholders as part of our final proposals. The following provides our response to each points:

1.32. We will not be introducing a reward mechanism (discretionary or otherwise) as part of the OPR. Upside incentive regimes are generally used alongside ex ante price controls, and we do not consider it appropriate to include an upside given DCC's ex post price control.

1.33. We will ensure that DCC's performance is measured against metrics which are within DCC's control.

1.34. We plan for additional reporting placed on DCC to help future proof the OPR by providing a baseline against performance metrics which we may want to incentivise in the future.

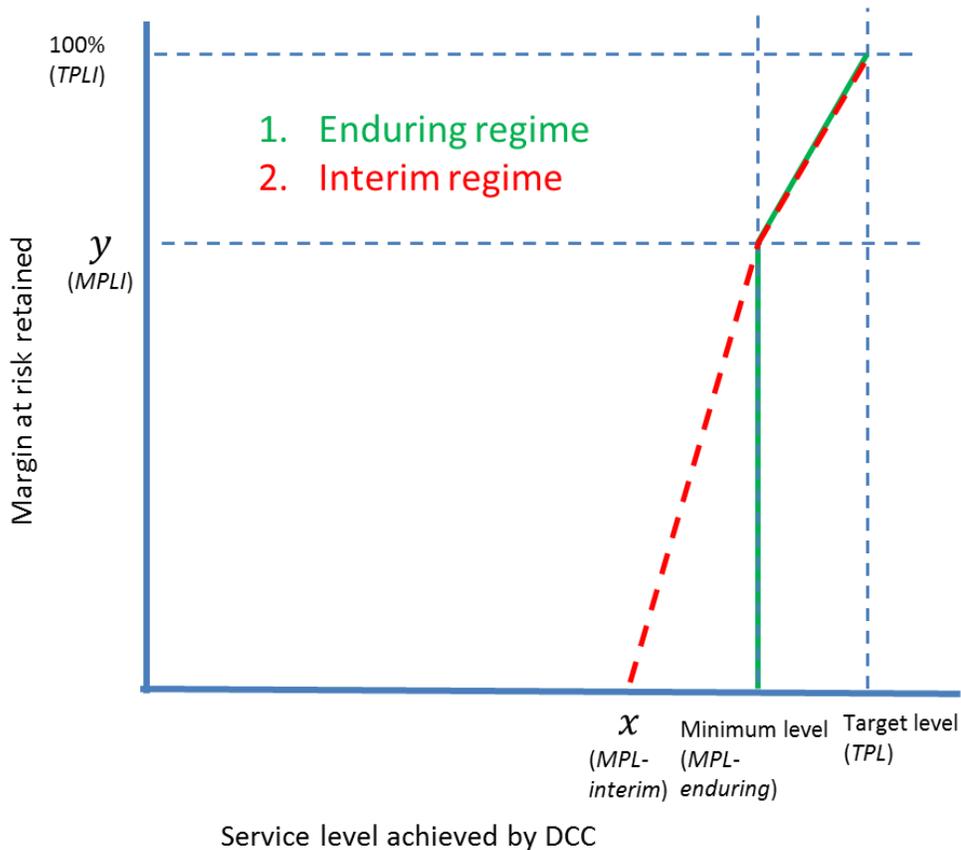
1.35. Initially we do not plan to design parts of the OPR that are differentiated by customer or supplier type. Based on actual performance and any issues that arise we may revisit this in future iterations of the regime.

1.36. We provide more detailed proposals on how the OPR will be assessed and associated timeline within this document.

Appendix 3 – Example incentive calculation

The following describes how we will determine the baseline margin adjustment to be made with respect to the DCC’s performance against each individual measure under the OPR. We have reproduced figure 1 here for reference.

Figure 1: Incentive structure for the interim and enduring OPR



Definitions

n_t = Amount to adjust baseline margin by as a result of the performance level achieved by DCC against this metric over the reporting period.

Where n equals the specific performance measure in question and t is the regulatory year.

TPL_{nt} = Target Performance Level

MPL_{nt} = Minimum Performance Level

RPL_{nt} = Reported Performance Level

$TPLI_{nt}$ = Target Performance Level Incentive. The value of BM_t allocated to this measure for reaching the target performance level for this measure.

$MPLI_{nt}$ = Minimum Performance Level Incentive. The margin allocated to this measure for reaching the minimum performance level for this measure.

The following conditions hold for the enduring OPR regime:

If $RPL \geq TPL$ then $n_t = \text{Zero}$

Ie if DCC's reported performance level is the same as or exceeds the target performance level then they do not lose any margin.

