# DCC Service Provider Performance Charges

Consultation Response Form

REC
RETAIL ENERGY CODE COMPANY

## Respondent Details

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| NAME | Bryan Heap |
| ORGANISATION | Electricity North West Limited |
| ORGANISATION CATEGORY | Distribution Network Operator |
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| TELEPHONE NUMBER | 07500849220 |
| RESPONSE CONFIDENTIALITY | Non-Confidential |

## Questions

1. **Which of the individual DCC SLAs (set out in the 'DCC Service Level Agreements' section of this document) across all three DCC Services, do you consider are the most material and impactful, should they not be met? Please explain your reasons why, noting you can specify more than one.**

The DCC SLAs and services represent a package of measures which are funded collectively via a price control and therefore, should be reviewed collectively.

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2. **Which of the individual DCC Services (if any), do you consider are the most material and impactful, should one or more of their SLAs not be met? Please explain your reasons why.**

Please see above.

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| **3. Where do you consider that performance charges relating to some or all DCC SLAs should operate:**<br>**a. the Switching Incentive Regime (SIR);**<br>**b. the REC Performance Assurance Framework (PAF); or**<br>**c. split between both the SIR and REC PAF?**<br><br>**Please explain your answer and detail which SLAs should be subject to the SIR, if any.** |
| We suggest that all the DCC costs, performance measures and SLAs should all be viewed, analysed and measured collectively. The DCC is funded via a price control settlement, with costs, revenues and performance subject to Ofgem scrutiny and potential revenue adjustment. We would therefore propose to remove all elements of the DCC performance charges from the REC PAB scope and agree with Ofgem that it is more appropriate for metrics to be subject to the DCC regulatory price control). This would eliminate all potential double jeopardy scenarios and ensure that the regulatory contract remains intact. We are unable to comment if Ofgem's proposed Switching Incentive Regime (SIR) is the appropriate mechanism for calculating the performance adjustment for any DCC SLAs as the information on the proposed regime is not available at this stage. We agree with RECCo that further consultation and clarification is required on how poor performance would be addressed through this SIR. This proposal should also have no impact on the CSS funding arrangements as (from April 2023) RECCo will recover the operational costs of the CSS from Suppliers which have been determined by Ofgem as part of the DCC's price control to reflect cost reflectivity, recovery rate and margins. |

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| **4. Do you consider that any of the three DCC Services (CSS, CSS CA and Switching Operator) should have all their constituent SLAs assured under the SIR as opposed to the REC PAF? Please explain your reasons why, noting that you can specify more than one service to operate in this manner.** |
| Please see our answer to question 3. |

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| 5. Do you agree with RECCo's concerns that splitting the assurance of the DCC, as a REC Service, between two regimes could undermine RECCo's ability to hold its Service Provider to account for the end-to-end delivery of its service? | |
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| We disagree with RECCo's concerns that splitting the assurance would undermine its ability to hold DCC to account. At present, all of the DCC's revenue is agreed via the Authority and will be collected through the REC (with RECCo reliant upon the Authority for oversight). Transferring the performance metrics to the DCC's regulated price control will ensure that the Authority will be able to ensure that the DCC services deliver for customers as a whole. | |
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| 6. Do you consider there to be any other risks or issues with DCC SLAs being subject to the SIR instead of the REC PAF? | |
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| Yes. One of the only identified benefits of using the REC PAF as a performance tool is the timeliness of the penalties to the breach of SLAs/services. The REC PAF will be assessed and penalties collected on a more frequent basis than the Ofgem SIR mechanism, potentially providing reduced charges to customers sooner. | |
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| 7. Do you agree that the REC PAB should continue to be responsible for monitoring DCC SLAs and providing a recommendation on whether these have been met if these are assured under the SIR? | |
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| We agree that REC could have a role in monitoring the DCC REC obligations and SLAs and collecting data and providing performance analysis. We recommend that when Ofgem consult further on the SIR they seek views if the REC PAB could add value by working with the established SEC sub-committees charged with monitoring DCC performance. Any proposed SIR framework, would ultimately have Ofgem determining if the DCC performance is satisfactory or warrants further investigation of potential issues. | |
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| 8. If an SIR is introduced, do you consider this should be a temporary measure and reviewed as part of the DCC's Licence review in 2025? | |
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| We believe Ofgem is best placed and should lead a consultation on the proposed SIR and how this would sit within or beside the existing Operating Performance Regime (which in itself is also subject to regular review and amendments). We are unable to comment in absence of any information on the proposed methodology. | |
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**9. Do you have any further comments?**

We have a number of concerns with the published consultation as follows;

1) RECCo refer to the 'development' of R0025, yet the last communication from RECCo or the REC PAB on this material change was in early January 2022. We are awaiting further communications from RECCo/REC PAB on:
    a. a response to industry feedback on the initial proposals;
    b. a plan for further development (a statement on the change plan milestones); and
    c. publication of any documentation on the REC portal(e.g. initial impact assessment).
2) We asked our REC PAB DNO representative to seek clarification on the linkage between R0025 and with this consultation from RECCo/REC PAB at the April REC PAB meeting. The response from Deliottes was there was no linkage between this consultation and the change proposal. We disagree, this consultation is proposing a fundamental change to R0025 whereby the proposed solution would remove the DCC from any REC service provider performance charge regime. The title of the change proposal refers to the DCC's inclusion within the solution.

The previous feedback noted that there are issues using turnover-based performance charges. The indicative 1-5% range of turnover penalties is inconsistent with the stated objectives of the performance charges (*Performance Charge represents a genuine pre-estimate of the loss likely to be suffered by other REC Service Users and REC Service Providers and/or by Consumers (individually or collectively), as a result of the particular failure to which the Performance Charge applies - Schedule 6, Annex A, section 1.2*). This calculation of "likely loss" will not be achieved via a fixed percentage penalty mechanism. Additionally, the calculation of turnover for these services is difficult as they will vary across the services (contracts vary significantly between the ERDS and GRDS). We are also conscious that the Electricity Act notes that DNOs are not exposed to consequential losses. These points have not been considered as part of RECCo's current thinking and should be factored into R0025.

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