RETAIL ENERGY CODE

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# CONSOLIDATED CONSULTATION RESPONSES

## R0025 - SERVICE PROVIDER PERFORMANCE CHARGES (DCC)

On 15 November 2022 the Code Manager issued a consultation to industry to seek feedback on the Preliminary Change Report for R0025.

The purpose of this document is to consolidate the responses as well as answer any questions raised within those responses.

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| **RESPONSE TYPE** | NON CONFIDENTIAL |
| **DATE ISSUED** | 09/12/2022 |
| **RESPONSIBLE COMMITTEE** | PERFORMANCE ASSURANCE BOARD |
| **LEAD ANALYST** | GEMMA DIXON |

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| **DATE CONSULTATION ISSUED** | 15/11/2022 |
| **RESPONSE DEADLINE** | 07/12/2022 |

| Questions 1: | **Do you agree that the CRS Provider should be incentivised against the current service levels and service availability requirements defined in the REC?** | |
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| **RESPONDENT DETAILS** | **RESPONSE** | **CODE MANAGER COMMENTS** |
| National Grid Electricity Distribution<br><br>Distribution Network Operator | Yes, we agree that the CRD Provider should be incentivised against the current service levels and service availability requirements defined in the REC. | Thank you for your response. |
| British Gas<br><br>Energy Supplier | Yes. We agree that the CRS Provider should be incentivised against the current service levels and service availability requirements, currently defined in the REC. | |
| DCC | We agree there should be an economic incentive regime in place for the Switching Service. However, as further explained in our response to question 2 we believe the current service levels defined in the REC require clarification and supporting material will need to be developed under the REC to define any exclusions or exceptions, for example. | |
| EDF<br>Energy Supplier | Yes, we agree that it is appropriate for the CRS Provider to be incentivised against the current requirements set out in the REC. We note the concerns that DCC has raised regarding these service levels – we agree with the approach set out in the consultation that these should be addressed through separate Change Proposals.<br><br>We and other REC Parties expect the CRS Provider to achieve the service levels currently set out in the REC. | |

| Questions 2: | **Do you agree that service levels should initially be considered equally material and not subject to weighting? If not, please explain why?** | |
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| **RESPONDENT DETAILS** | **RESPONSE** | **CODE MANAGER COMMENTS** |
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| National Grid Electricity Distribution<br><br>Distribution Network Operator | Yes, we agree that service levels should initially be considered equally material and not subject to weighting. | Thank you for your response. |
| British Gas<br><br>Energy Supplier | Yes. We recognise the difficulty in working out which service levels should perhaps be prioritised over others, and so agree that – for now – these should be considered equally material, and not subject to weighting. | Thank you for your response. |
| DCC | The current SLAs in the REC Service Definitions which form the basis of the Switching Incentive Regime do not currently contain target or threshold/minimum levels, tolerances, exceptions or exclusions. The target for all SLAs is set at a 100% success rate within the REC and not all of the SLAs are fully within DCC's control to achieve, such as SLAs that are dependent on User behaviour.<br><br>DCC have discussed all SLAs with Ofgem and RECCo and it has been agreed that changes will be required, and supporting material drafted, to detail the measurement methodology, including allowed exceptions, for example. The proposed changes to the SLAs themselves have been grouped into three categories:<br><br>1) Changes to the reporting methodology by which performance is reported to the REC Performance Assurance Board; | There has been no agreement made to cater for allowable exceptions. Any changes to the SLAs would need to be progressed through a separate Change Proposal supported by its own case for change. |

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| | 2) Changes to the wording of the Service Definitions to “tidy up” definitions and clarify the meaning of the measures and addition of a service availability measure; and<br>3) Changes to the measures in the REC Central Switching Service (CSS) Service Definition.<br><br>The DCC would need to raise a Change Proposal to amend certain measures within the REC CSS Service Definition, however the Preliminary Change Report states the Code Manager does not consider that this activity needs to complete, or reasonably can complete, prior to the completion of this Change Proposal. DCC may want to raise a Change Proposal to amend these measures, if necessary, and considers that it must be completed, and that it reasonably should be possible to complete and agree it before the Switching incentive regime comes into force.<br><br>Additionally, we agree that a clearer link should be established between the incentivised SLAs and the interests of Users, potentially including weighting or a link to detriment caused by missed SLAs. This could then be reflected in the table provided in paragraph 5.4. Currently the percentage of Performance Charge for each failure is overly simplistic, arbitrary and not reflective of the actual impact an SLA failure could have on REC Parties. Also, with the inclusion of an additional SLA on Service Availability target, this should be an opportunity to revisit the rationale behind the current percentage reductions. | Of the 3 types of changes highlighted by the CRS Provider, the first 2 points could be progressed before April as separate change proposals to R0025, however, changes to service levels (point 3) is a more material change and unlikely to conclude before April due to the wider impact assessments required with Parties. |
| EDF<br>Energy Supplier | No, we do not agree that all service levels should be subject to equal weighting.<br><br>We note that it might be difficult to assign a weighting to the various service levels set out in the Central Switching Service Definition based on their impact on switching activity.<br><br>However, there would seem to be a clear difference in impact between the SLAs in the Central Switching Service Definition (which will directly impact switching activity and consumers that are seeking to change their supplier) and the CSS Certificate Authority | The Code Manager acknowledges that we could go further with this, however, as it is the first year of the scheme, we feel there is a need to be proportionate.<br>The effectiveness of the scheme will be monitored and future changes to the design of this may be proposed.<br>We believe any changes would need to be considered based on learnings from the early operation of the scheme. |

