Making a positive difference
for energy consumers

Consultation

DCC Operational Performance Regime Review

Publication date:	12/05/2020	**Contact:**	Andrew Roberts
		Team:	Metering & Market Operations
Response deadline:	12/06/2020	**Tel:**	020 7901 3889
		Email:	smartmetering@ofgem.gov.uk

We are consulting on a revised OPR framework that aims to optimise the incentives placed on DCC and drive better performance. This includes proposals for incentivising DCC's system performance under four new outcome based measures, broken down by meter type and region where relevant. In addition, we propose incentivising DCC under two new areas that have caused concern among DCC's stakeholders: DCC's engagement with its customers (energy suppliers, networks and others), and contract management and procurement.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at **Ofgem.gov.uk/consultations**. If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

OFG1161

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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.

At present, the OPR focuses on a range of metrics measuring DCC's technical outputs to assess system performance. We became concerned, following DCC's submission of its performance under the current OPR for the RY18/19 price control, that the OPR metrics may not be providing the best incentives to DCC and may not be reflective of customer experiences.

We asked stakeholders in our DCC Price Control RY18/19 consultation 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.

Based on this feedback, we identified three main areas that may benefit from financial incentives under the OPR: system performance, customer engagement, and contract management and procurement. This consultation document sets out our proposals in each of the three areas to optimise the incentives placed on DCC to drive better performance.

Financial Incentive Areas

System performance

The current OPR assesses system performance against technical outputs that support business-as-usual (BAU) and rollout operations. It consists of five groups of quantitative metrics: DCC service desk, communication hubs, DCC WAN coverage, core service requests, and system availability. We propose to continue assessing system performance on the basis of quantitative metrics by evolving the current metrics to a set of outcome based measures, targeting four areas: install and commission, prepayment, firmware management and service availability. These metrics where relevant would break down performance by meter type (SMETS1, SMETS2) and DCC communications region (south, central and north).

Customer engagement

The current OPR framework does not incentivise DCC's engagement with its customers (suppliers, networks and other third parties). We propose placing a relatively small proportion of DCC's margin at risk against the quality of its customer engagement to drive improvements. Performance would be assessed based on submissions from both DCC and SEC panel, using qualitative criteria to produce an overall score. The criteria would cover the timing and frequency of engagement; quality of information provided by DCC and the incorporation of customer views.

Contract management and procurement

The current OPR framework does not incentivise DCC's performance in contract management and procurement. We propose placing a relatively small proportion of DCC's margin at risk against the quality of its contract management and procurement activity to drive improvements. We propose that the assessment be carried out by an independent auditor with performance measured against qualitative metrics based on the National Audit Office (NAO) framework.

Implementation

We expect the amended OPR to take effect for RY21/22 (ie from 1 April 2021). In order to successfully implement the revised OPR, we will need to modify the licence to provide for amendments to the framework, in line with the policy intent to ensure the OPR remains fit for purpose. In addition, we have proposed a further licence change to enable the publication of "OPR guidance", which will be required for the implementation.

Finally, we have published a draft direction alongside this consultation. We will publish the final version of this direction alongside our final decision on the OPR review.

Next steps

This document sets out our detailed proposals in each of the above areas with consultation questions for each area. We welcome your views, and will consider them when we make our decision.

Please send responses to smartmetering@ofgem.gov.uk by 12 June 2020. We will publish our decision in autumn 2020.

We appreciate that stakeholders are currently focusing on responding to Covid-19. However, the timing of this consultation deadline ensures we will be in a position to implement the revised OPR framework for April 2021.

1. Introduction

1.1. DCC is the 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 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 fully take 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. At present, the OPR focuses on a range of metrics measuring DCC's technical outputs to assess system performance.

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. In particular, we are concerned that the current system performance measures may not be sufficiently reflective of customer experiences. In addition, the scope of the current OPR is limited to system performance, while other areas of DCC's performance also have the potential for high customer impact.

Initial stakeholder engagement

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

1.5. Through our stakeholder engagement, we identified a range of issues and mapped them to three broad categories where stakeholders wished to see improved DCC performance: system performance; customer engagement; and contract management and procurement. In March 2020 we published a working paper[1] setting out our initial thinking on how to financially incentivise each of the three areas through a revised OPR.

1.6. In the working paper, we invited stakeholders to informally share their views. The feedback we received largely welcomed the paper, while highlighting the key trade-off between widening the scope and diluting the margin attached to each incentive. Based on this feedback, we have developed our initial thinking from the working paper into the proposals set out in this consultation.

What are we consulting on?

1.7. The aim of the OPR review is to optimise the incentives placed on DCC to drive better performance. Based on feedback from DCC's customers, we propose financial incentives in three key areas:

Section 1: System performance

1.8. System performance to support business-as-usual (BAU) and rollout operations. This would evolve the current metrics, based on technical outputs, to a set of outcome based measures, selected from the updated SEC performance measures. We propose selecting metrics to target four areas: install and commission, prepayment, firmware management and service availability. These metrics where relevant would break down performance by meter type (SMETS1, SMETS2) and region (south, central and north).

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

Question 1: Do you agree that System Performance should be financially incentivised?
Question 2: What are your views on our proposal for the System Performance Incentive?
Question 3: Do you agree with the four areas we propose incentivising? Provide explanation.

Section 2: Customer engagement

1.9. We propose placing a relatively small proportion of DCC's margin at risk against the quality of its customer engagement to drive improvements. Performance would be assessed based on submissions from both DCC and SEC Panel using qualitative criteria to produce an overall score. The criteria would cover the timing and frequency of engagement; quality of information provided by DCC; and the incorporation of customer views.

Question 4: Do you agree that customer engagement should be financially incentivised?
Question 5: What are your views on our proposal for the Customer Engagement Incentive?

Section 3: Contract management and procurement

1.10. We propose placing a relatively small proportion of DCC's margin at risk against the quality of its contract management and procurement activity to drive improvements. We propose that the assessment be carried out by an independent auditor with performance measured against qualitative metrics based on the National Audit Office (NAO) framework.

Question 6: Do you agree that contract management and procurement should be financially incentivised?
Question 7: What are your views on our proposal for the Contract Management and procurement Incentive?

Section 4: Weighting

1.11. This section is on the weighting between the different performance incentives. We propose the majority of the weighting on system performance, with the remainder split equally between customer engagement and contract management and procurement.

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

Section 5: Implementation

1.12. This section proposes licence modifications required to implement an amended OPR and publish additional guidance. It also invites views on the draft direction published alongside this consultation.

Question 9: Do you agree that the proposed licence modifications achieve the policy intent?
Question 10: Do you have any views on the draft direction published alongside this consultation?

Related publications

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

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:
https://www.ofgem.gov.uk/system/files/docs/2017/09/1._decision_on_dcc.pdf

Consultation on the implementation of the Operational Performance Regime:
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:
https://www.ofgem.gov.uk/system/files/docs/2016/03/dcc_operational_performance_regime_principles_and_processes.pdf

Consultation stages

1.13. The key dates of the consultation are set out below in figure 1.1.

Figure 1.1: Consultation stages

Consultation open	Consultation closes / deadline for responses	Responses reviewed and published	Consultation decision and direction
12 May 2020	**12 June 2020**	**Summer 2020**	**Autumn 2020**

1.14. We expect the amended OPR to take effect for RY21/22 (ie from 1 April 2021).

How to respond

1.15. We want to hear from anyone interested in this consultation, but in particular DCC's customers. Please send your response to the person or team named on this document's front page.

1.16. We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

1.17. We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

1.18. You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

1.19. If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

1.20. If the information you give in your response contains personal data under the General Data Protection Regulation 2016/379 (GDPR) and domestic legislation on data protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.

