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PROPOSED CRS PROVIDER PERFORMANCE CHARGES 2026/27

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FOR DECISION 	The Code Manager requests the PAB to: • **APPROVE** the amount of £39,000 as the maximum Performance Charges which can be applied to the CRS Provider in respect of each Quarter of the given Financial Year (2026/27), as well as the full table of charges. The Code Manager will publish this information after the meeting.
APPENDICES 	**Appendix A** – Calculation of maximum Quarterly Performance Charges and table of charges.

1 CRS PROVIDER PERFORMANCE CHARGES FOR APRIL 2026 TO MARCH 2027

1.1 BACKGROUND TO THE CRS PERFORMANCE CHARGES

DCC are the REC Party that provide critical services, the Central Switching Service, the Central Switching Service Certificate Authority and the Switching Operator service (collectively referred to as the Centralised Registration Service or CRS). DCC operate this under licence, with many of their obligations flowing directly from their accession to the REC. DCC are paid by RECCo for this service, but do not have a contract with RECCo. Any performance management regimes therefore need to be part of the REC, unlike other providers such as the enquiry services whose performance is managed under their respective contracts.

The change R0025 established a Performance Charge regime, which was implemented from 1 April 2023. This placed requirements on DCC, the PAB, RECCo and the Code Manager to implement this performance charge regime. R0210 subsequently evolved the CRS Performance Charge, enhancing its function by incentivising performance in higher-risk areas. This is achieved through the application of differential weighting.

This paper presents the maximum Performance Charges that can be applied to the Centralised Registration Service (CRS) Provider for each Quarter of the Financial Year 2026/27 for PAB's approval.

2 SETTING PERFORMANCE CHARGES

2.1 ALLOWABLE MARGIN FOR INCENTIVE

DCC have two types of costs, costs associated with their day to day running of the service, which are subject to a budget agreed with RECCo, as well as costs associated with changes. Costs associated with changes are managed through the REC Change process and are not subject to incentivisation.

As set out in the Switching Incentive regime guidance, the CRS Provider's allowed margin is 7.5% of its total internal cost related to its day-to-day activities. Only 80% of that allowed margin can be subjected to Performance Charges incurred by the CRS Provider, while the remaining 20% is subject to separate incentivisation administered by Ofgem.

The total internal cost to be used for determining the Performance Charge consists of both Resource and Non-Resource costs, such as employee-related costs, helpdesk support, and security certification. For FY 2026/27, the total internal cost applicable is £2.6m, which has been reviewed and verified by RECCo. This figure is lower compared to FY 2025/26 (£3.2m) and FY 2024/25 (£4.7m).

This cost reduction is primarily due to a decrease in Full-Time Equivalents (FTEs) required to deliver CRS in FY 2026/27. Additionally, it reflects changes in how certain REC-related costs are managed, such as the reclassification of Netcompany's operational costs (for the assurance of all REC Changes) to external cost.

2.2 EFFECT OF LICENCE CHANGE ON FY 2026/27 PERFORMANCE CHARGE

The Smart Meter Communication Licence (SMCL), under which Smart DCC Ltd ('DCC1') operates, is due to expire in September 2027. To ensure an orderly handover and closure of the current SMCL, a Successor Licensee ('DCC2') will co-exist with DCC1.

This arrangement requires that the responsibility for delivering the Centralised Registration Service be passed from DCC1 to DCC2 on 1 November 2026 (based on current expectation). This therefore implies that the Performance Charge for FY 2026/27 will span from April 2026 to the transfer date, leading to an instance where we will have a partial quarter.

We anticipate that the PAB will be required to consider one of the following options once the final date of transfer is known:

1. Removing the Performance Charge to avoid having a partial quarter (i.e. ending on 30 September 2026).

2. Removing the Performance Charge at the end of the incentivised period (i.e. ending on 31 December 2026).

3. Extending Q2 incentivised period up to the transfer date with appropriate adjustments to the performance thresholds.

The Code Manager will continue to track the transfer process. Once the date of transfer is confirmed, the PAB will be notified of the impact it will have and the necessary actions that need to be taken.

