Andrew Roberts
Ofgem
Metering & Market Operations
10 South Colonnade
Canary Wharf
London
E14 4PU

Email to: smartmetering@ofgem.gov.uk

12 June 2020

DCC Operational Performance Regime Review

EDF is the UK's largest producer of low carbon electricity. We operate low carbon nuclear power stations and are building the first of a new generation of nuclear plants. We also have a large and growing portfolio of renewable generation, including onshore and offshore wind, as well as coal and gas stations and energy storage. We have around five million electricity and gas customer accounts, including residential and business users. EDF is committed to building a smarter energy future that will support delivery of net zero carbon emissions, including through digital innovations and new customer offerings that encourage the transition to low carbon electric transport and heating.

We agree that all three measures proposed in this consultation – system performance, contract management and procurement, and customer engagement - should be financially incentivised, and performance in each area linked to the level of margin that the DCC retains. The DCC's role is primarily that of a technology provider, and we agree that the most margin should therefore be at risk against the DCC's success or failure in meeting system performance targets. To reflect the detrimental user and end consumer impact of poor system performance, we propose that the margin at risk for system performance is increased to 80%. The remaining two measures should therefore be split equally at 10% each (contract management and customer engagement).

We agree that customer engagement and contract management and procurement should be included in the Operational Performance Regime (OPR). This is in part due to the poor performance that the DCC has demonstrated in these areas to date. We would expect both activities to also form part of the DCC's standard 'business as usual' and contractual standards outside of this regime. In its current form, the customer engagement incentive is not set against an objective framework meaning the DCC will not be measured fairly. Ofgem must seek an alternative and more robust mechanism to facilitate a more accurate assessment of success or failure in this area.

We welcome that the changes proposed to the OPR are moving to a more outcome based approach, as ultimately success or failure is most fairly measured based on whether customers and end users can use the system effectively. We oppose the measurement of performance using limited metrics such as Key Performance Indicators (KPIs) or Service Level Agreements (SLAs); as in reality these do not always lead to a positive outcome for consumers, even if performance is high

EDF Energy
90 Whitfield Street
London W1T 4EZ
Tel +44 (0) 00 0000 0000
Fax +44 (0) 00 0000 0000

edfenergy.com
EDF Energy Customers Limited
Registered in England and Wales
Registered No. 2228297
Registered office: 90 Whitfield Street
London W1T 4EZ

as the current performance regime demonstrates. As a result, while we agree that the four areas that are proposed for incentivising system performance should be included in the regime, we should also include the metrics of Change of Supplier (CoS) and billing. With the advent of faster switching, the DCC's success in effective CoS processes are fundamental to the success of this policy. We agree that the DCC's success in ensuring prepayment functions work correctly is fundamental as otherwise we risk large numbers of consumers being off supply. While this is the case, it should also be noted that the majority of consumers with smart metering operate their meter in credit mode and are reliant on accurate billing. The OPR should therefore also include the billing metric when measuring system performance. As well as enabling suppliers to bill consumers accurately, this will also indicate that the communication hub is working successfully; ensuring consumers can take advantage of all the benefits smart metering brings.

Over time the priorities of what should be measured in terms of the OPR will change, as what is important today will be less significant tomorrow. For example, install and commission will be of less significance as the roll out comes to an end. Any final scheme should be easy to flex and change. As well as having the opportunity to change the detail of measures in the OPR guidance, Ofgem should also ensure that the detail of measures are not hard coded into licence so they are easier to adapt and change.

We strongly support the negative margin and stepped incentive curve proposed for the system performance measure. The reason for this is twofold. Firstly, the interim margins will help to ensure the DCC strives for the best possible performance even at lower levels. It also ensures that poor performance is not rewarded. The DCC should not be rewarded financially for anything other than an average, or above average performance. We recommend that this approach is replicated in the customer engagement and contract procurement measures.

At the end of each regulatory year, we must ensure that there is a review of whether the new measures introduced have driven a significant improvement in DCC performance. There is the risk that with relatively low levels of margin at stake for each performance measure, the financial incentive may not be sufficient to drive improvements. If this turns out not to be the best way to drive better DCC performance, Ofgem should review performance and look for alternatives.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Paul Saker on 07875 110 937 or myself.

I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely,

John Mason
Senior Manager of Customers Policy and Regulation

Attachment

Q1. Do you agree that System Performance should be financially incentivised?

