Consultation

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Consultation on proposals to introduce a DCC Switching performance incentive regime

Subject	Details
Publication date:	21 November 2022
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We[1] are consulting on proposals to introduce a performance incentive regime for DCC in its roles in the enduring Switching arrangements, under the terms of its existing Price Control. We are also consulting on the % value of margin that DCC should be permitted to earn in its Switching business. We would like views from suppliers, Retail Energy Code (REC) parties, and any party with an interest in Switching. We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at Ofgem.gov.uk/consultations.

[1] The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority

If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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Executive summary

Context

Switching Programme

The Switching Programme was designed to transform gas and electricity switching arrangements, resulting in faster, more reliable switching for consumers. In order to achieve this, a new switching system known as the Central Switching Service (**CSS**) was designed and implemented. The new CSS went live on 18th July 2022.

The new Switching arrangements are made up of a number of different services and systems delivered by a number of Service Providers. As a Service Provider, The Data Communication Company (**DCC**) is responsible for providing three of these services under the umbrella of its role as Central Registration Service Provider, those being the Central Switching Service Provider, the CSS Certificate Authority and the Switching Operator. The quality of service provided under each of DCC's roles will have a direct impact on the speed and accuracy of the Switching system, and therefore on benefits to consumers.

DCC also provided services to the Switching Programme in both the Transition phase and the Design, Build and Test (**DBT**) phase, which have now ended. It also currently provides services to Smart Metering.

Price Control

As a regulated monopoly company, DCC is subject to a Price Control mechanism under terms as set out in the Smart Meter Communication Licence ("the Licence"). The Price Control enables DCC to recover the funds it needs to allow it to perform its various roles in Smart Metering and Switching, assuming it can demonstrate those costs are economic and efficient. It is important that DCC's costs are reasonable and provide value for money for consumers.

DCC is also permitted to earn a profit margin on top of its costs. The value of the margin is established and set out in the Licence as part of the Price Control provisions. The value of the margin in each case is intended to be commensurate with the degree of risk associated with the services that it provides.

Performance incentive regimes

The margins that DCC earns in Smart Metering, and until recently in Switching, have been put at risk against a series of performance incentive regimes set out in the Licence. These regimes ensure that DCC must demonstrate good performance in order to earn its allowed margin or risk incurring financial damages, possibly to the extent of its entire allowed margin.

Our proposals

We are now considering as part of this consultation how to incentivise DCC's margin in its Switching activities, both in the "early post- go live period" between 18 July 2022 and the end of Regulatory Year (**RY**) 22/23, and under the enduring Switching arrangements from RY 23/24 onwards. We are also considering what the % value of the margin should be from RY 23/24 onwards. Finally, we are also consulting on the licence changes required to transpose translate these policy proposals into the Licence.

There are five separate parts to this consultation:

1) Consultation – Establishment of the DCC Switching Incentive Regime – Chapter 3

We are proposing the creation of a new additional performance incentive framework under DCC's existing Price Control, which we are calling the DCC Switching Incentive Regime (**SIR**). The proposed framework is intended to allow DCC to earn a margin on its internal costs of providing its Switching services, subject to performance against key, defined metrics throughout the RY.

The SIR incentivises DCC to deliver a high quality service by placing 100% of its allowed margin each year at risk against performance indicators. We have designed the framework as proposed both to ensure consumers receive value for money for the services DCC provides, but also that DCC has a fair and reasonable chance of earning its maximum predetermined allowed margin. We propose that it should commence at the start of RY 23/24.

We consider that the SIR could be established in the Licence in a way that is agnostic of the exact performance measures that will be in place in a given RY. The intention is that the exact provisions can then be provided ahead of the RY in a Direction to the Licensee, following consultation, to give effect to the metrics in use, similar to the approach we take with the Smart Metering Operational Performance Regime (**OPR**).

2) For information – Proposed form of the SIR in Regulatory Year 23/24 – Chapter 4

In order to assist consultees respond to the proposals in Chapter 3, we have provided information on the form we consider the SIR could take in 23/24. As noted, this would be subject to further consultation in future in the event that we establish the provisions for the SIR in the Licence as proposed.

We consider that the 23/24 SIR could be comprised of two separate measures:

- A Service User Measure – 80% of margin for RY 23/24. This measure would reflect the operational performance of DCC in its Switching roles. We consider that this could be administered on a day to day basis within the Retail Energy Code (**REC**).
- A Value For Money Measure – 20% of margin for RY 23/24. This measure would reflect DCC's performance in terms of customer engagement with its stakeholders.

For both measures, performance charges would apply in the event that DCC underperform against defined metrics.

3) Consultation – Value of Switching margin from Regulatory Year 23/24 onwards – Chapter 5

We are proposing that, under the enduring Switching arrangements, DCC will be able to earn a margin somewhere in the range of 6 – 9% of its internal costs, equating to a range of 6.4 – 9.9% in terms of return on costs.

In our view this reduction in allowed margin relative to Smart Metering, and to earlier phases of Switching, is justified given the lower risk profile to DCC under the enduring Switching arrangements. We consider a value within this range provides a balance between offering value to customers and suitably incentivising DCC to deliver a quality service.

4) Consultation – Incentivisation of DCC in the early post-go live phase – Chapter 6

DCC is currently earning a margin on its Switching activity following CSS Go Live. We are consulting on the appropriate method for how to put 100% of this margin at risk in the early post- go live period between 18 July 2022 and 01 April 2023. We have identified two options that we are proposing as part of this consultation:

1) **DBT phase Delivery Milestones** – under this approach, the value of margin earned would be put at risk against the five DBT phase Delivery Milestones (DM1t to DM5t), as defined within the performance incentive regime for the DBT phase.

2) **Future Switching Incentive Regime** – under this approach, the value of margin earned would be carried forward to be put at risk against future incentivisation criteria under the SIR, in the event that it is established following this consultation.

5) Consultation - Licence changes – Chapter 7

In order to establish and provide for the SIR in the regulatory framework, we are consulting on the amendments to the Smart Meter Communication Licence that we consider are required.

Approach and next steps

This is a consultation on both policy and licence changes. We are seeking stakeholder views both on the underlying policies we are minded to implement, and on the proposed licence modifications we feel appropriately facilitate those policies in the Smart Meter Communication Licence.

The consultation closes on Monday 19th December 2022. We appreciate the time which organisations and individuals will need to put into reading and responding to this consultation and will carefully consider all evidence which we receive.

1. Introduction

What are we consulting on?

1.1. We[2] are consulting on four aspects of The Data Communication Company (**DCC**'s) roles under the new Switching arrangements:

1. The establishment of a financial incentive regime for DCC (the Switching Incentive Regime, "**SIR**", hereafter), provided for under its Price Control under Licence

2. How to incentivise DCC's margin earned in the "early post- go live period" between Central Switching Service (**CSS**) Go Live on 18 July 2022, and the start of Regulatory Year (**RY**) 23/24 on 01 April 2023

3. The percentage value of the margin that DCC should be allowed to earn in its Switching roles under its Price Control from RY 23/24 onwards[3]

4. Licence changes required to transpose those policy proposals into the legal framework

1.2. The document is structured as follows:

- Chapter 2 sets out key background information relevant to the consultations.

- Chapter 3 represents our consultation on the SIR that we are proposing DCC is subject to on its Switching roles as part of its Price Control. We are proposing that the SIR commences on 01 April 2023.

- Chapter 4 then provides information on the approach that we consider the SIR could take in RY 23/24, in the event that we take the decision to establish it in response to the consultation in Chapter 3. If we do take that decision, our final proposals on the exact design of the SIR in RY 23/24 in terms of the measures in

[2] The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority
[3] Link to the Smart Meter Communication Licence. The Price Control provisions are set out in Chapter 9: https://epr.ofgem.gov.uk/Content/Documents/Smart%20DCC%20Limited%20-%20Smart%20Meter%20Communication%20Consolidated%20Licence%20Conditions%20-%20Current%20Version.pdf

use would be subject to a separate consultation in future. We are providing this detail now purely for information, and to assist stakeholders respond to the proposals presented in Chapter 3.

- Chapter 5 represents our consultation on the allowed margin that DCC should be permitted to earn on its Switching roles.

- Chapter 6 represents our consultation on how to incentivise the margin that DCC earns in the early post- go live period of Switching in RY 22/23.

- Finally, Chapter 7 sets out details of the licence changes we consider are required to facilitate the policy proposals set out in Chapters 3 and 5.

Consultation questions

Question 1: Do you support the establishment of the Switching Incentive Regime (SIR) in the Licence as the mechanism for assuring the Switching element of DCC's Price Control?

Question 2: Do you agree in principle with the revocation and replacement of the May 2019 Direction, in the event that we establish the SIR?

Question 3: Do you agree with the definition of the four categories of measure identified that will constitute the SIR?

Question 4: Do you agree with our proposal that DCC should be able to earn a margin somewhere in the range of 6 – 9% of its economically and efficiently incurred internal costs under the enduring Switching arrangements (equating to a range of 6.4 – 9.9% in terms of return on costs)?

Question 5: Do you support either of the options we have identified for incentivising DCC's margin in the early post- go live period of Switching? Are there any other options you think should be considered?

