

# Guidance

## Data Communications Company (DCC): Regulatory Instructions and Guidance

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The Regulatory Instructions and Guidance (RIGs) provide the basis on which the Licensee must report Price Control Information as required under the Smart Meter Communication Licence. This document contains detailed instructions on what to report and offers guidance on how to complete the reporting templates.

The Licensee is required to report to us on an annual basis by 31 July, following each Regulatory Year. It must act in accordance with the RIGs, and these will continue to apply to each year of price control reporting for the duration of the Licence term.

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## Executive Summary

The Smart Meter Communication Licence (the Licence)<sup>1</sup> requires The Data Communications Company (DCC) to submit price control reporting to the Authority. This document is DCC's Regulatory Instructions and Guidance (RIGs) referred to under Licence Condition 33. It covers the reporting of Price Control Information by the Licensee to the Authority<sup>2</sup> under Condition 32 of the Licence.

Under the Licence, DCC must collect and provide Price Control Information to us in accordance with the RIGs. DCC must at all times act in accordance with the RIGs, and these will continue to apply to each year of price control reporting for the duration of the Licence.

The information collected in the reporting templates and specified in the RIGs is required for:

- 1. Consistency:** The RIGs should consistently give the Authority Price Control Information for every Regulatory Year of the Licence.<sup>3</sup> They create a template for DCC to provide<sup>4</sup> a comparison between the actual incurred costs and those estimated in the Licence Application Business Plan (LABP),<sup>5</sup> and any updated forecast. The Baseline costs associated with the LABP will be separated from those costs that have been incurred as a consequence of New Scope.
- 2. Compliance:** We use the RIGs to monitor DCC's obligations under the Licence, in particular Condition 36, which obliges it to take all reasonable steps to secure that regulated revenue does not exceed a prudent estimate of Allowed Revenue for that Regulatory Year, and ensure that Service Charges do not need to be amended in the course of the year except in response to a reasonably unlikely contingency. The RIGs

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<sup>1</sup> The Smart Meter Communication Licences granted pursuant to Sections 7AB(2) and (4) of the Electricity Act 1989 and Sections 6(1A) and (1C) of the Gas Act 1986 (such licences together referred to as 'the Licence' throughout).

<sup>2</sup> The Office of the Gas and Electricity Markets Authority (Ofgem) supports the Gas and Electricity Markets Authority ('the Authority') in its day to day work. In this document, 'us/we', 'Ofgem' and 'Authority' are often used interchangeably.

<sup>3</sup> As required under Licence Condition 32.

<sup>4</sup> As required under Licence Condition 37.

<sup>5</sup> The Licence Application Business Plan is the plan submitted in the course or as a consequence of the licence application process. It contains estimates of revenues, costs, capital investments and cash flows for each Regulatory Year of the Licence Term, and was taken into account by the Secretary of State in determining the grant of the Licence.

allow us to monitor effectively DCC's revenue and to confirm that the revenues recovered are in line with the Licence.

- 3. Monitoring incentives and outputs:** The RIGs allow us to record DCC's performance under the Implementation Performance Regime, Operational Performance Regime, and any Baseline Margin Project Performance Adjustment Schemes. This enables us to identify any impact on revenue.
- 4. Building knowledge:** DCC is operating in a unique and evolving regime. Acquiring knowledge of the costs and outputs will help us understand how future changes will impact the business.
- 5. Financial health and regulatory action:** Monitoring financial information enables us to respond as early as possible in the event there is any change to DCC's financial health.
- 6. Efficient and economic:** The information provided under the RIGs, together with information from other sources, for example on performance, should allow us to determine whether costs were economically and efficiently incurred. To assess the management of change control, we will closely scrutinise where deviations from previously allowed costs, and the LABP occur. Where changes are unsubstantiated, we will look at these more closely and consider whether further action is needed.

For the avoidance of doubt, this document should be read in conjunction with the RIGs Licence Conditions. The terms used in the RIGs have the same meaning as is defined in the Licence, unless it is expressly stated otherwise. The RIGs will not change, alter, or amend any definition or obligation contained within the Licence. In the event of any inconsistency between the Licence Conditions and this document the Licence Conditions will take precedence, except where expressly stated otherwise. Where changes or corrections need to be made to the Licence we will address these through Licence modifications.

## **New Developments**

This version of the RIGs has been subject to minor changes from previous versions. The revisions that have taken place are in response to the following developments:

1. the addition of a new supplier sheet for the Enduring Change of Supplier programme in Annex 3 External Costs, which meant updating the External Costs sheet categories here; and
2. a reduction in complexity in the reporting of Cash Balances.

All of these developments have necessitated changes to the RIGs and have afforded the opportunity for additional changes to improve clarity and ease-of-use.

## **Future Development**

This is a relatively new price control regime and DCC's role is still evolving. Given these uncertainties, it is likely that the RIGs may be modified from time to time. It is likely they will need to be adjusted as DCC's business develops and additional cost items are included, or more regular reporting might be required. In particular, the new OPR framework will bring a need to significantly change Annex 1 Quality of Service Information, which will mean new developments in the main RIGs template. We recognise that any significant changes to the scope and form of the information requested can increase the regulatory burden on DCC. We will consider this impact when introducing any changes. Modifications to the RIGs will be in accordance with the process set out in Licence Condition 33, Part B.

## **Quality of Service Information and Annexes**

In addition to the requirements outlined in this document, DCC is required to provide Quality of Service Information, as well as further Price Control Information. The Quality of Service RIGs are published on our website alongside the Price Control RIGs documents, and should be considered 'Annex 1' to this document. The further Price Control Information is outlined in Annex 2, 3, and 4 to this document.

## 1. Introduction

### Context

- 1.1. The Data Communications Company (DCC)<sup>6</sup> is a central communications body appointed to manage communications and data transfer for smart metering. It is responsible for linking smart meters in homes and small businesses with the systems of energy suppliers, network operators and other companies. DCC develops and delivers data and communications services for smart meters through its External Service Providers.
- 1.2. The price control reporting allows us to monitor DCC's compliance with its licence obligations on price control,<sup>7</sup> and assess the costs incurred with running DCC. The information will help us determine whether DCC incurred costs economically and efficiently, and we may disallow costs or impose special measures<sup>8</sup> on DCC to better manage its costs if we decide this was not the case.
- 1.3. Under the Licence DCC is required to submit cost, revenue, and incentive reporting to the Gas and Electricity Markets Authority (the Authority). This document provides detailed instructions on what to report and offers guidance on how to complete the reporting templates. DCC will report on an annual basis by 31 July, following each Regulatory Year.<sup>9</sup>

### Purpose and Scope

- 1.4. DCC must provide Price Control Information to the Authority in accordance with the RIGs. It must act at all times in accordance with the RIGs, and these will continue to apply to each year of price control reporting for the duration of the Licence.

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<sup>6</sup> DCC is the holder of the Smart Meter Communication Licence granted pursuant to Sections 7AB(2) and (4) of the Electricity Act 1989 and Sections 6(1A) and (1C) of the Gas Act 1986, and in this document may be referred to as DCC or as 'the Licensee'.

<sup>7</sup> Chapter 9: Conditions 35 to 41 set out the price control conditions of the Licence.

<sup>8</sup> These powers are set out in Condition 37 of the Licence.

<sup>9</sup> A Regulatory Year runs from 1 April in any calendar year to 31 March in the following calendar year. DCC's first Regulatory Year is deemed to have begun on 1 April 2013 (Licence Condition 1.4).



- 1.5. Licence Condition 33 sets out the scope and governance arrangements for the RIGs.
- 1.6. The Specified Information in the RIGs refers to Quality of Service Information which is the subject of Condition 31 of the Licence, and Price Control Information which is the subject of Condition 32 of the Licence.
- 1.7. Licence Condition 37 requires the Licensee to provide comparisons between the External Costs and Internal Costs<sup>10</sup> actually incurred for the Regulatory Year and the amount of the External and Internal Costs that the Licensee estimated were likely to be incurred for the Regulatory Year in its Licence Application Business Plan (LABP),<sup>11</sup> and in all updated forecasts of expenditure. The updated forecasts should reflect economic and efficient costs as submitted by DCC and reviewed by the Authority at the previous price control review.
- 1.8. DCC is also required to explain and justify any divergence between the LABP (and all updated forecasts) and its actual costs within the current regulatory year, and provide a statement of any material revisions to any financial or operational matter included in the LABP arising from that divergence.
- 1.9. For practical purposes, DCC should focus on providing explanations of variations to the updated forecasts of economic and efficient costs. DCC should provide a brief overview or summary of the variance to LABP, with references to its previous regulatory submissions.
- 1.10. The purpose of this document is to provide instructions and guidance to enable DCC to provide Price Control Information in accordance with its Licence and specifically Condition 33 (which regards the RIGs).
- 1.11. This document and its annexes provide:
  1. a complete statement of the Specified Information<sup>12</sup> which DCC is required to report;

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<sup>10</sup> Defined in Licence Condition 35.5.