2.3 FY26/27 PROPOSED CHARGE

The Performance Assurance schedule sets out a formula for setting these charges. This is based on 'Performance Levels' which are defined as:

The Performance Charges for the CRS Provider are based on the CRS Provider's performance against the Performance Levels set out in the Central Switching Service Definition, the CSS Certificate Authority Service Definition, and the Switching Operator Service Definition.

We have calculated the charges for 2026 / 27 and set them out in the table below in line with R0210 changes:

Performance Measure Groups	Relative Weighting	Performance charge each quarter 2026/27
User Support	30%	£11,700
Service Availability	50%	£19,500
Responsiveness and BCDR	20%	£7,800
Maximum Performance Charge		**£39,000**

The Performance Levels for each Performance Measure Group are set out in the table below:

	User Support			Service Availability			Responsiveness and BCDR			
	No of failure	Margin at stake	Value (£)	No of failure	Margin at stake	Value (£)	No of responsiveness failure	No of BCDR failure	Margin at stake	Value (£)
On target	0-3	0%	**£0**	0	0%	**£0**	0-2	0	0%	**£0**
Minor failure	4	4.5%	**£1,755**	n/a	n/a	**n/a**	3	n/a	3%	**£1,170**
Serious failure	n/a	9%	**£3,510**	1	15%	**£5,850**	4	n/a	6%	**£2,340**
Severe failure	5	18%	**£7,020**	2	30%	**£11,700**	5	n/a	12%	**£4,680**
Fundamental failure	6+	30%	**£11,700**	3+	50%	**£19,500**	6+	1	20%	**£7,800**

We have set out the way in which we have calculated these charges in Appendix A. It has been subject to review by the Code Manager, shared with RECCo, Ofgem and DCC for comment.

Please note, the maximum Quarterly CRS Performance Charge for FY 2024/25 was £70,500 and for FY 2025/26 was £48,000. Both were calculated based on the forecast Internal costs provided by DCC, which have been reviewed and verified by RECCo.

PAB Decision



Based on the information provided in this paper, we request that PAB **APPROVE** the amount of £39,000 as the maximum Performance Charges which can be applied to the CRS Provider in respect of each Quarter of the given Financial Year (2026/27), as well as the full table of charges. The Code Manager will publish this information after the meeting.

3 APPENDIX A - CALCULATION OF MAXIMUM QUARTERLY PERFORMANCE CHARGES AND TABLE OF CHARGES

The Switching Incentive Regime guidance sets out the calculation of the Centralised Registration Service Margin, which is in turn used to calculate the CRS Provider's maximum revenue at risk in respect of Performance Charges, in line with the Performance Assurance Schedule paragraphs 5.3 (a – c). This states:

The REC PAB shall determine the Maximum Quarterly CRS Performance Charge using:

