RETAIL ENERGY CODE

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01	Initial Assessment Report
02	Preliminary Change Report
03	Final Change Report

INITIAL ASSESSMENT REPORT

R0025 - SERVICE PROVIDER PERFORMANCE CHARGES (DCC)

DOCUMENT VERSION	V1.0
DATE ISSUED	25/10/2022
DOCUMENT APPROVAL STATUS	APPROVED

RESPONSIBLE COMMITTEE	PERFORMANCE ASSURANCE BOARD	**CHANGE PATH**	AUTHORITY DETERMINED
PRIORITY STATUS	HIGH	**URGENCY**	STANDARD

DEADLINE FOR ALTERNATIVE CHANGE PROPOSALS	11/11/2022

LEAD CHANGE ANALYST



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CHANGE OVERVIEW

This Change Proposal seeks to introduce an economic incentive scheme for the Centralised Registration Service (CRS) Provider through the introduction of Service Provider Performance Charges linked to performance against service levels defined in the REC.

	High Impact: Data Communications Company (DCC)
	Medium Impact: REC Performance Assurance Board, Code Manager
	Low Impact: N/A

1 BACKGROUND

Performance Assurance Techniques (PATs) are a critical part of the Code Manager's Performance Assurance Framework. These techniques are the mechanisms by which the Code Manager understands the causes of poor performance and acts to improve performance. As set out in the PATs document, Performance Charges will be used in specific circumstances to incentivise performance based on objective, measurable performance criteria.

The performance of REC Service Providers is essential to the proper functioning of the market. It is therefore important to incentivise these providers.

There are two categories of service providers under REC governance, those procured by the Retail Energy Code Company (RECCo) and those provided by other Parties:

REC SERVICES PROVIDED BY RECCO
REC Code Manager
Electricity Enquiry Service / Secure Data Exchange Service
Gas Enquiry Service
Green Deal Central Charging Database service
Energy Theft Tip-off Service
Metering Auditors

REC SERVICES PROVIDED BY PARTIES	
DCC Responsibility:	Distribution Network Operators / Gas Transporters Responsibility:
Central Switching Service (CSS)	Electricity Retail Data Service (ERDS)
Switching Operator Service	Gas Retail Data Service (GRDS)
CSS Certificate Authority	

RECCo are responsible for contract management, including creating appropriate service levels and service credits for the services they procure. As a consequence of REC V3.0, similar incentives do not exist for services relating to the CSS, Switching Operator Service and CSS Certificate Authority. Given the scale and importance of these services in the market, the Code Manager has developed a Performance Charge framework to incentivise this performance.

The recommended approach, which was first endorsed by the Performance Assurance Board (PAB) in December 2021, and which has subsequently been developed between the Code Manager, RECCo and Ofgem, focuses on performance against service levels defined in REC Service Definitions. The basic principle of the approach is that Performance Charges will be applied where the Service Level Agreement (SLA) metrics, which will be based on the requirement set out in the REC Service Definition, are not met. The CRS Provider operates as a regulated monopoly under a price control regime, and in accordance with the Smart Meter Communications Licence issued by Ofgem. Any Performance Charge framework developed needs to be cognisant of, and complimentary to, the price control regime set by Ofgem.

The price control provisions within the Smart Meter Communications Licence require that 100% of DCC's baseline margin must be at risk. In Ofgem's proposed changes to the Smart Meter Communication Licence, they will be 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). This is similar to the way the current Operational Performance Regime (OPR) for smart metering is designed, although this currently has three categories that the DCC are measured on.

The operational / system performance incentive category would be assured through the REC, with up to 80% (or the final percentage 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. 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.

Therefore, the proposed solution in this Change Proposal seeks to use the application of REC Performance Charges, related to the CRS Provider's performance against service levels, as the mechanism through which DCC's operational performance is to be measured as part of Ofgem's price control.

Originally, this Change Proposal also sought to include the REC Services provided by Distribution Network Operators and Gas Transporters (ERDS and GRDS) in scope. Through the development of the Change Proposal, the introduction of Performance Charges for these services have been removed and are no longer in scope of this Change Proposal, however assurance techniques and further incentives to improve performance in these areas may be explored at a future point.