<sup>11</sup> Defined in Licence Condition 37.14.

<sup>12</sup> Defined in Licence Condition 33.2.

2. instructions and guidance on the Authority’s requirements for the systems, processes, and procedures for the recording and provision of Specified Information to the Authority;
  3. instructions and guidance on the standards of accuracy and reliability that are applicable to recording the Specified Information (including different classes of Specified Information);
  4. explanations of the meaning of words and phrases used in defining Specified Information;
  5. requirements for how the Specified Information must be recorded, and given to the Authority; and
  6. how the Authority expects to monitor and assess the Licensee’s compliance with the RIGs.
- 1.12. Sections 2 and 3 cover general and fixed information which is specified in the supporting regulatory reporting templates to these RIGs.
- 1.13. Section 4 covers reporting the Allowed Revenue.
- 1.14. Section 5 covers reporting External Costs and Internal Costs information.
- 1.15. Section 6 covers reporting Baseline Margin, Baseline Margin Performance Adjustment, and External Contract Gain Share information.
- 1.16. Section 7 covers reporting Financial Statements, cash balances, information on Shared Services, and information on resourcing.
- 1.17. Section 8 provides specified Price Control Information related to reconciliations between:
- the amount of Internal and External Costs that were incurred in the relevant Regulatory Year; and
  - the amount of economic and efficient Internal Costs that were incurred and/or forecasted in the previous Regulatory Year and in DCC’s LABP.
- 1.18. Section 9 details a number of qualitative questions which support the Specified Information detailed in other Sections.

- 1.19. There are also qualitative questions included in the reporting template. Where these have been included, they relate to the information provided in the sheet on which they occur. Any supplementary evidence or information that relates to these questions should also be provided.
- 1.20. In addition to this document and the main Excel workbook (the main reporting template) it references there are four Annexes. These are:
- 1.20.1. **Annex 1 – Quality of Service Information:** covers the reporting of Quality of Service Information which is used to assess DCC’s performance under the Operational Performance Regime.
  - 1.20.2. **Annex 2 – Baseline Margin Project Performance Adjustment:** covers the reporting of DCC’s performance under all Baseline Margin Project Performance Adjustment Schemes. A summary of this information is also covered in the main reporting template (see Section 6 of this document).
  - 1.20.3. **Annex 3 – External Costs:** covers the reporting of External Costs. A summary of this information is also covered in the main reporting template (see Section 5 of this document).
  - 1.20.4. **Annex 4 – Centralised Registration Service Revenue:** covers all revenue (including costs, margin, and performance adjustments) associated with the Centralised Registration Service.

These are referenced throughout this document where they are relevant, and values from all of these annexes feed into the main reporting template. Appendix 1 to this document shows the structure of the reporting templates, and the corresponding RIGs documents.

- 1.21. This document should be read in conjunction with the Licence conditions. The terms used in the RIGs have the same meaning as is defined in the Licence, unless it is expressly stated otherwise. The RIGs will not change, alter, or amend, any definition or obligation contained within the Licence. In the event of any inconsistency between the Licence conditions and this document the Licence conditions will take precedence, except where expressly stated otherwise. Where changes or corrections need to be made to the Licence we will address these through Licence modifications.

- 1.22. This version of the RIGs is a significant development upon previous versions. The revisions that have taken place have resulted in a number of sheets within the reporting template being renumbered. For clarity, Appendix 2 shows the numbering of the original worksheets and the corresponding numbers of the new worksheets in the main reporting template and annexes.
- 1.23. We anticipate that the RIGs may need to be modified in future years. This reflects that DCC is a relatively new licensed entity for which there is uncertainty of future costs and outputs. Any future modification of the RIGs will be in accordance with the modification process set out in Licence Condition 33, Part B.
- 1.24. If any of the guidance contained in this document is unclear, DCC should contact Ofgem for further guidance and to discuss potential changes to the RIGs and supporting reporting templates which might be required.

## **Related Publications**

### **RIGs Guidance Documents**

[Annex 1 RIGs guidance document – Quality of Service Information](#)

[Annexes 2 to 4 RIGs guidance document](#)

### **RIGs Reporting Templates**

[Main RIGs reporting template](#)

[Annex 1 RIGs reporting template – Quality of Service Information](#)

[Annex 2 RIGs reporting template – Baseline Margin Project Performance Adjustment](#)

[Annex 3 RIGs reporting template – External Costs](#)

[Annex 4 RIGs reporting template – Centralised Registration Service Revenue](#)

### **Other Related Publications**

[Smart Meter Communication Licence](#)

[Decision on Operational Performance Regime](#)

[Direction to populate Schedule 4](#)

## 2. Specified Information – General

### Section summary

This section describes the first six sheets of the main reporting template. These sheets contain sign-off procedures, logs and universal data requirements for the rest of the reporting template.

### Cover

- 2.1. This sheet sets out requirements, guidance and a colour coded key for the reporting template.

### Sign-Off

- 2.2. The input cells on the sign-off sheet are to be completed by a director of DCC once all other data has been collected in the return and immediately prior to submission of the return to the Authority. The director making the declaration must have taken adequate steps to ensure they are satisfied that they are able to make the declaration shown on that tab.

### Version Control

- 2.3. This logs revisions of the reporting template by the Authority. Changes are logged with date, successive version number, and a short description of the amendment.
- 2.4. If DCC identifies an error in the reporting template, eg a cell incorrectly linking to another cell or an incorrect formula, DCC must notify us of the error as soon as possible. We will subsequently confirm if there is an error and notify DCC. If there is adequate time before the submission deadline, we will instruct DCC to correct the error in the reporting template before it is submitted. We will decide whether adequate time exists based on the materiality of the error and by consulting with DCC.
- 2.5. Once we confirm the error, the change will be logged in the "Version Control" worksheet.

## Data Change Log

- 2.6. The reporting pack requires data to be submitted for historical years. DCC must provide this data in the relevant schedules.
- 2.7. At each submission DCC may resubmit values included in previous submissions. Changes to historical values may be:
- 2.7.1. Due to finding an error in the recording or reporting of information.
  - 2.7.2. To take account of a direction by Ofgem to revise allowed expenditure. This ensures that the data in the RIGs is kept up to date and in line with Ofgem’s price control determinations.
- 2.8. Where a previously submitted value has been changed the DCC must notify us of this change and the reason for it by recording it in the “data change log”.

## Universal Data

- 2.9. **Company number:** this should be the official company registration number issued by Companies House upon incorporation of the Licensee.
- 2.10. **Company name:** this should be the official name of the company as reported on filings submitted to Companies House. In the event that the name of the company has changed during the year then the name reported in this tab should be the name as at year end, ie 31 March.
- 2.11. **Company short name:** this should be a standard abbreviation of the name of the Licensee which should be used whenever the name of the Licensee is to be abbreviated.
- 2.12. **Reporting year:** this is the most recent Regulatory Year for which data is being submitted. The Regulatory Year runs from 1 April to 31 March.<sup>13</sup> The convention when

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<sup>13</sup> It is anticipated that where Licence grant does not coincide with the start of the Regulatory Year the

naming reporting years is to use the name of the year in which the Regulatory Year ends. For example, the reporting year for the Regulatory Year which started on 1 April 2013<sup>14</sup> and ended on 31 March 2014 is referred to as 'reporting year 2014'.

