Data Communications Company

Operational Performance Regime (Quality of Service Information) in RY22/23

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1. Executive Summary

Summary

- The Operational Performance Regime (OPR) is designed to incentivise DCC to run a high-quality service for its customers by placing Baseline Margin at risk. In RY22/23 £7.618m was placed at risk against the OPR.

- For RY22/23, we have achieved 96%, which reflects the success of various initiatives that have taken place across the organisation to improve customer experience overall. This reflects a significant improvement since last year's OPR performance of 79%.

- On system performance, we are reporting performance of 100% for RY22/23. A key topic this year has been the inclusion of the SRV8.11 metric which remains outside of DCC's full control. This position has been supported by customers and we have removed this from our reporting to show a fair assessment of performance.

- On customer engagement we are reporting performance of 75% (2.25 out of 3), an improvement against last year's award of 47% (1.42 out of 3). This reflects the many initiatives we have taken which have enhanced the ways in which we engaged with our customers in RY22/23.

- On contract management the auditors have determined performance of 65% (1.95 out of 3), which is broadly in line with last year's award of 67% (1.33 out of 2). This reflects the transformative journey that the Commercial Function has started in RY22/23, which lays the foundations to enhance our ways of working over the next year.

2. Purpose and structure

The purpose of this document is to report on DCC's assessment of its OPR performance for RY22/23 and provides the narrative to support the data in RIGs Annex 1. This submission reports against the 5 OPR measures:

1. Service availability (SUM1)
2. Install and commission (SDM1)
3. Prepayment (interim response times) (SDM2)
4. Customer engagement (VMM1)
5. Contract management (VMM2)

For each of the systems measures (SUM1, SDM1 and SDM2) we outline our assessment of our performance against each of the incentivised OPR System Performance measures, alongside the associated margin impact, if any. We provide an explanation of our assessment, as well as any key points Ofgem may want to consider in making its assessment.

For VMM1 and VMM2, we summarise our views but refer to separate submissions which provide more detail on each.

Whilst this document focuses on systems performance measures, it should be read in conjunction with the Customer Engagement submission Perf_OPR_CE_RY2223, the Contract Management audit report (see Appendix C of this document) and RIGs Annex 1 RIGS_annex_1_RY2223.

We cover the responses to the qualitative questions[1] in Appendix B and all supporting evidence is contained in Appendix C.

3. System performance

3.1. Background and context

The overarching aim of the OPR is to improve DCC's customers' experience by financially incentivising DCC to drive better performance. We accept that as a monopoly company, it is important that we face sufficient incentives to play our role well, delivering value for money and high-quality services to support smart metering.

The OPR incentivises DCC based on the reliability of DCC systems, customer engagement and contract management. There are currently five active performance measures under which DCC is financially incentivised:

- service availability
- install and commission
- prepayment (interim response times)
- customer engagement
- contract management

These three system measures carry an equal weighting of 23.3% each reflecting the importance of the operational performance of the DCC, and the customer engagement and contract management measures carry a weighting of 15% each. A portion of DCC's margin is put at risk against each of these measures.

3.1.1. Background

The first OPR came into effect on 1 April 2018. The regime changed on 1 April 2021 and again on 1 April 2022 when an interim regime was put in place due to some of the proposed changes not being technically possible to report against. Given the complexity of finding and implementing an enduring solution, Ofgem requested that we keep engaging with our customers and Smart Energy Code (SEC) Parties to ensure that an enduring solution can be found and implemented as soon as possible, and to report to Ofgem on progress every six months. The first of those reports was submitted to Ofgem in September 2022 and the second in March 2023.

In September 2022 we submitted the first OPR progress report to Ofgem. In that report we set out the approach and plan for developing enduring performance measures, which was subsequently endorsed by the SEC Operations Group (OPSG). We also provided evidence that the internal and external governance had been agreed, including the creation of the Performance Measures Review Group (PMRG). We completed a full internal review of all contracted and reported measures for presentation and review at the first sub-group meeting which took place in October 2022. We also explained the work we had done with customers to improve the performance of Service Request Variant (SRV) 8.11 and that we had completed the first stage of the SEC Modification process to introduce TRT Measurement and Reporting.

In March 2023, we submitted the second OPR progress report to Ofgem. In that report we set out that whilst we had put in significant effort in to trying to agree on an enduring OPR, this had been challenging due to a lack of customer understanding and/or appetite for change. Despite this we identified 4 key areas of change:

1. SEC Modification Proposal 217 (MP217).
2. Removal of SRV8.11 from OPR.
3. SEC Modification Proposal 187 (MP187) currently on hold.
4. Success-based targets as a potential alternative to time-based targets.

Changes 1 and 3 were being proposed by DCC. Change number 2 is still underway (this is covered in more detail in Section 3.3.1). Change number 4 is one that was identified in one of the later PMRG meetings by some customers and was endorsed at OPSG – this would be a significant change which will need to be

[1] Ofgem, Annex 1 RIGs Guidance - Quality of Service Information, 30 June 2023, Section 5: https://www.ofgem.gov.uk/sites/default/files/2023-06/RIGs_Guidance_-_Annex_1_-_2023.pdf

progressed via formal SEC governance – SEC Modification Proposal 242 was subsequently raised to address this. Whilst we previously anticipated implementing an enduring regime by the start of RY24/25, this has been challenging as it became apparent quite quickly that a more valuable exercise at this time would be to support the industry to understand the existing performance measures. We are now reviewing with industry what is realistically achievable over the next two years.