1.21. If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We will not link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

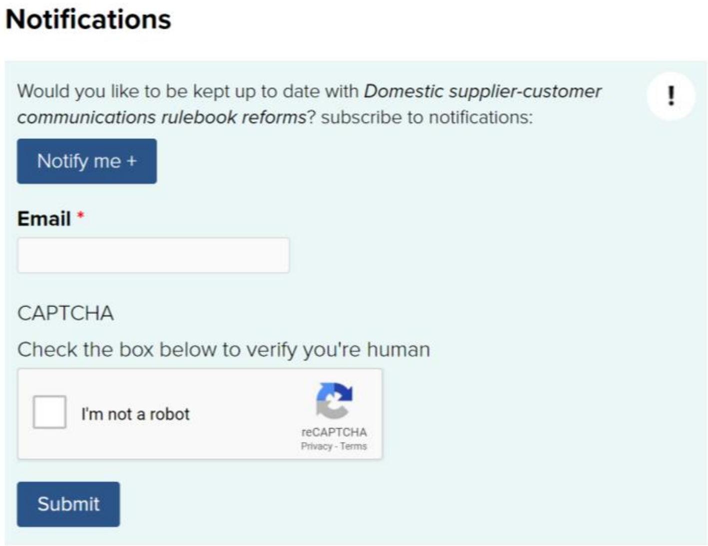
1.22. We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
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. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

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

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. [Ofgem.gov.uk/consultations.](https://www.ofgem.gov.uk/consultations)



Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming → Open → Closed (awaiting decision) → Closed (with decision)

2. System Performance

Section summary

The current OPR measures system performance based on technical outputs that support business-as-usual (BAU) and rollout operations. These are drawn from the Smart Energy Code (SEC) performance measures and consist of five groups of metrics: DCC service desk, communication hubs, DCC WAN coverage, core service requests, and system availability.

The SEC Operations Sub-Group (SEC Ops Group) has recently reviewed the SEC performance measures to define new metrics that better reflect business outcomes for customers. We propose drawing on these updated metrics for the OPR to target four areas: install and commission, prepayment, firmware management and service availability. These metrics where relevant would break down performance by meter type (SMETS1, SMETS2) and region (south, central and north).

Question 1: Do you agree that System Performance should be financially incentivised?
Question 2: What are your views on our proposal for the System Performance Incentive?
Question 3: Do you agree with the four areas we propose incentivising? Provide explanation.

Rationale for a System Performance Incentive

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. Throughout our initial engagement around the OPR review, stakeholders continued to support this as an area that requires financial incentives.

2.2. The OPR is currently entirely focussed on system performance. It consists of five groups of metrics that are part of the Smart Energy Code (SEC) performance measures: DCC Service Desk, Communication Hubs, DCC WAN Coverage, Core Service Requests, and System Availability. Most of these metrics measure technical outputs, which do not appear to be strongly correlated with customer experiences. We are therefore concerned that these metrics may not be providing the best incentives to DCC and propose to replace them with more outcome based measures.

SEC Panel Review of DCC performance metrics

2.3. DCC's customers are best placed to determine what levels of performance they need to see from DCC, according to their business and customer needs. The SEC Operations Sub-Group (SEC Ops Group) has recently reviewed the SEC performance measures to identify improvements and define new metrics that better measure system performance and better reflect business outcomes for customers. The Operational Metrics Review report was submitted to the SEC Panel on April 17 and the panel agreed to implement the findings and recommendations of the SEC Ops Group's report.[2] Following a period of refinement and implementation, these metrics are planned to be adopted through a SEC release in February 2021.

2.4. We have been engaging with this work, and propose to continue to use the performance measures that are defined in the SEC under the governance of the SEC Panel as the basis for the OPR.

2.5. The SEC Ops Group's report recommends the following metrics:

- **install and commission** – concerns the connectivity of newly installed smart meters to the DCC network. This metric measures the Response Times of a set of common Service Requests[3] and reports the percentage that failed to meet the Target Response Times.

[2] MP122 modification report: https://smartenergycodecompany.co.uk/modifications/operational-metrics/

[3] Service requests are the messages that are sent between Smart DCC Customers that result in commands being sent to the Smart Metering System in the home/business. This would include the following SRVs for install and commission:
SR8.11 Update HAN Device Log
SR6.21 Request Handover of DCC Controlled Device (Update Supplier Certificates)
SR8.1.1 Commission Device SR
SR8.7.2. Join Service (Join Gas Proxy Function with Gas Smart Metering Equipment)
SR6.20.1 Set Device Configuration (Import MPxN)
SR1.1.1 Update Import Tariff (Primary Element)
SR6.8 Update Device Configuration (Billing Calendar)
SR8.14.1 Communications Hub Status Update Install Success

- **change of supplier** – relates to DCC's processes to enable a consumer with a smart meter enrolled on the DCC network to change their supplier. This metric measures the percentage of successful Service Requests delivered of Service Reference Variant (SRV) 6.23. Where the response erroneously reports a failure, the presence of subsequent critical and non-critical Service Requests sent by the gaining supplier will be used as an indicator of success.
- **prepayment** – concerns DCC's role in delivering top-ups to prepayment meters. This metric measures the percentage of commands associated with SRV2.2 Service Requests that are successfully delivered to devices by device type and region.
- **service availability** – this concerns the ability of DCC services to be accessible as needed, whenever and wherever they are required by Users. This measure is an evolution of the current service availability measure, and is designed to measure the availability of the total service provided by DCC more effectively. This metric measures the full availability and partial availability of the total service including the DCC User Interface, Registration Data Interface, Smart Meter Key Infrastructure (SMKI) Repository Interface, SMKI Service Interfaces, and Self-Service Interface.
- **communication hubs** – communication hubs are installed in homes to allow smart meters and in-home displays to connect to each other, as well as DCC and energy supplier systems. This metric measures whether communication hubs were: delivered on time; accepted by Users; and not faulty at installation. These metrics will be unchanged from the current measures and were not included as part of the SEC Ops Group's review.
- **firmware management** – concerns the rollout of firmware updates for smart meters and communication hubs over DCC's network. Firmware management involves fixing issues and enhancing smart meter capability to function better for end users. This metric measures the percentage of successful SRV11.1 Service Request firmware payload images successfully delivered to communication hubs.
- **alerts** – Alerts generated by meters in the event of a system issue, as well as part of various processes, are carried over DCC's network to DCC Users. This metric measures the percentage of alerts successfully delivered within the required Service Level Agreement (SLA) time (60 seconds). For alerts impacted by throttling, ie during an alert storm, this will measure all alerts sent to the user.
- **billing** – concerns DCC processes to successfully schedule and deliver meter readings. This metric measures the percentage of successful SR5.1 Service Requests successfully delivered.

System Performance Measures for the OPR

2.6. We propose to restrict the number of measures that are incentivised to ensure there is sufficient margin at risk against each measure. Including a large number of measures would result in fragmented incentives; if the margin at risk is too small for each measure, this may be insufficient to drive behaviour change from DCC to meet the performance levels expected by customers.

2.7. Based on our stakeholder engagement to date, we propose to place incentives against the following four areas that have been consistently identified as priorities:

- **install and commission** – an aspect of the install and commission process is reflected in the current OPR through the WAN Coverage metric. The new metric, as will be defined in the SEC, broadens to include multiple DCC services required in the install and commission of a smart meter. Due to the volume and pace of installs being delivered during the rollout, reliable support from DCC for install and commission of smart meters is seen as high priority by energy suppliers. It impacts directly on the consumer's experience of the smart meter installation process, and is expected to continue to be high priority until at least the end of the licence period.
- **Prepayment** – DCC's performance in supporting the operation of smart prepayment meters through delivering remote top-ups is not covered in the current OPR. With the rollout of SMETS2 prepayment meters and the enrolment of SMETS1 meters now underway, DCC's performance in this area is increasingly relevant. Poor performance in this area would have a high consumer impact, and is a particularly relevant area to incentivise to protect vulnerable consumers.
- **firmware management** – this is not covered in the current OPR. Suppliers highlighted particular support for this area as it ensures the full functionality of the smart metering system. Poor performance in this area would have a high consumer impact as it would limit the benefits a consumer can gain from their smart meter.
- **service availability** – The current OPR includes "system availability", but only covers data service providers. There was support to include the revised "system availability" measure from both suppliers and network operators as, in contrast to the other measures which are focused on specific services, this measure covers a broad spectrum of DCC services, taking into account dependencies between the different systems. This would serve as a comprehensive incentive on all DCC services.