- 2.13. **Version (Number):** where cost reporting templates have been resubmitted for any reason each submission should be separately identified by its version number. The version numbers should be successive positive integers such that the first submission is always version 1 and any subsequent resubmissions will be labelled version 2, 3, 4 etc.
- 2.14. The Authority's agreement is required before any resubmission of information set out in a report produced in accordance with these RIGs can be made, and in any such instance the report concerned must be resubmitted in full. The resubmission must be accompanied by a letter signed by a director where significant changes have been made and the Authority or the Licensee decides if such a letter is required.
- 2.15. In addition, for each resubmission a separate explanation must be provided listing each and every cell that has been amended and sufficient commentary to explain the reasons for the changes.
- 2.16. **Submitted date:** Licence Condition 32 requires that the completed cost reporting templates are submitted by 31 July following the end of the Regulatory Year to which the information relates. This cell should specify the date on which the RIGs reporting templates are sent to the Authority.
- 2.17. **Date to which last statutory accounts were compiled:** this is the date to which accounts were prepared or are being prepared for submission to Companies House. This should be the most recent such date which fell within the reporting year. For example, if a Licensee were to prepare its statutory accounts to 31 May each year, then in the reporting year 2015 the 'Date to which last statutory accounts were compiled' ought to be 31 May 2014 (since 31 May 2015 does not fall within the reporting year 2015).

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first reporting period will be for a period of less than 12 months (ie to next 31 March).

<sup>14</sup> The Licence was granted to DCC on 23 September 2013, however Licence Condition 1.4 definition of 'Regulatory Year' states that the first Regulatory Year was deemed to start on 1 April 2013.

### 3. Specified Information – Fixed Data and Summary Data

#### Section summary

This section describes Sheet 1 and 2 of the main reporting template. These are:

- the fixed data sheet (Sheet 1) which holds data which is common across the reporting template;
- and the summary data sheet (Sheet 2) which summarises the components of DCC's Allowed Revenue given in the Licence, replicating the equation found in the Licence.

#### Fixed Data – Sheet 1

**PURPOSE:** this worksheet contains data that is common across worksheets.

- 3.1. **Year of licence term:** this is a successive integer numbering of the years of the Licence. The first year of the Licence is 1, the second year 2, etc.
- 3.2. **Regulatory Year:** a Regulatory Year runs from 1 April to 31 March.<sup>15</sup> The most recent Regulatory Year is referred to as the reporting year. The convention when naming reporting years is to use the name of the year in which the Regulatory Year ends. For example, the reporting year for the Regulatory Year which started on 1 April 2013<sup>16</sup> and ended on 31 March 2014 is referred to as 'reporting year 2014'.
- 3.3. The Licence period runs from 23 September 2013 to 22 September 2025 unless it is extended or revoked. The reporting template accompanying these RIGs may contain additional reporting years beyond the Licence period, for example to capture forecasts of costs associated with the continuity of services and the close out of Allowed Revenue

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<sup>15</sup> Where Licence grant does not coincide with the start of the Regulatory Year then the first reporting period will be for a period of less than 12 months (ie to next 31 March).

<sup>16</sup> The Licence was granted to DCC on 23 September 2013, however Licence Condition 1.4 definition of 'Regulatory Year' states that the first Regulatory Year was deemed to start on 1 April 2013.



calculations following the end of the Licence period. For the avoidance of doubt, these additional reporting years are not part of the Licence period.

- 3.4. **Retail Price Index:** as defined in Licence Condition 36.
- 3.5. **Average Specified Rate:** as defined in Licence Condition 35.
- 3.6. **Month – reference:** this is a successive integer numbering of the months within a reporting year. The month April is 1, May is 2, etc.
- 3.7. **Month – date:** this is the list of calendar months within a reporting year. The Regulatory Year runs from 1 April to 31 March.

## Summary Data – Sheet 2

**PURPOSE:** provides a summary of the components of the Principal Formula of the Allowed Revenue.

- 3.8. This worksheet is linked to information on other worksheets of the RIGs reporting templates. No information should be entered on this worksheet.

## 4. Specified Information – Revenue

### Section summary

This section describes the Specified Information for revenue reporting based on the current Licence. It describes the calculations performed on Sheet 3 of the main reporting template – which is primarily the Principal Formula of the Allowed Revenue.

### Procedures for Regulatory Reporting

- 4.1. All revenue data should be reported on an accruals basis unless otherwise specified.
- 4.2. All monetary amounts should be reported in £m and to three decimal places.

#### Price base for historical and forecast data

- 4.3. The Specified Information in the revenue reporting template is designed to capture the data across the full duration of the Licence. As a consequence, all previous periods are to be completed with the outturn figures and all future periods are to be completed with forecasts.<sup>17</sup>
- 4.4. All historical expenditure should be input in nominal terms ie, in the prices of the year to which the data relates.
- 4.5. Reporting of forecast expenditure should be in the price base of the Regulatory Year t, as defined in the Licence.
- 4.6. When considering the impact of real price effects DCC should reference economy-wide inflation as measured by the retail prices index (RPI). These RIGs include a supporting

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<sup>17</sup> To be clear, this relates only to the historical and forecast data submitted in the report for Regulatory Year t. There is no requirement to update forecasts submitted in previous Regulatory Years, or the LABP.

question for DCC to explain real price effects and any assumptions it has included in its forecasts.

## Revenue Reporting – Sheet 3

**PURPOSE:** this worksheet reproduces the calculations of the Principal Formula for the Allowed Revenue.

- 4.7. This worksheet follows the Principal Formula defined in Licence Condition 36. Calculations of sub-formulae of the Principal Formula are provided for reference. Information should only be provided in the input cells.
- 4.8. **Allowed Revenue:** the term 'Allowed Revenue' and all subsequent terms used in its calculation are defined in Licence Condition 36. Allowed Revenue is defined in that Condition as:

$$AR_t = EC_t + IC_t + CRSR_t + PTC_t + BM_t + BMPA_t + ECGS_t - VASC_t + K_t$$

where each of the terms is explained below including the cross references to the relevant clauses in the Licence conditions where the detailed terms are defined.

- 4.9. **Total Costs:** states the sum of the costs incurred and forecast by the Licensee – External Costs, Internal Costs, CRS Total Costs and Pass-Through Costs.
- 4.10. **External Costs (EC<sub>t</sub>):** shall include, for the specified Regulatory Year, the costs that were (or are expected to be) economically and efficiently incurred by the Licensee in procuring Fundamental Service Capability for that period. Within the regulatory reporting templates, External Costs in the revenue reporting worksheet are linked to other worksheets on cost reporting as detailed in Section 5. As specified in Licence Condition 36.8, External Costs for all historical years are those reported by the Licensee, except to such extent (if any) as may be otherwise directed by the Authority acting under Part B of Condition 37.
- 4.11. **Incentive payments to External Service Providers:** states the total amount of incentive payments to external service providers which is included within the External Costs.

- 4.12. **Performance related refunds from external Service Providers:** states the total amount of performance related refunds that was set off against External Costs. This amount is shown as a negative amount.
- 4.13. **Internal Costs (IC<sub>t</sub>):** shall include, for the specified Regulatory Year, the sum of costs (excluding External Costs, CRS costs and Pass-Through Costs) that were economically and efficiently incurred by the Licensee for the purposes of the provision of Mandatory Business Services under or pursuant to the Smart Energy Code (SEC). As with External Costs, Internal Costs in the revenue reporting worksheet are linked to other worksheets on cost reporting as detailed in Section 5. As specified in Licence Condition 36.8, Internal Costs for all historical years are those reported by the Licensee, except to such extent (if any) as may be otherwise directed by the Authority acting under Part B of Condition 37.
- 4.14. **Centralised Registration Service Revenue (CRSR<sub>t</sub>):** shall include, for the specified Regulatory Year, revenue for Centralised Registration Services calculated in accordance with part D of Condition 36. This should be copied from the output from Annex 4 – Centralised Registration Service Revenue.
- 4.15. **CRS Total Costs:** means the total costs incurred by the Centralised Registration Service (CRS) programme. This should be copied from the output from Annex 4.
- 4.16. **Pass-Through Costs (PTC<sub>t</sub>):** means the sum of total amounts paid (or expected to be paid) by the Licensee to the Authority in respect of its Licence fee<sup>18</sup> ("Licence fee paid by the Licensee"), to AltHANCo Ltd for the purposes associated with the Alt HAN Arrangements ("Payments to Alt Han Co."), and to SECCo for purposes associated with the governance and administration of the SEC ("Payments by Licensee to SECCo Ltd – CIO assessments", "Payments by Licensee to SECCo Ltd – administrative costs").
- 4.16.1. Any additional Pass-Through Costs, as defined in Licence Condition 36.8, which are not suitably described by the available rows should be added using the extra row provided ("Other – please specify"). If further rows are required,

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<sup>18</sup> As determined in accordance with Part A of Condition 4 of the Licence (Licensee's payments to the Authority).

this extra row should be duplicated. The summation of the Pass-Through Costs should capture all additional rows.

