To: Smart DCC Ltd

DIRECTION ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY PURSUANT TO LICENCE CONDITION 38.9 OF THE SMART METER COMMUNICATION LICENCE GRANTED PURSUANT TO SECTION 7AB(2) AND (4) OF THE GAS ACT 1986 AND SECTION 6(1A) AND (1C) OF THE ELECTRICITY ACT 1989 (the "Direction")

WHEREAS

1. The company to whom this Direction is addressed (the "Licensee") holds a Smart Meter Communication Licence pursuant to section 7AB(2) and (4) of the Gas Act 1986 and section 6(1A) and (1C) of the Electricity Act 1989 (the "Licence").

2. The Gas and Electricity Markets Authority (the "Authority") has the power pursuant to condition 38.9 of the Licence to develop and amend the provisions of Schedule 4 of the Licence by giving a direction.

3. The Authority has complied with the requirements of Part C of condition 38 by consulting with the Licensee, the SEC Panel and SEC Parties.

NOW THEREFORE

4. The Authority hereby directs that Schedule 4 be developed and amended as set out in the Appendix to this Direction.

5. This Direction shall take effect on 1 April 2021.

6. The following documents constitute notice pursuant to section 49A of the Electricity Act 1989 and section 38A of the Gas Act 1986:

   a) This Direction
   b) November 2020 Decision on DCC's Operational Performance Regime
   c) May 2020 Consultation on the Implementation of the Operational Performance Regime

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

Dated: [TO BE DETERMINED]

Rachel Clark
Director, Retail Systems Transformation
Authorised for that purpose by the Authority

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APPENDIX – MODIFICATIONS TO SCHEDULE 4 OF THE LICENCE

Form of the OPR

1. The formula for the OPR given in the Licence,

   $BMOPA_t = [SUM\ 1\text{-}4] + [SDM\ 1\text{-}4] + [DIM\ 1\text{-}4] + [VMM\ 1\text{-}4]^1$

   will take the form

   $BMOPA_t = SDM1_t + SDM2_t + SDM3_t + SDM4_t + VMM1_t + VMM2_t$

   The performance measures to be included under the OPR are as follows:

   SDM 1 = Install and Commission

   SDM 2 = Prepayment

   SDM 3 = Firmware Management

   SDM 4 = Service Availability

   VMM 1 = Customer Engagement Incentive

   VMM 2 = Contract Management Incentive

2. The following describes how we will determine the value of each of these performance measures to be made with respect to the DCC's performance. In accordance with Licence Condition 38.9 the Authority may publish guidance (the "OPR Guidance") subsequent to this direction to provide further details on the OPR as outlined in this direction.

Definitions

3. The variables used throughout this direction are defined below:

   ACW_{cmt} = The weighting given to assessment criteria c for performance measure m for Regulatory Year t

   BM_t = has the meaning given to that term in Part C of Condition 36 (Determination of the Licensee's Allowed Revenue)

   $BM(OPR)_t$ = the amount of Baseline Margin at risk for Regulatory Year t of the OPR (as outlined in the OPR Guidance)

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

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G_{gt} = The weighting given to meter generation g for Regulatory Year t (as outlined in the OPR Guidance)

M_{rgt} = The margin deducted for measure m in region r for meter generation g, and for Regulatory Year t

MPL_{rgmt} = Minimum Performance Level for region r for meter generation g for measure m for Regulatory Year t

$MPLI_{rgmt}$ = Minimum Performance Level Incentive. The margin retained for measure m by reaching the minimum performance level for region r for meter generation g for Regulatory Year t

PMW_{mt} = Performance Measure Weighting for measure m for Regulatory Year t (proportion of BM(OPR) allocated to measure m, as outlined in the OPR Guidance)

RPL_{rgmt} = Reported Performance Level for region r for meter generation g for measure m for Regulatory Year t

TPL_{rgmt} = Target Performance Level for region r for meter generation g for measure m for Regulatory Year t