The next OPR progress report is due in September 2023.

Each year, DCC's performance is assessed against a set of assessment criteria which are set out in the OPR guidance (for RY22/23 this is the version that came into effect on 29 March 2022).[1]

3.1.2. Context

DCC is subject to several economic incentive regimes, the table below sets out a summary of each of them including references to where they are reported in this year's price control submission.

Regime	Regime type	Status	Narrative reference	RIGs reference
Operational Performance Regime (OPR)	Operational	Live	Systems and contract management - reported in this document Customer engagement in: • 5.Perf_OPR_Customer_Engagement_Cover_Letter_RY"223 • 5.Perf_OPR_Customer_Engagement_Part1_RY2223 • 5.Perf_OPR_Customer_Engagement_Part2_Ofgem_only_RY2223 • 5.Perf_OPR_Customer_Engagement_Part2_PUBLIC_RY2223	RIGs Annex 1
Switching Incentive Regime (SIR)	Operational	Live	No reporting for RY22/23	RIGs Annex 4
SMETS1	Programme	Closed	Please see: 5.Perf_BMPPA_SMETS1_ECoS_RY2223	RIGs Annex 2
Enduring Change of Supplier (ECoS)	Programme	Live	Please see: 5.Perf_BMPPA_SMETS1_ECoS_RY2223	RIGs Annex 2
4G Communications Hubs and Networks (4G CH&N)	Programme	Not yet live	No reporting for RY22/23	RIGs Annex 2
Switching	Programme	Closed	Please see: 5.Perf_Switching_incentives_RY2223	RIGs Annex 4

[1] Ofgem, Revised OPR Guidance, 29 March 2022: https://www.ofgem.gov.uk/sites/default/files/2022-03/Revised%20OPR%20Guidance%20%28March%202022%29.pdf

Table 1 - Economic incentive regimes and their status

As set out above, this document explains the performance related to OPR only and, as such, provides the supporting commentary for RIGs Annex 1.

For RY21/22 we were awarded 89% of the £4.73m of margin placed at risk under the systems element of OPR. For RY22/23, £5.33m has been placed at risk against this incentive.

3.2. Service availability (SUM1)

The service availability measure is designed to incentivise DCC to ensure its services are accessible as needed, whenever and wherever they are required by DCC users. The Target Performance Level (TPL) for this measure is 99.50% and the Minimum Performance Level (MPL) is 98.00%.

In RY22/23, DCC's services were available for 99.99% of the time. This illustrates an improvement compared to last year where overall service availability was 99.94%.[1] this demonstrates DCC's commitment to providing a high-quality customer experience.

3.2.1. RY22/23 reported performance

The value of the Reported Performance Levels (RPLs) in RY22/23 were determined as a mean of five metrics, which measure the availability of DCC's interfaces, and their supporting sub-systems averaged across the 12 months from April 2022 to March 2023.

The individual RPLs for each of the metrics were:

- DCC User Interface: 99.96% (99.84% last year)
- Registration Data Interface: 100.00% (same as last year)
- SMKI Repository Interface: 100.00% (same as last year)
- SMKI Service Interfaces: 100.00% (same as last year)
- Self-Service Interface: 100.00% (99.87% last year)

As the five metrics are equally weighted, the overall RPL for SUM1 was 99.99% (see cell Q35 in worksheet iv. SUM1 in RIGs Annex 1). This means that TPL was achieved, and so no margin should be deducted.

The overall SUM1 performance is summarised in the table below.

SUM1 – service availability Designed to incentivise DCC to ensure its services are accessible as needed, whenever and wherever they are required by DCC users.	
Minimum (%)	98.00%
Target (%)	99.50%
Penalty mechanism	A
DCC self-assessment (%)	**99.99%** **TPL ACHIEVED**
RIGs reference	Annex 1, worksheet vi. SUM1, Q35.
Related performance measures	SECMOD122A availability measures for the DCC Interfaces (a-e only).[2]

[1] DCC, Price Control Submission 2022: Annex 1 – xii. SDM3
[2] See SEC A Definitions and Interpretation: DCC Interfaces

Margin impact	All margin retained. £1.778m

Table 2 – SUM1 performance summary

3.3. Install and commission (SDM1)

The install and commission measure is designed to incentivise DCC to ensure that all DCC services required in the install and commission of a smart meter are provided at a sufficient quality. The TPL for this measure is 99.00% and the MPL is 96.00%.

The value of the RPLs in RY22/23 were determined as a mean of four of the five metrics, which relate to the install and commissions business processes averaged across the 12 months from April 2022 to March 2023. This was because we do not consider the inclusion of the fifth metric relating to SRV8.11 to be appropriate for inclusion in the OPR as it is not solely within DCC's control, as agreed by customers and documented in the letter to Ofgem from the OPSG Chair (see Appendix C).