2.8. During our early engagement, stakeholders have largely prioritised these four measures for financial incentives above others. We did not receive any support for the inclusion of measures on communication hubs, alerts or billing during our early engagement.

2.9. We carefully considered whether to include a measure on change of supplier. Although the end to end change of supplier process, involving consumers, the gaining and losing supplier, has the potential for high consumer impact, DCC's role in this process is limited and few concerns have been raised on DCC's processes in this area. Overall, we consider that the argument for including this measure is not strong enough to justify further fragmenting the incentive.

2.10. We propose to weight these areas equally, as is the case in the current OPR. This means if we incentivise four areas, then each area will hold a weight of 25% against the margin at risk for the system performance incentive.

2.11. Although, we are keen to restrict the number of measures, we are open to hearing stakeholder views on whether there is strong rationale for the inclusion of other measures.

Performance Across Meter Type

2.12. Currently, all SMETS1 Smart Metering Systems are expected to be enrolled into the DCC system by the end of 2021. As soon as they are enrolled, the effective operation of these meters will be incentivised under the OPR.

Assessing SMETS1 and SMETS2 performance

2.13. Three of the four metrics we are minded to incentivise are applicable to both SMETS1 and SMETS2 meters (install and commission being the exception). We wish to ensure DCC meets the SEC performance requirements for these three metrics for both SMETS1 and SMETS2 meters. To achieve this we considered whether it is appropriate to assess the performance of both meter types together or separately for each relevant performance measure, and in the latter case how to weight the margin split between each meter type.

2.14. Both options affect the penalty on DCC for poor performance. Measuring SMETS1 and SMETS2 performance separately would ensure that a significant fault in either meter type would be more likely to result in a penalty for DCC, as it would effectively lower the threshold required for a penalty for each meter type. Conversely, it would also reduce and limit the amount that could be lost for poor performance for just one meter type.

2.15. The reverse is true for assessing both meter types together in each metric: DCC would be less likely to face a penalty if there was a significant fault in the less numerous meter type, but could face a higher penalty if the threshold for poor performance was reached.

2.16. It is our view that performance for each meter type should be assessed separately. This ensures the DCC faces a penalty for a significant fault in one meter type that otherwise would not surpass the threshold for poor performance if both meter types were assessed together, and so is incentivised to deliver good performance levels for both meter types.

Weighting the margin split

2.17. As this proposal results in splitting the margin between SMETS1 and SMETS2 meters, we then need to consider whether this split should be weighted equally or by the proportion of meters for each type.

2.18. If the margin was split equally between SMETS1 and SMETS2 meters, this would mean the smaller meter type group would effectively be over-represented in the incentive regime. Furthermore, the relative size of this over-represented group may fluctuate; for a period of time there is the potential for SMETS1 meters to be enrolled at a higher rate than SMETS2 meters are installed.

2.19. As measuring meter type performance separately already increases the likelihood of a penalty for the smaller meter type group, we consider it would become disproportionate to also weight each meter type equally. Weighting the incentive by the proportion of meters in each meter type also ensures the incentive responds to changes in the relative size of each group over time.

2.20. We therefore propose a balanced approach by splitting the margin between SMETS1 and SMETS2 based on the proportion of meters that are of each meter type, as per the definitions in the Regulatory Instructions and Guidance (RIGs).

Performance Across Regions

2.21. We received several requests for regional metrics in responses to our RY18/19 price control consultation and in our upfront engagement on the amended OPR following the publication of our working paper.

2.22. We are therefore considering whether to assess DCC's performance separately in the three DCC communication service regions (north, central and south) for SMETS2 meters, and if so whether to split the margin equally or weighted by the proportion of meters in each region.

Assessing regional performance

2.23. As is the case by breaking down performance by meter type, breaking down performance by region ensures that a significant fault in any one region would be more likely to result in a penalty for DCC, while limiting and reducing the amount that could be lost for poor performance in any one region.

2.24. If we were to breakdown performance by region, splitting the margin equally could mean that the same number of failures in one region results in a larger penalty than a region with more meters. However, in the medium to long term, unlike the number of meters in each meter type, we anticipate meter numbers to even out across regions as they have approximately equal populations. In addition, in the short term, issues impacting suppliers' ability to install and commission SMETS2 meters are in effect preventing those consumers without a smart meter from receiving the benefits of the smart meter programme.

2.25. Given the concerns of stakeholders as to DCC's varying performance across regions, we consider it appropriate to break down performance by region to increase the likelihood DCC faces a penalty for poor performance in any one region. We also believe an equal weighting is appropriate for each region given that they have approximately equal populations.

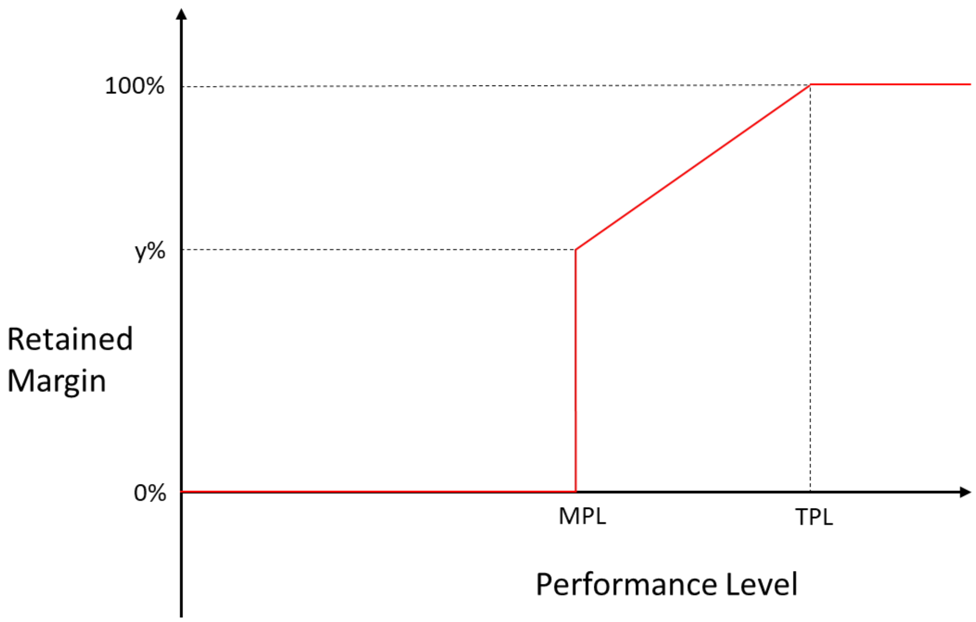
Penalty Mechanism

2.26. To counteract the limiting effect of assessing performance in each region separately, we have developed a new penalty mechanism. This mechanism would allow for poor performance in a single region to result in a penalty of 50% of the total margin, and would incentivise marginal improvements to performance below the minimum performance level. We propose implementing this new penalty mechanism as part of an amended OPR that includes regional splits.

2.27. The current penalty mechanism utilises the Minimum Performance Level (MPL) and Target Performance Level (TPL) set for the SEC Performance Measures. If DCC performs at the TPL for a given metric, it retains all of the margin associated with that metric. If DCC performs at the MPL, it retains 70% of the margin associated with that metric. Performance between TPL and MPL results in margin retention calculated by a linear line drawn between the two points. Performance below MPL results in the retention of zero margin associated with that metric.

