1. Summary

On 22 April 2022, the Retail Energy Code Company (RECCo) issued a consultation on DCC Service Provider Performance Charges following a proposal that some or all DCC Service Level Agreements (SLAs) defined in the Retail Energy Code (REC) could be subject to Ofgem's regulated price control rather than the REC Performance Assurance Framework (PAF), as proposed in REC Change Proposal R0025 (Service Provider Performance Charges). The consultation sought views on:

- Which DCC SLAs REC Parties and other interested stakeholders consider are the most material and impactful should these be failed;
- Whether some DCC SLAs, if any, should be subject to charges under the Switching Incentive Regime (SIR) rather than the REC Performance Assurance Framework;
- Whether the SIR should consider individual SLAs across all three DCC Services, or individual DCC Services in their entirety, noting that a single service being subject to assurance under two regimes may be complex given the proposal to link the level of charge to the number of failed SLAs; and
- RECCo's concern that splitting the assurance of DCC Services, as REC Services, between two regimes could undermine RECCo's ability to hold its Service Provider to account for the end-to-end delivery of its services.

We received five non-confidential responses to the consultation from two Energy Suppliers, two Distribution Network Operators and the DCC. We would like to thank stakeholders for their responses to this consultation and have considered these comments carefully, in collaboration with Ofgem, to agree the next steps. A summary of consultation responses and our response to these comments can be found in Section 2 of this document. Details of proposed next steps can be found in Section 3 of this document.

2. Summary of Consultation Responses

2.1. Materiality and impact of DCC SLAs

We asked which of the DCC's individual SLAs stakeholders considered would be the most material and impactful should they not be met, and if stakeholders considered this also applies to any of the three services provided by the DCC, as a whole, or specifically to certain SLAs.

Both Energy Suppliers who responded considered that the SLAs relating to the Central Switching Service would be the most material and impactful should they not be met, as this would have a real-time impact on the processing of messages and therefore an impact on the switching experience of the consumer. One Energy Supplier further elaborated that issues with the first four SLAs in the CSS Service Definition[1] (paragraphs 6.1-6.4) would impact on individual consumers, issues with SLA 6.5 would likely only impact RECCo and/or the PAB, and issues with SLAs 6.6-6.8 would bring the entire industry switching capability to a temporary halt.

Both DNOs who responded considered that all DCC SLAs are equally material and potentially impactful should they not be met. One DNO further considered that it is too early to make this type of judgement on the materiality of the SLAs and suggested that these are subject to review after a period of "bedding in" to re-evaluate these and ensure they remain appropriate.

The DCC did not have a view on which SLAs were more material, but noted that they would be interested in understanding which SLAs are considered particularly important by CSS users and working with Ofgem and RECCo on addressing those areas. The DCC also raised that it is important that performance against any measures used in incentives schemes to manage DCC's performance

[1] The **CSS Service Definition** took effect as part of REC version 3.0 on 18 July 2022.

is entirely under DCC's control, and that they can manage the performance of their service providers against them.

2.2. Preference on whether DCC SLAs should be assured through price control or the REC PAF

We asked whether stakeholders believed that some or all the DCC's SLAs relating to their switching services should be assured through price control, the REC PAF or be split between the two.

Three respondents (two Energy Suppliers and one Distribution Network Operator) considered that all SLAs should be assured under the REC PAF. The respondents in support of this considered that assurance through the REC PAF would be more transparent to stakeholders and would move at a quicker speed which would result in faster remediation of the issues and improvements to the service. These respondents also did not consider that a split regime would be practical, as they were concerned that this could create additional complexity and cost, and may lead to either some issues being missed or potential 'double jeopardy' where issues could be double counted. One respondent also raised concerns that the DCC being accountable to two assurance regimes would result in additional effort from their management team, which could lead to inefficiencies and distractions from addressing the underlying performance optimisation we are seeking to achieve.

One Distribution Network Operator considered that all DCC costs, performance measures and SLAs should be measured collectively through price control as they believed Ofgem is best placed to consider the end-to-end performance of the DCC. They further considered that this would fully eliminate any risk of double jeopardy through dual assurance.

The DCC did not express a preference towards one of the solutions. However, it did suggest that a detailed analysis of Ofgem and RECCo's roles, powers, capabilities and capacities should take place and that an appropriate performance management framework should be constructed from the output of this analysis, ensuring there is no potential for double jeopardy between the two regimes.

2.3. Risks and issues

We asked whether stakeholders agreed with RECCo's concerns that a split assurance regime would undermine RECCo's ability to hold DCC to account as a REC Service Provider, and if they considered there were other risks or issues.

Three respondents (two Suppliers and one Distribution Network Operator) agreed with RECCo's concerns and suggested a preference that all DCC SLAs were subject to the REC Performance Assurance Framework with oversight of the REC Performance Assurance Board (PAB). Two respondents disagreed where one felt that if all DCC performance metrics were subject to regulatory price control that RECCo could place reliance on this to ensure DCC services were delivered for consumers as a whole; while the DCC suggested that it is possible to construct a performance management framework with an appropriate role for both Ofgem and RECCo.