This Change Proposal is linked to changes being made to the Smart Meter Communications Licence (DCC Licence) by Ofgem that need to be implemented on 1st April 2023 to be in for the start of the next Regulatory Year. Therefore, the prioritisation and Change Proposal Plan for this Change Proposal will need to accommodate this timetable.

2 PROBLEM STATEMENT

Service Provider performance measures and charges do not currently exist for services that are not procured by the Retail Energy Code Company but are provided by other Parties. The performance of Service Providers is essential to the proper functioning of the market, without appropriate performance measure or Performance Charges there is little incentive for these providers to maintain service performance or improve poor performance in a timely manner.

3 USER STORIES

REF.	USER STORIES
MARKET PARTICIPANT USER STORIES	
M1	As the REC Code Manager, I want to ensure that REC Service Providers achieve their Service Level Agreements (SLAs) defined in REC Service Definitions, so that impacts to the REC Code Manager, REC Parties and other Service Providers, as a consequence of

	Service Provider underperformance, are minimised and the change process delivers to time and cost.
M2	As a Service Provider, I want clarity on when and how Performance Charges will be used as part of the Performance Assurance Techniques, so that I'm clear on what service levels I need to meet and the consequences of not delivering against these.

4 IMPACTS

REC DOCUMENTS / PRODUCTS
REC Schedule 6 – Performance Assurance
REC Schedule 1 – Interpretations
REC Main Body

REC SERVICE PROVIDERS
Central Switching Service Provider (DCC)
Switching Operator Service Provider (DCC)
CSS Certificate Authority (DCC)

RECCO / REC CODE MANAGER
REC Code Manager - Performance Assurance
RECCo

The proposed solution introduces an economic incentive scheme linked to the CRS Provider's performance against existing SLAs. There is an existing reporting mechanism in place to monitor this which is sent to the Code Manager for review each month. The scheme would be the mechanism through which the DCC's operational and system performance would be assured through their price control regime. Ofgem will determine a percentage of the CRS Provider's baseline margin for switching that will be at risk through the scheme in each Regulatory Year.

The Performance Assurance Board and Code Manager will measure the CRS Provider's performance on a quarterly basis, and the PAB will be responsible for determining where Performance Charges should be applied based on the reported performance in each quarter.

The proposed legal text changes can be found here.

5 CROSS CODE IMPACTS

This change does not have any cross-code impacts.

6 CHANGE PATH AND RESPONSIBLE COMMITTEE

CHANGE PATH	AUTHORITY DETERMINED

RESPONSIBLE COMMITTEE	PERFORMANCE ASSURANCE BOARD

This is an Authority Led Change Proposal linked to changes being made to the Smart Meter Communications Licence (DCC Licence) by Ofgem and the decision on the application of price control managed by Ofgem. Therefore, this Change Proposal meets the requirements of an Authority Determined Change Proposal.

Although this Change Proposal has updates proposed to Schedule 1 – Interpretations and the REC Main Body which are under the responsibility of the REC Change Panel the main changes proposed are to REC Schedule 6 – Performance Assurance, which is under the responsibility of the Performance Assurance Board and proposes new responsibilities for the PAB related to the management of a new economic incentive scheme. Therefore, we propose that the Responsible Committee for this Change Proposal should be the Performance Assurance Board.

7 PRIORITY STATUS AND URGENCY

Significance	Score	Weighting
Legal/Regulatory Compliance	0	30
Strategic Direction	2	20
Cost Benefits / Value	0	10
Consumer Impacts	2	30
Operational Efficiency	0	10
Weighted Significance Score		1

Weighted Significance Score	1
Urgency	3
Overall Priority Score	13
Effort	1 - Moderate

Urgency

3	N/A	13	23	33
2	02	12	22	32
1	01	11	21	31
0	00	10	20	N/A
	0	1	2	3

Significance

Priority Score	Priority Status
23 - 33	Critical
13 or 22	High
11-12 20-21	Medium
00 - 10	Low

PRIORITY STATUS	URGENT/ STANDARD
HIGH	STANDARD

The Priority Status for this Change Proposal is ‘High’ based on a ‘Weighted Significance’ score of 1 and an ‘Urgency’ score of 3. This is broken down as below:

Significance:

Strategic Direction – a score of 2 as this Change Proposal directly supports the implementation of the REC Strategy and Strategic Objectives. The introduction and use of Service Provider Performance Changes as a Performance Assurance Technique is included in the Performance Assurance Operating Plan.