If $RPL < MPL$ then $n_t = - (TPLI_{nt})$

Ie if DCC's reported performance level is less than the minimum performance level then they lose the entire proportion of margin at risk.

If $RPL = MPL$ then $n_t = - (TPLI_{nt} - MPLI_{nt})$

Ie if DCC's reported performance level is equal to the minimum performance level then they lose the difference between the entire margin at risk and the margin they can retain for meeting the minimum performance level.

If $MPL < RPL < TPL$ then:

$$n_t = - [1 - ((RPL_{nt} - MPL_{nt}) / (TPL_{nt} - MPL_{nt}))] * [TPLI_{nt} - MPLI_{nt}]$$

Ie if DCC's reported performance level is above the minimum performance level but below the target performance level then they lose the difference between the entire margin at risk and the margin they can retain for exceeding the minimum performance level.

Worked example – DCC service desk: resolution of incidents (SUM 1)

The following example is for illustration purposes only.

$SUM1_t$ = Amount to adjust baseline margin by as a result of the performance level achieved by DCC against this metric over the reporting period.

Where n equals the specific performance measure in question and t is the regulatory year.

$$TPL_{SUM1t} = 100\%$$

$$MPL_{SUM1t} = 90\%$$

$$RPL_{SUM1t} = 91\%$$

$$TPLI_{SUM1t} = £0.2m$$

$$MPLI_{SUM1t} = £0.1m$$

In this example as $MPL < RPL < TPL$ then:

$$\begin{aligned} SUM1_t &= - [1 - [(0.91 - 0.9) / (1 - 0.9)]] * [£0.2m - £0.1m] \\ &= -£0.09m \end{aligned}$$

In this scenario, the minimum performance level is assumed to be 90% and the total margin at risk £0.2m. DCC's actual performance is 91%.

This means that DCC would lose the difference between the total margin at risk (£0.2m) and the margin retained for a performance level of 91% (£0.11m). Resulting in a margin loss of £0.09m.

Interim regime (2017/18)

Under the interim regime the following definition and conditions also hold:

$MPL(interim)_{nt}$ = Minimum Interim Performance Level. Denoted by 'x' on figure 1.

If $RPL < MPL(interim)$ then $n_t = - (TPLI_{nt})$

If DCC's reported performance level is less than the interim minimum performance level then they lose the entire proportion of margin at risk.

$MPL(interim) < RPL \leq MPL$ then:

$$\begin{aligned} n_t &= - [[1 - [(RPL_{nt} - MPL(interim)_{nt}) / (MPL_{nt} - MPL(interim)_{nt})]] * MPLI_{nt}] \\ &\quad + (TPLI_{nt} - MPLI_{nt})] \end{aligned}$$

If DCC's reported performance level is above the interim minimum performance level but below the enduring minimum performance level (MPL_{nt}) then they lose:

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- the difference between the entire margin at risk and the margin they can retain for reaching the enduring minimum performance level; and
- the the difference between the margin for reaching the enduring minimum performance level and the margin they can retain exceeding the interim minimum performance level.

Worked example – DCC service desk: resolution of incidents (SUM 1) under the interim regime

SUM_{17/18} = amount to adjust baseline margin by as a result of the performance level achieved by DCC against this metric over 2017/18.

$$TPL_{SUM17/18} = 100\%$$

$$MPL_{SUM17/18} = 90\%$$

$$MPL(interim)_{SUM17/18} = 80\%$$

$$RPL_{SUM17/18} = 88\%$$

$$TPLI_{SUM17/18} = £0.2m$$

$$MPLI_{SUM17/18} = £0.1$$

In this example as $MPL(interim) < RPL \leq MPL$ then:

$$\begin{aligned} SUM_{17/18} &= - [[1 - [(0.88 - 0.8) / (0.9 - 0.8)] * £0.1m] + (£0.2m - £0.1m)] \\ &= -£0.12m \end{aligned}$$

In this scenario, the interim minimum performance level is 80% and the total margin at risk is £0.2m. DCC's actual performance is 88%.

If DCC achieved a reported performance level of 88% under the interim regime DCC would lose:

- the difference between the total margin at risk (£0.2m) and the margin allocated for reaching the minimum under the enduring regime (MPL=£0.1m). This amounts to £0.1m; and
- the difference between the margin allocated for reaching the minimum under the enduring regime (MPL=£0.1m) and the amount retained for exceeding the minimum interim performance level (£0.08m). This amounts to £0.02m.

Appendix 4 - Glossary

A

Allowed Revenue

Total amount of revenue determined on an accruals basis in relation to each regulatory year in accordance with the Principal Formula set out in Part C of Condition 36 after the deduction of value added tax (if any) and any other taxes based directly on the amount concerned.