Yes, we agree that system performance should be financially incentivised. The DCC's core function is to deliver system performance and ensure the Smart Metering System can operate effectively to the benefit of consumers. Smart meters cannot be operated if the core system functions of the DCC are unreliable. We are particularly supportive that the new measures will take an outcome based approach which will help to ensure a more reliable experience for DCC users and end consumers, if the incentive mechanism is successful.

Q2. What are your views on our proposal for the System Performance Incentive?

Yes, we agree with the system performance incentive proposal. We strongly support the introduction of a regional stepped incentive curve to incentivise performance.

Equal weighting by region is important as it provides motivation to the DCC to strive to improve across all regional areas, rather than allowing a high performance in one region to mitigate poor performance in another regional area.

We are particularly supportive of the introduction of a negative margin, and stepped incentive targets, as a penalty mechanism to ensure that the DCC will be motivated to improve performance at all levels. The current incentive measures provide no motivation for the DCC to improve upon performance, if they know they are unlikely to meet the Minimum Performance Level (MPL), nor to strive to make improvements between the Minimum and Target Performance Level (TPL) if they know it is unlikely that they will meet the higher target. The new proposal of a negative margin, and stepped incentive targets between Minimum and Target performance will motivate each region to improve their performance as much as is possible, even if that is at a lower level than the MPL or TPL. This will enable at least some margin to be retained. It is also correct that no margin is retained unless at least the MPL is reached, as poor performance should not be rewarded.

Q3. Do you agree with the four areas we propose incentivising? Provide explanation.

No, we do not agree that only the four areas proposed should be incentivised.

We appreciate the change in direction that the new measures will have for consumer outcomes, as for each of the areas there is the possibility of significant consumer detriment if the DCC's performance is poor. However, we need to ensure that the focus on positive consumer outcomes covers all end users that could be impacted by poor performance. At the moment there are two critical areas not included that will significantly impact consumers if the DCC performs poorly. These are Change of Supplier (CoS), and billing. We strongly recommend both of these additional metrics are included in the system performance measures.

As the rollout continues it will become increasingly important that the DCC performs effectively in CoS, in particular with the advent of faster switching. If the DCC does not have an adequate level of performance in this area this has the potential for significant consumer detriment (for example loss of supply for consumers in prepayment mode).

We welcome the introduction of a metric to measure whether the DCC performs well in respect of prepayment meters. This is particularly important as customers could be off supply if the DCC fails and customers are unable to top their meters up. While this is key, it should also be recognised that it continues to be the case that the majority of customers with smart meters will operate their meter in credit mode. For these customers, the clearest indicator that the DCC is performing well in terms of consumer outcomes will be if meter reads are successfully delivered, as covered in the billing metric. As well as enabling suppliers to bill customers accurately, this will also indicate that the communication hub is working successfully, ensuring consumers can take advantage of all the benefits that smart metering brings.

The changes proposed to system performance measures are based on SEC Modification MP122. We are working with industry on this modification, and will continue to engage with this change to ensure that the final detailed performance metrics are appropriate and drive the right outcomes for consumers. If the CoS and billing metrics are not covered as part of the system performance incentive within the OPR, there must be an alternative mechanism agreed by industry that will measure and incentivise the DCC to perform well in these areas, and a clear process for recourse if they fail.

As a broader point, the scheme must also have the ability to flex and change performance measures over time. We welcome that the proposal enables changes to the incentive measures, with appropriate consultation. It is likely that key areas of performance today may not be a priority in the future. For example, install and commission will become less important as the roll out comes to an end. Additionally, if performance in some areas improves, the scheme should begin to focus on incentivising other high impact areas of low performance that have not previously been part of the OPR scheme. In order to make it easier to change the system performance measures in the future, we recommend that the Direction does not hard code the specific areas of system performance that will be measured, so that these are easier to adapt and change overtime.

Q4. Do you agree that customer engagement should be financially incentivised?

Yes, we agree that customer engagement should be financially incentivised. It is disappointing that this is necessary, as this should be a core function for the DCC. However, given their past poor performance in this area, we consider that it is necessary at this point. Careful consideration must be given to how this is measured fairly and accurately.

Q5. What are your views on our proposal for the Customer Engagement Incentive?