The individual RPLs for each of the metrics were:

- PM1.2 Comms Hubs Accepted by Customers (IC1)
  - North: 100.00%
  - Central: 100.00%
  - South: 100.00%
- PM1.3 Comms Hubs not Faulty (IC2)
  - North: 100.00%
  - Central: 99.96%
  - South: 99.98%
- PM1.1 First time SMWAN connectivity at Install (IC3),
  - North: 98.64%
  - Central: 99.97%
  - South: 99.97%
- PM1.3 (South and Central) / PM1.4 (North) SMWAN Connectivity Level (IC4)
  - North: 100.00%
  - Central: 100.00%
  - South: 100.00%
- SRV8.11 Update Home Area Network (HAN) Device Log (IC5): excluded as not within DCC's control (please see Section 3.3.1 of this document).

As four of the five metrics were equally weighted, the overall RPL for SDM1 was 99.66% in the North Region (see cell Q85 in worksheet viii. SDM1 in RIGs Annex 1), 99.98% in the Central Region (see cell Q86 in worksheet viii. SDM1 in RIGs Annex 1) and 99.99% in the South Region (see cell Q87 in worksheet viii. SDM1 in RIGs Annex 1). This means that TPL was achieved, and so no margin should be deducted.

The overall SDM1 performance is summarised in the table below.

SDM1 – install and commission Designed to incentivise DCC to ensure that all DCC services required in the install and commission of a smart meter are provided at a sufficient quality	
Minimum (%)	96.00%
Target (%)	99.00%

Penalty mechanism	B
DCC self-assessment (%)	North: 99.66% Central: 99.98% South: 99.99% TPL ACHIEVED
RIGs reference	Annex 1, worksheet viii. SDM1, Q85:Q87.
Related performance measures	PM1.2, PM1.3, PM1.1, PM1.3 and PM1.4
Margin impact	All margin retained. £1.778m

Table 3 – SDM1 performance summary

3.3.1. SRV8.11

On 19 May 2023, we formally wrote to Ofgem setting out our proposal for the removal of SRV8.11 from the systems performance element of the Operational Performance Regime (OPR) for RY2022/23 onwards. We also submitted a detailed report setting out our evidence base, which demonstrated that the performance of SRV8.11 is outside DCC's control and should therefore not be included in an economic incentive regime – this report is also included in Appendix C of this document. This position was also confirmed in a letter sent from the OPSG Chair to Ofgem on 12 May 2023.

SRV8.11 is a message type that is usually sent at the beginning of a smart meter installation because it will add a device to the HAN. Last year, Ofgem took the decision to include this SRV in the install and commission element of the systems OPR. This meant that DCC would be incentivised to ensure SRV8.11 messages were delivered within 30 seconds. We contested the inclusion of SRV8.11 last year, and Ofgem stated that it would re-consider the inclusion of SRV8.11 if we could demonstrate it was not within our control.[1]

We presented evidence to Ofgem in March 2023 showing that the performance of SRV8.11 is outside of DCC's full control. As requested by Ofgem, we subsequently presented this to the PMRG meeting on 15 March 2023 and the OPSG on 24 April 2023. Although the enclosed report focusses primarily on the issue of control, as this was the original objection noted by DCC, there are additional significant challenges with the inclusion of SRV8.11 summarised below:

- The performance of SRV8.11 is not within the full control of DCC and its Service Providers. It can be adversely and materially impacted by customer processes. SRV8.11 is usually sent multiple times during the install and commission process and is subject to customer's installation processes and orchestration. This in turn significantly impacts timely delivery of this SRV. For example, when a message fails to deliver successfully the first time, there is a delay before the system activates the automated retry. After several retries, the message fails. Whilst this improves the likelihood of success, it will increase the response time.

- DCC systems were not designed to meet the response times at a disaggregated level. SRV8.11 is part of a set of SRVs for one process. The DCC systems were not designed to guarantee performance at a disaggregated level as this would result in a significant amount of redundant capacity across the network for most of the time.

- SRV sizes have increased materially since the response times were established back in 2013. An SRV can range in size from 60 to 17,500 bytes. Neither the targets nor systems have been updated to reflect this change.

- There is no agreed service level target for SRV8.11 performance at a fully disaggregated level. SRV8.11 is part of a set of SRVs for one process, and there is no requirement in the SEC to

[1] Ofgem, Decision letter on Revised OPR Guidance (March 2022), page 3: Decision on OPR Guidance March 2021 | Ofgem

deliver against a response time for SRV8.11 in isolation. Without a formally defined target it is not a valid measure at this time.

- Contractual alignment is vital to align commercial incentives. OPR measures should be aligned to service provider contracts to ensure that we continue to have commercial leverage and to align incentives with our service providers. DCC's customers buy only what DCC has procured. Being penalised for not providing a service beyond this threshold is not a reasonable outcome from the OPR.

We have proactively discussed this topic with customers on a number of occasions. We have had a series of bilateral engagements; we covered the topic at the PMRG meeting on 15 March 2023; and again, at the OPSG meeting on 24 April 2023.

At the OPSG meeting, all parties agreed with the DCC position that SRV8.11 target response times (TRT) performance is not within DCC's full control and that, at this time, there are no suitable alternatives. This position was further confirmed in a letter sent from the OPSG Chair to Ofgem on 12 May 2023. Since that meeting, an OPSG member has raised a SEC Modification to assess the feasibility of introducing success-based targets, as a potential alternative to TRTs in the OPR.