Respondents also highlighted that under a split regime there is a risk of inefficiency, lack of consistency and duplication of effort; in contrast, they were concerned that if DCC SLAs be subject to assurance under price control, rather than the REC PAF, there could be less visibility to parties and performance charges would be applied less frequently, taking longer for reduced charges to the service to be realised.

2.4. Further comments

A Supplier highlighted that, regardless of the approach taken forward, the activities will need to be sufficiently resourced and skilled to ensure that activities are efficient and proportionate. This respondent also suggested that any performance charges incurred should be reflected in the DCC's commercial arrangements with their subcontractors to ensure that the right behaviours are incentivised through to the relevant service provider.

Another Supplier highlighted that regardless of the approach taken, it needs to be delivered efficiently and not result in duplication of effort and cost. They further requested that details of the estimated cost projection of implementing and maintaining a performance charge regime is shared and available in future REC budgets.

Two Distribution Network Operators raised concerns that Change Proposal R0025 has not progressed since being raised and that details of the proposed solution had not been made available publicly since the Code Manager received feedback on the initial proposal.

The DCC raised a concern as to whether RECCo had the legal powers to introduce a performance incentivisation scheme to the DCC through a REC Change Proposal. The DCC further considered neither of the schemes referred to in the consultation were sufficiently developed and that the link between proposed performance levels and performance charge thresholds in R0025 had not been sufficiently analysed and described.

The DCC also expressed a concern that a three-week window for responding to the consultation was not sufficient for it to provide a detailed response.

3. RECCo's response

We thank stakeholders for their responses and insights into the potential materiality and impact of different DCC SLAs not being met. The intention of the consultation was to inform our and Ofgem's thinking on which, if any, of the SLAs set out in the CSS, CSS Certificate Authority and Switching Operator Service Definitions should be assured under Ofgem's price control regime, and which should be assured under the REC Performance Assurance Framework (PAF).

Following the consultation, we have worked with Ofgem to develop a proposed solution based on a REC PAF-led approach, working within and complementary to the DCC price control. Under this model, the REC PAF would be the mechanism through which to manage and incentivise the DCC's operational and service performance of its various switching roles, including improvement in a timely manner where and when necessary. Ofgem will retain oversight of DCC's overall Customer Engagement and management of its contracts with service providers which are not visible to the REC PAB. This approach will be reflected in a revision to the solution set out in Change Proposal R0025, and will be further consulted upon in due course as that Change Proposal progresses.

The price control provisions within the Smart Meter Communications Licence require that 100% of DCC's Baseline Margin must be at risk. Ofgem are proposing that the Baseline Margin relating to DCC's switching services would be split across two categories of incentive (approximately an 80/20 split, with the exact split to be confirmed by Ofgem), similar to the way the current Operational Performance Regime (OPR) for smart metering is designed:

- Operational / System Performance incentive – 80%
- Customer Engagement incentive – 20%

The operational / system performance incentive category would be assured through the REC PAF, with up to 80% (or the final % split confirmed by Ofgem) of DCC's approved Baseline Margin being at risk through the achievement of SLAs defined in the REC.

Total liquidated damages would be calculated on a sliding scale up to a defined maximum threshold on a quarterly basis, as originally proposed in Change Proposal R0025. Based on 80% of the DCC's Baseline Margin being at risk over the financial year, that would equate to 20% of their annual Baseline Margin at risk per quarter.

Ofgem will consult on the value of the DCC's Switching margin later this year, likely in November 2022. The exact value of the margin will be determined by Ofgem following this consultation, and RECCo will calculate the potential annual and quarterly damages based on a combination of the DCC's forecast of internal costs for the upcoming financial year (which is confirmed ahead of issuing the REC budget) and the approved margin determined by Ofgem.

The solution set out in R0025 will be amended to reflect these proposals, ensuring that the DCC's liabilities under the REC PAF are linked explicitly related to the Baseline Margin and only the element relating to its internal costs. The exclusion of DCC's external costs such as those associated with its subcontractors will ensure that the DCC is able to finance the Switching activities that are a requirement of its licence.

R0025 will also include a requirement for the REC PAB to issue a statement before the start of each financial year, confirming the potential liabilities that would apply to the DCC in each quarter (based on confirmation of the DCC's internal costs and approved margin). The REC PAB will then determine whether these performance charges should be applied each quarter based on the DCC's achievement of their SLAs.

At the end of each financial year there will be a reconciliation exercise to ensure that the DCC's recovery of charges, including any liabilities that may have been incurred through the performance assurance regime are consistent with its price control and permitted margin. Any under or over recovery may result in adjustment to subsequent DCC charges.