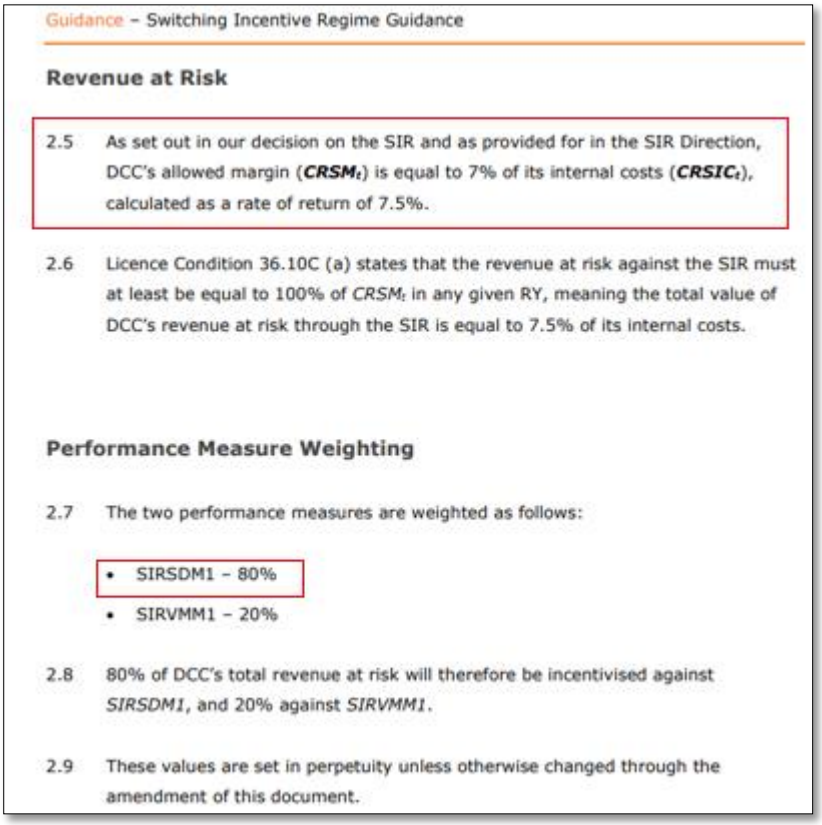
a. *the CRS Provider's forecast of its costs and margin provided under Clause 9 of the main body of this Code;*
b. *the percentage referred to in Paragraph 5.2 above; and 25% of the annual figure for each Quarter (or pro rata if the Financial Year is less than 12 months).*

Paragraph 5.2 of the REC Performance Assurance Schedule states:

The CRS Provider's maximum revenue at risk in respect of Performance Charges is determined under the DCC Licence pursuant to the Switching Incentive Regime Guidance (as defined in the DCC Licence), which sets out the percentage of the Centralised Registration Service Margin (as defined in the DCC Licence) which is at risk in respect of the Performance Levels under this Code.

Note, the above text was introduced to the REC as part of approved REC change CP-R0025, that was implemented on 1 April 2023.

This is based on the highlighted text in the Switching Incentive Regime[1] guidance shown below:



Guidance – Switching Incentive Regime Guidance

Revenue at Risk

2.5 As set out in our decision on the SIR and as provided for in the SIR Direction, DCC's allowed margin (***CRSM$_t$***) is equal to 7% of its internal costs (***CRSIC$_t$***), calculated as a rate of return of 7.5%.

2.6 Licence Condition 36.10C (a) states that the revenue at risk against the SIR must at least be equal to 100% of *CRSM$_t$* in any given RY, meaning the total value of DCC's revenue at risk through the SIR is equal to 7.5% of its internal costs.

Performance Measure Weighting

2.7 The two performance measures are weighted as follows:

- SIRSDM1 – 80%
- SIRVMM1 – 20%

2.8 80% of DCC's total revenue at risk will therefore be incentivised against *SIRSDM1*, and 20% against *SIRVMM1*.

2.9 These values are set in perpetuity unless otherwise changed through the amendment of this document.

Therefore, the Centralised Registration Service Margin will be calculated as 7.5% of total internal switching costs, as per Revenue at Risk[1] 80% of which is the maximum value of Performance Charges the CRS Provider may incur in any one year as determined under the Performance Assurance Schedule.

Centralised Registration Service Margin = Centralised Registration Service Costs * CRSMt (7.5%) * % weighting of SIRSDM1 in the SIR (80%)

a) As per the REC Performance Assurance Schedule:

with Paragraph 5.3 in the annex stating that "*Before the start of each given Financial Year, the REC PAB shall determine the amount of the maximum Performance Charges which can be applied to the CRS Provider in respect of each Quarter of the given Financial Year (which shall be known as the Maximum Quarterly CRS Performance Charge)". **The REC PAB shall determine the Maximum Quarterly CRS Performance Charge using:***

a) ***the CRS Provider's forecast of its costs and margin provided under Clause 9 of the main body of this Code***
b) *the percentage referred to in Paragraph 5.2 above; and*
c) *25% of the annual figure for each Quarter (or pro rata if the Financial Year is less than 12 months).*

RECCo have provided us with DCC's forecast of costs and margin, confirmed as part of the RECCo budget process. This sets out that DCC forecasts £2.6m of internal costs for the financial year 2026/27.