For RY22/23, our evidence clearly shows that SRV8.11 is outside of DCC's full control and therefore should not be included in OPR – as such we have removed it from our reporting in this document and in the supporting RIGs annex 1 template. For RY23/24 and beyond, we propose that SRV8.11 is zero-weighted until such time that it can be replaced with a more suitable measure.

We have stated (in recent discussions with Ofgem, PMRG, bilateral meetings with customers and OPSG) our intention to propose the zero-weighting of the SRV8.11 metric in the interim OPR. There were no objections to this proposal.

3.4. Prepayment (interim response times) (SDM2)

The prepayment (interim response times) measure is designed to incentivise DCC to ensure that SRVs are successfully delivered to devices within a given TRT. (These interim metrics are not prepayment metrics). The TPL for this measure is 99.00% and the MPL is 96.00%.

The value of the RPLs in RY22/23 were determined as a weighted mean of four performance measures relating to the delivery of SRVs within TRT under SEC Code Performance Measure 1 averaged across the 12 months from April 2022 to March 2023.

The individual RPLs for each of the metrics were:

- PM4.3 Communications Services Provider (CSP) Test HAN Interface Command
    - North: 100.00%
    - Central: 99.75%
    - South: 99.76%
- PM1.1 DSP Real Time TRTs: 99.69%
- PM1.4 DSP Real Time TRTs: 99.98%
- PM1.1 S1-SP Real-time TRTs: 99.96%.

As all four metrics were equally weighted, the overall RPL for SDM2 was 100.00% in the North Region (see cell Q83 in worksheet ix. SDM2 in RIGs Annex 1), 99.75% in the Central Region (see cell Q84 in worksheet ix. SDM2 in RIGs Annex 1) and 99.76% in the South Region (see cell Q85 in worksheet ix. SDM2 in RIGs Annex 1) for the CSP Test HAN Interface Command metric and 99.88% for the remaining metrics (see cell Q116 in worksheet ix. SDM2 in RIGs Annex 1). This means that TPL was achieved, and so no margin should be deducted.

The overall SDM1 performance is summarised in the table below.

SDM2 – prepayment (interim response times) Designed to incentivise DCC to ensure that SRVs are successfully delivered to devices within a TRT	
Minimum (%)	96.00%
Target (%)	99.00%
Penalty mechanism	A and B
DCC self-assessment (%)	**Penalty mechanism A: 99.88%** **Penalty mechanism B:** **North: 100.00%** **Central: 99.75%** **South: 99.76%** **TPL ACHIEVED**
RIGs reference	Annex 1, worksheet ix. SDM2, Q83:Q85 and Q116.
Related performance measures	CPM 1 (in part)
DCC self-assessment	All margin retained. £1.778m

Table 4 – SDM2 performance summary

4. Customer engagement (VMM1)

Please find our full submission relating to customer engagement in Perf_OPR_CE_RY2223.

Last year, we were awarded a score of 1.42 out of 3 in relation to customer engagement. Our self-assessment of our performance under this measure in RY22/23 is 2.25 out of 3. We believe this score reflects the many initiatives we have taken which have enhanced the ways in which we engaged with our customers in RY22/23.

Please note that in in Annex 1 worksheet xi. VMM1 we have overwritten the green Ofgem cells and set the scores to be consistent with DCC's self-assessment across all questions so as to ensure a more meaningful BMOPA value is reported the RIGs. We recognise that these will be updated following Ofgem's final determination.

VMM1 – customer engagement Designed to incentivise DCC to undertake high-quality customer engagement	
Minimum score	0
Maximum score	3
DCC self-assessment	**2.25 (75%)**
SEC Panel assessment	2.0 (67%)
RIGs reference	Annex 1, worksheet xi. VMM1, Q65:Q93.

Margin impact	Margin deduction of £0.286m

Table 5 – VMM1 performance summary

5. Contract management (VMM2)

Last year, we were awarded a score of 1.33 out of 2 (67%) in relation to contract management. In summary, the auditor score of our performance under this measure in RY22/23 is 1.95 out of 3.

Please note that in in Annex 1 worksheet xi. VMM2 we have overwritten the green Ofgem cells and set the scores equivalent to the auditor scores across all questions so as to avoid a misleading BMOPA value in the main RIGs. We recognise that these will be updated following Ofgem's final determination.

VMM2 – contract management Designed to incentivise DCC to undertake high-quality contract management	
Minimum score	0
Maximum score	3
Auditor assessment	1.95
RIGs reference	Annex 1, worksheet xii. VMM2, Q117:Q189.
Margin impact	Margin deduction of £0.399m

Table 6 – VMM2 performance summary

5.1. Background and context

Since April 2021, DCC has been subject to a financial incentive to enter into, manage and close out effectively and efficiently the many contracts we have with smart metering service providers. DCC remains committed to undertaking proactive, best in class contract management and procurement to deliver benefits to DCC customers and the consumer.

Each year, Ofgem commissions an independent audit to DCC's contract management using a modified version of the NAO Contractual Relationships Audit Framework.[1] For RY22/23 that audit took place during June 2023, and the final report was provided to us on 24 July 2023. A copy of that audit report is set out in Appendix C.

For RY21/22 we were awarded a score of 1.33 out of 2, which translated to 67% (£0.67m) of margin assigned to the contract management element of OPR being retained. For RY22/23, £1.14m has been placed at risk against this incentive. However, for RY22/23 Ofgem widened the scoring framework such that the maximum score was now 3 instead of 2.