We do not agree with the proposal for this incentive in its current format. Whether customer engagement is a success is a subjective measure dependent on the views of the individual stakeholders involved. It is difficult to establish how we can fairly distinguish between the views of two stakeholder entities, the DCC and SEC Panel. In particular, if the two sets of views are opposed, then how could a fair assessment of performance be determined. We do recognise that this incentive must be qualitative by nature and therefore Ofgem should seek a more robust mechanism to assess the DCC's customer engagement that is not open to such levels of subjectivity.

We do not agree with the scoring mechanism used to reward performance in this area. Unlike system performance, the proposal for this measure is a straight line incentive curve. Currently, it allows the DCC to retain some margin (25%) even on poor performance. We recommend that this approach is abandoned and a similar mechanism introduced as is proposed for system performance. Specifically, to ensure that the DCC is motivated to improve at all levels of performance, as well as a minimum and target performance, there should also be interim margins of success. Poor performance must not be rewarded. There should therefore be no margin retention unless the DCC reaches a performance level of at least 2, which should then achieve 25% margin retention. There should then be a steeper curve from 25% retention at 2 (fair) to 100% at 4 (excellent), with interim margins of success.

Q6. Do you agree that contract management and procurement should be financially incentivised?

Yes, we agree that contract management and procurement should be financially incentivised as this is currently an area of poor performance. As this area has a direct impact on the service we receive both through DCC operations and the change process, this must be an area of success for the DCC if they are to operate effectively for their customers.

Q7. What are your views on our proposal for the Contract Management and procurement Incentive?

We are supportive of the proposal for contract management and procurement. The National Audit Office (NAO) provides a comprehensive framework that should enable a robust and fair assessment of the effectiveness of the DCC's contractual relationships and procurement process. The proposed consultation on the findings from the initial audit will also enable DCC stakeholders, including energy suppliers, to provide valuable feedback on whether the audit conclusions reflect their experience of how the DCC operates its relationships. We recommend that, as with other measures, there is flexibility to adapt the NAO framework over time, if the proposed mechanism does not lead to a marked improvement in the DCC's performance in this area.

We must ensure that DCC contracts deliver good consumer outcomes, and that the DCC is not unintentionally motivated to benefit from the poor performance of its service providers.

While the framework provides a desired outcome in terms of management tools at a high level, its success will depend on the detailed performance measures. Before any changes are implemented, DCC's customers should have the opportunity to review a more detailed proposal of the specific measures, to ensure that they cover the right areas. We would expect, for example, that the DCC can demonstrate that they have a robust process for issue resolution with service providers.

The consultation does not go into detail regarding how the scoring mechanism would work in terms of margin retained, for each of the five levels of scale proposed. We welcome the opportunity to review a more detailed proposal when the draft OPR guidance is published. We recommend that any assessment for margin retained follows a similar stepped curve as set out in the incentive for system performance. This should include a minimum level of performance, to ensure that poor performance does not receive any financial reward. We agree with a five level assessment as this will enable there to be a number of interim performance levels, helping to ensure the DCC strives to improve at all performance levels. We must however ensure that the lower levels of the scale, which represent below average levels of performance, are not rewarded with any retention of margin.

Q8. Do you agree with our proposed weighting between the three incentives?

No, we do not agree with the proposed weighting between the three incentives.

The core role of the DCC is to provide excellent/robust system performance, and there is likely to be the most detrimental user and end customer impact if there is failure in this area. Unlike customer engagement and contract management and procurement incentives, system performance can also be measured both reliably and objectively so there is little room for a dispute on the outcome of the performance level obtained by either the DCC or its customers. As a result, we recommend that system performance should form at least 80% of any incentive scheme given the criticality to delivering good customer outcomes.

We agree that the weighting for customer engagement and contract procurement should be split equally with a weighting of 10% each.

Q9. Do you agree that the proposed licence modifications achieve the policy intent?

Yes, we agree that the proposed licence modifications achieve the policy intent.

The proposed changes enable the OPR measures themselves to be amended in the DCC licence following consultation, and the underlying procedures and assessment for each measure to be flexible, and updated via the OPR guidance document.

Q10. Do you have any views on the draft direction published alongside this consultation?

There is a small error in the Direction on Page 6, for the Performance Measure SDM1 – Install and Commission**.** In the following, SUM1 should read SDM1:

TPLSDM1t = Target Performance Level for SUM1t 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.

We have not identified any other issues.

We recognise that some elements of the Direction will depend upon on what is issued in the supporting OPR guidance, and we welcome the opportunity to review this before it is formally published.

EDF
June 2020