- 4.17. **Baseline Margin (BM<sub>t</sub>):** means the amount of the Licensee’s Baseline Margin (BM) that is specified for the Regulatory Year t. The calculations for the BM are performed on Sheet 6 of this reporting template, described in Section 6 of this document.
- 4.18. **Baseline Margin Performance Adjustment (BMPA<sub>t</sub>):** means the amount of the Licensee’s Baseline Margin Performance Adjustment (BMPA) that is specified for the Regulatory Year t. The calculations for the BMPA are performed on Sheet 7 of this reporting template, described in Section 6 of this document.
- 4.19. **External Contract Gain Share (ECGS<sub>t</sub>):** the calculations for the ECGS are performed on Sheet 6 of this reporting template, described in Section 6 of this document.
- 4.20. **Value Added Services Contribution (VASC<sub>t</sub>):** this is to be determined in accordance with Licence Condition 40.
- 4.21. The effect of the application of the VASC term in Licence Condition 36 is to provide, where relevant, that some part of the net benefit that arises as a result of the Licensee’s provision of Value Added Services is reflected in a reduction in the price that would otherwise be payable for Mandatory Business Services.
- 4.22. It is determined as follows:

$$VASC_t = \sum_{all\ k} (CVAS_{k,t})$$

- 4.23. CVAS<sub>k,t</sub> means the share of the net benefit arising in Regulatory Year t from the Licensee’s provision of Value Added Service k that was agreed with the Authority when it approved the provision of that service in accordance with Part D of Licence Condition 6 (Authorised Business of the Licensee). The CVAS term is an input in the revenue regulatory reporting worksheet.

- 4.24. **Correction factor (K<sub>t</sub>):** for the Regulatory Year 2013/14 the Correction Factor shall have a value of 0 and in each subsequent Regulatory Year is calculated in accordance with the following formula:<sup>19</sup>

$$K_t = (AR_{t-1} - RR_{t-1} - BDC_{t-1}) \times \left[ 1 + \frac{(ASR_t)}{100} \right] + ((AR_{t-1} - RR_{t-1} - BDC_{t-1}) \times F_t) \times \left( \frac{INT_t}{100} \right)$$

- 4.25. **Regulated Revenue (RR):** means in relation to each Regulatory Year the actual revenue, measured on an accruals basis, received by the Licensee through Service Charges as defined in Part B of Licence Condition 35. The RR term in the revenue reporting worksheet is linked to Sheet 8.
- 4.26. **Bad Debt Contribution (BDC):** means the contribution to bad debt within the Licensee’s Internal Costs as defined in Part G of Licence Condition 36. This is expected to be zero except where the Licensee has failed to comply fully with its obligations under or pursuant to the SEC in relation to the management of SEC Parties’ credit cover and recovery of bad debt.
- 4.27. **Proportion Factor (F<sub>t</sub>):** this is to be determined by the Authority as defined in Licence Condition 36.19 in relation to the penalty interest rate for over-recovery of revenue.
- 4.28. **Interest rate adjustment (INT<sub>t</sub>):** this is to be determined in accordance with the provisions of Licence Condition 36.19.
- 4.29. **Commentary on the Correction Factor (K<sub>t</sub>):** This should include commentary explaining significant components of the Correction Factor. Where appropriate the commentary should refer to, inter alia, prudent budget, performance related refunds from service provider performance, un-triggered service provider incentive payments, and interest received on cash holdings.

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<sup>19</sup> The value for ASR and INT should be entered rather than as a percentage or decimal, for example 0.5% should be entered as 0.5.

## 5. Specified Information – Cost Reporting

### Section summary

This section describes the Specified Information for cost reporting. It describes the inputs required and calculations performed on Sheet 4 (External Costs – Summary) and Sheet 5 (Internal Costs by Cost Centre) of the main reporting template.

### Procedures for Cost Reporting

- 5.1. All cost data should be reported on an accruals basis unless otherwise specified.
- 5.2. All monetary amounts should be reported in £m and to three decimal places. Where possible the data requested should be provided. Where it is not possible for any reason to provide the data in the detail required this should be explained in a commentary submitted alongside the reporting pack.
- 5.3. The template includes 'spare' rows to cater for some variation in the way business activities are accounted for (for example under different accounting treatments). The Authority welcomes the opportunity to engage with the Licensee to further develop the reporting pack in this regard.

### Price base for historical and forecast data

- 5.4. The Specified Information in the cost reporting templates are designed to capture the data across the full duration of the Licence. As a consequence, all previous periods are to be completed with the outturn figures and all future periods are to be completed with forecasts.
- 5.5. All historical expenditure should be input in nominal terms ie, in the prices of the year to which the data relates.
- 5.6. Reporting of forecast expenditure should be in the price base of the Relevant Regulatory Year as defined in the Licence. Forecasts should therefore include the

expected impact of real price effects, but not the expected impact of economy-wide inflation.

- 5.7. When considering the impact of real price effects DCC should reference economy-wide inflation as measured by the retail prices index (RPI). These RIGs include a supporting question for DCC to explain real price effects and any assumptions it has made in its forecasts.

### **Reporting of Forecasts**

- 5.8. Forecasts reported in this regulatory reporting template should only include costs that are economic and efficient. Estimates or differences from prudent budgeting should be reported separately.

## **External Costs – Summary – Sheet 4**

**PURPOSE:** this worksheet is a summary of the External Costs incurred and forecast by the Licensee.

- 5.9. This sheet should be populated by the Licensee with incurred and forecast External Costs given by Sheet 2 of Annex 3 – External Costs.
- 5.10. All headings and terms have the same meaning as described in the guidance for Annex 3.
- 5.11. Any row headings that have been input into the cost sheets for each of the SMETS1 suppliers (S1SP\_1, S1\_CSP\_1 etc) in Annex 3 should be input into this sheet in an identical form, and in the same order as they appear in Annex 3.

## **Internal Costs by Cost Centre – Sheet 5**

**PURPOSE:** this worksheet is for the Licensee to report its incurred and forecast Internal Costs.

- 5.12. This worksheet should be used to report the Licensee's Internal Costs according to DCC cost centres. It is split into three parts:



5.12.1. Part 1 calculates a summary of total Internal Costs split by Baseline, New Scope and the Shared Service costs.

5.12.2. Part 2 should be populated by the Licensee with incurred and forecast Internal Costs by DCC cost centre. Definitions of the cost centre headings and the principles for populating this part of the worksheet are described below.

5.12.3. Part 3 calculates a summary of total Internal Costs by General Ledger (GL) accounting code. The GL accounting codes are set out in Appendix 4 of this document.

5.13. How the Licensee should use and populate each part of the Internal Costs by cost centre worksheet is described in the subsections below.

### **Part 1 – Summary of Internal Costs**

5.14. Part 1 of the Internal Costs by cost centre worksheet shows a summary of the Licensee's reported costs according to the following headings:

1. Total Internal Costs<sup>20</sup>
2. Internal Costs excluding Shared Service costs<sup>21</sup>
3. Baseline costs – total
4. New Scope costs – total
5. Shared Service costs – total

5.15. Definitions of 'Baseline' and 'New Scope' are given in the guidance for Part 2 of this sheet, and Shared Service costs are described in Section 7. Definitions are also included in the Glossary of this document.

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<sup>20</sup> This is the sum of Total Baseline costs, Total New Scope costs, and the Total Shared Service cost.

<sup>21</sup> This is the sum of Total Baseline costs and Total New Scope costs only.

## Part 2 – Internal Costs by Cost Centre

5.16. The purpose of Part 2 of the Internal Costs by cost centre worksheet is for the Licensee to report costs incurred for the current reporting year as well as updates to forecasts. Appendix 4 to this document includes a diagram of the hierarchy of cost reporting.