2.28. Figure 2.1 is a graph describing this current penalty mechanism, where y is the margin retained at MPL.

Figure 2.1: Current penalty mechanism

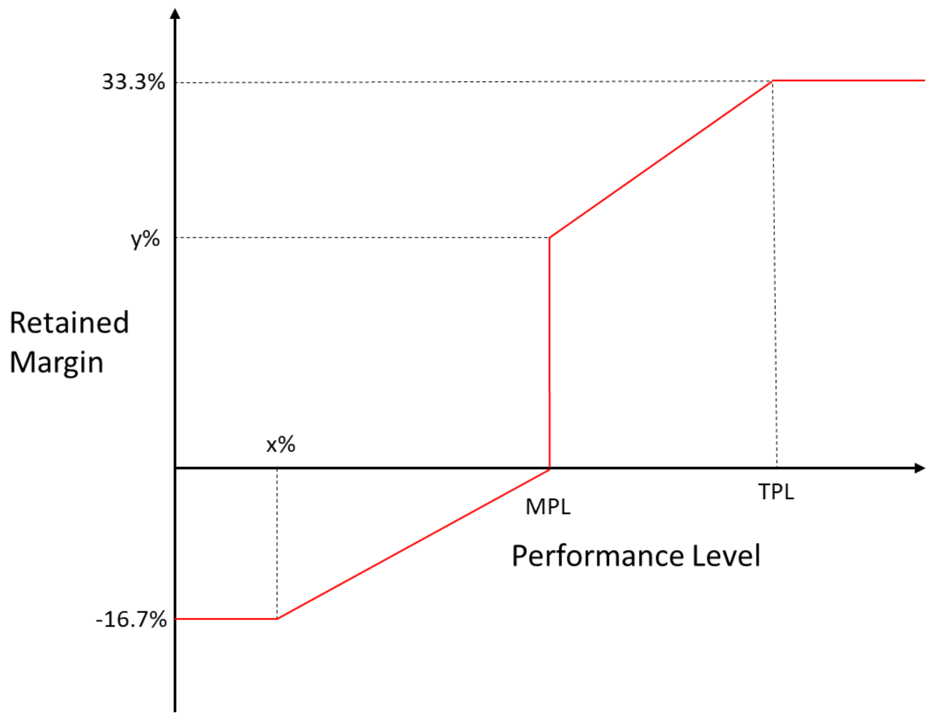


2.29. The new penalty mechanism would aim to address the 33.3% limit the current penalty mechanism would place on the margin lost for poor performance in a single region that arises from including regional splits. This new penalty mechanism would measure performance for each region within a metric, then the retained margin from each region will be summed.

2.30. TPL performance would result in the retention of 33.3% of the margin associated with the measure (ie 100% of the margin associated with the region). MPL would result in less than 33.3% retention, but greater than 0%. However, performance below MPL would be calculated on a linear line between 0 margin at MPL and -16.7% of margin at performance level x%. We would then sum the retained margin across regions for each metric and place a non-negative condition on this sum, such that DCC cannot lose more margin than it had[4].

2.31. Figure 2.2 is a graph describing the new penalty mechanism, where y is the margin retained at MPL, and x is the performance at which -16.7% margin is retained.

Figure 2.2: New penalty mechanism



[4] A mathematical description of the mechanism is given in the draft direction published with this consultation.

2.32. The new penalty mechanism has the advantage of providing a marginal incentive on DCC to perform better at lower levels of performance below MPL (unlike the current penalty mechanism which does not provide a marginal incentive below MPL). It is possible that DCC could lose all of its margin for below MPL performance across two regions, but this would likely require below TPL performance in the remaining region also.

2.33. We will set the values for x and y in the OPR Guidance we will publish following our decision on the OPR, while the performance levels MPL and TPL will be set through the SEC panel.

3. Customer Engagement

Section summary

We propose to introduce a customer engagement incentive under the OPR to drive good customer engagement from DCC. We propose that DCC will be assessed against three broad aspects of its customer engagement under a defined set of criteria – the timing and frequency of engagement, the quality of the information provided, and how customer views have been taken into account into its decision making. The margin retained by DCC will be dependent on its performance throughout the year over all DCC activity.

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

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

Rationale for a Customer Engagement Incentive

3.1. DCC's decisions should be 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. Customers have repeatedly raised concerns with DCC's engagement, and we have made it clear that we expect DCC to provide evidence of customer engagement in its annual price control submission.

3.2. We acknowledge that DCC has recently demonstrated improvements in customer engagement, for example its consultation on an engagement strategy and improvements to its quarterly finance forums. However, we continue to hear concerns from DCC customers that engagement around both its decision making processes and wider informative engagement has not been sufficiently transparent, timely or relevant, and have not yet seen evidence in a price control submission that meets our expectations. We consider that a financial incentive could help to further and faster drive DCC's customer engagement to an appropriate standard, ensuring that DCC is responsive to the needs of its users and delivering good customer outcomes.

Assessment Criteria

3.3. We propose to implement a set of qualitative criteria to assess DCC's engagement over a year. This approach draws on Ofgem's wider experience in engagement incentives, from the RIIO-1 Stakeholder Engagement Incentive and the Discretionary Recovery Mechanism from the Switching programme financial incentives, as well as wider research.

3.4. We have redeveloped and refined the criteria outlined in the working paper to address the initial feedback we have received and our own observations. Notably, we have reduced the number of criteria from six to three to avoid splitting the incentive into too many components. We have focused on developing criteria which are suitably objective to evidence against and sufficiently distinct to avoid overlapping. Table 3.1 shows the criteria we are minded to introduce.

Table 3.1: Customer engagement assessment criteria

Aspect of customer engagement	Assessment questions	Weighting
Timing and frequency of engagement	• Has DCC engaged proactively with customers, enabling them to feed in views at appropriate points in decision-making cycles? • Has DCC set clear time frames such that customers understand when they can contribute views with sufficient lead times to enable them to do so? • Has DCC's broader engagement (eg general updates, reactive engagement on unplanned issues impacting customers) been delivered in a timely manner and with sufficient frequency?	25-33%
Quality of information provided by DCC	• Has DCC provided its customers with information of sufficient quality and detail to enable them to compare costs and benefits of different options, and understand the drivers of those costs and benefits? • Has DCC provided sufficient quality of information in its broader engagement (eg general updates, reactive engagement etc) for customers to understand the issues and the actions DCC is taking? • Has DCC provided the appropriate information to the relevant audiences when engaging with customers? • When assessing the quality of the information, we will consider: customers' ease of access to the information, the readability/comprehensibility of the information, and the content.	25-33%
Taking account of customer views	• Has DCC ensured its customers understand on which issues their views will inform decision-making? • Has DCC taken customer views into account in its decision-making? • Has DCC communicated a clear rationale for decisions it has made to customers, explaining how customer views have informed its decision making, and where relevant why DCC has decided not to incorporate customer views?	33-50%

3.5. We propose that the customer engagement incentive will cover all activities conducted by DCC, including but not limited to individual projects, contract changes, business as usual activities, and ad-hoc issues as they arise. The type of activity will include SEC-initiated change, BEIS initiated change, DCC-initiated change, and unplanned activity (eg due to faults/external events).

3.6. We recognise that engagement would look different depending on the type of activity that is being carried out. For example, opportunities for engagement for SEC initiated change would be different compared to BEIS initiated change. The type of activity should therefore be taken into account for both the submissions and the assessment process.

3.7. It may also be necessary to consider the proportionality of the engagement when assessing DCC's performance; we would expect DCC to seek greater input, supported by appropriately detailed information where decisions have greater potential impact on customers.

3.8. Based on stakeholder feedback and our own observations, we consider that taking account of customer views is the most important criteria and have assigned it the highest weighting. In future we could consider adjusting the weighting from one period to the next in response to poor performance in one area.[5]

Submission Requirements

3.9. In order to assess DCC's customer engagement we propose that DCC and the SEC Panel should each prepare a submission providing an assessment of DCC's performance over the previous year. Requiring the two submissions ensures both DCC and its customers are represented, as customers would be able to contribute their views at an early stage as part of the SEC Panel submission. This would provide a balance of stakeholder views in the assessment process.

