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REFERENCE	RECPAB_21_1026_08
STATUS	FOR INFORMATION

UPDATE ON PERFORMANCE CHARGES WORKPLAN

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1 PURPOSE

This paper provides the Performance Assurance Board (PAB) an update of the work to date on introducing Performance Charges under the REC.

2 BACKGROUND

Performance Assurance Techniques (PATs) are a critical part of the Code Manager's Performance Assurance Framework. These techniques are the mechanisms by which the Code Manager understands the causes of poor performance and acts to improve performance.

At the 28 September 2021 PAB meeting the Code Manager gave an overview of the two areas being developed in relation to Performance Charges and set out the proposed workplan. These two areas include:

- Erroneous Switch Performance Charges; and
- Service Provider Performance Charges related to the Data Communications Company (DCC), Electricity Retail Data Service (ERDS) and Gas Retail Data Service (GRDS).

The planned next steps for the Erroneous Switch Performance Charges included:

- Considering views from the ET PAB and sharing proposed metrics at the October PAB meeting, for consideration. In addition to finalising these metrics, a methodology for associated Performance Charges will also be developed, which we plan to share with the PAB at the December meeting.
- Engaging with a consumer-focused industry group, in order to gather wider industry views on the metrics and Performance Charges, ahead of a formal REC Change Proposal being raised. We committed to sharing this insight with the PAB through monthly meeting updates.

The planned next steps for the Service Provider Performance Charges included:

- Engaging with Ofgem to determine how Service Provider Assurance Performance Charges will relate to existing price controls and seek views on the reasonable value of proposed charges. Once we have collated these views, we planned to update the PAB

on the proposed metrics and associated charges at the October PAB meeting, for consideration.

This paper provides an update on the actions since the last PAB meeting, as well as identifying further actions in relation to this work The paper also sets out a proposed approach for the use of the Performance Charges more generally, for consideration by the PAB.

3 ERRONEOUS SWITCHES PERFORMANCE CHARGE

3.1 BACKGROUND

In July the interim PAB were presented with 10 options for potential Erroneous Switch Performance Charges, assessing their suitability in terms of whether there were issues measuring them, whether they duplicated existing guaranteed standards of performance (GSoP) and whether they could result in gaming issues. Two were recommended for further analysis:

1. Additional charges for Erroneous Switches over defined thresholds
2. Charges based on Erroneous Switch ageing

We identified a partial overlap of the first measure with GSoP, and therefore the need for this to be focused on levels of error well over normal operations, which could be indicative of inappropriate counter-fraud controls or inappropriate sales processes.

We discussed these with members of the ET PAB, as well as our rationale for identifying and including or excluding potential metrics. We received support for this process, with a steer to concentrate on pre-existing service levels that focus on the resolution of erroneous switches, as these are reported upon but there is a perception that they are not currently subject to scrutiny.

3.2 PRE-EXISTING ERRONEOUS SWITCH REPORTING

Suppliers already report, in aggregate, to Ofgem on a quarterly basis the number of times they failed to meet the following targets:

- 6A: To agree whether a switch is valid or erroneous within 20 working days of identification of the possible erroneous switch.
- 6B: To send the Erroneous Transfer Customer Charter “20 working day letter” to an erroneously transferred customer.
- 6C: To return an erroneously switched customer within 21 working days of agreement of an erroneous switch between Suppliers.

Currently there are requirements within the MRA and SPAA transition schedules relating to Erroneous Switches. At CSS go-live these will be replaced with the following requirements, consistent for both gas and electricity:

Timeline defined in the REC	Action	Mechanism
No later than the end of the: (a) 2nd WD if it is the Losing Supplier; or (b) 8th WD if it is the Gaining Supplier, of initial Consumer contact or of receiving	Send Initial Request.	RET Flow (gas) or D0301 (electricity)

Timeline defined in the REC	Action	Mechanism
information from a third party, indicating a potential Erroneous Switch.		
No later than the end of the: a) 2nd WD if it is the Losing Supplier; or b) 8th WD if it is the Gaining Supplier, of receiving an Initial Request.	Return the Initial Request with confirmation of: a) Acceptance or b) Rejection.	RET Flow (gas) or D0301 (electricity)
Following the return of the initial request and within 2 WDs, where the Initial Request is accepted by the Initiating Supplier and Associated Supplier.	Send a Valid Switch Request to re-register the erroneously switched RMP(s) on the CSS with the Erroneous Switch Flag indicator set to true.	CSS registration message
Following the switch request to re-register the customer, but no later than 20 WDs of an Erroneous Switch first being suspected (either through initial Consumer contact or an Energy Supplier otherwise becoming aware that an Erroneous Switch may have occurred).	Provide written confirmation to the Consumer that resolution has been agreed and they will be returned to their Losing Supplier.	Sent directly to the consumer.

