



DCC Operational Performance Regime Review – E.ON response

Thank you for the opportunity to comment on Ofgem’s proposals for improving the incentives on the DCC to deliver both value for money and high-quality services. Please note that this response reflects the views of both E.ON and npower.

We broadly agree with the three categories Ofgem has identified for improvement. In some cases, however, we are concerned that the scoring and weighting will not sufficiently incentivise improvements which will deliver benefits to energy consumers and DCC users. We have explained our concerns in responses to the questions below.

Question 1

Do you agree that System Performance should be financially incentivised?

We believe that the penalties for not achieving the required standard of System Performance should be tougher and not merely a loss of profit. Poor System Performance impacts not just suppliers as customers of the DCC, but also energy consumers.

Question 2

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

We support Ofgem’s proposal to focus more on end user impacts. We would like Ofgem to go further: in relation to system availability, timing must take into account the needs of suppliers’ customers. For example, we have had instances of DCC undertaking planned outages at times when energy consumers are more likely to be topping up their smart prepayment meters, or where the DCC has undertaken maintenance activities at very short notice. Measures should be introduced to specifically recognise this impact and score it. The DCC have instigated discussions with DCC users through specific industry forums, with the aim of agreeing appropriate outage windows and associated processes. E.ON and, we believe, other suppliers would be willing to agree appropriate outage times with DCC. Other central industry service providers already operate collaboratively and this should provide the benchmark for DCC. Such an agreement is likely to rely on the DCC considering options to mitigate the volume and frequency of outages, and the discussions successfully concluding.

The DCC’s recent performance in delivering SMETS2 communication hubs that are robust, stable and appropriately tested continues to cause significant concern. Fundamentally, these SMETS2 communication hubs are crucial components in the delivery of stable services to energy consumers. We therefore ask that Ofgem reconsiders its proposals to omit this area from the assessment, in order to incentivise better DCC performance.

We broadly agree with Ofgem’s proposed penalty mechanism. However, we believe there is a potential risk that the mechanism may actually act as a disincentive to the DCC. It is important that the DCC is driven to deliver improvements in underperforming areas, as well as incentivising continued stable performance in the other, better performing areas. It is important that the incentive mechanism does not result in the DCC focussing its attentions solely on better performing areas, where incentives can be secured. We would propose that assessments be undertaken



quarterly with a smaller incentive, and that the performance status be reset after the end of each quarter to ensure focus on all areas continuously. This would help avoid unintended consequences.

Question 3

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

Yes, although we would draw Ofgem's attentions to our comments above.

Question 4

Do you agree that customer engagement should be financially incentivised?

Yes.

Question 5

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

We agree with the aspects of customer engagement Ofgem has identified and the weighting it proposes to give to each. We have no concerns with the assessment process proposed.

We look forward to the opportunity to comment on the OPR Guidance before it is published, which will provide some of the important details of the process.

We do not agree with Ofgem's proposals for assessing performance. Fundamentally, a performance score of 25% for 'Poor' performance is too generous; indeed, we do not see why there should be any incentive if DCC performance in this area is deemed to be poor. We suggest that 'Poor' should be scored as for 'Very Poor', at zero. Fair should then be scored at 33.3%, Good at 66.6% and Excellent at 100%. We believe this would better incentivise improvements in DCC performance by focussing attention on delivery which supports energy consumers and DCC users.

Question 6

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

Yes. The performance of the DCC in this area continues to give cause for concern.

However, the inclusion of these elements in the OPR assessment depends on other factors. For example, the design and implementation of the performance assessment approach is critical. Tangibly assessing the effectiveness of contract management and procurement activities is likely to be complex and rely on specialist skills or experience. Additionally, the selection of an independent auditor and their subsequent delivery must be proven to offer value for money, compared to the incentives offered.

Question 7

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

We recognise the value of using an existing assessment framework, but as we have a lack of experience of such assessments, we are not in a position to comment on the National Audit Office



(NAO) framework. We appreciate that any assessment framework would need some adaptations, and we believe those proposed by Ofgem are pragmatic.

We agree with a competitive process for selecting an auditor and welcome the opportunity for stakeholders to make representations on the findings of the auditor's report before Ofgem makes a final determination.

We do not see any value, however, in adjusting the scoring mechanism of the NAO Framework. We believe this would be likely to add to the complexity and cost of the audit for no discernible benefit. We strongly believe that Ofgem should retain three attainment levels, as this will simplify the procurement of an independent auditor and their subsequent audit activities. This is also likely to minimise the costs recharged to DCC users and ultimately passed through to energy consumers.

Question 8

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

We agree that system performance should have the largest weighting as it has significant impacts on energy consumers.

We do not agree, however, that customer experience and contract management and procurement should be weighted equally at the present time. Current issues caused by specific DCC suppliers are impacting energy consumers, meaning this area should have a higher weighting; we therefore recommend 20% weighting for contract management and procurement and 10% for customer experience.

Question 9

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

Yes.

Question 10

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

We have no comment on the draft direction.