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| | Service Definition, which are much less likely to have a direct impact on whether a consumer switches or not. Similarly, the resolution of incidents in line with the service levels as defined in the Switching Operator Service Definition is going to have direct impact on consumer switching, and that impact will vary depending on the severity of the impact.<br><br>Those SLAs that directly impact switching activity should be weighted more highly – especially relative to the service levels set out in the CSS Certificate Authority Service Definition. | |

| **Questions 3:** | **Do you agree that the Service Levels should not be revised as part of this Change Proposal and if any changes are required then these should be progressed through a separate Change Proposal?** | |
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| **RESPONDENT DETAILS** | **RESPONSE** | **CODE MANAGER COMMENTS** |
| National Grid Electricity Distribution<br><br>Distribution Network Operator | Yes we agree that the Service Levels should not be revised as part of this Change Proposal, and if any are required then these should be processed through a separate Change Proposal. | Thank you for your response. |
| British Gas<br><br>Energy Supplier | Yes. We agree that for this Change Proposal the Service Levels should be unchanged. If any changes are required in the future, these should be progressed through separate Change Proposal(s). | |
| DCC | We believe the clarifications to the SLAs to “tidy up” the definitions and to clarify the meaning behind the measures should be progressed as part of a housekeeping Change Proposal that is progressed in parallel with this REC Change Proposal. There is also no service availability SLA which should be considered as part of a | |

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| | housekeeping Change Proposal as this was highlighted as an oversight by the Code Manager | |
| EDF<br>Energy Supplier | We agree that any changes to service levels should be made as part of a separate Change Proposal. The application of performance charges should not itself be a reason to amend the service levels - we and other REC Parties expect the CRS Provider to achieve the service levels currently set out in the REC whether performance charges are associated with them or not.<br><br>However, where the current service levels are not clearly defined or are subject to interpretation it is reasonable that these issues are addressed before performance charges are implemented. | Any clarifications required to the current SLAs would need to progress as a separate Change Proposal. The Code Manager is expecting the CRS Provider to submit a Change Proposal requesting housekeeping changes. |

| **Questions 4:** | **Do you have any other comments on the proposed solution?** | |
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| **RESPONDENT DETAILS** | **RESPONSE** | **CODE MANAGER COMMENTS** |
| National Grid Electricity Distribution<br><br>Distribution Network Operator | | |
| British Gas<br><br>Energy Supplier | We do not agree with DCC receiving a let for 1 SLA being missed, and the penalty only starting if 2 or more SLAs are missed in any quarter. This is misaligned with SEC and DCC's Smart Metering performance regime. Introducing it into the REC could create a worrying precedent. This is particularly important if the 1 SLA is breached by a considerable amount. | The solution does clarify that SLAs can be at risk multiple times but these would not count as one failure. If it is missed more than once, it is counted as such.<br>Please note Paragraph 5.6 in Annex A of the Performance Assurance Schedule:<br><br>*"Where the CRS Provider fails against a single Performance Level on more than one occasion,* |