3.3 OUR RECOMMENDED ERRONEOUS SWITCH PERFORMANCE CHARGE METRIC

Based on the above we recommend that Performance Charges are set on the number of working days which elapse between the agreement of an erroneous switch and the re-registration of the customer to the original Supplier. We recommend this because:

- Delays in resolving Erroneous Switches result in clear customer harm;
- Suppliers are already reporting on this process, and therefore should have the processes in place and management information to improve performance and budget for any charges;
- These metrics are well established, as they have been included in the Erroneous Transfer Customer Charter since at least 2002;
- This metric allows for differentiated charging levels, for example a low charge for those over 20 days, with higher charges after 40 or 60 days. This can create incentives to resolve erroneous switches that are overdue and avoid creating incentives to prioritise only erroneous switches approaching the deadline;
- Unlike the other metrics performance charge when the number of erroneous switches is over a set level, there is no overlap with GSoP and therefore no double jeopardy; and

- This metric would be observable without Party input, if the Code Manager can access Dflows and CSS messages, or otherwise could be provided by Parties as an item on the Performance Assurance Report Catalogue.

We recommend that the PAB continues to look at suppliers who have significantly more erroneous switches than the remainder of the industry, particularly in the role of losing supplier, using other PATs as required, and considers also monitoring the other service levels in section 3.2. Should this prove ineffective, further consideration of this charge could be required.

Since the September PAB meeting, we have progressed arranging a meeting with the Consumer Journey Forum in order to gather industry views on the metrics and Performance Charges, ahead of the REC Change Proposal being raised. The meeting has been requested and the PAB will be updated on the outcomes of this at a following meeting.

3.4 NEXT STEPS

Subject to views from the PAB on our recommended metric, the Code Manager will take the following next steps:

1. Propose target levels and charges for this metric.
2. Investigate the methods for calculating this ageing, providing details to the PAB.

4 SERVICE PROVIDER PERFORMANCE CHARGE

4.1 UPDATE

The Code Manager has continued the development of the Service Provider Assurance metrics. A key next step for the development of this Performance Charge was to engage with Ofgem. A meeting was held on 13 October 2021 to understand the current Service Level Agreements (SLAs) in place and the proposed metrics that were shared with the PAB at the September meeting:

AREA OF FOCUS	PROPOSED METRIC
Performance Against Service Definition Metrics – DCC, ERDS, GRDS	Number of SLAs 'missed' against the target set in the service definition.
Address Quality – DCC	More than a set limit of switches a year failed, or were erroneous, due to poor address quality. More than a set limit of switches which fail due to address quality and the switch is reattempted.
Change Requests – DCC, ERDS, GRDS	Satisfaction survey, which focuses on industry stakeholder's perception of effective engagement in the change process. An initial baseline survey would be proposed, with measuring of improvements in performance based on this. Charges based on delays in producing impact assessments, against the time allocated by the Technical Design Authority to do this.

The meeting with Ofgem provided the following key points:

1. Ofgem wish to retain key incentives within the DCC price control mechanism, particularly around address quality. They however wish that the PAB scrutinises a wider set of performance measures outside of the price control.
2. DCC's current Price Control is an ex-post regime. This means that there is a delay between the events and DCC paying the associated costs, and that only charges for failures, not rewards for successes, are possible.
3. Ofgem believe the measurement of performance should be directly linked to REC obligations, predominantly in the Service Definitions, and would value industry feedback on the highest priority areas of performance.
4. Ofgem does not believe there is the same requirement need to include REC relevant performance measures in the for interaction between price controls of DNOs who provide ERDS and Xoserve's GRDS service. However these should be subject to suitable cap and collars, to avoid the administration costs associated with small charge values and potential adverse consequences of high charges.