[5] See section 6 on licence modifications to enable further amendments to OPR processes.

3.10. The submissions from DCC and the SEC Panel should include a reasoned assessment of DCC's performance against the criteria outlined in Table 3.1, supported by concrete examples or evidence across a range of all DCC activity. We expect each submission would therefore consist of a main document, setting out a score with a descriptive rationale for each criterion, and supporting evidence to justify the suggested score. The scoring mechanism is discussed later in this section.

3.11. Prior to the new OPR coming into effect, we will consult on and publish guidance ("OPR guidance") for the customer engagement incentive. The SEC Panel and DCC should use this guidance when preparing their submissions. At this initial stage we expect the OPR guidance to include:

- the assessment criteria and scoring framework
- the assessment process
- guidelines for the format and expected length of the submission
- minimum requirements for the submission
- examples of what could be used as evidence to support the submission (eg case studies, examples of DCC communications, strategy documents)
- guidelines for submitting commercially confidential information; in order to consult transparently we would likely publish each submission on our website.

3.12. Any stakeholder feedback as part of this consultation on what should be included or clarified will be taken into account when developing the guidance.

Assessment Process

3.13. We propose that Ofgem should undertake the final assessment, by reviewing the two submissions from DCC and the SEC Panel and following our consultation process to allow for further stakeholder input.

3.14. Our proposed assessment process will involve the following steps:

3.14.1. Using the OPR guidance for reference, DCC and the SEC Panel will prepare a submission for Ofgem review to assess DCC's customer engagement. We expect the SEC Panel to have engaged with SEC Parties before preparing the submission and give opportunity for customer input, which will allow customer views to feed into the process at an early stage.

3.14.2. Both DCC and the SEC Panel would submit their assessment to Ofgem along with any relevant supporting evidence. This will include a suggested score that they believe DCC should be given based on its performance. We intend to publish the two submissions on our website as part of our consultation process, therefore any confidential information must be clearly indicated.

3.14.3. We would review the two submissions and make our initial assessment based on the evidence provided to us. At this stage we would return to DCC and SEC with any questions if necessary.

3.14.4. We would consult on our initial assessment and minded-to position to give all stakeholders the opportunity to share their views and give DCC and the SEC Panel the right of reply. DCC, its customers and the SEC Panel would be able to provide any additional evidence at this stage.

3.14.5. Taking into account any consultation responses and further evidence, we will make a decision on DCC's performance and assign a final score to DCC.

Scoring and Penalty Mechanism

3.15. DCC's performance regarding customer engagement would be assessed against the set of questions outlined in Table 3.1. We propose that an individual score should be given to each of the three aspects of engagement using the scoring framework described in Table 3.2, and an overall score should be calculated as an average using the relative weighting attributed to each aspect. This overall score will be converted into the amount of margin retained, as shown in Figure 3.1 – for example, an overall score of 3 would correspond to 75% attributable margin retained.

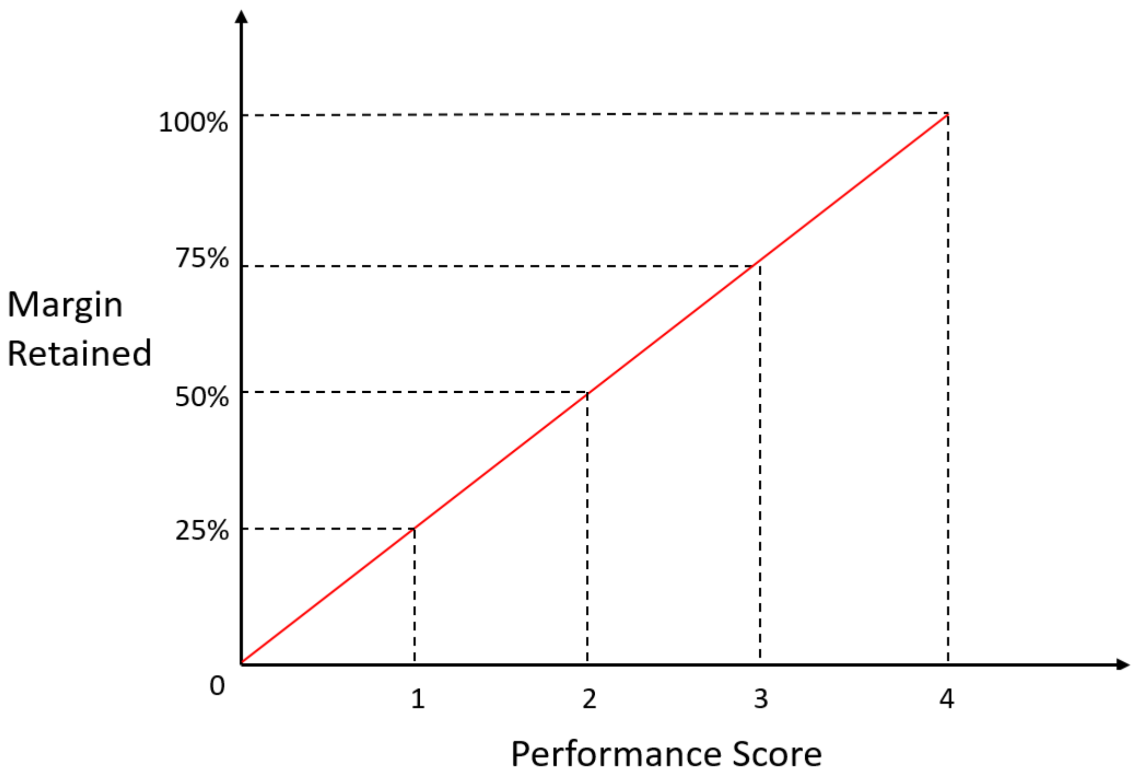
3.16. The proposed methodology for calculating the exact value of the margin retained has been set out in the direction published alongside this consultation,[6] and would be included in the final direction to DCC.

[6] OPR draft direction: https://www.ofgem.gov.uk/publications-and-updates/dcc-operational-performance-regime-review-may-2020-consultation

Table 3.2: Scoring framework

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

Figure 3.1: Scoring mechanism



4. Contract Management and Procurement

Section summary

We propose placing a relatively small proportion of DCC's margin at risk against the quality of its contract management activity to drive improvements. We propose that the assessment be carried out by an independent auditor with performance measured against a subset of qualitative metrics from the National Audit Office (NAO) framework.

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

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

Rationale for a Contract Management and Procurement Incentive

4.1. DCC was appointed using an outsourced service model, to manage contracted smart metering service providers. External Costs compose the largest proportion of DCC's costs – in RY18/19 they were 74% of DCC's total costs. As such, it is critical that these contracts are entered into, managed and closed out effectively and efficiently. Proactive, best in class contract management and procurement have the potential to deliver real benefits to DCC customers and the consumer, both through strong commercial acumen driving value for money and by facilitating fast and cost-effective change to central industry systems.

4.2. To date, not all of DCC's service providers have performed to the level expected by DCC (see DCC's Annual Service Reports). In addition, several of the original Service Provider contracts will require re-procurement and extension in the coming years. Alongside this, the number of DCC service providers has increased as SMETS1 meters have started to be enrolled into DCC. As such, DCC will need to retain and increase focus in this area in the coming years.

4.3. Since the SEC went live, over 100 Modification Proposals have been raised by SEC parties. While not all of these impact DCC's outsourced systems and processes, a significant number do. We anticipate that this rate of change will continue as the requirement to support the UK's "Net Zero" decarbonisation delivery agenda drives change throughout the energy market. DCC is in a position where relatively small efficiencies in assessing, refining and delivering change can have a disproportionally positive impact across industry.