4. Next steps

Now that a proposed solution has been developed between Ofgem and RECCo, Ofgem has notified the DCC of the proposed approach and we will be meeting with Ofgem and the DCC to discuss this proposal in more detail shortly. The REC Code Manager will now progress Change Proposal R0025, reflecting the proposed solution that has been developed between RECCo and Ofgem. We will also work closely with the DCC in the development and progression of this Change Proposal.

The original scope of R0025 also included proposals to introduce performance charges to the Electricity Retail Data Service (ERDS) and Gas Retail Data Service (GRDS), provided by Electricity Distribution Networks and Gas Distribution Networks respectively. In order to prioritise the developments of this proposal that will need to be in place prior to the start of the next Financial Year (where switching costs will be funded by REC parties and subject to the enduring price control framework), the Code Manager will de-scope the ERDS and GRDS service from R0025. However, the Code Manager will continue to consider the application of performance charges and/or other Performance Assurance Techniques in relation to these parties and if appropriate may bring forward a targeted Change Proposal in the future.

If you have any questions regarding the outcomes of this consultation, please contact us at info@retailenergycode.co.uk.

5. Appendix – DCC Service Level Agreements

Central Switching Service

Service	Paragraph	Service Level
CSS	6.1	Following receipt of Market Messages from CSS Users, the CSS Provider shall carry out synchronous validation and provide a response within the following times: • Average daily volume - mean time of two seconds or less • Average daily volume - 90th percentile time of four seconds or less • Peak daily volume - mean time of three seconds or less • Peak daily volume - 90th percentile time of six seconds or less
CSS	6.2	The CSS Provider shall process a Registration Service Request (from the point of receipt by CSS to the point where CSS sends out the response of either "Validated" or "Rejected") as follows: • Average hourly volume - mean time of three seconds or less • Average hourly volume - 90th percentile time of six seconds or less • Peak hourly volume - mean time of five seconds or less • Peak hourly volume - 90th percentile time of eight seconds or less
CSS	6.3	The CSS Provider shall process the securing of Switches and send synchronisation messages of secured Switches at Gate Closure to each relevant Switching Data Service Provider (from the time of Gate Closure to the point at which CSS sends the last message) as follows: • Average daily volume – mean response time of 20 minutes or less • Average daily volume - 90th percentile response time of 25 minutes or less • Peak daily volume - mean response time of 35 minutes or less • Peak daily volume - 90th percentile response time of 40 minutes or less
CSS	6.4	The Address Management Service shall apply updates to its GB Standardised Address List within three Working Days of receipt.
CSS	6.5	The relevant data for reporting in the software solution shall be available to generate adhoc reports within two Working Hours of a request for that data.

CSS	6.6	Where a BCDR event is invoked, the Recovery Time Objective for the Registration Service and Address Management Service will be: (a) four hours target time; and (b) eight hours maximum time.
CSS	6.7	The Recovery Point Objective for the Registration Service shall be: (a) target – 15 minutes (b) maximum – 30 minutes
CSS	6.8	The Recovery Point Objective for the Address Management Service shall be: (a) target – 60 minutes (b) maximum – 120 minutes

CSS Certificate Authority

Service	Paragraph	Service Level
CSS CA	6.2	Where a security certificate is compromised, the CSS Certificate Authority will revoke the relevant certificate and update the Certificate Revocation List within one hour of the Certificate Revocation Request being received by the CSS Certificate Authority.
CSS CA	6.3	Where a BCDR event is invoked, the Recovery Time Objective for the CSS Certificate Authority will be: (a) four hours target time; and (b) eight hours maximum time.
CSS CA	6.4	Where a BCDR event is invoked, the Recovery Point Objective for the CSS Certificate Authority will be 15 minutes.

Switching Operator

Service	Paragraph	Service Level
Switching Operator	5.1/5.2	Response time and resolution time of Switching Incidents. Priority 1: (a) response time – 30 minutes (b) resolution time – four hours Priority 2: (a) response time – one hour (b) resolution time – 24 hours Priority 3:

		(a) response time – three Working Hours (b) resolution time – three Working Days Priority 4: (a) response time – one Working Day (b) resolution time – 10 Working Days
Switching Operator	5.4	Target Fulfilment Time for Switching Service Requests. Priority 1 – Target Fulfilment Time: one Working Day Priority 2 – Target Fulfilment Time: two Working Days Priority 3 – Target Fulfilment Time: three Working Days Priority 4 – Target Fulfilment Time: 10 Working Days
Switching Operator	5.6	Where a BCDR event is invoked, the Recovery Time Objective for the Switching Operator Service shall be: (a) four hours target time; and (b) eight hours maximum time.
Switching Operator	5.7	Where a BCDR event is invoked, the Recovery Point Objective for the Switching Operator Service shall be: (a) target – 15 minutes (b) maximum – 30 minutes