5.17. The part is split into two reporting segments:

### *Segment 1 – Baseline*

5.18. The first segment requires the Licensee to report its 'Baseline'<sup>22</sup> Internal Costs by cost centre and GL accounting code.<sup>23</sup> Baseline costs include both costs that incur Shared Service costs, and costs that do not incur costs for Shared Services (ie it is gross Internal Costs, irrespective of whether those costs are associated with a Shared Service cost).

5.19. The cost centre headings adopted in Part 2 and throughout the rest of the regulatory reporting pack are:

5.19.1. **Corporate management:** this shall include costs associated with the function and providing direct support to the Managing Director, Senior Management team and DCC Board of the Licensee in discharging DCC Licence obligations.

5.19.2. **Industry:** this shall include costs related to managing the Licensee's engagement and relationship with the service users, SEC panel and other industry bodies as the primary external 'face' of DCC. This shall include liaising with the Authority and SEC panel to ensure that DCC services are compliant with Licence and SEC obligations.

5.19.3. **Finance:** this shall include costs associated with developing and applying the DCC charging methodology and managing the budgeting, forecasting and

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<sup>22</sup> As defined in Glossary.

<sup>23</sup> The Licensee should select the relevant General Ledger (GL) accounting code from the drop-down list for any new line items it adds in the "spare" rows.

billing aspects of the DCC operation and compiling price control and annual performance reports.

- 5.19.4. **Commercial:** this shall include the costs of leading the contract and commercial management of External Service Providers, leading the procurement strategy and providing legal and regulatory advice.
- 5.19.5. **Design and assurance:** this shall include costs associated with development and maintenance of the Licensee’s technical architecture and service design, including costs associated with working closely with External Service Providers, technically assuring DCC services, and overseeing the delivery and implementation of the test strategy and test approach.
- 5.19.6. **Operations:** this shall include costs of ensuring that DCC services meet the needs of all Service Users, designing and providing the day-to-day operational interface for Service Users and deploying the discipline of ITILv3,<sup>24</sup> supporting the delivery of DCC services (including the consolidation of demand forecasting from Service Users), managing change processes and authorisations and providing a first line service desk.
- 5.19.7. **Security:** this shall include costs associated with assuring the security of all DCC systems, establishing an information security policy (including security assurance standards, processes, procedures and implementation timescales) and maintaining information security standards and certification.
- 5.19.8. **Programme management:** this shall include costs associated with coordinating delivery across the whole DCC ecosystem during the implementation phase, ensuring that the services, systems, resources and assets are all in place in accordance with the programme plan to enable design and build activities to be completed and to facilitate system integration and user integration testing.

- 5.20. Each cost centre includes 'spare' rows to cater for some variation in the way business activities are accounted for (for example under different accounting treatments). For
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<sup>24</sup> Information Technology Infrastructure Library (ITIL) is a set of practices for IT Service Management.

consistency, if activities are added to 'spare' rows for one cost centre this should be replicated across the rest of the cost centres.

- 5.21. **Additional Baseline:** this is for the Licensee to report any costs that are associated with requirements that the Licensee was expected to deliver at the time of Licence Award, but which had not been fully costed in the LABP. For example, SMETS1 enrolment and adoption costs are considered Additional Baseline.
- 5.22. The Licensee must apply the project<sup>25</sup> definition of any projects reported as Additional Baseline consistently throughout its Regulatory reporting, including reporting across Regulatory Years.
- 5.23. There is an additional line calculating Shared Service costs applied to Baseline costs. This is automatically calculated from Sheet 10 of the main reporting template.

#### *Segment 2 – New Scope*

- 5.24. The second segment requires the Licensee to report 'New Scope'<sup>26</sup> Internal Costs on both activities reported in previous regulatory years and any new activities. These costs must be reported according to project name and GL accounting codes. New Scope costs can include both costs that incur Shared Service costs, and costs that do not incur costs for Shared Services.
- 5.25. It is the responsibility of the Licensee to populate the reporting template with new projects<sup>27</sup> and/or additional GL accounting codes.
- 5.26. Where a new project accounting code is added by the Licensee to the reporting templates for New Scope, the Licensee shall provide in its reporting submission to the Authority a definition of that project accounting code and an explanation of how the

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<sup>25</sup> 'Project' in this context is not limited to 'Project' as defined in the Licence as work linked to a Baseline Margin Project Performance Adjustment Scheme.

<sup>26</sup> As defined in Glossary.

<sup>27</sup> 'Project' in this context is not limited to 'Project' as defined in the Licence as work linked to a Baseline Margin Project Performance Adjustment Scheme.

Licensee has reported costs for the project accounting code for the current and future Regulatory Years.

- 5.27. Having established and provided a definition of a New Scope project accounting code, the Licensee must apply this project definition consistently throughout its regulatory reporting, including reporting across Regulatory Years.<sup>28</sup>
- 5.28. Should the Licensee wish to change the definition and/or treatment of a project and/or GL accounting code, or any other part of the cost reporting hierarchy detailed above, it must inform Ofgem as soon as possible.
- 5.29. There is an additional line calculating Shared Service costs applied to New Scope costs. This is automatically calculated from Sheet 10 of this reporting template.

### **Part 3 – Internal Costs by GL Accounting Code**

- 5.30. This part of the worksheet shows Internal Costs summed by GL accounting code<sup>29</sup> according the following headings:
1. Total costs
  2. Baseline costs
  3. New Scope costs
- 5.31. The cells in Part 3 of this worksheet are linked to other cells in the worksheet and should not be amended by the Licensee.

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<sup>28</sup> A more general supporting analysis of the changes in scope in the Licensee's business for the Regulatory Year is requested as part of the qualitative questions which support other Specified Information in the RIGs. See Section 7.

<sup>29</sup> See Appendix 4 for GL code explanations.

## 6. Baseline Margin, External Contract Gain Share and Baseline Margin Performance Adjustment

### Section summary

This section describes the Specified Information for revenue reporting related to the Baseline Margin, External Contract Gain Share, and Baseline Margin Performance Adjustment. It describes the inputs required and calculations performed on Sheet 6 (Baseline Margin and External Contract Gain Share), Sheet 6a (Baseline Margin and External Contract Gain Share Applications), and Sheet 7 (Baseline Margin Project Performance Adjustment) of the main reporting template.

### Baseline Margin and External Contract Gain Share – Sheet 6

**PURPOSE:** this worksheet is to calculate the Baseline Margin and External Contract Gain Share.

- 6.1. This worksheet should be used to report the Licensee’s Baseline Margin and External Contract Gain Share. It is split into four parts:
  - 6.1.1. Part 1 calculates the Baseline Margin to be recovered by the Licensee broken down by core business and Projects,<sup>30</sup> and gives the total Baseline Margin.
  - 6.1.2. Part 2 should be populated by the Licensee with the values of the Baseline Margin Relevant Adjustments it has been awarded associated with the core business.
  - 6.1.3. Part 3 should be populated by the Licensee with the values of the Baseline Margin Relevant Adjustments it has been awarded associated with Projects.

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<sup>30</sup> As defined in Glossary.

6.1.4. Part 4 should be populated by the Licensee with the values of the External Contract Gain Share Relevant Adjustments it has been awarded.

6.2. How the Licensee should use and populate each part of the Baseline Margin and External Contract Gain Share worksheet is described in the subsections below.

### Part 1 – Baseline Margin Summary

6.3. Part 1 of this worksheet gives a summary of the Licensee’s Baseline Margin. This is broken down into the Baseline Margin associated with Projects (Project Baseline Margin)<sup>31</sup> and the Baseline Margin not associated with Projects.

6.4. The lines in the sheet are explained below:

6.5. **Baseline Margin (BM<sub>t</sub>):** means the amount of the Licensee’s Baseline Margin that is specified for the Regulatory Year t in Appendix 1 of Condition 36 of the Licence (inclusive of any Relevant Adjustments),<sup>32</sup> as multiplied by the price index adjuster (PIBM) for that year, which in the Regulatory Year 2013/14 shall have the value of 1 and in each subsequent Regulatory Year is derived from the following formula:<sup>33</sup>

$$PIBM_t = \left[ 1 + \frac{RPI_t}{100} \right] \times PIBM_{t-1}$$

This term is a summation of the “Baseline Margin Core” and every “Baseline Margin Project n”. This is a nominal value.

6.6. **Baseline Margin Core:** means the amount of the Licensee’s Baseline Margin that is not associated with a Project. This is a nominal value.