4.4. Our annual price control of whether DCC has incurred spend efficiently and effectively provides DCC with an incentive to carefully account for internal and external contracted spend each year. However, transparency of external spend for DCC's customers is limited, due to the contractual confidentiality of the detail.

4.5. Small adjustments to the proactive management of procurements and contracts can have significant cost impacts on DCC customers and the consumer, given the value of existing and potential new contracts. As such, we consider that it would beneficial to further incentivise DCC in this area. One option would be to introduce incentives on contract management and procurement in the form of retained margin under the OPR. In this consultation, we explore what the potential assessment criteria, submission requirements and process for such an incentive could look like, further developing our proposals from the Working Paper.

Initial stakeholder feedback

4.6. In our early engagement with stakeholders, we received mixed views on our proposals for a financial incentive in this area. Stakeholders largely agreed that they would like to see improved performance from the DCC in contract management and procurement, but views varied as to whether the OPR could provide an effective incentive, given the volume and value of DCC's external contracts. We are therefore particularly interested in hearing stakeholder views on whether this area should be financially incentivised under the OPR as well as potential alternative approaches.

Assessment Criteria

4.7. DCC's contractual landscape is constantly evolving; however, at the highest level, there are a number of core work areas that will always require focus by DCC. We consider these to be:

- Management of existing DCC External Service Provider Contracts and other service provider contracts;
- Delivery of DCC-initiated change (including procurement or contract change) of new or varied Relevant Service Capabilities (ie those related to their Mandatory Business);
- Delivery of SEC Mod initiated change (including procurement or contract change) of new or varied Relevant Service Capability (ie those related to their Mandatory Business); and
- DCC preparation for re-procurement of Relevant Service Capability at contract end/break point.

4.8. Skilled contract management is a requirement for many businesses, other central delivery bodies within the energy sector and also for Government. As such a number of assessment frameworks already exist to assess these capabilities and the level of proficiency within an organisation.

4.9. In this context, if we were to put DCC margin at risk based on their performance in contract management, procurement and change management, we could choose to create a novel framework or use an existing one. Our preference is to use a tried and tested framework, and where necessary adapt it.

4.10. We regard DCC's position in relation to contract management analogous 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 best in class contract management are consistent. For example, given that the DCC receives guaranteed revenues, every such organisation requires an effective commercial strategy, the capability to deliver it and active contract management. As such, any adaption is unlikely to be significant.

Submission requirements

4.11. Having reviewed a number of potential assessment frameworks, we consider that the National Audit Office framework would have the best fit.

4.12. The National Audit Office has published its insights and views on emerging best practice for commercial and contract management[7] and also a guide to good practice in commercial and contract management for Government.

4.13. Alongside this best practice, the NAO has created a framework to allow an assessment of an organisation's relationships, capability and performance in relation to contract management (and within this change management and procurement).

4.14. This NAO Contractual Relationships Audit Framework is included in full in Appendix 2. This includes the information that an auditor would need to collect, judgement questions, evidence to be gathered, indicators of good practice and three-level scoring mechanism/attainment levels. The guidance and assessment framework is also available online here.

[7] NAO publication - Commercial and contract management: insights and emerging best practice: https://www.nao.org.uk/wp-content/uploads/2016/12/Commercial-and-contract-management-insights-and-emerging-best-practice.pdf

4.15. If we were to adopt this framework to support the OPR, we would need to determine:

- Whether there are any gaps in this framework, when it is applied specifically to DCC and how any gaps could be resolved;
- The level of detail that the evaluation would go into and the approach to the evaluation;
- The relative weightings of the assessment questions and areas of work; and
- How the three level assessment could be converted in to a five level scale to provide sufficiently granular increments to incentivise improvements in performance.

4.16. We cover the first two of these points in this section, below, and the latter two in the scoring mechanism section later in this Chapter.

Potential Gaps in the Framework

4.17. Table 4.1 below provides a mapping between the NAO Framework and the areas of DCC work that we consider should be assessed. The mapping confirms that all seven domains (e.g. commercial strategy) in the NAO framework are relevant and applicable to DCC. At the more detailed level, there are just a few specific gaps that relate to DCC’s role within the energy industry – in particular, the requirement for active engagement in the SEC Modifications process, customer engagement. This would be incorporated as part of the customer engagement incentive, as set out above in the customer engagement section.

Table 4.1: Mapping the NAO Framework to DCC assessment areas

	DCC Areas of work for assessment	Relevant NAO Assessment Framework (AF) Domains and Supporting Questions	Potential Gaps
1	Management of existing DCC External Service Provider Contracts and other service provider contracts	NAO AF Domain 2[8] (Capability & Governance): Does DCC have the capability needed to manage the contract and is it developing capability for the future? NAO AF Domain 4[5] (Contract Approach): Does the balance of risk and reward encourage service improvement, minimise perverse incentives and promote good relationships? NAO AF Domain 5[9] (Contract Management): Is the service being managed well with costs and benefits being realised as expected? NAO AF Domain 6[10] (Contract Lifecycle): Will the service continue to demonstrate VfM through its lifecycle?	None
2	Delivery of DCC-initiated change (including procurement or contract change) of new or varied Relevant Service Capabilities (ie those related to their Mandatory Business)	NAO AF Domain 1[5] (Contract Approach): Does the balance of risk and reward encourage service improvement, minimise perverse incentives and promote good relationships? NAO AF Domain 3[5] (Market Management & Sourcing): Has market management driven long-term value for money?	None
3	Delivery of SEC Mod initiated change (including procurement or contract change) of new or varied Relevant Service Capabilities (ie those related to their Mandatory Business)	NAO AF Domain 5.2 (Contract Management): Is the service being managed well with costs and benefits being realised as expected? NAO AF Supporting Question 6.3: Is change controlled and well managed and does the contract remain current?	Delivery of timely and accurate impact assessments and implementation of SEC Modification driven change
4	DCC preparation for re-procurement of Relevant Service Capabilities at contract end	NAO AF Domain 7[5] (Contract Lifecycle): Will the service continue to demonstrate VfM through its lifecycle?	None

[8] Including all of the associated justification questions
[9] Except justification question 5.2
[10] Except justification question 6.3

4.18. We noted earlier in this section that SEC Modifications are of particular interest, given that we can expect the current level of change to continue. We have outlined a number of questions that should be amended/added to the NAO Framework for the purposes of DCC assessment in Appendix 2.

4.19. We also note that the other type of change that is specific to DCC in this context is BEIS initiated change. In the past these changes have made up a considerable portion of DCC's change related activities – for example, the Release 2/Dual Band Communications Hub and SMETS1 Enrolment programmes. We have chosen not to extend the questions above to cover these because there are no new transitional governance-directed DCC projects currently anticipated to commence beyond April 2021 – the earliest that this framework could be introduced. Furthermore, if such projects were to arise BEIS could set up specific transitional governance incentive schemes for these as it has done in the past and contract management and procurement incentives could be considered under those schemes.

Assessment Process

Annual cycle

4.20. In our working paper, we considered the use of three assessment processes – an internal assessment, panel assessment, or auditor assessment – to assess DCC's contract management processes.

4.21. Our view remains that the use of an auditor would be the most suitable approach. An auditor would be able to provide the required expertise, time, and resources in order to thoroughly assess DCC's contract management processes and would likely be more efficient than a panel assessment process. An auditor would be able to thoroughly scrutinise DCC's processes whilst fully respecting any required commercial confidentiality arrangements. An auditor may also have the advantage of being able to provide dedicated feedback to DCC, for continuous improvement.

4.22. Alongside the other parts of the OPR, we anticipate that a contract management assessment would run on an annual review cycle. Broadly, we would anticipate the following approach:

- ***Auditor appointment:*** An independent auditor is appointed. The detailed audit scope/terms of reference would be set by Ofgem (to ensure that we have sufficient information to make our determination) with input from DCC and SEC Panel, driven by the NAO Framework. SECAS would then run a competitive tender process on behalf of Ofgem, with Ofgem's approval over the final selection of the auditor and SECAS contracting with them on the basis agreed by Ofgem.