The section below sets our commentary against each of the scores provided by the auditor.

[1] Ofgem, Modified NAO Framework for use in the OPR, Jan 2021 www.ofgem.gov.uk/publications-and-updates/opr-guidance-consultation-january-2021

5.2. Commentary on auditor scores

5.2.1. Commercial strategy

Q1.1 – DCC welcomes the auditors' assessment of compliance and is pleased to note acknowledgement of the work done to deliver and manage future services at optimum value to the customer.

Q1.2 – During the RY 22/23 DCC developed a Responsible Business Framework to formalise its efforts to be a sustainable business on a more structured, long-term footing.

The framework draws together an array of environmental, supply chain and social aspects of how we work, based on the principles of 'ESG', into a coherent whole. It encompasses all aspects of DCC's carbon footprint and sustainable behaviour, including our supply chain, our people, and the contribution we make to communities.

The Commercial function is responsible for the framework's second ambition - 'Lead a collective effort across our supply chain to achieve, embed and evidence high standards of sustainability in all activities.'

To deliver on this ambition the Commercial function will be adopting the Sustainable Flexible Framework (SFF) and seeking to achieve level one status in 23/24 RY. We have already held our first supplier forum and are developing our Sustainability Procurement Charter and Policy and Charter, as well as working out how to measure emissions related to the products and services supplied to DCC, with sustainability conversations taking place with key suppliers. Further to this, in year one, we will introduce sustainability criteria into our supplier assessment criteria and look to roll out sustainability training across the business.

Q1.3 – DCC does not agree with the auditors' summation of the DSP re-procurement position, and particularly objects to references of DCC "failing to adequately consider obligations under Condition 16." In March 2023 DCC outlined its considerations of Licence Condition 16 in a paper to Ofgem which is summarised below:

The DCC Licence – specifically Condition 16 – sets out procurement requirements and principles. In particular, the Licence requires DCC to procure 'on a competitive basis' and in line with certain principles as set out under Part B of this condition. The intent is to ensure that DCC creates a competitive market among its potential service providers, follows a practicable and proportionate process, delivers value for money for customers and ensures continuity of service.

More specifically, our interpretation of the Licence Conditions relating to Fundamental Service Capability (FSC) – which includes DSP - is that Licence Condition 16.5 fully applies Licence Condition 16.4 to the procurement of FSC. Importantly, this includes the requirement to procure in line with the "Part B Principles." These Principles include Licence Condition 16.9:

> *"Principle 2 is that Relevant Service Capability must be procured competitively wherever practicable and proportionate, and with due regard for (i) the principles of equality and non-discrimination between economic operators and (ii) the employment of transparent and objective procurement processes."*

This interpretation has been formalised in every version of the DCC Procurement Strategy required under Licence Condition 16.20. This includes the first version approved by the Secretary of State in 2014, which contained a clear statement that the Part B Principles apply to the procurement of FSC. Based on the above, we have therefore - in good faith – interpreted the Licence to require us to make considerations of practicability and proportionality, alongside value for money, before launching a competitive procurement approach.

DCC is fully committed to open and competitive procurement as an effective approach to delivering on the licence objectives, including on value for money. It is clear, however, that the procurement principles in the licence are broadly drafted - rightly focusing on outcomes, rather than detailed approaches. We interpret the Licence requirements as allowing DCC the ability to determine in any given situation which approach to procurement best meet the aims of the licence (even for FSC to which the procurement rules apply more strictly).

For some of our recent procurements, we believe it is the right decision to pursue an alternative approach to a full competitive procurement exercise, and it is our view that a direct negotiation aligns with both the spirit and letter of the licence – meeting all relevant objectives. In the case of DSP, we were looking to safeguard value for money, continuity of service and procure a much more manageable system, whilst dealing with the "vendor lock-in" and the "black-box" technology inherited in the original contracts.

What has become clear through our management of the DSP contract inherited from DECC is that the current contract, with the lack of visibility with the inner workings of the DSP and the IPR limitations referred to above, act as barriers to both efficient and economic provision of this mandatory service in terms of significantly reducing DCC's ability to compete change to the existing solution to evolve it to meet Users' needs.

Based on our engagement with the DCC Board and our customers, we believe our originally proposed approach to the DSP procurement was the most effective route to meeting customer needs, maintaining continuity of service and value for money. Engagement with customers indicated that they did not support the procurement of a new DSP system as a whole given the transition risks and associated costs of managing these risks. However, based on Ofgem's different and stricter interpretation of LC16 - as set out in its letter on 6th April 2023 ("Response to DCC's Approach to Procurement (Data Service Provider)") - DCC has now brought forward a competitive approach to procuring the DSP.

DCC also disagrees with the notion that due to levels of preparedness, there is a risk there will be a need for a direct award to the incumbent. This assessment is speculative and not relevant to the scope of the audit. Whilst current services may need to be extended, it is not correct to assume that this would have to be done through a non-competitive extension. DCC is looking at all options to continue service provision for the required duration in a way that would be consistent with our licence conditions- competing the services through contract novation being one such option. We are writing a strategy for our commercial approach at present.