Question 6: Do you agree that the proposed Licence drafting appropriately reflects the policy intent of our proposal to establish the Switching Incentive Regime?

Consultation assessment process

1.3. This is a consultation on both policy and licence changes. We are seeking stakeholder views both on the underlying policies we are minded to implement, and on the proposed Licence modifications we feel appropriately facilitate those policies in the Smart Meter Communication Licence ("the Licence", hereafter).

1.4. The consultation combines both the policy and statutory Licence modification consultation aspects in the interests of efficiency. This is because we consider it to be of benefit to all parties, including DCC and consumers, for the SIR to be in place by 01 April 2023 for the start of the new RY. We also consider it important that DCC's allowed margin on its Switching activity is at risk across the entire RY 23/24. The rationale for this is explained later in the document.

1.5. We will carefully consider all responses we receive on both the policy and Licence modifications. We will then make a decision on the policy aspects and, in turn, assess and decide on whether the proposed Licence modifications as consulted on remain appropriate in terms of reflecting those policy decisions.

Context and related publications

1.6. This consultation proposes a financial incentive regime for DCC in its roles in the enduring Switching arrangements as provider of the Central Switching Service (**CSS**), Certificate Authority (**CA**) and Switching Operator (**SO**) services, to be provided for through its Price Control.[4]

1.7. The new Switching arrangements went live on 18th July 2022 as part of the Switching Programme. Details of all previous publications relating to the Switching Programme can be found on the Switching Programme page on the Ofgem website.[5]

1.8. As a monopoly company providing services to the energy market, DCC is subject to a Price Control. Details of all previous publications relating to the DCC Price Control,

[4] For clarity, when referring to the enduring Switching arrangements, we mean the Switching arrangements going forward under steady state operations
[5] The Switching Programme page on the Ofgem website: https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/switching-programme

including its role in the Design, Build and Test (**DBT**) phase of the Switching Programme, can be found on the Ofgem website in the Master Publications Library.[6]

1.9. The Retail Energy Company (**RECCo**) published a consultation on DCC Service Provider Performance Charges in 2022.[7] The consultation, which sought views on how DCC's performance against its Service Level Agreements (**SLA**s) as defined in the Retail Energy Code (**REC**) could be incentivised, ie directly through the REC, or under the DCC Price Control under Licence, is discussed in more detail in Chapter 2. The consultation closed in May 2022, shortly after which RECCo published its response.[8]

1.10.

Consultation stages

1.11. The figure below sets out the timeline that we expect to follow. This timeline allows the Licence changes to be in force by 01 April 2023, such that the proposed DCC SIR is in place for the start of the 23/24 RY.

Figure 1: Consultation stages

Stage 1	Stage 2	Stage 3	Stage 4
Consultation open	Consultation closes (awaiting decision). Deadline for responses	Responses reviewed and published	Decision on policy and statutory licence consultations
21 Nov 2022	**19 Dec 2022**		**Jan 2023**

[6] Ofgem Master Publications Library: https://www.ofgem.gov.uk/master-publications-library
[7] RECCo consultation: https://www.retailenergycode.co.uk/recco-issues-a-consultation-on-dcc-service-provider-performance-charges/
[8] RECCo's response to the consultation: https://www.retailenergycode.co.uk/recco-response-to-consultation-on-dcc-service-provider-performance-charges/

How to respond

1.12. We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.

1.13. We have asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

1.14. We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

1.15. You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

1.16. If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

1.17. If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("**UK GDPR**"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations in Appendix 2.

1.18. If you wish to respond confidentially, we will keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We will not link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

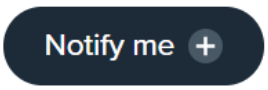
1.19. We believe that consultation is at the heart of good policy development. We welcome any comments about how we have run this consultation. We would also like to get your answers to these questions:

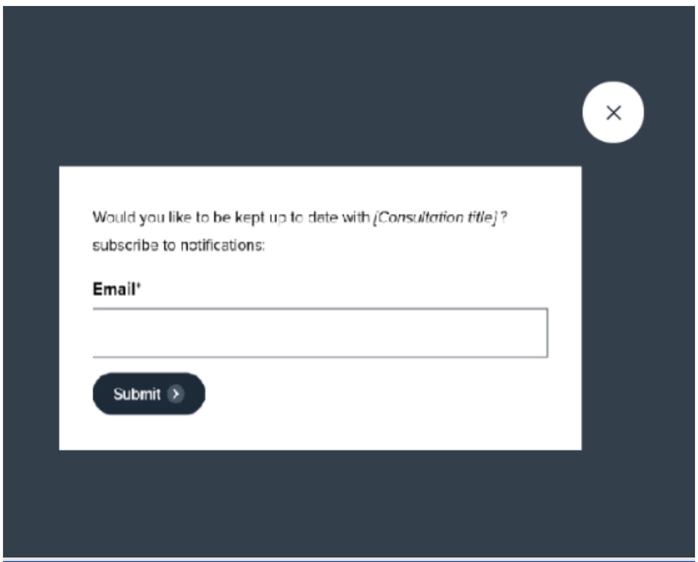
1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Ofgem.gov.uk/consultations.





Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming ► Open ► Closed (awaiting decision) ► Closed (with decision)

2. Background information

Chapter summary

The chapter will first describe the Switching Programme and DCC's roles under the new Switching arrangements, before describing the mechanism through which its activity is funded and the performance levels it is required to deliver in its Switching roles as Service Providers under contract.

Switching Programme

2.1. The Switching Programme was designed to transform gas and electricity switching arrangements, resulting in faster, more reliable switching for consumers.[9] This will improve consumers' experiences of switching, leading to greater engagement in the retail energy market. In order to achieve this, a new switching system known as the Central Switching Service (**CSS**) was designed and implemented. The new system was designed to be reliable, fast and cost effective, delivering better outcomes for consumers.

2.2. In order to facilitate this, a number of changes were made to the Licence and code framework to provide for the new arrangements.[10] These new regulations came into force on 18 July 2022, the day on which the new arrangements under the Switching Programme were introduced. This was also the 'go live' date for the new CSS.

2.3. Under the new arrangements suppliers have a regulatory duty to ensure that switches are completed within five working days. The new CSS will also lead to greater reliability in the switching process, including fewer erroneous switches taking place.

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[9] Link to the Switching Programme homepage on the Ofgem website: https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/switching-programme

[10] Link to our May 2022 decision on Licence changes required for The Switching Programme: https://www.ofgem.gov.uk/publications/decision-statutory-consultations-licence-changes-switching-scr Decisions on associated code modifications can also be found on the Ofgem Switching Programme page here: https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/switching-programme

2.4. DCC has been appointed to perform a number of key roles under the new Switching arrangements.

DCC's roles in Switching

2.5. The new Switching arrangements are made up of a number of different services and systems delivered by a number of Service Providers. DCC is responsible for providing three of these services under the umbrella of its role as Central Registration Service (**CRS**) Provider, as follows:[11]

- Central Switching Service (**CSS**) Provider
- CSS Certificate Authority (**CA**)
- Switching Operator (**SO**)

The roles and responsibilities of each of the Service Providers in providing its services are set out in a series of Service Definitions in the REC.[12]

2.6. The quality of service provided under each of DCC's roles will have a direct impact on the speed and accuracy of the Switching system, ultimately to the benefit of consumers if performed to the necessary standard.

2.7. The services DCC is responsible for can be described at a high level as follows:

Central Switching Service (CSS) Provider

The CSS Provider is responsible for the delivery of two services, the Registration Service and the Address Management Service:

[11] The CRS provider is responsible for delivering the new registration service to support the new switching arrangements. The requirements on DCC in its role as CRS Provider are set out in Condition 15: "Incorporation, delivery and provision of the Centralised Registration Service" of the Smart Meter Communication Licence, link here: https://epr.ofgem.gov.uk/Content/Documents/Smart%20DCC%20Limited%20-%20Smart%20Meter%20Communication%20Consolidated%20Licence%20Conditions%20-%20Current%20Version.pdf
[12] Link to the REC documents on the REC Portal here: https://recportal.co.uk/the-rec-public

- The Registration Service involves the management of meter point registrations and other associated data, including the maintenance of a central database for gas and electricity registrations.

- The Address Management Service involves the maintenance of a standardised address list of all domestic and commercial addresses and other locations in GB to which energy is supplied. The service also involves maintenance of address-matching software, designed to match an input address provided by the CSS user, such as a supplier, to an address on the standardised address list. The service has been designed to improve the reliability and accuracy of switches.

CSS Certificate Authority (CA)

The CSS CA is responsible for supporting the provision of the necessary security certificates that organisations exchanging messages via the CSS are required to possess. The three core duties involved are a) ensuring that certificates are only issued to the correct and eligible parties, b) maintenance of a repository containing copies of all issued certificates and associated necessary metadata, and c) maintenance of a list of all certificates that have been revoked.

Switching Operator (SO)

The SO is responsible for supporting the operation, management and coordination of the end to end service management of the new Switching arrangements. This includes investigating problems and recurring incidents with the system and supporting their resolution, providing expertise to support market participants managing issues, and supporting improvement activities in address data quality.