- ***Evaluation:*** The independent auditor would then evaluate DCC using the NAO framework and the agreed terms of reference. We anticipate that the auditor would work closely with DCC during this assessment to enable access to the required evidence as well as speaking to a number of DCC user representatives, and the SEC Panel.

- ***Reporting:*** The independent auditor would draft and finalise their report and provide it to Ofgem. This report would include the auditor's opinion on the level of attainment that DCC has reached in each domain. Once Ofgem have confirmed that the report meets the requirements set out in the scope/terms of reference, they would confirm to SECAS that the work is complete. We envisage that a non-confidential version of this report would then be made available to SEC Parties.

- ***Consultation and determination:*** Following the delivery of the report, Ofgem would consider the findings of the report and take these into account in developing a draft determination on the DCC's margin. As for the existing OPR, Ofgem would then consult openly with stakeholders to provide an opportunity to respond and comment (in particular providing an opportunity for DCC users, the SEC Panel and DCC respond to the report findings).

4.23. We consider that this approach would provide a suitable balance in gathering enough data to accurately assess DCC's performance, whilst not becoming overly burdensome on DCC or other parties. We consider SECAS well placed to complete the contracting process on our behalf.

Level of detail in the evaluation

4.24. It would be important to ensure that the terms of reference for the independent auditor are set at an appropriate level, to deliver a robust assessment, and minimise the burden placed on DCC (and to a lesser extent SECAS, the SEC Panel and DCC users).

4.25. Whilst the NAO framework sets out a number of judgement questions and evidence sources, these are not exhaustive. We would seek to retain this flexibility in the level of detail of the evidence gathering/assessment each year, to permit sensible variation, as we, and DCC become more familiar with the audit process, and to reflect changing environment.

Scoring and Penalty Mechanism

4.26. If stakeholders show support for the use of the NAO framework, we will further determine the scoring mechanism as part of the "OPR guidance" (see section 6). This guidance will be published as part of the implementation of the revised OPR.

4.27. The below section sets out our initial proposals to overcome some of the challenges around the scoring mechanism to implement an effective contract management and procurement incentive based on the NAO Framework. Any stakeholder feedback as part of this consultation on scoring/weightings would be taken into account when developing the guidance.

Attainment levels and scoring

4.28. The NAO Framework describes three attainment levels for categorising performance. This sits at the level of the supporting questions. We propose to convert the three attainment levels to five levels to better incentivise DCC to make incremental improvements to performance.

4.29. We consider the simplest way to do this would be to expand the attainment levels by permitting the independent auditor to use their professional judgement and award a score halfway between the lowest and middle attainment level and also the middle at top attainment levels, should they consider it appropriate. We anticipate that these in-between scores would be used where DCC does not meet the higher-level statement, and yet is going significantly beyond what is set out in the lower level statement.

Weightings of each of the assessment questions/scores

4.30. If we were to adopt this framework to support the OPR assessment, we would also need to consider how to determine the relative weightings of each of the individual attainment levels to calculate the total margin that DCC would retain in any given year.

4.31. The NAO framework attainment levels are defined at a supporting question level. There are 7 domains, and 3 supporting questions (with each given an attainment score on a scale of 1 to 5) per domain, this means that there will be 21 scores in total.

4.32. Having reviewed the detail of the supporting questions within each domain, we consider it reasonable to weight each supporting question score with an equal level of importance. As such, the scores for each of the supporting questions can be mathematically translated into an average score for that domain. This would produce 7 individual scores, one for each high-level domain (as shown in column Appendix 2).

4.33. We would then still need to convert these 7 scores into a single number to define the proportion of margin that DCC retains in any given year. Our view is that some of the 7 domains will be more important than others (in that they may have a bigger impact if done well/poorly), and in addition, the importance of each domain may vary by year.

4.34. We consider that it would therefore be more appropriate to determine the correct weighting for each of the 7 domains on an annual basis, as part of the "OPR guidance" provided by Ofgem each year. Areas of particular concern to Ofgem, the SEC Panel and/or DCC users in any given year could also be reflected.

4.35. In the first year of operation, we consider it may be appropriate to weight all 7 domains equally in the audit scope and scoring, to create a baseline, and in light of the fact that DCC is planning significant amounts of (re)procurement activity during the financial year 2021-22.

5. Weighting across performance categories

Section summary

This section sets out our proposed weighting for system performance, customer engagement and contract management and procurement.

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

5.1. The relative weighting of the three performance categories will determine the amount of margin at risk against each category. To be an effective incentive, each area will need sufficient margin at risk to impact DCC's performance; the higher the weighting, the stronger the incentive.

5.2. We consider system performance should have the largest weighting as it is fundamental to assessing the outcomes of DCC's performance and has a direct impact on the experience of end consumers. This view has been largely supported by our engagement to date.

5.3. Alongside this, customer engagement and contract management and procurement would require sufficient weighting as to provide effective incentives. We consider both these areas to be of equal importance.

5.4. Therefore, we propose a 70% weighting on system performance, with an equal 15% weighting for both customer engagement and contract management and procurement.

Figure 5.1 – Proposed weighting across performance categories

5.5. To give an indication of the value of these incentives, the total Baseline Margin (OPR) at risk for RY18/19 was £6.336m. If we split this margin in line with our proposed weighting as in figure 5.1, the margin at risk for the system performance category would be £4.435m and £0.950m for both the customer engagement and contract management and procurement performance categories. When the OPR comes into effect in RY21/22, we expect the margin at risk to be greater than the RY18/19 margin.

6. Licence Change to Enable Implementation

Section summary

This section sets out a proposed licence modification in order to implement an amended OPR and publish additional guidance. It also invites views on the draft direction published alongside this consultation.

Question 9: Do you agree that the proposed licence modifications achieve the policy intent?
Question 10: Do you have any views on the draft direction published alongside this consultation?

6.1. Schedule 4 of the Smart Meter Communication licence establishes the OPR, under which the operational performance of the Licensee will be monitored.

6.2. LC 38.9 sets out the following:

The provisions of Schedule 4 will be developed and populated (subject to paragraph 38.10) by the Authority in a direction to be given to the Licensee for the purposes of paragraph 38.8 no earlier than 31 March 2016, but no later than 31 August 2020, following consultation with the Licensee, the SEC Panel, and SEC Parties.

6.3. The policy intent was to ensure that the OPR was implemented by 31 August 2020. It aims to achieve the outcome of effectively incentivising DCC's performance. However, the licence only provides for establishing the OPR, it does not provide for its amendment.

6.4. As the OPR was established before we had at scale experience of the DCC operationally, it is important to ensure it continues to be fit for purpose over the licence period. We propose modifying the licence in to add a further condition, specifying the terms that the OPR can be amended, which is consistent with the original policy intent.

6.5. We propose adding the following wording to a sub-condition of 38.9:

Following the initial population of the provisions of Schedule 4, these provisions may be amended subject to paragraph 38.10 in any given regulatory year by the Authority in a direction to be given to the Licensee for the purposes of paragraph 38.8, following consultation with the Licensee, the SEC Panel, and SEC Parties.

6.6. Finally, we have published a draft direction[11] amended to incorporate system performance, customer engagement and contract management and procurement as per our proposals in this consultation document.

6.7. As stipulated in the accompanying draft direction, the implementation of the customer engagement and contract management and procurement incentives will require additional guidance. This additional guidance will, among other objectives, set out the form of submission and detail the scoring framework for each incentive.

6.8. Such additional guidance for the OPR is not currently provided for in the licence, but will be fundamental to ensure effective implementation for these aspects of the OPR. We therefore propose adding the following further sub-condition to 38.9:

The Authority may issue (and may from time to time revise after consulting with the Licensee), guidance ("OPR Guidance") regarding the process, procedures and criteria used to determine the value of the terms applied in the BMOPA calculation. The new, or revised, OPR Guidance must be published before the beginning of the Regulatory Year in which it is to take effect.