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There also appears to be no assessment of the degree of failure – does the CRS just miss the target threshold, or could they miss it by a significant proportion. The size of the miss may have a noticeable impact on consumers.<br><br>
It needs to be completely clear how each 3-month SLA will be calculated from the three individual 1-month reports. In our view, this means It needs to be recalculated from the underlying 3-month data, rather than just being an average of each month's figure. For example, in the theoretical example below, where Month 3 had higher volume, but a lower %Success, the correct Quarterly figure needs to be the 83%, not the 85%.<br><br>
<table>
<tr><td>Month</td><td>1</td><td>2</td><td>3</td><td>Total</td></tr>
<tr><td>Volume of transactions</td><td>100</td><td>100</td><td>200</td><td>400</td></tr>
<tr><td>Successful</td><td>90</td><td>90</td><td>150</td><td>330</td></tr>
<tr><td>% Successful</td><td>90%</td><td>90%</td><td>75%</td><td>83%</td></tr>
<tr><td>Simple average</td><td>90%</td><td>90%</td><td>75%</td><td>85%</td></tr>
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<br>
There should be a penalty for cumulative Repeat failures. For example, if the same SLA is missed in 2 or more consecutive quarters, the penalty should be increased.<br><br>
There should also be a firm date for when the performance charges will be reviewed. This is important in case – despite best efforts – the proposed scheme does not drive the right required behaviour, and needs adjustment.
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<td>each instance of failure shall be considered a separate missed Performance Level for the purposes of calculating the Performance Charge."</td>
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| DCC | 1) DCC have suggested amendments to the proposed legal text of Annex A to the REC Performance Assurance Schedule which are summarised below:<br><br>(a) Paragraph 1.2 states that "each REC Service User and REC Service Provider acknowledges and agrees that each 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". No assessment has been carried out by RECCo or the REC Code Manager in linking the value of possible Performance Charges to any genuine loss likely to be suffered by CRS Users and other REC Service Providers or Consumers impacted by any potential REC Service User's or REC Service Provider's service level failures. On this basis we recommend this Paragraph be deleted. | Paragraph 1.2 represents a pre-estimate of loss either "individually or collectively". The solution does not propose to weight SLAs initially, but instead proposes to measure performance against SLAs equally. This is to reflect that failure to deliver expected SLAs would result in a reduced service received by CSS Users. This would represent the collective loss suffered by REC Service Users. Therefore we propose to retain this Paragraph. |
| | (b) Paragraph 2.1 states that "each REC Service User and REC Service Provider shall, without prejudice to its other obligations under this Code, comply with the Performance Levels set out in the Table of Performance Charges"; however, it is our understanding that there is a separate table applicable to the CRS Provider's Performance Changes in Paragraph 5.4. We would recommend that it be stated in Paragraph 2.1 that the CRS Provider is excluded from the scope of Paragraph 2.1. | Paragraph 2.3 clarifies that these Performance Charges Performance Charges are governed by paragraph 5, however this does not mean that paragraph 4 (Table of Performance Charges) would not be applicable to the CRS Provider in the future, as there is currently no content in paragraph 4. This does not impact a CRS Provider and therefore does not need to be removed. |
| | (c) The process for reporting Performance Level achievement and failure, consideration of derogations and exceptions, and linkage between Performance Level failure and the calculation of Performance Charges is covered by paragraph 3 of Annex A to the Performance Assurance schedule and was the subject of a previous Ofgem consultation, to which DCC responded. A number of the provisions included in the new CRS Provider Performance Levels proposed at paragraph 5 contain content already covered by paragraph 3, which applies to all REC Service Providers including the CRS Provider. To avoid duplication and ensure consistency, DCC proposes that the provisions of paragraph 3 should be supplemented with the additional content in proposed paragraphs 5.5 to 5.8 as set out in DCC's amendments to the draft legal text. This would mean paragraph 5 would contain only content relating to | The Code Manager does not consider this to be duplication; this sets out specific detail with regard to the operation of this scheme. We believe this detail needs to be retained. |

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| | Performance Levels that is specific to the CRS Provider, as explained in paragraph 3.13. | |
| | (d) We have proposed a clarification in paragraph 5.2 as to how the CRS Provider's maximum revenue at risk will be determined within the DCC Licence, based on the proposed changes on which Ofgem is consulting in relation to the introduction of a Switching performance incentive regime. DCC understands that the proposed Switching Incentive Regime Guidance described in the proposed Licence changes under Ofgem's SIR consultation would establish the process, procedures and criteria used to determine the value of the terms applied in the CRSPA calculation, not the CRSM. | A change will be made to the legal text to replace the term "Central Registration Service Baseline Margin" with "Centralised Registration Service Margin"<br>We believe the reference to the SIR Guidance is still relevant as this would be updated following any new direction made to the CRS Provider. |
| | (e) Paragraph 5.9 states that the decision of the REC PAB under Paragraphs 5.7 and 5.8 shall be final and binding in relation to the CRS Provider's performance against the Performance Levels (subject to Paragraph 5.10); however, the REC Code Manager is responsible for reporting to the REC PAB whether a REC Service Provider's performance has met the Performance Levels and the REC PAB determines whether Performance Charges are payable, and if so, the quantum (under Paragraphs 3.3 and 3.5). Paragraph 3 does not include a statement that the REC PAB's decision is final and binding and this position is not agreed. On this basis we have proposed the removal of Paragraph 5.9. | We believe this detail needs to be retained. It is important under the proposal that the PAB are able to exercise their discretion and be responsible for the final determination of whether Performance Charges should apply. The text reflects the intent of this proposal. |
| | (f) The intention of Paragraph 5.11 is unclear. If the budget referred to is the CRS Provider's budget/forecast costs then any difference in approach relating to the Performance Charges is accounted for within the DCC Licence (i.e. in the Principal Formula used to determine Allowed Revenue), not this REC Schedule, so we have proposed the removal of this Paragraph. | The Code Manager believe this adds important clarity to how any reconciliation will be managed where Performance Charges have been paid and an adjustment of some form is required. Performance Charges have been paid and an adjustment of some form is required. Therefore, we propose to retain this Paragraph. |