DCC Price Control

2.8. As a monopoly company, DCC is subject to a Price Control mechanism under the terms as set out in the Licence, governed by Ofgem.

2.9. It is important that DCC is able to recover sufficient funds to allow it to perform its various roles in the energy market and deliver high quality services, ultimately to the benefit of consumers. It is however also critical that those costs are reasonable and provide value for money. The Price Control mechanism has therefore been designed to ensure that the costs that DCC is able to recover in order to fund the provision of its services are economic and efficient.

2.10. As well as recovering its costs, DCC is also permitted to earn a profit margin on the services it provides. The value of the margin DCC is permitted to earn is set out in the Licence as part of the Price Control provisions.

2.11. DCC's allowed margin on the roles it performs on Smart Metering is defined in the Price Control provisions in the Licence by the term "Baseline Margin" (**BM**). All of this margin is put at risk against a series of performance incentive regimes provided for in the Licence. One such scheme is the Operational Performance Regime (**OPR**).

2.12. Separate to the BM, DCC were also permitted to earn a margin on the roles it performed on the Switching Programme in the Transition phase and, later, the Design, Build and Test (**DBT**) phase. The DBT phase technically ended on 18 July 2022 at CSS Go Live.

2.13. The amount of Switching margin DCC was able to earn in the DBT phase was put at risk against an incentive framework comprising five key delivery milestones, each of which carried a weighting of between 10% and 30% of its total allowed margin. DCC was then permitted to recover part of any margin it sacrificed against those milestones through a mechanism termed the Discretionary Recovery Mechanism (**DRM**).[13] Finally, it was also allowed to earn an extra margin based on performance on address quality management in the DBT phase through the Discretionary Data Reward (**DDR**) mechanism.[14]

2.14. We set out details of this Switching DBT phase incentive framework in a decision published following consultation in May 2019.[15] A Direction was published alongside the decision, setting out the mechanism for defining the Price Control term CRSPAt (Central Registration Services Performance Adjustment for year t) in the Licence.[16]

[13] May 2019 guidance on the DRM mechanism: https://www.ofgem.gov.uk/sites/default/files/docs/2019/05/drm_guidance_document_1.pdf
[14] May 2019 guidance on the DDR mechanism: https://www.ofgem.gov.uk/sites/default/files/docs/2019/05/ddr_guidance_document_0.pdf
[15] May 2019 decision on margin and incentives for DCC's role within the Design, Build and Test Phase of the Switching Programme: https://www.ofgem.gov.uk/publications/decision-margin-and-incentives-dccs-role-within-design-build-and-test-phase-switching-programme
[16] Direction on margin and incentives for DCC's role in the DBT phase: https://www.ofgem.gov.uk/sites/default/files/docs/2019/05/cws_dbt_direction_260419_0.pdf
As set out in the Direction, the Direction "shall continue until revoked or amended by the Authority following a period of consultation". As discussed later, our proposals being consulted on here include the issuing of a new Direction intended to amend the May 2019 direction.

2.15. The DCC Price Control mechanism is an ex-post arrangement. DCC is required to report Price Control information by 31 July each year pertaining to the Regulatory Year (**RY**) which ended on 31 March that same year. Following a period of analysis and consultation, Ofgem then provide a final determination in February the following year setting out the costs and margin that they are permitting DCC to recover. In some cases, Ofgem may disallow certain costs / revenue if, following assessment, they regard them not to have been economically or efficiently borne.

DCC Funding Mechanism

2.16. DCC was allowed to recover its costs and allowed margin for its role on the DBT phase of the Switching Programme at levels determined by Ofgem under the provisions of DCC's Price Control, as provided for in the Licence, through the Smart Energy Code (**SEC**). Whilst the DBT phase of the Switching Programme technically ended on 18 July 2022 when the CSS went live, this funding arrangement will continue until the end of RY 2022/23 on 31 March 2023.

2.17. From the start of the 2023/24 RY, DCC will recover its costs and allowed margin for its Switching activity through the Retail Energy Code (**REC**).

REC Service Level Agreements

2.18. Effective performance by Service Providers in delivering the services for which they are responsible is essential for the efficient functioning of the Switching arrangements as a whole.

2.19. The REC is the industry code that governs the new Switching arrangements. Version 3.0 of the REC, the major release that brought about the enduring Switching governance arrangements, came into force on 18 July 2022 at CSS Go Live.

2.20. The roles and responsibilities of Switching Service Providers are set out in the REC in a number of Service Definitions.[17] Each of the Service Definitions defines a number of Performance Levels unique to that service - the Service Provider is then responsible for

[17] Link to the REC documents on the REC Portal: https://recportal.co.uk/the-rec-public

meeting the defined Service Level Agreements (**SLA**s) associated with that service by meeting the defined Performance Levels.

2.21. The below tables set out examples of defined Performance Levels associated with each of the three services for which DCC is responsible, for illustration purposes:

CSS Provider:

Following receipt of Market Messages from CSS Users, the CSS Provider shall carry out synchronous validation and provide a response within the following times:

Performance Parameter	Performance Level
Average Daily Volume	Mean time of two seconds or less
Average Daily Volume	90th percentile tine 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 Certificate Authority*:*

Following receipt of Market Messages from CSS Users, the CSS Provider shall carry out synchronous validation and provide a response within the following times:

Performance Parameter	Performance Level
Request for security certificate	2 Working Days
Revocation of security certificate	4 Working Days

Switching Operator*:*

Response time is the time between the point a Switching Incident is logged and the point it starts to be worked on; the resolution time is the time between the point that the Switching Incident is logged and the point the user is notified that it has been resolved.

Description	Target Response Time	Target Resolution Time
A Priority 1 Switching Incident (Major Switching Incident) must be responded to and resolved within these timeframes	30 minutes	4 hours

REC Performance Assurance

2.22. As part of the governance arrangements under the REC all Service Providers are subject to performance assurance, designed and intended to mitigate the risks to REC users and ultimately consumers of non-compliance or poor performance. This assurance is provided through a defined Performance Assurance Framework (**PAF**) set out in the Performance Assurance Schedule to the REC, and is overseen by the REC Performance Assurance Board (**PAB**). [18]

2.23. The PAB have a number of Performance Assurance Techniques (**PAT**s) at their disposal, intended to incentivise effective performance by REC Service Users and Service Providers.[19] PAB may utilise one or more PATs in the event that a Service

[18] Link to the REC documents on the REC Portal. Please refer to the Performance Assurance Schedule: https://recportal.co.uk/the-rec-public
[19] See the list of approved Performance Assurance Techniques on the REC Portal: https://recportal.co.uk/documents/20121/224214017/Performance+Assurance+Techniques.pdf/0cac916d-8524-0135-6bd7-795e44164a6f?t=1654763364366&download=true

Provider, such as DCC, does not meet an SLA that they are required to as provided for in the relevant Service Definition.

2.24. One of the approved PATs that could in theory be used by PAB are Performance Charges. Simply put, these are monetary charges that would be levied against a Service Provider in the event of non-compliance. Whilst they are an approved PAT however there are currently no provisions in the REC to provide for their existence. A change to the Performance Assurance Schedule would therefore be required in order to set out the details of the framework under which Performance Charges would be levied.

3. Consultation - Establishment of the DCC Switching Incentive Regime

Chapter summary

This chapter of the document represents our consultation on proposals to establish a DCC Switching Incentive Regime (**SIR**). We are proposing to establish the SIR as the mechanism through which DCC is incentivised to earn a margin in its roles under the enduring Switching arrangements. We are proposing the SIR as the equivalent to the OPR mechanism relating to DCC's roles in Smart Metering.

Consultation questions

Question 1: Do you support the establishment of the Switching Incentive Regime (SIR) in the Licence as the mechanism for assuring the Switching element of DCC's Price Control?

Question 2: Do you agree in principle with the revocation and replacement of the May 2019 Direction, in the event that we establish the SIR?

Question 3: Do you agree with the definition of the four categories of measure identified that will constitute the SIR?

3.1. As discussed in Chapter 2, DCC is subject to a Price Control under the terms as set out in the Licence. The OPR framework within the Price Control allows DCC as a Service Provider to earn a pre-determined profit margin on its Smart Metering activities. It was also permitted to earn a margin on certain roles it performed in the Transition and DBT phases of Switching under a separate mechanism under the Price Control.

3.2. In order to incentivise DCC's performance on its ongoing Switching activities, we are proposing the creation of a new additional framework under its existing Price Control which we are calling the DCC Switching Incentive Regime (**SIR**). The proposed framework will be designed to allow DCC to earn a margin on its internal costs of providing its services under Switching, again subject to its performance against key, defined metrics throughout the RY.

3.3. We consider the SIR to be the appropriate mechanism through which the Switching element of DCC's Price Control is administered.