[11] The draft direction is published here: https://www.ofgem.gov.uk/publications-and-updates/dcc-operational-performance-regime-review-may-2020-consultation

Appendices

Index

Appendix 1 – Responding to this consultation

A1.1. We'd like to hear your views on any of the areas discussed in this document. We would especially welcome responses to the questions at the beginning of each section. These are replicated below.

A1.2. Please make sure we have your response by 12 June 2020. Send them to:

Andrew Roberts
Metering and Market Operations
Ofgem
10 South Colonnade Canary Wharf
London
E14 4PU
020 7901 3889
smartmetering@ofgem.gov.uk

A1.3. Unless you mark your response as confidential, we'll publish it in our library and on our website (www.ofgem.gov.uk). If you ask us to keep your response confidential we'll respect this request unless a legal duty means we can't, for example under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

A1.4. If you'd like your response to be confidential, mark it clearly to that effect and include your reasons. Please restrict any confidential material to an appendix. Once we've considered the responses to this consultation, we plan to publish our final decision in November 2020.

Questions

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

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

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

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

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

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

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

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

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

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

Appendix 2 – NAO Contractual Relationships Audit Framework

The full NAO contractual relationships audit framework is available here. Below is a summary:

Domain	Key Question	Supporting Questions
1. Commercial strategy	Is there an overarching commercial strategy, with a clear rationale for the approach being taken?	1.1. Is there a clear and consistently held view of what the contract is producing, the type of commercial relationship desired, the basic contract structure and how it will be managed?
		1.2 Has there been an assessment of strategic drivers, including policy drivers, and the internal and external environment?
		1.3 Has the commercial strategy been based upon the assessment of strategic drivers and the internal and external environment?
2. Capability & governance	Does the client have the capability needed to manage the contract and is it developing capability for the future?	2.1 Does the client have the necessary capability, skills and systems?
		2.2 Does the client understand its future needs and is it working towards meeting them?
		2.3 Has the client deployed its capability in a balanced way across the lifecycle and is commercial capability effectively integrated with the business?
3. Market management & sourcing	Has sourcing supported the commercial strategy and followed recognised good practice to optimise VFM?	3.1 Has market management driven long term value for money?
		3.2 Was there a defensible process that resulted in the selection of a capable supplier?
		3.3 Was there optimum use of competitive pressure?
4. Contract Approach	Does the balance of risk and reward encourage service improvement, minimise perverse incentives and promote good relationships?	4.1. Is there an appropriate allocation of risk between client and supplier?
		4.2. Are there incentives to encourage the supplier to act in the interest of the client?
		4.3. Are suitable mechanisms established to drive the desired relationship?
5. Contract management	Is the service being managed well, with costs and benefits being realised as expected?	5.1 Do the client and the supplier have comprehensive knowledge of service performance?
		5.2. Is the supplier delivering in accordance with the contract and are they actively managed by the client to meet or exceed requirements?
		5.3 Is the client meeting its obligations?

Domain	Key Question	Supporting Questions
6. Contract lifecycle	Will the service continue to demonstrate VfM through its lifecycle?	6.1. Does the contract continue to support the client's strategic intent?
		6.2. Are VFM mechanisms used to ensure the contract continues to deliver VFM over its life?
		6.3. Is change controlled and well managed and does the contract remain current?
7. Transition & termination	Is the client ready for the end of the contract?	7.1 Has market management been undertaken to support new contracts?
		7.2 Has the end of the contract been managed effectively to allow re-bid or handover?
		7.3 Are insights from the operation of the contract brought to bear in developing the new contract?

In section 4, we noted that SEC Modifications are of particular interest, given that we can expect the current level of change to continue. We have outlined a number of questions below that should be amended/added for the purposes of DCC assessment.

- NAO AF Supporting Question 5.2 is reworded to say: Are the suppliers delivering in accordance with the contracts and are they actively managed by DCC to meet or exceed requirements (including delivering accurate, timely Impact Assessments)?
    - Sub question 5.2.3 (which is not used in the NAO framework), is updated to read: Are DCC suppliers' SEC Modification Impact Assessments delivered in line with SEC deadlines, provide a meaning breakdown of costs and accurately address the business requirements provided, adequately translating these into technical requirements for each service provider contract to meet desired outcomes and including innovative solutions to reduce cost, where appropriate?
    - Evidence would be expected to include a sample of Impact Assessment responses and the KPIs assessed would be expected to include the timeliness and completeness of impact assessments

- NAO AF Supporting Question 6.3 remains as it is at the highest level: Is change controlled and well managed and does the contract remain current?
    - Sub question 6.3.6 (which is not used in the NAO framework), is updated to read: Does DCC's contract management of service providers facilitate delivery of SEC Modification-driven change to meet the requirements and timelines agreed with customers as part of the SEC Modification process?
    - Evidence would then include documentation related to the implementation of SEC Modification driven change

Appendix 3 – Glossary

A

Authority

The Gas and Electricity Markets Authority.

B

Baseline Margin

An amount of additional revenue in each regulatory year, 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

Communications hub

A Device which complies with the requirements of Communications Hubs Technical Specifications (CHTS) and which contains two, logically separate Devices; the Communications Hub Function and the Gas Proxy Function.

Communications Service Provider (CSP)

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

D

Data Communications Company (DCC)

The company that manages the data and communications to and from domestic consumers' smart meters.

Data Services Provider (DSP)

Body awarded the contract to deliver systems integration, application management and IT hosting services to 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, industrial strategy, science, innovation, energy, and climate change.

N

National Audit Office (NAO)

The National Audit Office is an independent Parliamentary body in the United Kingdom which is responsible for auditing central government departments, government agencies and non-departmental public bodies.

O

Ofgem

Office of Gas and Electricity Markets.

Operational Performance Regime (OPR)

The Operational Performance Regime (OPR) is the incentive regime which incentivises DCC to perform against a set of performance measures, placing the majority of DCC's margin at risk. This is provided for under Schedule 4 of the Smart Meter Communication Licence.

S

Smart Energy Code (SEC)

The SEC is an industry code which is a multiparty agreement that defines the rights and obligations between the Data Communications Company (DCC), Suppliers, Network Operators and other users of DCC's services. All parties must comply with the Code.

Smart Meter Communication Licence

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.

Smart Metering Key Infrastructure (SMKI)

Smart Metering Key Infrastructure (SMKI) means the public key infrastructure established by DCC for the purpose, among other things, of providing secure communications between Devices and Users.

SEC Operations Sub-Group (SEC Ops Group)

The SEC Operations Sub-Group is sub-group of the SEC responsible for the operational matters that relate to the services provided under the Smart Energy Code, including DCC Services, and to enable close co-operation between the DCC and DCC users for monitoring DCC's performance.

Service Request Variant (SRV)

Service Request Variants (SRVs) are the messages that are sent between Smart DCC Customers and the Smart Metering System in the home/business.

SEC Release

SEC Release is a package of one or more approved Modification Proposals which is implemented in accordance with the SEC Release Management Policy.

U

User

User is a Party that has completed the User Entry Process (and, in respect of Services available in accordance with this Code to Users acting only in one or more User Roles, a Party that has completed the User Entry Process for that User Role).

Appendix 4 – Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

3. With whom we will be sharing your personal data

Unless you indicate otherwise, we will make your response, as provided, available online

4. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for as long as an audit trail on decision-making relating to the questions discussed in this document should reasonably be available.

5. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete

- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

6. Your personal data will not be sent overseas (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use "the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this".

7. Your personal data will not be used for any automated decision making.

8. Your personal data will be stored in a secure government IT system. (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

9. More information For more information on how Ofgem processes your data, click on the link to our "Ofgem privacy promise".