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| | 2) There is no reference in the Performance Charges annex to the REC Performance Assurance Schedule to the weightings that it is proposed the REC PAB will apply as per Ofgem's DCC Licence SIR consultation whereby there will be a proposed 80:20 split between SUM1 and VFM1. This requires further development.<br><br>3) Can we also confirm when the 'Table of Performance Charges' described in Paragraph 4 of Annex A to the REC Performance Assurance Schedule will be issued for Consultation as currently the only REC Service Provider listed in the Annex to the Schedule is DCC. | 2 – The solution already accounts for this and therefore we do not believe that this requires further development. The SIR Guidance sets out the revenue at risk in relation to this scheme, for instance, in the event that this scheme was applicable to the SUM1 criterion but not the VFM1 criterion and 80% of the CRS margin was attributed to SUM1 then the total revenue at risk for this scheme would be 80% of the CRS margin.<br>We do not propose to introduce additional SLAs.<br><br>Assurance requirements of other Service Provider roles, and/or change management performance may still be explored in the future if/when required. REC Products would be appropriately updated as part of any future Change Proposal. |
| EDF<br>Energy Supplier | We do not agree with the way that the performance charge regime has been structured, specifically the way it has been split into separate quarterly periods. While this approach aligns the regime with the way that these services are invoiced, it also means that the CRS Provider could achieve a significant proportion of their margin if they achieve their service levels for some of the year, but completely fail to meet them for the rest of the year.<br><br>This could create a perverse incentive for the CRS Provider to not try to recover the service levels in a specific quarter, for example they might not seek to recover their performance in Q4 if they have already achieved their targets and received their margin for Qs 1-3.#<br><br>We would like to see an approach whereby extreme poor performance in one quarter can lead to charge being applied (or margin being reduced) in another quarter. This would incentivise the CRS Provider to recover their performance even if they have hit the threshold for receiving no margin in that quarter. | The Code Manager acknowledges that we could go further with this however as it is the first year of the scheme, we feel there is a need to be proportionate.<br>Under existing Price control, existing incentives are only applied on an annual basis. The move to quarterly, is a positive step to ensure that charges are applied closer to the point of failure, incentivising earlier remedy than may otherwise be the case.<br>The effectiveness of the scheme will be monitored and future changes to the design of this may be proposed. For instance, to ensure the DCC is incentivised to remedy issues promptly, it may be appropriate to increase the materiality of certain charges or to reduce the period in which charges are applied (e.g., move from quarterly to monthly). |

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| | This could be achieved, for example, by including a new category in the table in clause 5.4 of the legal text ('Extreme failure') which could be set at an appropriate level (such as '10 or more Performance Levels missed in the Quarter') at which point the penalty would exceed 100% of Maximum Quarterly CRS Performance Charge and decrease the margin achieved in previous (or subsequent) quarters.<br><br>As currently set out in the legal text there is no clear financial incentive for the CRS Provider to recover their performance within a quarter once they have 5 or more Performance Levels missed in the quarter. | We believe these types of changes would need to be considered based on learnings from the early operation of the scheme. |

| **Questions 5:** | **Do you agree with the proposed implementation date and implementation technique? If not, please explain why?** | |
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| **RESPONDENT DETAILS** | **RESPONSE** | **CODE MANAGER COMMENTS** |
| National Grid Electricity Distribution<br><br>Distribution Network Operator | Yes we agree with the proposed implementation date and technique. | Thank you for your response. |
| British Gas<br><br>Energy Supplier | Yes. We agree that being implemented for the April-June 2023 quarter makes sense. | |
| DCC | We agree that a regime should be in place by 1 April 2023 and DCC are supportive of, and encourage, further dialogue and collaboration with RECCo and Ofgem in order to achieve these timelines. | |
| EDF<br>Energy Supplier | Yes, we agree with the proposed implementation date and implementation technique. | |