3.4. We consider that the SIR should be designed with the following objectives in mind:

- The SIR should be designed to incentivise DCC to deliver a high quality service in its roles in Switching, ultimately to the benefit of consumers

- 100% of DCC's allowed margin for its Switching activity for each RY, as provided for under the Price Control, should be at risk through performance against key metrics designed to ensure the provision of a quality service

- The framework by which Performance Charges are levied against DCC for underperformance must be fair and reasonable, designed both to ensure consumers receive value for money for the services DCC provides, but also that DCC has a fair and reasonable chance of earning its maximum predetermined allowed Switching margin

3.5. In terms of providing for and giving effect to the SIR in the Licence, we would propose to take a similar two-step approach to that already used in relation to the OPR, albeit with a slightly different method for applying the performance adjustment. This would involve:

1) defining a formula in the Licence to set out how Ofgem will calculate DCC's allowed revenue for providing its Switching services over the RY as part of the Price Control. In line with how the OPR is defined, the formula would take the form of a series of terms representing various costs, revenues, and any other metrics as appropriate relevant to DCC's activity. One of the terms would be a performance adjustment term, to provide for a potential downward adjustment to Switching revenue based on performance under the SIR. It would need to be a downward adjustment, as the Switching margin would already have been applied to Switching revenue as standard as an upward adjustment. The constituent terms within the performance adjustment term would be defined in a new Schedule to the Licence that we would introduce at the same time.

2) ahead of the start of the new RY we would then publish a Direction, setting out which of the performance adjustment terms within the Schedule will apply in the

forthcoming RY. This Direction would replace the May 2019 Direction that is currently in force, which provides for DCC's incentive scheme and margin allowance under the DBT phase.[20] Alongside this Direction we would also publish guidance to provide further details of how the terms set out in the Direction are to be calculated. We would first consult on the Direction and guidance.

3.6. Note, our proposal to revoke and replace the 2019 Direction is the subject of consultation question 2).

3.7. We consider this approach provides DCC and all interested parties full oversight as to how DCC's Switching costs and Switching margin will be determined through the Price Control following RY end.

3.8. This approach allows for the SIR, as with the OPR, to be updated or amended year on year as appropriate through the issuing of a new Direction and new guidance following consultation. This will ensure the SIR is fit for purpose year on year in terms of meeting its objectives, and ensures that DCC, Switching stakeholders and any other interested party are able to respond to proposals around its design.

3.9. If we take the decision following this consultation to establish the SIR in the Licence, we envisage an appropriate start date for the provisions coming into force to be 01 April 2023, to coincide with the start of RY 23/24. Nevertheless, we recognise that such a change may require additional engagement with DCC and other interested parties and therefore timings might not allow this. We are therefore seeking your views on our proposed mode of implementing the SIR so that, if necessary, it could be implemented after the start of RY23/24, with any value of margin earned after 01 April 2023 being carried forward and assessed against the SIR in future. We note that there is precedent for this approach from the implementation of the Operational Performance Regime in Smart Metering, whereby DCC earned margin during the Regulatory Years 2016/17 and 2017/18 which was then carried forward for incentivisation against the OPR scheme between 2018/19 and 2020/21.[21]

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[20] May 2019 Direction on margin and incentives for DCC's role in the DBT phase of the Switching Programme:
https://www.ofgem.gov.uk/sites/default/files/docs/2019/05/cws_dbt_direction_260419_0.pdf

[21] Details of the approach taken on the OPR scheme are provided in our September 2017 Decision, and in the accompanying Direction:
https://www.ofgem.gov.uk/sites/default/files/docs/2017/09/1._decision_on_dcc.pdf

3.10. To be clear, the purpose of this consultation is to consult both on the design of the SIR and on the proposed Licence changes we envisage as being appropriate to establish and provide for it. If, following the conclusion of the consultation process, we take the decision to amend the Licence to establish the SIR, we will then separately consult on the content of the guidance and Direction that will determine the exact form of the SIR in RY 23/24. Again, this mirrors the approach taken with the OPR.

3.11. The sequence of events to introduce and maintain the SIR would therefore be as follows:[22]

- Q4 2022 – Consultation on the policy and proposed Licence changes (this document)
- Q1 2023 – Decision on policy and Licence changes
- Q1 2023 – Consultation on the SIR Direction and guidance for RY 23/24, subject to the outcome of this policy and Licence change consultation
- Q1 2023 – Decision on SIR Direction and guidance for RY 23/24
- 01/04/23 – Start of RY 23/24, and the first day of operation of the SIR
- Thereafter, a new Direction, accompanied by guidance, could be published following consultation to give effect to any changes necessary.

Policy Proposal – Establishment of the SIR

3.12. As discussed above, we are proposing to establish the SIR in the Licence as part of the Price Control mechanism in order to place DCC's Switching margin at risk and incentivise it to deliver quality service on its Switching activity.

3.13. As noted above, the details of the SIR can be updated year on year through the issuing of a new Direction accompanied by guidance. It is therefore, in our view, critical that the formula we establish for the SIR is as future-proof as is reasonably possible, in

[22] Note, this sequence of events assumes we are targeting the start of RY 23/24 for the commencement of the scheme

order to avoid the need for annual changes to be made to the Licence in tandem with the guidance. In the event that amendments to the Licence are required at any stage, we would of course consult on these in accordance with our statutory obligations.

3.14. We are therefore proposing to mirror the approach taken on the OPR and provide for four separate categories of measure in the formula in the Licence. The intention here is that any metric we then define as part of the formula for calculating DCC's performance adjustment under Switching for a given RY will lie within one of the four categories of measure. The Licence will then make clear that the value of each of the metrics is set to 0, unless otherwise directed by The Authority. This then allows us to define each of the metrics in use for the following RY in the underlying guidance.

3.15. The four categories proposed are as follows:

- SUM = Service User Measure
- SDM = Service Delivery Measure
- DIM = Development and Improvement Measure
- VMM = Value for Money Measure

3.16. Each metric defined under one of the four measures would be expressed as a negative term within the formula for performance adjustment, and therefore represent a possible reduction to DCC's earned margin in Switching. If DCC were to therefore perform poorly against a defined metric under, for example, the Service User Measure, a reduction in its performance adjustment, and therefore earned Switching margin, will result. The framework through which the metric is defined will be set out in the Direction and guidance. More detail on our proposed approach to the drafting is provided in Chapter 7.

3.17. The maximum possible sum of all the defined performance adjustment metrics in the SIR in use in a RY will be equal to DCC's Switching margin, such that DCC's potential liability under the scheme in any given RY is equal to 100% of its predetermined allowed Switching margin for that RY. Similarly, if the value of all metrics in use within a RY is determined to be zero, DCC will not sacrifice any of its predetermined allowed Switching margin under the SIR.

3.18. We consider this is an appropriate mechanism through which to incentivise DCC's service delivery in Switching. If DCC provides a high quality service that ultimately delivers value for consumers, it will be able to defend its entire pre-determined Switching margin for the RY. If however DCC does not provide such a high quality service, ultimately resulting in some detriment to consumers, we consider it is reasonable that there should be a commensurate reduction in the performance adjustment term to reduce the Switching margin that DCC earns for the RY.

4. For information – Proposed form of the SIR for RY 23/24

Chapter summary

This chapter of the document sets out our latest thinking on the form of the DCC Switching Incentive Regime (**SIR**) in RY 23/24.

This proposal for RY 23/24 is predicated on us taking the decision to establish the SIR, as proposed in Chapter 3. If we do not take the decision to establish the SIR following this consultation, our proposals here around the design of the SIR in RY 23/24 will not be taken forward.

4.1. Chapter 3 set out our proposals to establish the SIR as part of DCC's Price Control arrangements in the Licence.

4.2. As noted, we are proposing that the exact design of the SIR in terms of the measures in use in any given RY will be set out in a Direction, accompanied by guidance, published ahead of the RY following consultation. Proposals for the design of the SIR in RY 23/24 would therefore follow as part of a separate consultation, assuming we take the decision following the consultation set out in Chapter 3 to establish the SIR in the Licence. This approach prevents the need to amend the terms of the Licence anytime we propose a change to the form of the SIR, as it can instead be done through a new Direction and guidance, so the Licence is in effect future-proofed. We consider this approach provides more certainty for DCC, consumers and any other affected party, as well as being a more efficient process from a regulatory management perspective.

4.3. However, for information and to assist stakeholders in responding to the proposals to establish the SIR in the licence in the first place, we want to set out details of the form we consider the SIR could take in RY 23/24.

4.4. As noted, we consider that the scheme could be in place for the start of RY 23/24. However, if that is not possible we also think it can be implemented later in the RY 23/24, with any margin earned after 01 April 2023 and before the scheme was in place then carried forward and put at risk against the scheme once it is implemented.

4.5. We consider that the 23/24 SIR should be comprised of two separate metrics from two of the categories of measure described in Chapter 3. We think this is an appropriate mechanism to apply to the first full RY of operations:

1) A Service User Measure (SUM1), reflecting the operational performance of DCC in its Switching roles

2) A value For Money Measure (VFM1), reflecting DCC's performance in terms of customer engagement with its stakeholders in its Switching roles

4.6. Each metric represents a monetary value that DCC may sacrifice as a result of underperformance against that metric throughout the RY. The sum of the two metrics would therefore determine the total value of its allowed Switching margin that DCC will lose for that RY, to be determined by Ofgem following the Price Control determination process. The value of that sum will therefore lie somewhere between £0 and the maximum allowed Switching margin for the RY in monetary terms, as DCC's total liability under the SIR will equal 100% of its permitted Switching margin. The value of this maximum permitted Switching margin is the subject of the policy consultation in chapter 5.