Using the allowed margin above of 7.5% from the Switching Incentive Regime Guidance[1] and multiplying that by the total Centralised Registration Service Internal Costs means that the total Centralised Registration Service **Margin for RY26/27 is £195,000 (being 7.5% of £2,600,000)**. Please note in our source material this is presented as a rounded value.

b) the percentage referred to in Paragraph 5.2 above

With Paragraph 5.2 stating:

> ***The CRS Provider's maximum revenue at risk in respect of Performance Charges is determined under the DCC Licence pursuant to the Switching OPR Guidance (as defined in the DCC Licence), which sets out the percentage of the Switching Baseline Margin (as defined in the DCC Licence) which is at risk in respect of the Performance Levels under this Code.***

As per 5.3 b) of the schedule, we must use the Switching Incentive Regime Guidance[1] which sets out 80% as percentage for the Centralised Registration Services Margin that is at risk in respect of Performance Charges under the Code. Therefore, we calculate the proportion of the **Centralised Registration Service Margin that can be applied to Performance Charges incurred by the CRS Provider for 2026/27 as £156,000** (being 80% of £195,000).

The remaining 20% is subject to separate incentivisation administered by Ofgem.

c) 25% of the annual figure for each Quarter (or pro rata if the Financial Year is less than 12 months)

As per 5.3 c) we will split the annual figure for **maximum value of the CRS Provider's Performance Charges for RY2026/27 into 25% for each quarter which gives £39,000** (25% of £156,000).

d) Ofgem's role following the end of the Regulatory year

As detailed in paragraph 2.13 onwards of the Switching Incentive Regime guidance, Ofgem's Price Control process includes a year-end reconciliation of the Performance Charge. This process refers to the exemptions process within the REC and provides an additional opportunity for DCC to provide exemption requests.

e) Performance charge table in line with R0210 – Evolution of the CRS Performance Charge changes

The Change Proposal was introduced off the back of the development of R0025 to help ensure that the performance charge is applied to reflect areas where missed target have critical impact on the Centralised Registration service. The solution introduced a differential weighting between different Performance Measure Groups as per the table below:

Performance Measure Groups	Total Number of Metrics in the Group	Relative Weighting
User Support	18 metrics	30%
Service Availability	7 metrics	50%
Responsiveness and BCDR	16 metrics	20%

The CRS Provider's Performance Charges shall be calculated in accordance with the following table:

	User Support			Service Availability			Responsiveness and BCDR			
	No of failure	Margin at stake	Value (£)	No of failure	Margin at stake	Value (£)	No of responsiveness failure	No of BCDR failure	Margin at stake	Value (£)
On target	0-3	0%	**£0**	0	0%	**£0**	0-2	0	0%	**£0**
Minor failure	4	4.5%	**£1,755**	n/a	n/a	**n/a**	3	n/a	3%	**£1,170**
Serious failure	n/a	9%	**£3,510**	1	15%	**£5,850**	4	n/a	6%	**£2,340**
Severe failure	5	18%	**£7,020**	2	30%	**£11,700**	5	n/a	12%	**£4,680**
Fundamental failure	6+	30%	**£11,700**	3+	50%	**£19,500**	6+	1	20%	**£7,800**

References:

1. Switching Incentive Regime Guidance - Switching Incentive Regime Guidance (ofgem.gov.uk)
2. R0210 – Evolution of the CRS Performance Charge – Change Report