6.7. **Baseline Margin Project n (PBM<sub>nt</sub>):** means the Project Baseline Margin associated with Project n. This is a nominal value.

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<sup>31</sup> As defined in Glossary.

<sup>32</sup> Where Relevant Adjustments has the meaning given in Appendix 2 of Licence Condition 36.

<sup>33</sup> In this formula RPI<sub>t</sub> means the “percentage change”, the value for RPI should be entered rather than as a percentage or decimal, for example 3% should be entered as 3.

- 6.7.1. If there are Projects in addition to the five projects that have been originally allowed for, the Licensee should add additional rows which replicate the formula in these rows, but reference the values in Part 3 that are associated with these additional Projects
- 6.8. **PIBM<sub>t</sub> applied for reporting:** the amount of Baseline Margin in Appendix 1 of Condition 36 of the Licence is given in 2013/14 prices, as are all Relevant Adjustments to these values. For consistency the price index adjuster needs to be applied as follows:
- 6.8.1. For historical reporting years, the price index adjuster for year t is the PIBM<sub>t</sub> of that reporting year.
- 6.8.2. For the current or future reporting years, the price index adjuster is the PIBM of the current reporting year.
- 6.9. **Baseline Margin Price Index Adjuster (PIBM<sub>t</sub>):** means the PIBM<sub>t</sub> calculated using the formula given in paragraph 6.5.

## Part 2 – Baseline Margin Core

- 6.10. Part 2 of this worksheet is for the Licensee to input the values of any Relevant Adjustments to the Baseline Margin it has been awarded, and calculates the total amount of Baseline Margin not associated with Projects to be recovered each year. All values in this section are in 2013/14 prices.
- 6.11. **Total uninflated core:** means the sum of the amount of Baseline Margin in Appendix 1 of Condition 36 of the Licence, and any Relevant Adjustment to this amount under Appendix 2 of Condition 36 of the Licence which is not associated with a Project. This value has not been multiplied by the PIBM<sub>t</sub>, and therefore is in 2013/14 prices.
- 6.12. **BM values given in Licence:** mean the values of Baseline Margin in Appendix 1 of Condition 36 of the Licence. These are in 2013/14 prices.
- 6.13. The Licensee should use the remaining rows in this section of the sheet to report the Baseline Margin Relevant Adjustments awarded to it through determinations by the Authority. These should be reported by application year, with the application year specified in the indicated cells. If additional rows are necessary the Licensee should



add them, whilst ensuring the 'Total uninflated core' sums across all rows in this section. All of these values should be input in 2013/14 prices.

### **Part 3 – Project Baseline Margins**

- 6.14. Part 3 of this worksheet is for the Licensee to input the values of any Relevant Adjustments to the Baseline Margin it has been awarded for each Project, and calculates the total amount of Baseline Margin associated with each Project to be recovered each year. All values in this section are in 2013/14 prices.
- 6.15. The original version of this sheet allows for 5 different Projects, but it is unknown how many Projects there will be in total. DCC should add rows to calculate the Project Baseline Margin associated with additional Projects as necessary, using the same format as has been used for the original Project Baseline Margin calculations, and as is described below.
- 6.16. **Baseline Margin Project n:** means the amount of Project Baseline Margin associated with Project n. These values are in 2013/14 prices. This sums across all of the Relevant Adjustments associated with Project n.
- 6.17. The Licensee should use the rows below each 'Baseline Margin Project n' row to report the amount of each Baseline Margin Relevant Adjustment associated with Project n. These should be reported by application year, with the application year specified in the indicated cells. If additional rows are necessary the Licensee should add them, whilst ensuring the 'Baseline Margin Project n' row sums across all Relevant Adjustments associated with Project n. All of these values should be input in 2013/14 prices, which is the price base in which Relevant Adjustments are awarded.

### **Part 4 – External Contract Gain Share**

- 6.18. Part 4 of this worksheet is for the Licensee to input the values of any Relevant Adjustments to the External Contract Gain Share that have been awarded, and calculates the total amount of External Contract Gain Share to be recovered each year.
- 6.19. **External Contract Gain Share (ECGS<sub>t</sub>):** means the amount of External Contract Gain Share to be recovered by the Licensee. This is the sum of all External Contract Gain Share Relevant Adjustments.

6.20. The Licensee should use the remaining rows to report the amount of each External Contract Gain Share Relevant Adjustment. These should be reported by application year, with the application year specified in the indicated cells.

## **Baseline Margin and External Contract Gain Share Applications – Sheet 6a**

**PURPOSE:** this worksheet is for the Licensee to calculate and record its applications for Relevant Adjustments to the Baseline Margin and External Contract Gain Share.

6.21. This worksheet should be used to report the Licensee’s applications for Relevant adjustments to the Baseline Margin and External Contract Gain Share. It is split into four parts:

6.21.1. Part 1 contains the PIBM, this is used in the calculation of the value of the Relevant Adjustment application.

6.21.2. Part 2 calculates the values of the Baseline Margin Relevant Adjustments not associated with Projects it has made in the previous and current reporting years.

6.21.3. Part 3 calculates the values of the Baseline Margin Relevant Adjustments which are associated with Projects that it has made in the previous and current reporting years.

6.21.4. Part 4 should be populated by the Licensee with the values of the External Contract Gain Share Relevant Adjustments it has applied for in previous and current reporting years.

### **Part 1 – PIBM**

6.22. Part 1 just contains a repeat of the PIBM lines described in paragraphs 6.8 and 6.9 of this document for use in the calculations performed on this sheet.

### **Part 2 – Baseline Margin Core Applications**

6.23. Part 2 of this worksheet is for the Licensee to input the nominal values of applications for Relevant Adjustments which are not associated with Projects made in the current Application Window<sup>34</sup> and in previous Application Windows. It then calculates the values in 2013/14 prices.

6.24. **Application values – 13/14 prices:** are the values that the Licensee should submit as part of its application for Relevant Adjustments to the Baseline Margin.

6.24.1. It is required in Appendix 2 of Condition 36 of the Licence that any applications made must give the values in 2013/14 prices with reference to the  $PIBM_t$  value of the Regulatory Year preceding that in which the Relevant Adjustment is proposed. These cells deflate the nominal values to 2013/14 prices as required by the Licence.

6.25. **Application values – nominal:** are to be reported by the Licensee. These are the nominal values of Relevant Adjustments not associated with a Project that the Licensee has applied for in previous Application Windows, and in the current Application Window.

### **Part 3 – Project Baseline Margin Applications**

6.26. Part 3 of this worksheet is for the Licensee to input the nominal values of applications for Relevant Adjustments which are associated with Projects made in the current Application Window and in previous Application Windows. It then calculates the values in 2013/14 prices.

6.27. This part of the worksheet replicates Part 2 of the sheet for each of the Projects the Licensee is undertaking. The Licensee should report the nominal Relevant Adjustment application values associated with each Project. The Licensee must ensure that the Projects are in the same order as in Sheet 6, Sheet 7 and in Annex 2 – Baseline Margin Project Performance Adjustment.

6.27.1. If there are a greater number of Projects than have been allowed for in this part of the worksheet, the Licensee should add additional rows for the

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<sup>34</sup> Where Application Window has the meaning given in Appendix 2 of Licence Condition 36.

additional Projects which replicate the formulae, structure, format and style of the original rows used to report and calculate the Project Baseline Margin Relevant Adjustment application values.

#### **Part 4 – External Contract Gain Share Applications**

6.28. Part 4 of this worksheet is for the Licensee to input the applications for Relevant Adjustments to the External which are made in the current Application Window and in previous Application Windows.

6.29. The Licensee should report the Relevant Adjustment application values. These should be reported by application year, with the application year specified in the indicated cells.

### **Baseline Margin Performance Adjustment – Sheet 7**

**PURPOSE:** this worksheet calculates the Baseline Margin Performance Adjustment, and provides a summary of its component parts.

6.30. This worksheet should be used to report the components of the Licensee's Baseline Margin Performance Adjustment. It is split into four parts:

6.30.1. Part 1 contains a summary of the Baseline Margin Performance Adjustment and the 3 component performance adjustments – BMIPA, BMOPA, and BMPPA.