4.7. We propose that the terms be weighted, such that SUM1 represents 80% of the total permitted Switching margin and VFM1 represents 20%. Whilst we consider good performance across both measures to be critical, we consider operational performance should be incentivised to a proportionally greater extent than customer engagement on the basis that we think good operational performance will deliver proportionally greater value to consumers.

4.8. More detail is provided regarding each of the proposed measures below.

SIR Measure 1 - Operational Performance (SUM1)

4.9. As noted above, the term SUM1 will reflect DCC's operational performance throughout the RY. We think 80% of DCC's allowed Switching margin for the RY should be at risk against this metric.

4.10. As discussed above in Chapter 2, the REC PAB will be assuring DCC performance against its SLAs in accordance with the provisions of the relevant Service Definitions and the Performance Assurance Schedule in the REC.

4.11. In order to incentivise good performance, we consider it reasonable that DCC as a Service Provider is exposed to the risk of a Performance Charge (penalty or damage) being levied if an SLA, or series of SLAs, are not met.

4.12. As noted, Performance Charges are already one of the approved Performance Assurance Techniques (**PAT**s) that can be used by the PAB to incentivise DCC performance, however a change to the code provisions would be required to provide for the details of how and when Performance Charges will be applied.[23] More details on a Change Proposal being progressed to introduce Performance Charges are provided below (see sub-chapter "*REC Change Proposal CR0025 – Service Provider Performance Charges (DCC)*").

4.13. In terms of the levying of Performance Charges against DCC under the SIR, this could take place either through the Price Control framework under Licence or directly through the REC and administered by PAB:

1) **Through the Price Control framework**. Under this approach, any Performance Charges DCC incurs as a result of a missed SLA, as assured by PAB, would be levied via a reduction to the allowed revenue that DCC is permitted to earn as determined through the Price Control process following RY end.

As DCC will have already invoiced RECCo at monthly intervals throughout the RY to recover its costs and allowed Switching margin, any subsequent disallowance of revenue will necessitate some form of financial reconciliation activity between RECCo and DCC.

2) Through the code (REC Performance Assurance Framework). Under this approach, any Performance Charges DCC incur as a result of a missed SLA, as assured by PAB, would be levied directly by RECCo and reflected through DCC reducing its charges to RECCo (and therefore REC parties) through a subsequent monthly invoice. DCC would then report to Ofgem following RY end the value of all Performance Charges levied against it throughout the RY as part of its Price Control submission,

[23] See the list of approved Performance Assurance Techniques on the REC Portal here: https://recportal.co.uk/documents/20121/224214017/Performance+Assurance+Techniques.pdf/0cac916d-8524-0135-6bd7-795e44164a6f?t=1654763364366&download=true

which Ofgem would then take into account as part of the Price Control determination process.

Under this mechanism, any adjustments directed by Ofgem as part of the Price Control determination would simply reflect the Performance Charges already paid by DCC to RECCo throughout the RY, with no financial reconciliation necessary.

4.14. Following discussions between Ofgem and RECCo around the possible design of the SIR, RECCo consulted industry in April 2022.[24] The consultation sought views on the following questions:

- Which DCC SLAs users consider are the most material and impactful should these be failed.
- Whether some DCC SLAs, if any, should be subject to charges under the SIR in the licence rather than the REC Performance Assurance Framework in the code;
- 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;
- 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 services; and
- Whether the DCC SIR should be considered as an interim arrangement, pending the outcome of the wider review of the DCC Licence

4.15. RECCo published their response to the consultation in August 2022.[25] The response set out that, following assessment of the five responses received to the consultation, RECCo and Ofgem had agreed on a REC PAF-led approach, consistent with option 2 outlined above.

[24] The RECCo consultation: https://www.retailenergycode.co.uk/recco-issues-a-consultation-on-dcc-service-provider-performance-charges/
[25] RECCo’s response to the consultation: https://www.retailenergycode.co.uk/extra/wp-content/uploads/2022/07/DCC-Performance-Charge-Consultation-Outcome-and-Next-Steps-Final.pdf

4.16. We consider this to be the right approach to take because it allows REC PAB full control over the governance of the day to day DCC performance assurance process within the RY, whilst enabling Ofgem to reserve ultimate decision-making authority over the value of DCC's performance adjustment for the RY, to be determined through the Price Control process following RY end.

4.17. We consider that the operational performance element of the SIR should be administered on a day to day basis within the REC, in accordance with the provisions of the framework to be set out in the code following consultation (see below). DCC would then report to Ofgem following year end details of the Performance Charges that have been levied against it throughout the year as part of its Price Control submission. Subject to the outcome of this consultation, Ofgem could then use this information as part of the Price Control determination process to determine the value of SUM1, noting again that no further reduction to DCC's allowed revenue may be necessary as a result as DCC has already borne those charges.

REC Change Proposal CR0025 – "Service Provider Performance Charges (DCC)

4.18. With the above in mind, and in parallel with this consultation, RECCo are progressing Change Proposal CR0025 to introduce a Switching Performance Assurance Framework (**PAF**) into the REC. In order to provide for the PAF, changes need to be made to the REC Performance Assurance Schedule. See the REC Service Level Agreements and the REC Performance Assurance sections of Chapter 2 for more details.

4.19. RECCo intend that the PAF will provide for the potential levying of liquidated damages against the Service Provider (in this case DCC), in the form of Performance Charges, in the event that they do not meet a required Performance Level as defined in the relevant Service Definition in the REC. The intention is that the provisions of the PAF be implemented into the Performance Assurance Schedule of the REC in time for it to be operational in RY 23/24.

4.20. As set out in the proposals as part of CR0025, in order for the PAF to be fully aligned with the SIR, the maximum value of Performance Charges that can be levied against DCC within a RY would equal 80% of DCC's allowed Switching margin under the Price Control in the Licence. That ensures that 80% of DCC's allowed Switching margin is therefore being put at risk against its operational performance. As noted, the remaining 20% would be accounted for under VFM1 (see below).

4.21. We would expect to work closely with RECCo to ensure the correct functioning of the SIR and PAF in tandem.

4.22. To be clear, the implementation of the Switching PAF through CR0025 is entirely subject to the REC change management process, which includes an industry consultation step. If the PAF is not implemented in the REC for whatever reason, then it follows that a value for SUM1 cannot be determined in this way. In that event, we will reconsider the design of this element of the SIR and reconsult as necessary.

4.23. We expect CR0025, which has been designated as an Authority-Approved Change, to come us to us for decision in January 2023.

Timeline for the determination of SUM1:

4.24. For clarity, we wanted to set out the timeline for how we envisage the proposed PAF and SIR mechanisms could interact to determine a value for SUM1:

- Ahead of the start of the RY:
    - Ofgem determine the percentage value of DCC's allowed Switching margin for the forthcoming RY[26]
    - RECCo publish a Charging Statement for REC parties, setting out DCC's costs and allowed Switching margin for the forthcoming RY. DCC will recover these costs and its allowed Switching margin through a series of monthly invoices issued to RECCo throughout the RY under the provisions of the REC.
- Within the RY:
    - REC PAB monitor DCC's performance against its relevant SLAs and levy Performance Charges as appropriate.

[26] We would not necessarily consult on and determine a new allowed Switching margin every year. We have just included it here for clarity in relation to the first year of the scheme, ie RY 23/24. We think it likely that this Switching margin would also apply to subsequent RY's, unless we receive evidence or information to suggest otherwise.

  - Any Performance Charges levied are then recovered through the DCC / RECCo monthly invoicing process.

- Following RY end:

  - As part of its Price Control submission, DCC reports to Ofgem the value of Performance Charges levied against it throughout the RY under the PAF. Ofgem use this to determine the value of SUM1 for use in the Price Control determination process.

    At this stage DCC also has the ability to provide a representation with respect to any Performance Charges levied against it throughout the RY, for example if it feels they were not appropriately levied.

  - Following consultation, Ofgem publish their Price Control determination.

  - Any financial reconciliation necessary between RECCo and DCC can then be resolved through subsequent invoices.

Summary:

4.25. We consider that assuring the operational performance element of the SIR in this way, ie through the REC PAF, carries the following benefits and desirable outcomes:

- Day to day assurance of DCC's operational performance, including taking decisions to levy Performance Charges as appropriate, is within the gift of the REC PAB as the body already responsible for assessing and assuring performance across all aspects of the REC.

- Details of how the PAF operates is detailed within the REC and governed by RECCo. Any changes to the details of the framework will be subject to the REC change management process.

- Performance Charges are levied within reasonable timeframes of the SLA having been missed, in order to incentivise timely performance improvement. The alternative approach of levying charges through the Price Control determination process following RY end would result in a long time lag between the SLA being missed and the resultant Performance Charge being applied.

- The levels of Performance Charges to be applied in the event of a missed SLA / series of missed SLAs, and the framework by which they will be applied, will be made publicly available in advance of the start of the RY by REC PAB.

- Following RY end, DCC will report to Ofgem details of the Performance Charges that have been levied against it throughout the RY. Ofgem will then consider this information as part of the Price Control determination process.

- DCC will have the opportunity to provide representations in response to any Performance Charges levied if it feels they were not correctly applied, both to PAB at the time the Performance Charge is levied, and to Ofgem following the end of the RY as part of its Price Control submission.