| Questions 6: | **Do you agree with the Code Manager's assessment of the Change Path, that this Change Proposal should be subject to Authority approval?** | |
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| **RESPONDENT DETAILS** | **RESPONSE** | **CODE MANAGER COMMENTS** |
| National Grid Electricity Distribution<br><br>Distribution Network Operator | Yes, we agree with the Code Manager's assessment of the Change Path. | Thank you for your response. |
| British Gas<br><br>Energy Supplier | Yes. We agree this should be subject to Authority approval, given its strategic importance alongside the DCC licence review. | |
| DCC | We agree that this Change Proposal should be subject to Authority approval. | |
| EDF<br>Energy Supplier | Yes, we agree that this Change Proposal should be subject to Authority approval, given the link to the DCC licence changes. | |

| Questions 7: | **Do you agree with the Code Manager's recommendation that this Change Proposal should be approved for implementation on 01 April 2023? If not, please explain why?** | |
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| **RESPONDENT DETAILS** | **RESPONSE** | **CODE MANAGER COMMENTS** |
| National Grid Electricity Distribution<br><br>Distribution Network Operator | Yes we agree. | Thank you for your response. |
| British Gas<br><br>Energy Supplier | Yes. See answer to 5 above. | |
| DCC | We agree, and as stated in our response to question 5, DCC are supportive of a regime being in place by 1 April 2023 and look forward to working with RECCo and Ofgem in finalising the SLAs and supporting methodology to ensure the regime is suitable and achieves the required outcome.<br><br>It has been acknowledged that changes will be required to the SLAs that are used in the scheme and to the measurement methodologies. It has also been suggested by Ofgem that margin can be put at risk from 1 April 2023 even if the scheme will not yet have been finalised at that point (ie. by exposing the margin to future reductions once the scheme is agreed and finalised). Therefore, the need to put margin at risk under the REC from 1 April 2023 should not be a driver to rush the finalisation of the regime, avoid code change processes that require broader consultation on impacts, and rule out the opportunity to revise the SLAs. | RECCo and the Code Manager have not acknowledged that material changes are required to implement this scheme. We have acknowledged that minor clarifications to the wording of certain SLAs, to ensure the intent of these are unambiguously understood, would assist DCC and PAB in understanding how these will be measured for the purposes of this scheme.<br>We do not consider that any material changes to the CRS Providers SLAs, from those previously agreed in design baseline 4 and REC V3.0, are required prior to the implementation of this scheme.<br>Should the DCC wish to propose changes to their SLAs, they are welcome to raise a Change Proposal to do this, and this will |

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| | | require full industry engagement and impact assessment, so impacts to all stakeholders are considered and an appropriate business case is put forward to determine if a change should be made. The Code Manager cannot predetermine the outcome of any Change Proposal and therefore do not see this as a dependency to introduce this scheme. |
| EDF<br>Energy Supplier | Yes, we agree with the Code Manager's recommendation that this Change Proposal should be approved for implementation on 01 April 2023. | Thank you for your response. |

| **Questions 8:** | **Do you have any other comments relating to this Change Proposal?** | |
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| **RESPONDENT DETAILS** | **RESPONSE** | **CODE MANAGER COMMENTS** |
| National Grid Electricity Distribution<br><br>Distribution Network Operator | | |
| British Gas<br><br>Energy Supplier | No. Nothing further to add. | Thank you for your response. |
| DCC | Given that a) it is desirable to do further work on identifying the aspects of systems performance that are particularly important to users and ensure that the economic | The Change process is there to protect all impacted stakeholders by ensuring changes go through the relevant scrutiny. |

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| | incentive scheme reflects that importance, b) user behaviours diverge from original assumptions (e. g. with regard to real time processing vs. batch processing) and will continue to change in the future, c) the service went live while the market context constrained switching and has therefore not been seen performing live in the conditions for which it was designed, it may be appropriate for the REC Code Manager to be able to adjust the SLAs and relevant aspects of the scheme more flexibly than through a full code change process. | We believe it is appropriate that any changes to SLAs go through a robust assessment to ensure impacts on other Service Providers and REC Service Users are taken into account and the REC Change process provides the appropriate route to manage this. |
| EDF<br>Energy Supplier | No | Thank you for your response. |