$TPLI_{rgmt}$ = Target Performance Level Incentive. The margin retained for measure m by reaching the target performance level for region r for meter generation g for Regulatory Year t

TZ_{mt} = The target score for performance measure m for Regulatory Year t (as defined in the OPR Guidance)

X_{rgmt} = The Performance Level at which retained margin reaches its minimum value for region r for meter generation g for measure m for Regulatory Year t (as outlined in the OPR Guidance)

XI_{rgmt} = The margin retained for region r for meter generation g for measure m for Regulatory Year t for performance at or below performance level X

Y_{rgmt} = The proportion of the TPLI retained at MPL for region r for meter generation g for measure m for Regulatory Year t (as outlined in the OPR Guidance)

Z_{cmt} = The score attained for assessment criteria c for performance measure m for Regulatory Year t (as outlined in the OPR Guidance)

Where r is a region (ie r ∈ {N,C,S}), g is a meter generation (ie g ∈ {S1,S2}), m is a performance measure (ie m ∈ {SDM 1-4, VMM 1-2}), c is the assessment criteria (as defined in the OPR Guidance), z is the score attained (ie z ∈ {0-TZ}) and t is the Regulatory Year.

General formulae

4. In general the following formulae apply for measures SDM 1-4:

    I. $TPLI_{mt} = PMW_{mt} \times BM(OPR)_t$

    II. $TPLI_{gmt} = G_t \times TPLI_{mt}$

If g = S2,

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

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

    V.   For the determination of M_{rgt}:

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

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

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

       c. If $X_{rgmt} \leq RPL_{rgmt} < MPL_{rgmt}$ then:

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

       d. If $RPL_{rgmt} < X_{rgmt}$ then $M_{rgt} = -\,TPLI_{rgmt} + XI_{rgmt}$

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

If g = S1,

    VII.   For the determination of M_{gt}:

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

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

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

    VIII.   If $RPL_{gmt} < MPL_{gmt}$ then $M_{gt} = -\,TPLI_{gmt}$

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

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

    X. $TPLI_{mt} = PMW_{mt} \times BM(OPR)_t$

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

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

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Performance Measures

The boxes below provide the definitions of each performance measure (m) to which the approach outlined above is applied.

SDM1 – Install and Commission: DCC is incentivised to ensure that all DCC services required in the install and commission of a smart meter are provided at a sufficient quality.

Algebraic term: $M_t = SDM1_t$

OPR performance measure methodology: The SEC CPM (Code Performance Measure) [TBD] averaged across months for the Regulatory Year, as specified in the Regulatory Instructions and Guidance.

Value of term: The value of $SDM1_t$ is calculated in accordance with the general formulae outlined in paragraph 4, using the following values for the variables:

TPL_{SDM1t} = Target Performance Level for $SUM1_t$ equivalent to the target service levels for SEC CPM (Code Performance Measure) [TBD] at the beginning of t, combined as reflected in the OPR performance measure methodology set out in the RIGs.

MPL_{SDM1t} = Minimum Performance Level for $SUM1_t$ equivalent to the minimum service levels for SEC CPM (Code Performance Measure) [TBD] at the beginning of t, combined as reflected in the OPR performance measure methodology set out in the RIGs.

RPL_{SDM1t} = Reported Performance Level for $SUM1_t$ – is equal to the actual performance level for $SDM1_t$ as reported to Ofgem by 31 July following the end of Regulatory Year t

This performance measure is only applicable to SMETS2 meters ie for the calculation of $SDM1_t$, $g \in \{S2\}$.

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SDM2 – Prepayment: DCC is incentivised to ensure that prepayment top ups are successfully made to devices.

Algebraic term: $M_t = SDM2_t$

OPR performance measure methodology: The SEC CPM (Code Performance Measure) [TBD] averaged across months for the Regulatory Year, as specified in the Regulatory Instructions and Guidance.