- Ofgem will retain ultimate decision-making authority for the allowance or disallowance of DCC costs and any performance adjustments as part of the existing Price Control mechanism under Licence.

- Any necessary reconciliation of funds between DCC and RECCo following the publication of the Price Control determination will be managed through the DCC / RECCo budget process.

SIR Measure 2 - Customer Engagement (VFM1)

4.26. As noted above, the term VFM1 would reflect DCC's customer engagement performance throughout the RY. We think 20% of DCC's allowed Switching margin for the RY should be at risk against this metric.

4.27. The intention of defining a metric within the SIR for customer engagement is to incentivise DCC to engage effectively with its stakeholders on its roles in Switching, to the benefit of the Switching system and ultimately to consumers.

4.28. In the event that we take the decision to introduce the SIR following this consultation, further analysis will be required in respect of the detail around the process for determining a value for VFM1. We would propose to then set that detail out in a consultation on the SIR Direction and guidance for RY 23/24.

4.29. In order to help inform the basis of this consultation however, we have carried out some analysis to date. Our current view is that it could involve the use of a form of customer satisfaction survey, with Performance Charges applicable in the event that DCC underperform against certain defined metrics."

5. Consultation – DCC margin on Switching activity from RY 23/24 onwards

Chapter summary

This chapter of the document represents our policy consultation on the margin that DCC should be permitted to earn on its Switching roles, as part of its Price Control.

Consultation questions

Question 4: Do you agree with our proposal that DCC should be able to earn a margin somewhere in the range of 6 – 9% of its economically and efficiently incurred internal costs under the enduring Switching arrangements (equating to a range of 6.4 – 9.9% in terms of return on costs)?

5.1. As discussed previously in this document, under the terms of its Price Control as a monopoly company, DCC is permitted to earn a margin on the services it provides.

5.2. The purpose of this chapter is to consult on the margin DCC should be permitted to earn on its roles under the enduring Switching arrangements. This Switching margin will be defined separately to the margin DCC is already permitted to earn on its roles under Smart Metering, which is defined in the Price Control provisions within the Licence as "BMt" (Baseline Margin for year t). DCC earns a Baseline Margin of 15% on its Smart Metering business.

5.3. DCC has also been permitted to earn a margin on its roles in the Switching Programme to date in both the Transition phase, and the Design, Build and Test (**DBT**) phase.[27] These Switching margins were not defined as individual terms within the Licence as BMt is (see above), but were instead defined as part of the calculation of the term CRSPAt (Central Registration Services Performance Adjustment for year t) as published

[27] The DBT phase technically ended at CSS Go Live on 18 July 2022

in Directions issued from The Authority to DCC as the Smart Meter Communication Licence Licensee in 2017 (for the Transition phase) and 2019 (for the Design, Build and Test phase).[28,29]

5.4. To make things clearer in the Price Control provisions going forward however, and to ensure consistency with how DCC's margin on Smart Metering is defined, we are proposing to define DCC's Switching margin as a specific term in the Licence. Chapter 7 sets out more details in the consultation on the Licence changes.

5.5. As DCC's activity on Smart Metering and Switching is "asset light" in nature, we have chosen to apply a "return on sales" or "margin" approach in establishing its allowed return in both cases. A full explanation of the calculation methodology, and why we consider this is the appropriate approach for these activities, is set out in our November 2016 consultation on DCC's margin on the Transition phase of Switching.[30] We propose to continue to apply this approach and calculation methodology in determining DCC's margin under the enduring Switching arrangements.

5.6. In both cases, margin has been permitted against internal costs only. This excludes external costs, defined in the Licence as those relating to the procurement of fundamental services, as well as pass-through costs and pre-agreed costs.

[28] March 2017 Direction on the value of CRSPAt, which included the definition of the margin for DCC's role in the Transition phase of the Switching Programme: https://www.ofgem.gov.uk/sites/default/files/docs/2017/03/direction_on_the_value_of_crspa_under_the_smart_meter_communication_lice_1.pdf

[29] May 2019 Direction on margin and incentives for DCC's role in the DBT phase of the Switching Programme: https://www.ofgem.gov.uk/sites/default/files/docs/2019/05/cws_dbt_direction_260419_0.pdf

[30] November 2016 consultation on margin and incentives for DCC's role in the Transition phase of the Switching Programme: https://www.ofgem.gov.uk/sites/default/files/docs/2016/11/consultation_on_margin_and_incentives_for_dccs_role_in_the_transition_phase_of_the_switching_programme.pdf

5.7. DCC's Switching margin for its role in the Transition Phase was set at 12%, which equated to a 13.6% rate of return.[31] This decision was set out in March 2017[32] following a consultation published in November 2016.[33]

5.8. DCC's allowed margin in the DBT phase of Switching was then also determined as 12%, again equating to a 13.6% rate of return. This decision was set out in May 2019[34] following a consultation published in October 2018.[35]

5.9. In each case, the value of the Switching margin represented the maximum value that DCC were able to earn assuming all incentivised milestones were achieved on time, and as noted was applied to internal costs only related to provision of the Central Registration Service (defined with the Licence under the term "CRSICt"), minus those costs that were disallowed as part of the Price Control determination.[36]

5.10. We had noted within that consultation that, when considering the risk profile associated with the DCC's role in the DBT phase, the closest comparator we had to base our analysis on was DCC's own role in the Transition Phase.

[31] Details of how margin and rate of return relate to one another are set out in page 14 of the consultation on margin and incentives for DCC's role in the Transition phase of the Switching Programme:
https://www.ofgem.gov.uk/sites/default/files/docs/2016/11/consultation_on_margin_and_incentives_for_dccs_role_in_the_transition_phase_of_the_switching_programme.pdf

[32] November 2016 consultation on margin and incentives for DCC's role in the Transition phase of the Switching Programme:
https://www.ofgem.gov.uk/sites/default/files/docs/2016/11/consultation_on_margin_and_incentives_for_dccs_role_in_the_transition_phase_of_the_switching_programme.pdf

[33] March 2017 decision on margin and incentives for DCC's role in the Transition phase of the Switching Programme:
https://www.ofgem.gov.uk/sites/default/files/docs/2017/03/decision_on_margin_and_incentives_for_dccs_role_in_the_transitional_pha_0.pdf

[34] May 2019 decision on margin and incentives for DCC's role in the DBT phase of the Switching Programme:
https://www.ofgem.gov.uk/sites/default/files/docs/2019/05/decision_on_margin_and_incentives_for_dccs_role_in_the_dbt_phase_-_clean_1.pdf

[35] October 2018 consultation on the margin and incentive regime for DCC's role in the DBT phase of the Switching Programme:
https://www.ofgem.gov.uk/sites/default/files/docs/2018/10/regulation_and_governance_-_way_forward_and_satutory_consultation_on_licence_modifications_4.pdf

[36] Only DCC's margin against internal costs relating to the design, testing, delivery, commercial and management teams was at risk against the DBT milestones, which equated to 70% of DCC's total internal costs during the DBT phase. Margin against internal costs relating to central internal support teams, such as regulation and finance, was not included as that was already at risk under the OPR and we wanted to avoid duplication and potential conflict across incentive structures.

Policy Proposal – Value of DCC's allowed Switching margin in RY 23/24

5.11. We have previously noted that we think DCC's allowed margin should be commensurate with the degree of risk associated with the services that it provides. Our May 2019 response to the Draft DCC Internal Business Case for the DBT phase also said we thought that the margin DCC earns in steady state operations (ie under the enduring Switching arrangements / post-DBT phase) should be significantly lower than in the DBT phase due to the much lower risk profile.[37] As noted above, DCC's allowed Switching margin in the DBT phase was 12% of its internal costs (equating to 13.6% return on costs).

5.12. We would propose to continue to apply the principle that margin should be commensurate with risk when determining DCC's allowed margin under the enduring Switching arrangements.

5.13. We also propose to apply the principle that implementing and operating a scheme carries less risk than designing and building it in the first place. We note that DCC's Switching roles going forward involve operating systems / processes and managing contracts with Service Providers that it was at the forefront of designing and procuring. This is in contrast to DCC's Smart Metering activity where, in some cases, it inherited systems and contracts that it was required to operate, which carries greater supplier risk.

5.14. We have assessed the level of risk DCC is exposed to in the enduring Switching arrangements and defined them based on five categories – operational, security, economic, regulatory and reputational.

5.14.1. We regard **operational risks** as minor, principally due to the fact that DCC was at the centre of the design, procurement, build and testing processes and should therefore be in a position to implement the systems and processes efficiently and effectively. Whilst we recognise that DCC performance will to some extent be contingent on the performance of its Service Providers, this should be considered against the backdrop that DCC procured those Service Provider

[37] May 2019 response to the Draft DCC Internal Business Case for the DBT phase: https://www.ofgem.gov.uk/sites/default/files/docs/2019/05/dcc_business_case_consultation_response.pdf

contracts itself and should have been able to significantly mitigate these risks. We do recognise some residual supplier risk across interfaces with non-contracted parties, however we consider this to be minimal given the testing undertaken ahead of Go Live with these parties.