5.2.2. Capability and governance

Q2.1 – During 22/23 RY we recruited a new Commercial leadership team, covering all aspects of the commercial organisation, bringing in additional expertise to DCC. Additionally, as part of the Commercial Transformation, we designed a new commercial operating model, aligned to industry best practice, which will enable Commercial to better meet future business need.

As noted in the report we are in the early stages of implementing the new operating model and are pleased to see the auditor acknowledge that the DCC does have the capability and resource to meet the current needs of the business and that the proposed improvements will further strengthen this position, towards best in class.

Q2.2 – As mentioned in the response to Q1.3, DCC disagrees the auditors' assessment that DCC may be "forced" to extend the existing CGI contract and breach it's Licence obligation. DCC considers this comment to be speculative and outside of the scope of this year's audit.

Q2.3 – DCC recognises the auditor's comments in relation to compliance with contract change processes. As such, through our Commercial Transformation programme, we have mapped and streamlined our change control processes and created a new change and governance team within Contract Management. We will be rolling out these new processes, in conjunction with our new commercial tool, across the 23/34 RY, which will facilitate greater governance and control of all commercial processes.

5.2.3. Market management and sourcing

Q3.1 – DCC does not agree with the auditors' assessment of only partial compliance in terms of managing the market to drive long term value for money. The CH&N Full Business Case (FBC) talks in detail of the activities taken to drive value for money, which include the direct award to Accenture for Device Management (the example cited in the report). Value for money contract terms achieved through negotiations with Accenture include Open book principles where DCC have visibility of Accenture's cost, profitability and contingency during both build and lifetime of the contract, 100% return of any unused contingency, gain and pain share with profit above threshold returned to DCC, frequent re-pricing clauses and market testing on service and change.

Q3.2 – DCC believes that the CH&N FBC showcases that a defensible process resulted in the selection of capable suppliers for all Lots, which includes the strategic decisions behind the direct awards.

With regards to the DSP re-procurement, DCC's preferred option was predicated on a strategy to compete all elements of the DSP to achieve the overall goals and business outcomes as identified by the business needs established in the Economic case under new contractual terms.

However, given that the DSP programme is the central component of a live service that delivers smart metering services to millions of homes, the economic case also determined that it would be high risk to run a competitive tender and compete the whole DSP system whilst the Smart Metering Implementation Programme is still in live roll out. Therefore, the strategy was to break the DSP into discrete components that can be competed over a defined, staged period, managing transition risk in a safer way.

With that in mind, DCC disagrees with the auditors' assessment that this strategy would have resulted in an indefensible selection of supplier(s) for the service.

Q3.3 – DCC is concerned by the repetition in the auditors' comments and considers there to be overlap with those made against the previous judgement questions. The use of competitive pressure and justification for the direct award decisions are outlined within the CH&N FBC referenced above and referred to above.

Q4.1 – DCC is pleased to note the auditor's acknowledgement of appropriate risk allocation between DCC and its suppliers. As well as exploring the possibility of adopting an enterprise risk management software, we are enhancing our risk management processes and supporting artefacts as part of our Commercial transformation.

Q4.2 – DCC utilises a range of mechanisms and incentives to encourage positive supplier performance, which we are pleased to see recognised within the report.

Q4.3 –DCC are pleased to see improvements to levels of collaboration and the development of stronger relationships with key suppliers recognised as the auditors consider that there is a good balance of risk and reward through incentivising strategies and encouraged behaviours. To build on this further, as part of the Commercial transformation, we are evolving the Supplier Relationship Management (SRM) team to place greater emphasis on strategic capability and driving value from relationships.

Across the RY 23/24, once fully resourced, the SRM team will leverage the outputs of our supplier segmentation exercise to create specific supplier strategies aimed at evolving our relationship with suppliers and driving strategic outcomes over the long term.

5.2.4. Contract management

Q5.1 – As recognised in the report, DCC is aware of the successes and challenges associated with the delivery of contracts and is working collaboratively with suppliers to drive change and improvement. DCC monitors the financial stability of its supply chain closely and this has been further enhanced by the quarterly assurance reports that are being driven by the SRM director.

Q5.2 – DCC has identified the necessary resource and capabilities required to manage an increasingly disaggregated supply chain and is confident the right controls are in place to support this. We are aware of the performance issues relating to the two suppliers cited in the report, and are leveraging all available contractual mechanisms to drive performance improvement, whilst exploring longer-term options available to the DCC. We acknowledge that the SEC Modification process improvements made internally have not driven a step change in the DCC's ability to meet the timescale outlined by SECAS (albeit the complexity of changes are not always taken into account) and that this remains and area of focus.

Q5.3 – The auditors' comments are mostly a repetition of those noted against the previous judgement question.

5.2.5. Contract lifecycle

Q6.1 – DCC is pleased to note the auditors' acknowledgement that we are meeting the requirements of the framework in relation to contracts supporting strategic intent.

Q6.2 – Value for Money (VfM) schedules are included in all DCC contracts to maximise the value delivered throughout the contract lifecycle, but we acknowledge that the application of these clauses can be inconsistent. Amongst the many changes resulting from the transformation, the creation of our Contract

Manager Handbook will ensure a more standardised approach to contract management. It will promote regular reviews and the application of VfM clauses; optimising contract management practices to further maximise value.