Authority

The Gas and Electricity Markets Authority

B

Baseline Margin (BM)

In each Regulatory Year an amount of additional revenue, over and above the sum of the Licensee's Internal Costs and External Costs, that the Secretary of State has agreed shall be included (subject to the performance of the Baseline Margin Performance Adjustment) in the Licensee's Allowed Revenue, and is determined in accordance with the provisions of Part C of Condition 36.

C

Centralised registration service (CRS)

A future service, procured and run by DCC to facilitate switching at gas and electricity premises.

Communications Service Provider (CSP)

Bodies awarded a contract to be a service provider of the DCC's communications services. Arqiva Limited and Telefónica UK Limited have been currently appointed to provide these services.

D

Data and Communications Company (DCC)

This is a company that manages the data and communications to and from domestic consumers' smart meters. Smart DCC Ltd was granted the Licence by the Secretary of State with effect from 23 September 2013.

Data Services Provider (DSP)

Body awarded the contract to deliver systems integration, application management and IT hosting services to the DCC. CGI IT UK Limited has been appointed to provide these services

Department for Business, Energy and Industrial Strategy (BEIS)

The UK government department responsible for business, energy and industrial strategy policy.

[Department for Energy and Climate Change \(DECC\)](#)

The former UK government department responsible for energy and climate change policy. Responsibility for energy now rests with the Department for Business, Energy and Industrial Strategy (BEIS).

E

[External Costs](#)

As defined in licence condition 35 of the smart meter communication licence. The fundamental service capability predominately comprises of the communication service providers (CSP) and the data service providers (DSP). This definition means that costs associated with other externally procured contracts, for example the Smart Metering Key Infrastructure (SMKI) contract are reported under internal costs.

I

[Implementation Milestone](#)

The targets DCC is required to achieve as laid out in Schedule 3 of the Smart Meter Communication Licence in order to earn its full Baseline Margin.

[Implementation Performance Regime](#)

The incentive regime which determines the amount of margin that DCC is able to recover in the implementation phase as set out in schedule 3 of the Smart Meter Communication Licence.

[Internal Cost](#)

In relation to each Regulatory Year the sum of the costs (excluding external costs and pass-through costs) that were economically and efficiently incurred by the Licensee for the purposes of the provision of Mandatory Business Services under or pursuant to the SEC (and may include costs incurred in respect of the governance and administration of the SEC that are not included in the pass-through costs).

M

[Mandatory Business Costs](#)

Costs associated with the provision of Mandatory Business Services under or pursuant to the SEC.

O

[Ofgem](#)

Office of Gas and Electricity Markets

[Operational Performance Regime \(OPR\)](#)

The incentive regime which subjects 100% of DCC's margin at risk to be applied with effect from the start of the regulatory year immediately following the Regulatory Year in which the Completion of Implementation is achieved. As listed under Schedule 4 of the Smart Meter Communication Licence.

R

[Regulatory Instructions and Guidance \(RIGs\)](#)

The document of that name issued by the Authority under Licence Condition 33 for purposes relating to the obligations of the Licensee under Licence Condition 31 (Reporting of Quality of Service Information) and Licence Condition 32 (Reporting of Price Control Information). Provide the basis on which the licensee must report price control information as required under the Licence.

S

[Service Providers \(SPs\)](#)

Bodies awarded a contract to be a service provider of the DCC's services. The Communications Service providers (CSPs) are awarded a contract to be a service provider of the DCC's communications services. Arqiva Limited and Telefónica UK Limited have been currently appointed to provide these services. The Data Service Provider (DSP) is awarded the contract to deliver systems integration, application management and IT hosting services to the DCC. CGI IT UK Limited has been appointed to provide these services.

[Smart Energy Code \(SEC\)](#)

The SEC is an industry code which is a multiparty agreement which will define the rights and obligations between the DCC and the users of its services. Suppliers, network operators and other users of the DCC's services will all need to comply with the Code.

[SEC Panel](#)

Panel established under the SEC to oversee the Smart Energy Code with powers and duties as set out in Section C of the SEC.

[Smart Meter](#)

A smart meter is a meter which, in addition to traditional metering functionality (measuring and registering the amount of energy which passes through it) is capable of providing additional functionality, for example two way communication allowing it to transmit meter reads and receive data remotely. It must also comply with the technical specification set out by the Smart Metering Programme.

[Smart Meter Communication Licence](#)

The Smart Meter Communication Licences granted pursuant to Sections 7AB (2) and (4) of the Gas Act 1986 and Sections 6(1A) and (1C) of the Electricity Act 1989.



Appendix 5 - Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

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