5.14.2. We also note that, owing to the prevailing market conditions of high energy supply costs and associated regulatory interventions such as the Market Stabilisation Charge, consumer switching rates around the time of CSS Go Live and in the months thereafter were extremely low. We also note that the commencement date of the proposed new margin period of 01 April 2023 is some 8-9 months following CSS Go Live, by which time we would reasonably expect DCC to have worked to resolve any issues with the Switching systems and processes. We recognise that switch rates will likely at some stage begin to increase resulting in greater throughput through the new systems, however we would not expect this to cause issues to DCC, again due to the control it had over the design, build and test process and the expectation that the systems and processes will have been designed accordingly, including ensuring that scalability and flexibility were inherent in the service design. We would also note again the time that DCC has had to bed in the new systems and services during historically low switching volumes, and to ensure that it is prepared for future volume fluctuations.

5.14.3. The data contained in the Central Switching System is inherently less sensitive that the data contained within the Smart System. While it is imperative on DCC to ensure that it is managing a secure service on the CSS, the impact of a security incident in the CSS is significantly less than should it occur on the Smart System. As such, the operational **security risks** that DCC is managing in Switching are significantly less that on the Smart System.

5.14.4. We consider that any **economic risks** are within DCC's control to mitigate against. Although DCC is required to demonstrate through its Price Control that all costs borne were economic and efficient, DCC is expected to have certainty around the costs incurred in providing its Switching services as these costs will be discussed with REC parties in advance of the RY. We also consider that DCC has, in general, greater control over its Switching costs relative to its Smart Metering costs, meaning the economic risk profile is lower in Switching.

5.14.5. In terms of **regulatory risks**, ie the risk of compliance action being taken against DCC through either its Licence or through the code framework, we also consider that this is within DCC's control in the enduring Switching arrangements. In the unlikely event that any external factors impact on DCC's ability to comply with its regulatory requirements, this would be taken into account as part of the enforcement determination processes. We consider the regulatory risk profile to be similar in nature to Smart Metering.

5.14.6. All businesses of this nature face potential **reputational risk** of perceived poor performance acting to limit its ability to secure future work of a similar nature. We do not consider this to be a significant risk to DCC in the enduring Switching arrangements however because, as noted, DCC has a good level of control over its activity and, through the procurement processes that DCC undertook, should have the necessary contractual protection over the performance of its Service Providers. In that sense we consider DCC's reputational risks to be lower than on Smart Metering. We also note that there would be upside to DCC in improving its reputation and increasing its chances of expanding its business activities following good performance in Switching.

5.14.7. Finally, we also consider that DCC can leverage its project and management experience gained through its previous roles in Switching and its extensive involvement in Smart Metering to further reduce its risk.

5.15. Given the above, we consider it appropriate that DCC's Switching margin should be lower than the 15% Baseline Margin it earns on Smart Metering owing to the more favourable overall risk profile of its Switching business.

5.16. We recognise from our previous work in determining a margin for DCC's roles in Switching the difficulty in identifying reliable external comparators to DCC's enduring Switching business which we could use to inform our margin proposal. This is because no one comparator is directly analogous in terms of key features such as (but not limited to) inherent risk in delivery of service, scope of services provided, ratio of internal to external costs, value of asset base, regulatory profile and extent to which the company was involved in the procurement of its service providers. Our 2016 consultation on the Transition phase margin set out a detailed analysis of potential comparators.[38]

5.17. DCC has performed its own analysis of potential comparators to its Switching business, and has identified a shortlist of seven which it considers to be most relevant. Working on the basis of Earnings before Tax (**EBT**) earned over the past five years (2017 to 2021 inclusive), the seven comparators earned an average of 9% EBT, and an average maximum (ie the average of each comparator's best year) of 13.3% EBT.[39] DCC identified each of the seven comparators as "asset-light" companies, analogous to its own Switching business.

5.18. Whilst this analysis provides useful context, we recognise the challenge of solely relying on external comparators given that no two organisations are alike in terms of the nature of their business and associated risk profile. We are also cognisant of the fact that DCC's Switching business is unique. Whilst noting these figures therefore, we consider it appropriate to apply greater weighting to the internal comparators of DCC's own roles in Smart Metering and previous roles in Switching when determining a margin proposal for DCC's enduring Switching business.

5.19. We also note that, under the new energy price cap methodology we set out in August 2022, energy suppliers are currently permitted to earn a maximum margin of 1.9% on energy supplied to its customers.[40]

5.20. **We are therefore proposing that, under the enduring Switching arrangements, DCC will be able to earn a margin somewhere in the range of 6 – 9% of its internal costs. Using the calculation methodology adopted for DCC's previous Switching roles, which we are proposing to continue to apply, this would equate to a range of 6.4 – 9.9% in terms of return on costs**.

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[38] March 2017 decision on margin and incentives for DCC's role in the Transition phase of the Switching Programme: https://www.ofgem.gov.uk/sites/default/files/docs/2017/03/decision_on_margin_and_incentives_for_dccs_role_in_the_transitional_pha_0.pdf
[39] The seven comparators identified by DCC are Electralink, Telecom Plus Plc, Gemserv, BT Group plc, Global Payments Inc., Vodafone Group plc and Royal Mail plc
[40] The energy price cap methodology, published in August 2022: https://www.ofgem.gov.uk/publications/ofgem-confirms-changes-price-cap-methodology-and-frequency-ahead-new-rate-be-announced-later-month

5.21. We consider this reduction in allowed margin relative to Smart Metering and earlier phases of Switching is justified given the more favourable risk profile to DCC under the enduring Switching arrangements. We think a value within this range will strike a fair and reasonable balance between offering value to customers and suitably incentivising DCC to deliver a quality service.

5.22. As with the calculation methodology for allowed revenue under the Transition and DBT phases, internal costs will be defined by the term CRSICt as set out in the Price Control provisions in the Licence. Switching margin will therefore not be earned against any internal costs disallowed through the Price Control determination, ie as they were determined to be uneconomic or inefficient. No Switching margin will be applied to external costs.

5.23. We propose that 100% of this Switching margin in a given RY should be put at risk against the Switching Incentive Regime we proposed in Chapter 4. This is on the basis that 100% of CRSICt will be dedicated to the provision of Switching services, so no margin on any of those costs will already be at risk through another incentive mechanism such as the OPR.

5.24. If any circumstances change in future that we think necessitate us reconsidering the value of this Switching margin, we will reconsult as appropriate.

5.25. Chapter 7 sets out details of how we propose to establish DCC's Switching margin in the Licence.

6. Consultation – Incentivisation of DCC's margin in RY 22/23

Chapter summary

This chapter of the document represents our policy consultation on how to incentivise the margin that DCC earn on its Switching activity between CSS Go Live on 18 July 2022, and the end of RY 22/23 on 31 March 2023.

Consultation questions

Question 5: Do you support either of the options we have identified for incentivising DCC's margin in the early post- go live period of Switching? Are there any other options you think should be considered?

6.1. Chapter 3 consulted on the establishment of the SIR from RY 23/24 onwards, with proposals for how it could be designed in RY 23/24 set out in Chapter 4. Chapter 5 then consulted on the percentage value of the margin DCC should be allowed to earn in its Switching roles from RY 23/24 onwards.

6.2. DCC is currently earning a margin on its Switching activity in the early operational phase. As noted, this is collected through the SEC.[41]

6.3. However, in the absence of an incentivisation regime for the early operational phase, this margin is currently not being put at risk. This is due to the existence of a gap in the provisions between the incentivisation schemes under the DBT phase, which technically ended at CSS Go Live on 18 July 2022, and any new scheme that may be

[41] DCC's Charging Statement for Service Charges for the Regulatory Year ending 31 March 2023: https://www.smartdcc.co.uk/media/7033/cs23-v10.pdf
As set out in section 7.4 on page 15, its Baseline Margin (BMt) values in Table 9 include a forecast of margin associated with the Switching Programme for RY 22/23.

introduced in future, such as the SIR which we propose to have in place on 01 April 2023.

6.4. The Price Control provisions for the OPR require that 100% of DCC's margin is put at risk.[42] As noted in Chapter 3, we intend to continue to apply that provision for margin earned under the enduring Switching arrangements, from CSS Go Live onwards. We are therefore now consulting on the appropriate method for how to put 100% of DCC's margin at risk for the period between 18 July 2022 and 01 April 2023. For the purposes of this consultation, we are referring to this phase as the "early post- go live period".

6.5. We have identified two options that we are proposing as part of this consultation:

1) DBT phase Delivery Milestones – under this approach, 100% of DCC's allowed margin for the early post- go live period would be put at risk against the five DBT phase Delivery Milestones (DM1t to DM5t) as defined as part of its performance incentive regime for the DBT phase.[43] The DBT Delivery Milestones determined the % of internal costs incurred during the DBT phase that DCC were permitted to earn margin against. Under this proposed approach, we would propose to use that % figure to determine the % of margin earned during the early post- go live period that DCC would be permitted to retain.[44]

2) Future Switching Incentive Regime – under this approach, 100% of DCC's allowed margin for the early post- go live period is carried forward to be put at risk against future incentivisation criteria. We think this could be implemented through the SIR we are proposing to introduce from RY 23/24 onwards, for example by putting the value of money earned by DCC during the early post- go live period at risk against the requirements of the SIR.