Q6.3 – As acknowledged in the report, the change control process has been identified as an area of focus for DCC, with improvements to the process and governance controls required. Several measures have already been implemented, including greater forecasting of contract change and an improved meeting rhythm between Contract Management and Legal to improve communication and drive efficiency in the review process. Moreover, a comprehensive set of guidelines has been developed to facilitate the preparation and evaluation of Change Authorisation Notices (CANs). We recognise there is more engagement required to educate the wider business on change control process and the importance of compliance.

5.2.6. Transition and termination

Q7.1 - The auditor notes that the DCC is compliant in regards to undertaking market management to support new contracts, with annual reviews of Exit Management Plans.

Q7.2 – The auditor notes that the DCC provides a smooth transition to either effectively allow re-bid or a handover.

Q7.3 – Ongoing improvement is at the core of DCC's culture and developing any new contract involves incorporating insights and lessons learned from previous contracts. This process begins with reviewing past contracts to identify valuable lessons and insights. Stakeholder interviews are conducted to gather perspectives and input, while feedback and metrics are analysed to identify areas for improvement. Best practices from successful contracts are identified and integrated into the new contract, and subject matter experts are consulted to ensure compliance and risk mitigation. By following these steps, new contracts are informed by past experiences, aligned with organisational goals, and optimised for success.

6. OPR performance summary

In RY22/23 £7.62m was placed at risk against the OPR.

In summary, our assessment of our performance for RY22/23 is as follows:

OPR measure	Weight	DCC performance assessment	Margin retained (%)	Margin retained (£m)	Margin lost (£m)
Service availability (SUM1)	23.33%	Non-regional = 99.99%	100%	1.778	-
Install and commission (SDM1)	23.33%	North = 99.66% Central = 99.98% South = 99.99%	100%	1.778	-
Prepayment (interim response times) (SDM2)	23.33%	Non-regional = 99.88% North = 100.00% Central = 99.75% South = 99.76%	100%	1.778	-
Customer engagement (VMM1)	15.00%	2.25 out of 3	75%	0.857	0.286

Contract management (VMM2)	15.00%	1.95 out of 3	65%	0.744	0.399
Total			**91%**	**6.933**	**0.685**

Table 7 – Summary of DCC's self-assessment of OPR performance in RY22/23

Our self-assessment above reflects our view that we have had a strong year. We propose that we retain £6.93m of the Baseline Margin associated to the OPR for RY22/23.

Appendix A: Zero-weighted system measures

Firmware management (SUM2)

The firmware management measure is currently zero weighted – and as currently defined, it is invalid (see Appendix B). We have provided some partial reporting for information only.

The overall SMETS2 SUM2 performance is summarised in the table below.

SUM2 – firmware management Designed to incentivise DCC to ensure that firmware payload images are successfully delivered to communication hubs	
Minimum (%)	96.00%
Target (%)	99.00%
DCC self-assessment (%)	**North: 97.65%** **Central: 98.68%** **South: 98.74%** **SMETS1: no data available**
RIGs reference	Annex 1, worksheet vii. SUM2, Q83:Q85 and Q116.
Margin impact	Measure zero weighted so no margin impact

Table 8 – SUM2 performance summary

Change of supplier (SDM3)

The change of supplier measure is currently zero weighted. When made active, it is designed to incentivise DCC to ensure that all DCC services required in the change of supplier process are provided at a sufficient quality. The TPL for this measure is 99.00% and the MPL is 96.00%.

The value of the RPLs in RY22/23 were obtained mean of the three SEC performance measures relating to SRVs comprising the Change of Supplier Business Process, under SEC Code Performance Measure 6A, averaged across the 12 months from April 2022 to March 2023.

The overall SDM3 performance is summarised in the table below.

SDM3 – change of supplier Designed to incentivise DCC to ensure that all DCC services required in the change of supplier process are provided at a sufficient quality	
Minimum (%)	96.00%
Target (%)	99.00%
DCC self-assessment (%)	**North: 20.29%** **Central: 61.65%** **South: 61.80%** **SMETS1: 47.68%** **NEITHER MPL NOR TPL ACHIEVED**

RIGs reference	Annex 1, worksheet x. SDM3, Q83:Q85 and Q116
Margin impact	Measure zero weighted so no margin impact

Table 9 – SDM3 performance summary

Appendix B: DCC responses to qualitative questions

Question 1

Where the Licensee has not reached the TPL for any Performance Measure please provide a narrative which explains:

i. Any reasons why the Licensee was prevented from reaching TPL
ii. Any actions or plans to remedy or achieve the TPL in the future.

The only live metric below TPL was the first time SMWAN connectivity at install metric within the SDM1 measure in the North Region which was 98.64% on average across the year. The contractual target (i.e. the service procured on behalf of customers) for CSPN is 80.00% for this metric and so based on the service procured on behalf of our customers – we are achieving target service. Unfortunately, where OPR targets are not aligned to the contract, whilst we have little or no contractual levers to improve performance beyond this – we will consider whether there is a cost benefit to making investments to improve.

Of the non-live metrics, SUM2 was above MPL but below TPL. This was due, in part, to the CSPs being impacted by a major Communications Hub issue which resulted in no Packet Data Protocol (PDP) connectivity. Both CSPs have been working on fixing this over the course of the year, with performance in both regions being back at TPL in the later months of the year. For the North Region, performance achieved this year reflets two-year improvement programme undertaken by the CSP and there is now a smaller piece of work underway to assess options for improvements that can be made to improve performance further so as to achieve the 99% - key to this will be further word required to review and address the impact of 'noisy' and 'chatty' meters.