6.30.2. Part 2 calculates the values of the Baseline Margin Implementation Performance Adjustment.

6.30.3. Part 3 gives the values of the Baseline Margin Operational Performance Adjustment and provides a summary of its component parts.

6.30.4. Part 4 gives the Baseline Margin Project Performance Adjustment and provides a summary of its component parts.

## Part 1 – Summary

- 6.31. Part 1 of this worksheet contains a summary of the Baseline Margin Performance Adjustment and does not require any input from the Licensee.
- 6.32. **Baseline Margin Performance Adjustment (BMIPA):** forms part of the Principal Formula for Allowed Revenue and is calculated in accordance with Part F of Condition 36 of the Licence. The formula given in Condition 36.12 of the Licence is stated below:

$$BMPA_t = BMIPA_t + BMOPA_t + BMPPA_t$$

## Part 2 – Baseline Margin Implementation Performance Adjustment

- 6.33. Part 2 of this worksheet calculates the values of the Baseline Margin Implementation Performance Adjustment. This requires the Licensee to input values regarding its performance against certain Implementation Milestones under the Implementation Performance Regime.
- 6.34. **BMIPA:** the value of the term  $BMIPA_t$  is to be determined in accordance with the provisions of Part B of Licence Condition 38 and is calculated as such within this worksheet. The calculation performed in the worksheet differs slightly from the formula given in Condition 38.4 of the Licence due to developments during the course of the Implementation Performance Regime. The updated formula is stated below:

$$BMIPA_t = IM1_{t-1} + IM2_{t-1} + IM3_{t-1} + IM4_{t-1} + IM5_{t-1} + IM6_{t-1} + IM7_{t-1} + IM8_{t-1} + IM9a_{t-1} + IM9b_{t-1} + IM10a_{t-1} + IM10b_{t-1}$$

Where the amount of those terms is zero unless determined otherwise in accordance with such calculations as may apply to the term under the Implementation Performance Regime that is set out at Schedule 3 to the Licence.

- 6.35. With respect to populating the inputs to the revenue reporting worksheet which calculates  $BMIPA_t$ :
- 6.35.1. Implementation Milestone 1 to 10 – Time Factor: Where Time Factor (TF) has the value for each Implementation Milestone depending on the Licensee's performance against the Implementation Milestone Criteria set out in Schedule

3 of the Licence. The TF value used for each Implementation Milestone should be populated by the Licensee.

6.35.2. Implementation Milestone 9a and 9b include a value for recovery of previous IMs, also to be populated by the Licensee.

### **Part 3 – Baseline Margin Operational Performance Adjustment**

6.36. Part 3 of this worksheet calculates the values of the Baseline Margin Operational Performance Adjustment. This requires the Licensee to input values calculated in Annex 1 – Quality of Service Information.

6.37. **BMOPA:** the value of the term  $BMOPA_t$  is to be determined in accordance with the provisions of Part C of Licence Condition 38 and is calculated as such within this worksheet. The formula given in Condition 38.8 of the Licence is stated below:

$$BMOPA_t = [SUM\ 1-4] + [SDM\ 1-4] + [DIM\ 1-4] + [VMM\ 1-4]$$

Where the amount of each of those terms will be zero unless determined otherwise by the Operational Performance Regime set out in the direction to populate Schedule 4 of the Licence.

6.38. The detailed calculations for the Operational Performance Regime are carried out in Annex 1.

6.39. The Licensee should populate this section with the values output on Sheet i. of Annex 1.

### **Part 4 – Baseline Margin Project Performance Adjustment**

6.40. Part 4 of this worksheet calculates the values of the Baseline Margin Project Performance Adjustment. This requires the Licensee to input values calculated in Annex 2 – Baseline Margin Project Performance Adjustment.

6.41. **BMPPA:** the value of the term  $BMPPA_t$  is to be determined in accordance with the provisions of Part D of Licence Condition 38 and is calculated as such within this worksheet. The formula given in Licence Condition 38.11 is stated below:

$$BMPPA_t = \left( \sum_{All_n} PPA_{n,t} \right) \times (-1)$$

Where  $PPA_{n,t}$  means a Project Performance Adjustment, being the amount of an adjustment that is determined in respect of Project n in Regulatory Year t in accordance with the terms of a BMPPA Scheme made by the Secretary of State under Appendix 1 of Condition 38 of the Licence.

- 6.42. The detailed calculations for all BMPPA Schemes are carried out in Annex 2.
- 6.43. The Licensee should populate this section with the values output on Sheet 2 of Annex 2.
- 6.44. If there are a greater number of Projects or Project Activities<sup>35</sup> than have been allocated for in this worksheet, the Licensee should add additional rows for the additional Projects or Project Activities which replicate the formulae, structure, format and style of the original rows used to report and calculate the BMPPA values.
- 6.44.1. The Licensee must ensure the Projects and Project Activities occur in the same order as in the main reporting template and its Annexes.
- 6.44.2. The Licensee must ensure the BMPPA is calculated as specified in paragraph 6.41 of this document, ie all additional Project Performance Adjustments are part of the summation in the BMPPA term.

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<sup>35</sup> Project Activity has the same meaning as in Appendix 1 of Licence Condition 38.

## 7. Financial Statements, Cash Balances, Shared Services and Resourcing

### Section summary

This section describes the Specified Information for cost reporting required in Sheet 8, 9, 10 and 11 of the main reporting template. These are:

- Financial statements (Sheet 8) requires the Licensee to prepare and report on financial statements – comprising the Cash-flow Statement, the Balance Sheet and Income Statement;
- Cash balances (Sheet 9) requires the Licensee to report cash balances for the current Regulatory Year and the forthcoming Regulatory Reporting Year by month;
- Shared/Internal/External Services (Sheet 10) requires the Licensee to report Specified Information on Shared/Internal/External Services;
- Staff Resourcing and Costs (Sheet 11) requires the Licensee to provide information about staff resources, grades and costs.

### Financial Statements – Sheet 8

**PURPOSE:** this worksheet requires DCC to prepare and report on financial statements.

#### Part 1 – Cash-flow Statement

7.1. All items in the Cash-flow Statement are to be reported in accordance with the Generally Accepted Accounting Principles (GAAP) shown at the top of the sheet. If there are items which the Licensee needs to report in the Cash-flow Statement which do not currently have row headings then the Licensee should inform Ofgem of this matter.

#### Part 2 – Balance Sheet

7.2. All items in the Balance Sheet are to be reported in accordance with the GAAP shown at the top of the sheet.



- 7.3. If there are items which the Licensee needs to report in the Balance Sheet which do not currently have row headings then the Licensee is to discuss the matter with Ofgem. Row sub-headings have been included for the Licensee to populate with the main headings of the Balance Sheet.

### **Part 3 – Income Statement**

- 7.4. The Income Statement should be completed with actual data for all elapsed periods (ie prior to and including the reporting year) and with forecast data for all future periods. The Income Statement and the Balance Sheet attempt to be sufficiently flexible to reflect any of the possible accounting treatments the Licensee may adopt.
- 7.5. The Licensee should record which GAAP have been used in the preparation of the Income Statement for each year. The Licensee should specify the accounting treatment used in preparing Income Statement and the Balance Sheet.
- 7.6. The headings for the Income Statement are:
- 7.6.1. **Revenue:** should be reported in accordance with the GAAP specified at the top of the worksheet.
  - 7.6.2. **Regulated revenue:** should be populated as defined under the Licence condition 35 Part B.
  - 7.6.3. **Other operating income:** should be reported in accordance with the GAAP specified at the top of the worksheet.
  - 7.6.4. **Operating costs:** should be reported in accordance with the GAAP specified at the top of the worksheet. Where these figures are reported under the same headings as under the Allowed Revenue formula and Internal and External Cost sheets then the figures should agree.
  - 7.6.5. **Exceptional items:** items that the Licensee considers should be separately disclosed from other cost or profit items.
  - 7.6.6. **Interest income and similar income:** these figures should be reported in accordance with the GAAP specified at the top of the worksheet.
  - 7.6.7. **Interest expense and other finance costs:** these figures should be reported in accordance with the GAAP specified at the top of the worksheet.

7.6.8. **Taxation:** these figures should be reported in accordance with the GAAP specified at the top of the worksheet

7.6.9. **Other comprehensive income:** the Licensee should report here any items which are to be recognised directly in equity.