[42] Smart Meter Communication Licence, see paragraph 38.10:
https://epr.ofgem.gov.uk/Content/Documents/Smart DCC Limited - Smart Meter Communication Consolidated Licence Conditions - Current Version.pdf
[43] May 2019 Direction on margin and incentives for DCC's role in the DBT phase of the Switching Programme, which sets out details of the DM5 Specified Criteria:
https://www.ofgem.gov.uk/sites/default/files/docs/2019/05/cws_dbt_direction_260419_0.pdf
[44] For example, if DCC were permitted to earn margin against 70 % its DBT costs as a result of performance against the five DM milestones, it would then be permitted to also retain 70% of its margin earned during the early post- go live period.

6.6. With regards to option 1), we recognise that these milestones have already passed and that DCC would therefore not be further incentivised to retain its early post- go live period margin going forward. However in the absence of an existing specific incentive regime for this period, we consider this a reasonable option on which to consult.

6.7. Under option 2), the exact mechanism for how this value of margin could be put at risk in future under the SIR in practice would be subject to further consultation.

6.8. We think we could introduce the necessary provisions for either option through the issuing of a Direction, following consultation, in the event that we establish the SIR in the Licence following this consultation. Under these circumstances we would expect to consult on the provisions as part of a consultation on the form of the SIR in RY 23/24, as outlined in Chapter 4. If we do not establish the SIR in the Licence following this consultation, we recognise we may need to reconsult.

6.9. We are seeking stakeholder views on which, if any, of the two identified options should be implemented in order to incentivise DCC's margin in the early post- go live period of Switching. We are also keen to hear stakeholder views on whether there are any other options we should consider.

7. Consultation - Licence changes

Chapter summary

This chapter of the document represents our consultation on the Licence changes required to provide for two aspects:

1) the establishment of the SIR, the policy consultation for which is set out in Chapter 3

2) the determination of DCC's allowed margin in Switching, the policy consultation for which is set out in Chapter 5

Consultation questions

Question 6: Do you agree that the proposed Licence drafting appropriately reflects the policy intent of our proposal to establish the Switching Incentive Regime?

7.1. In order to establish and provide for the SIR in the regulatory framework, we consider that amendments to the Smart Meter Communication Licence are required. The key amendment we consider is required is the process for the determination of the term "CRSPAt" (Central Registration Services Performance Adjustment for year t), which is the adjustment to the margin that DCC earn on its Switching activity as determined through the Price Control.

7.2. The approach to the Licence drafting that we are proposing is to approximate how the term "BMOPAt" (Baseline Margin Operational Performance Adjustment for year t) is already determined, which is the adjustment to the margin that DCC earns on its Smart Metering activity as determined through the Price Control. This is an established mechanism that is understood and functions well in practice.

7.3. The key advantage to taking this approach is that the actual constituent terms to be used for calculating CRSPAt in a given RY can be set out in a Direction, accompanied by guidance, ahead of the RY. This prevents the need to amend the terms of the Licence itself on each occasion which we consider provides more certainty for DCC, consumers and any other affected party, as well as being a more efficient process from a regulatory management perspective. A key intent of the Licence drafting therefore is to provide for the existence of the SIR Direction and guidance.

7.4. The full proposed redlined set of changes have been published alongside this consultation on our website. The changes can be broken down into eight main sections as set out below. The section numbers can be cross-referenced against the section numbers highlighted in the redlined licence text document.

1. **35.5** - Definition of a new term "Centralised Registration Service Margin", to define the margin that DCC is permitted to earn on its Switching activity.

2. **35.8** – Insertion of a new abbreviated term "CRSMt", as an abbreviated form of the above new term in Condition 35.5.

3. **36.9** - Insertion of the term CRSMt (Centralised Registration Service Margin for Regulatory Year t) into the formula for calculating "CRSRt" (Central Registration Service Revenue). CRSRt is itself a constituent term used in the calculation of ARt (Allowed Revenue in year t).

   CRSMt represents the margin that DCC is permitted to earn on its Switching activity. Defining the term here as part of the CRSRt formula allows for DCC's allowed margin for its Switching activity to be provided for separately to its margin on the rest of its activity, which is already defined as term "BMt" in the Licence as set out in 36.7 to 36.8.

4. **36.10** – Insertion of a description for the new term CRSMt (see above).

   This description is required to set out how CRSMt is defined. The term is defined as the amount of the Licensee's Switching Margin determined for RY t.

   The percentage value of CRSMt will be set out in a Direction issued to the Licensee.

   For clarity, the value of this Switching margin is the subject of the consultation in Chapter 5.

5. **36.10** - Amendment to the definition of the term "CRSPAt" (Central Registration Service Performance Adjustment).

Whilst CRSMt represents the theoretical maximum value of Switching margin that DCC is permitted to earn, the term CRSPAt represents a potential downward adjustment to be made following the Price Control assessment process following the end of the RY to account for performance against the SIR for that RY. So CRSMt would be added automatically as an upward adjustment in the formula for CRSR, and CRSPA would then act as a potential downward adjustment in line with performance throughout the RY.

The current description of the term requires amending to provide for the establishment of the SIR.

The new proposed description sets out that the value of CRSPAt will be determined as per the provisions of the existing Direction until the end of RY 2022/23, and thereafter will be determined in line with 36.10A (see below).[45]

6. **36.10A to 36.10C** - As above, insertion of a new Part D2 (paragraphs 36.10A to 36.10C) to set out the formula and detail of how the new term CRSPAt is defined and calculated.

    - As noted, we are proposing that the formula for calculating CRSPAt mirrors the formula already defined in the licence for the calculation of "BMOPAt" in SLC 38.8. This is the term that represents the monetary value of DCC's actual allowed margin related to operational performance on its Smart Metering activity as determined following the Price Control assessment process following RY end.

    - The proposed formula is set out as follows:

      CRSPAt = [SUM 1-4] + [SDM 1-4] + [DIM 1-4] + [VMM 1-4]

[45] The relevant Direction, published 03 May 2019, which sets out how CRSPAt is determined: https://www.ofgem.gov.uk/sites/default/files/docs/2019/05/cws_dbt_direction_260419_0.pdf
That Direction amended the previous Direction which took effect on 09 March 2017, which can be found here:
https://www.ofgem.gov.uk/sites/default/files/docs/2017/03/direction_on_the_value_of_crspa_under_the_smart_meter_communication_lice_1.pdf

Where:

SUM = Service User Measure

SDM = Service Delivery Measure

DIM = Development and Improvement Measure

VMM = Value for Money Measure

- As part of the Price Control determination following RY end, each of the measures will be determined as having a value of either 0, if no charges are to be applied, or a negative value if charges are to be applied. As CRSPAt is a positive term in the calculation of ARt (Allowed Revenue for year t) therefore, any of the individual measures determined to have a value other than 0 will result in a downward adjustment to DCC's earned Switching margin for the RY.

- Additional provisions proposed within the Licence drafting:

    - The value for each term will be defined as 0 unless otherwise determined.

    - The value of each term will be determined in accordance with the illustrative provisions set out in a new Schedule 6, which establishes the SIR (see below).

    - The provisions set out in Schedule 6 will be further developed by the Authority in a subsequent Direction issued to the Licensee, following consultation.

    - These provisions may subsequently be amended by the Authority ahead of each RY through a further subsequent Direction issued to the Licensee, following consultation.

    - The Authority may issue guidance ("Switching Incentive Regime Guidance") to provide further information and detail regarding the terms applied in the calculation of CRSPAt, ahead of the RY in which it applies.

- The value of money at risk through the CRSPAt formula in a given RY must not be less than 100% of the value of CRSMt. This means that 100% of DCC's allowed Switching margin will be at risk through the SIR.

7. **Contents page of part 4** (page 238) – Insertion of an entry in the contents page for the new Schedule 6 (see below).

8. **Schedule 6** (page 258) - Insertion of a new Schedule 6 to establish the SIR. The Schedule, which is to be read for illustrative purposes only, sets out the four headings of the terms that may be used to define CRSPAt in a given RY.

   Part E of the Schedule sets out that the actual details of exactly which terms will be in use in a given RY, and how they will be calculated, will then be set out by the Authority separately through publication of guidance and a Direction ahead of the RY.[46]

[46] As noted, this Direction would amend the May 2019 Direction that is currently in force, link here: https://www.ofgem.gov.uk/sites/default/files/docs/2019/05/cws_dbt_direction_260419_0.pdf

Appendices

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Appendix 1 – Draft Licence changes

The Licence document published alongside this consultation on our website sets out the draft changes to the Licences proposed in this consultation. The document shows the proposed changes against the up to date version of the consolidated Licence conditions available on our website at the time of publishing.

The changes can be broken down into eight main sections as set out above in Chapter 7. The section numbers in Chapter 7 can be cross-referenced against the section numbers highlighted in the redlined Licence text document.

Appendix 2 – Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (**GDPR**).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data

We are not intending to share your personal data with other organisations. We are intending to publish non-confidential consultation responses, including any personal data that may be contained within them.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for six months after the consultation closes.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data

- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

10. More information

For more information on how Ofgem processes your data, click on the link to our "Ofgem privacy promise".