We also liaised with the Code Manager team who facilitate the technical change process, including chairing the Technical Expert Panel (TEP), the REC governance body responsible for assessing changes. We were able to confirm:

1. That the TEP would have the competency to act as an authority on change metrics, but not address quality ones. For example they could assess the length of time needed to complete an impact assessment based on the nature of the change, or if an impact assessment was timely, but of insufficient quality and therefore needed to be reassessed.
2. Consideration should be given to setting a standard set of timelines, to simplify TEP processes. For example very low complexity impact assessments could be due within a week, low two weeks, medium four weeks and high eight weeks.
3. That responding to impact assessments was key, but the implementation of changes to the planned release date is also important, and the PAB should consider if charges cover this process.
4. That appropriate service levels, or the application of caps and collars, could help drive the right behaviours, allowing for a reasonable level or error or unforeseen delay.

4.2 RECOMMENDATIONS

We have set out our recommendations based on this information, by area of focus:

Service Definition Performance

Based on this information we recommend that we do the following:

1. Provide to the PAB the detailed non-functional requirements and Service Definitions (which can be found in the confidential **Appendix A** to this paper), so that the PAB can provide views on the priority areas of performance that should be deferred to Ofgem.
2. Within the consultation on the performance charge allow the wider industry to comment upon these decisions.

3. Propose a performance charge regime that focuses only on the performance metrics excluded from Ofgem's price control.
4. Act as the agent of measurement for both metrics within the price control and those subject to the SLA, assuring the accuracy of reporting for both those metrics within the REC Performance Charges, and those within the Price Control, providing visibility and confidence to industry on these critical areas of performance.

We continue to recommend that the SLA metric relates to the number of SLAs 'missed' against the target set in the service definition.

Address Quality Performance

Given Ofgem's continued focus on the overall improvement of Address Quality it may not be appropriate for the PAB to include Performance Charges in this area. We will continue to work with Ofgem to understand any expectations of the PAB, including whether the PAB will be expected to assess the appropriateness of DCC's annual address quality improvement plan.

We recommend that no further work to develop the address quality performance charge is undertaken.

Change Requests Performance

Based on the input we have received we recommend that there are two change request metrics created:

1. The timeliness of impact assessment completion. For any impact assessments that are rejected by the TEP the time would continue at the point of rejection, avoiding the perverse incentive to create poor quality assessments quickly.
2. The timeliness of changes made against the planned release date. For any changes that need to be rolled back and then rereleased at a later date the clock would continue until the completed change has been made, with the TEP the arbiter of whether the roll back relates to this change, or another cause.

We will work with the PAB and the TEP to define any supporting criteria required, for example the standard time available to complete based on the complexity of change, and the charging methodology.

4.3 NEXT STEPS

Based on feedback from the PAB, the Code Manager will continue to develop the Service Provider assurance metrics and begin to draft the Change Proposal, which is due to be submitted into the Change Process in December 2021.

5 USE OF COLLECTED PERFORMANCE CHARGES

As set out in the PATs document, Performance Charges will be used in specific circumstances to incentivise Parties on objective, measurable performance criteria. The value of a charge will be set considering the impact on the Party, with the intention that charges are meaningful incentives, i.e. at least as much as the cost avoided by non-compliance, but not punitive. The intention is not to use these charges to offset revenue costs, but as a technique to be used to incentivise improved performance for high priority Retail Risks.

There are therefore a number of options for the use of collected Performance Charges:

- Option 1 - RECCo would collect the charges received, and these would in effect reduce level of charges on Parties to fund the REC services.
- Option 2 - The charges would be invoiced by RECCo, but remitted to a good cause related to the energy sector, e.g. a fuel poverty charity.
- Option 3 - The charges would be invoiced by RECCo and retained separate to the REC Charging Regime. Parties would be able to bid for the use of these funds for a defined purpose, for example to improve systems to reduce the risk of customer harm, or to complete work for the benefit of the consumer such as customer vulnerability research.
- Option 4: The charges would be invoiced by RECCo and retained separate to the REC Charging Regime. The PAB would be able to use these funds for a defined purpose, for example to conduct research into known industry problems and propose solutions.
- Option 5: The charges would be directly payable to the affected consumer, similar to GSoP, with this process undertaken by the Party.

Not all charges would need to follow the same option, for example Service Provider Performance Charges are unlikely to be set in a way that allows payment to a single affected consumer. PAB Members are invited to consider the proposed options and provide feedback on the preferred option(s).

6 PAB ACTIONS

PAB Members are invited to take the following actions:

- **CONSIDER** the recommended Erroneous Switch Performance Charge metric;
- **CONSIDER** the recommendations for the Service Provider Performance Charges; and
- **CONSIDER** the appropriate uses of collected Performance Charges.