The SMETS1 metric was below MPL, however this is because reporting data is unavailable due to the SMETS1 Service Providers not measuring this data at this time. This issue was highlighted at the beginning of the year. Firmware updates are not transmitted via the Communications Service Provider and are managed differently than SMETS2 CSPs. Obtaining this reporting data will require contract change at a cost to industry. We are yet to determine whether this is likely to be cost beneficial.

All metrics within the SDM3 measure were below MPL, this is because we have used proxy measures in the absence of being able to measure individual SRV TRTs. The data in Annex 1 reflects the entire SRV journey including time on the HAN using DCC data. TRTs are reported by DCC's Service Providers at an aggregated level and in order to correctly analyse and report this information the delivery of SECMOD MP217 would be required. However, the preliminary impact assessment of SECMOD MP217 estimated this change costing approximately £10m (including the cost of the full impact assessment), which was considered by industry not to be cost beneficial. We are now considering alternative options to address this.

Question 2

Provide a description and supporting evidence of the processes in place to quality assure reporting submitted to the Authority. This may include:

iii. Assurance the Licensee has undertaken on reporting received from their Service Providers
iv. Internal policy processes and procedures
v. Independent auditor reports
vi. Consistency with other related reporting (eg Smart Energy Code performance measures)
vii. Appropriate senior level management and oversight of quality assurance processes.

DCC maintains a dedicated model for monitoring progress against the OPR. This model has been designed to meet the reporting requirements outlined in Ofgem's OPR guidance. It also ensures that DCC is actively monitoring its performance throughout the year and responding urgently to any decline in performance.

Regular assurance is undertaken on the reporting received from Service Providers; this is managed by the In-Life Supplier Service Delivery Management Team. This is then subsequently reviewed each month by the Regulatory & Operational Reporting Team for quality, enduring data calculations match existing reporting and alignment with known issues from the period.

Each OPR measure has a dedicated senior owner within DCC who is responsible for ensuring the information provided within the RIGs is correct. The Regulatory & Operational Reporting Team, together with the Head of Economic Incentives has reviewed and quality assured the information before submission. The Regulatory & Operational Reporting Team ensures that the data is consistent with the information provided to and approved by DCC's Executive Committee (ExCo). Additionally, members of DCC's ExCo continue to review the model outputs through a regular review of performance monthly.

Please see the see [Perf_OPR_CM_RY2223] for details on the quality assurance undertaken as part of the independent auditor report on contract management.

All measures and metrics reported in the systems element of the OPR are all either Code Performance Measures in the SEC, Service Provider Reportable Performance Measures and/or Performance Indicators introduced under SECMOD122. For each measure, we have summarised which other performance measures they relate to in each of the performance summary tables above in Sections 3, 4 and 5.

Question 3

Please provide an assessment of the number and percentage of incidences that have been exempt from reporting due to being exceptional events. Please include:

viii. Reasons events were excluded from performance reporting, and the number/percentage of exemptions that were for this reason

ix. Any quality assurance undertaken to ensure that categorisation of incidences as exceptional events was correctly applied.

One of the key exclusions we have made this year relates to SRV8.11 (please see Section 3.3.1 of this document).

Other exclusions made in RY22/23 related to Communications Hub Function (CHF) which impacted the Install & Commission measure, however the CSPs apply these exclusions prior to reporting their performance to DCC. These exclusions are permitted under the DCC Performance Measurement Exception List (see Appendix C). Volume of exceptions made, and their rationale are set out in each month's Performance Measurement Report.[1]

Question 4

Please specify if, and explain why, additional reporting is not complete, for example because reporting was only developed part way through the year.

As mentioned above, we are currently unable to report against the SMETS1 metric in the zero-weighted SUM2 measure due to reporting data being unavailable. This issue was highlighted at the beginning of the year and was put forward for change as part of SEC Modification 122B[2] (MP122B). The functionality to provide this reporting was subsequently removed from scope of MP122B by industry. Therefore, as this measure is currently defined, it is invalid.

All other reporting is complete.

[1] DCC, Monthly Performance Measurement Reports, available here: https://capitaitservices.sharepoint.com/sites/LIVEDCC/PARTIES/Operations%20Working%20Area%20DCC%20Only/Forms/AllItems.aspx?RootFolder=%2Fsites%2FLIVEDCC%2FPARTIES%2FOperations%20Working%20Area%20DCC%20Only%2FReports%2FPerf%20Measures%2FOut&View=%7B0CE1A84B%2DDE1D%2D43DF%2D89B2%2DAD9949A37BB2%7D

[2] SECAS, 11 Sep 2020: Modification » (smartenergycodecompany.co.uk)

Appendix C: Supporting evidence

Ref #	Evidence	File name / location
1	RIGs Annex 1	RIGS_annex_1_RY2223
2	OPR progress reports (Sep-22 and Mar-23)	[redacted]
3	SRV8.11 report	
4	SRV8.11 letter to Ofgem	
5	SRV8.11 letter from OPSG to Ofgem	
6	DCC Performance Measurement Exception List	
7	Customer engagement	
8	Contract management – Barkers audit report	

Table 10 – Supporting evidence