Value of term: The value of $SDM2_t$ is calculated in accordance with the general formulae outlined in paragraph 4, using the following values for the variables:

TPL_{SDM2t} = Target Performance Level for $SDM2_t$ equivalent to the target service levels for SEC CPM (Code Performance Measure) [TBD] at the beginning of t, combined as reflected in the OPR performance measure methodology set out in the RIGs.

MPL_{SDM2t} = Minimum Performance Level for $SDM2_t$ equivalent to the target service levels for SEC CPM (Code Performance Measure) [TBD] at the beginning of t, combined as reflected in the OPR performance measure methodology set out in the RIGs.

RPL_{SDM2t} = Reported Performance Level for $SDM2_t$ – is equal to the actual performance level for $SDM2_t$ as reported to Ofgem by 31 July following the end of Regulatory Year t.

SDM3 – Firmware Management: DCC is incentivised to ensure that firmware payload images are successfully delivered to communication hubs.

Algebraic term: $M_t = SDM3_t$

OPR performance measure methodology: The SEC CPM (Code Performance Measure) [TBD] averaged across months for the Regulatory Year, as specified in the Regulatory Instructions and Guidance.

Value of term: The value of $SDM3_t$ is calculated in accordance with the general formulae outlined in paragraph 4, using the following values for the variables:

TPL_{SDM3t} = Target Performance Level for $SDM3_t$ equivalent to the target service levels for SEC CPM (Code Performance Measure) [TBD] at the beginning of t, combined as reflected in the OPR performance measure methodology set out in the RIGs.

MPL_{SDM3t} = Minimum Performance Level for $SDM3_t$ equivalent to the target service levels for SEC CPM (Code Performance Measure) [TBD] at the beginning of t, combined as reflected in the OPR performance measure methodology set out in the RIGs.

RPL_{SDM3t} = Reported Performance Level for $SDM3_t$ – is equal to the actual performance level for $SDM2_t$ as reported to Ofgem by 31 July following the end of Regulatory Year t.

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SDM4 – Service Availability: DCC is incentivised to ensure full availability of the total service including the DCC User Interface, Registration Data Interface, SMKI Repository Interface, SMKI Service Interfaces, and Self-Service Interface.

Algebraic term: $M_t = SDM4_t$

OPR performance measure methodology: The SEC CPM (Code Performance Measure) [TBD] averaged across months for the Regulatory Year, as specified in the Regulatory Instructions and Guidance.

Value of term: The value of $SDM4_t$ is calculated in accordance with the general formulae outlined in paragraph 4, using the following values for the variables:

TPL_{SDM4t} = Target Performance Level for $SDM4_t$ equivalent to the target service levels for SEC CPM (Code Performance Measure) [TBD] at the beginning of t, combined as reflected in the OPR performance measure methodology set out in the RIGs.

MPL_{SDM4t} = Minimum Performance Level for $SDM4_t$ equivalent to the target service levels for SEC CPM (Code Performance Measure) [TBD] at the beginning of t, combined as reflected in the OPR performance measure methodology set out in the RIGs.

RPL_{SDM4t} = Reported Performance Level for $SDM4_t$ – is equal to the actual performance level for $SDM2_t$ as reported to Ofgem by 31 July following the end of Regulatory Year t.

VMM1 – Customer Engagement Incentive: DCC is incentivised to provide customer engagement of a sufficient standard.

Algebraic term: $M_t = VMM1_t$

OPR performance measure methodology: The assessment criteria and assessment process are outlined in the OPR Guidance.

Value of term: The value of $VMM1_t$ is calculated in accordance with the general formulae outlined in paragraph 5 and the OPR Guidance.

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VMM2 – Contract Management Incentive: DCC is incentivised to perform contract management at a sufficient standard.

Algebraic term: $M_t = VMM2_t$

OPR performance measure methodology: The assessment criteria and assessment process are outlined in the OPR Guidance.

Value of term: The value of $VMM2_t$ is calculated in accordance with the general formulae outlined in paragraph 5 and the OPR Guidance.

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