Consumer Impacts – a score of 2 to reflect that although no direct improvement to Consumer experience would be seen through the implementation of this change, Service Provider underperformance may result in Consumer detriment, impacting the Consumers Switch. This score reflects the priority (High) assigned to the associated Retail Risks within the Retail Risk Register.

Urgency:

This Change Proposal has been given an urgency score of 3 to reflect the need for it to be progressed immediately for it to achieve its required timetable.

8 SUMMARY OF CHANGE PROPOSAL PLAN

The solution for this Change Proposal has already been developed and has been reviewed by Ofgem and DCC. A legal review has also been completed.

The Code Manager considers that the solution is fully formed and therefore believe that no additional development or impact assessment period is required as the solution does not require any change to DCC systems, processes, or service provider contracts.

While we recognise that the DCC may wish to complete an impact assessment with their service providers to implement or strengthen their own controls and incentives, where these relate to service levels at risk through this scheme, we do not consider that this activity is required as part of this Change Proposal.

The proposed solution does not seek to amend existing service levels or introduce new service levels that would require a change to the service provided by the DCC or its service providers. The service levels that are measured are those that were agreed by the Switching Programme, with engagement from the DCC and REC parties. The DCC has existing reporting processes in place for performance to be reported to the Code Manager monthly, therefore there is no material change required to the DCC's systems or processes to implement this change.

The proposed solution also only seeks to put the DCC's approved baseline margin at risk each year. This represents the allowable profit margin that the DCC can earn as part of its revenue as the CRS Provider and is set by Ofgem each year. The baseline margin is calculated based on the DCC's internal costs, not their external costs, therefore there is no link between this, and the costs incurred by their service providers. Therefore, there is also no requirement for the DCC to pass these costs through to their service providers in order for the scheme to be implemented and therefore no reason the DCC would need to identify any costs to REC parties through a formal impact assessment.

We propose this Change Proposal should proceed immediately to a consultation on the Preliminary Change Report.

	FROM	TO
PRELIMINARY CHANGE REPORT AND CONSULTATION ISSUED	11/11/2022	11/11/2022
CONSULTATION	11/11/2022	02/12/2022
FINAL CHANGE REPORT ISSUED	09/12/2022	09/12/2022
RESPONSIBLE COMMITTEE DECISION	20/12/2022	20/12/2022
SEND TO AUTHORITY FOR DECISION	21/12/2022	21/12/2022
APPEAL WINDOW CLOSURE	09/01/2023	09/01/2023

9 GLOSSARY

TERM	DEFINITION
Data Communications Company (DCC)	means the person holding the DCC Licence
Performance Assurance	means the activities undertaken by the Code Manager and the REC PAB in accordance with the Performance Assurance Schedule.
Performance Assurance Framework (PAF)	means the Performance Assurance Schedule and the documents, processes and arrangements established pursuant to the Performance Assurance Schedule, for the purposes of (or in relation to) the monitoring and assurance of roles and obligations undertaken by REC Service Users and REC Service Providers pursuant to this Code.
Performance Assurance Operating Plan (POAP)	means the plan of that name approved by the REC PAB, as described in the Performance Assurance Schedule.
Performance Assurance Technique (PAT)	means any provision or process that may be employed by the REC PAB and/or the Code Manager in order to mitigate Retail Risks in accordance with the Performance Assurance Schedule.
Performance Charges	means the charges which the REC PAB may levy on REC Service Users and REC Service Providers as part of the Performance Assurance Framework.
REC Service	means each of the services provided pursuant to this Code, as described in the Service Definitions.
REC Service Provider (Service Provider)	means the provider of each REC Service.
Retail Energy Code (REC)	means this Code, including its Schedules and the Technical Specification, maintained pursuant to the electricity supply licences granted under the Electricity Act 1989 and the gas supply licences granted under the Gas Act 1986, as such code is modified from time to time in accordance with its provisions
Retail Energy Code Company (RECCo)	means the company established under Clause 5 of the main body of this Code.
Retail Risk	means a risk that retail energy consumer outcomes and the effectiveness of the retail market are measurably and significantly degraded by a failure by a REC Service User or REC Service Provider to meet the objectives, standards and core processes under this Code.