## Cash Balances – Sheet 9

**PURPOSE:** this worksheet requires the Licensee to report, on a monthly basis, cash balances for the current Regulatory Reporting Year and the forthcoming Regulatory Reporting Year.

7.7. Parts 1 and 2 of the worksheet require the Licensee to:

7.7.1. **Populate incoming cash-flows on a monthly basis for the Regulatory Year (incoming cash)** with the reported monthly totals for the Regulatory Year.

7.7.2. **Populate outgoing cash-flows on a monthly basis for the Regulatory Year,** with the reported monthly totals for the Regulatory Year.

7.7.3. **Report cash balances on a monthly basis for the Regulatory Year,** with the reported monthly totals for the Regulatory Year.

7.7.4. **Cash-flow metrics:** where appropriate the Licensee should provide supplementary commentary on high or low cash balances.

7.8. Part 3 of the cash balances worksheet requires the Licensee to report qualitative information and commentary on the cash balances of the Licensee's business and its prudent budgeting assumptions.

## Allocation of Shared/Internal/External Service Costs – Sheet 10

**PURPOSE:** this worksheet requires the Licensee to report Specified Information on Shared/Internal/External services.

7.9. It is split into three parts:

- 7.9.1. Part 1 requests a breakdown of costs for Shared Services associated with Baseline, New Scope and CRS. (The CRS Shared Service costs should be copied from Annex 4 – Centralised Registration Service Revenue.)
  - 7.9.2. Part 2 requests the Licensee to explain and evidence how Shared Service costs are calculated and provide value for money.
  - 7.9.3. Part 3 requires the Licensee to provide details on Internal services and External services (as defined by the GL accounting codes). Where appropriate the Licensee should comment on the application of Shared services costs to these costs.
- 7.10. Appendix 3 of this document includes a description of the type of services that may be provided by Shared Service costs.

## **Staff Resourcing and Costs – Sheet 11**

**PURPOSE:** this worksheet is intended to provide information about staff resources, grades and costs in the current reporting year compared to (1) the previous year, (2) the previous year's forecasts for the current year, (3) the estimate from the LABP for the current year, (4) the forecast for the forthcoming year, and (5) the estimate from the LABP for the forthcoming year.

- 7.11. This worksheet requires the Licensee to report Specified Information on the resourcing of its regulated business and the associated Internal Costs. The worksheet is split into four parts: Full Time Equivalentents (FTEs) Resourcing by function (Part 1), FTE Resourcing by grade (Part 2), average staff costs by function (Part 3), and average staff costs by grade (Part 4).

### **Part 1 – Full Time Equivalentents (FTEs) Resourcing by function**

- 7.12. Part 1 requires the Licensee to provide information on FTEs. FTEs should be classified as permanent employment, temporary employment, contractor provided through the Licensee's parent company and other contractors.
- 7.13. FTE information should be reported for each of the DCC cost centres in Sheet 5. These include corporate management, industry, finance, commercial, design and assurance,

operations, security, programme, centralised registration service, and projects. This FTE information should be reported for:

- 7.13.1. the previous regulatory reporting year;
- 7.13.2. the previous year's forecast for the current regulatory reporting year;
- 7.13.3. the forecast for the current regulatory reporting year made in the LABP;
- 7.13.4. the current regulatory reporting year;
- 7.13.5. the current forecast of the forthcoming regulatory reporting year; and
- 7.13.6. the forecast for the forthcoming regulatory reporting year made in the LABP.

## **Part 2 – FTE Resourcing by grade**

7.14. Part 2 requires the Licensee to provide information on FTEs by grade. This includes Director, Senior Management, Manager, Base Grade, Assistant and Other grades.<sup>36</sup> This information should be reported for:

- 7.14.1. the previous regulatory reporting year;
- 7.14.2. the previous year's forecast for the current regulatory reporting year;
- 7.14.3. the forecast for the current regulatory reporting year made in the LABP;
- 7.14.4. the current regulatory reporting year;
- 7.14.5. the current forecast of the forthcoming regulatory reporting year; and
- 7.14.6. the forecast for the forthcoming regulatory reporting year made in the LABP.

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<sup>36</sup> The Licensee should provide explanation for how these categories are defined in their submission. If the Licensee wishes to modify the definitions of these categories, this should be discussed with Ofgem before reporting is submitted to the Authority.

### **Part 3 – Average staff costs by function**

7.15. Part 3 requires the Licensee to report average staff costs (£s per annum – nominal) for each of the Licensee’s cost centres from Part 1. This information should be reported for:

7.15.1. the previous regulatory reporting year;

7.15.2. the previous year’s forecast for the current regulatory reporting year;

7.15.3. the forecast for the current regulatory reporting year made in the LABP;

7.15.4. the current regulatory reporting year;

7.15.5. the current forecast of the forthcoming regulatory reporting year; and

7.15.6. the forecast for the forthcoming regulatory reporting year made in the LABP.

### **Part 4 – Average staff costs by grade**

7.16. Part 4 requires the Licensee to report average staff costs (£s per annum – nominal) for each of the FTE grades from Part 2. Staff costs for contractors should be included. This information should be reported for:

7.16.1. the previous regulatory reporting year;

7.16.2. the previous year’s forecast for the current regulatory reporting year;

7.16.3. the forecast for the current regulatory reporting year made in the LABP;

7.16.4. the current regulatory reporting year;

7.16.5. the current forecast of the forthcoming regulatory reporting year; and

7.16.6. the forecast for the forthcoming regulatory reporting year made in the LABP.

## 8. Specified Information – Reconciliations

### Section summary

This section describes the Specified Information for reconciliations for total costs and revenues, and internal costs. The following sheets are contained in this section:

- Previous year regulatory reporting reconciliations of total costs and revenues – Sheet 12a
- Licence Application Business Plan reconciliations of total costs and revenues – Sheet 12b
- Previous year regulatory reporting reconciliations and commentary of Internal Costs by Cost Centre – Sheet 12c
- Licence Application Business Plan reconciliations and commentary of Internal Costs by Cost Centre – Sheet 12d

### Previous year regulatory reporting reconciliations of total costs and revenues – Sheet 12a

**PURPOSE:** this worksheet is intended to provide a summary reconciliation of incurred and forecast total Licensee costs in the current regulatory reporting year compared to estimates in the previous regulatory reporting year.

8.1. It is split into three parts:

- 8.1.1. Part 1 calculates the difference, for each Regulatory Year, between the costs and revenues reported in Part 2 and Part 3 of this worksheet. This illustrates how incurred and forecast costs and revenues for the current Regulatory Year have changed from what was reported by the Licensee for the previous Regulatory Year.
- 8.1.2. Part 2 reports the Allowed Revenue, Regulated Revenue, External Costs, Internal Costs, CRS and Pass-Through Costs for each Regulatory Year as reported by the Licensee for the current Regulatory reporting year. The

information on revenues and costs in this part of the worksheet is drawn from Sheet 3, 4, 5, 8 and 10.

- 8.1.3. Part 3 requires the Licensee to report economic and efficient Allowed Revenue, Regulated Revenue, External Costs, Internal Costs, CRS and Pass-Through Costs for each Regulatory Year as identified for the previous Regulatory Year. The information on Internal Costs is drawn from Sheet 5.

## **Licence Application Business Plan reconciliations of total costs and revenues – Sheet 12b**

**PURPOSE:** this worksheet is intended to provide a summary reconciliation of incurred and forecast total licensee costs in the current regulatory reporting year compared to estimates in the LABP.

- 8.2. It is split into three parts:

- 8.2.1. Part 1 calculates the difference, for each Regulatory Year, between the costs and revenues reported in Part 2 and Part 3 of this worksheet. This illustrates how incurred and forecast costs and revenues for the current regulatory reporting year have changed from what was forecast by the Licensee in the LABP.

- 8.2.2. Part 2 reports the Allowed Revenue, Regulated Revenue, External Costs, Internal Costs, CRS and Pass-Through Costs for each Regulatory Year as reported by the Licensee for the current regulatory reporting year. The information on revenues and costs in this part of the worksheet is drawn from Sheet 3, 4, 5, 8 and 10.

- 8.2.3. Part 3 requires the Licensee to report Allowed Revenue, regulated revenue, External Costs, Internal Costs and Pass-Through Costs for each Regulatory Year which was forecast in the LABP.

- 8.3. The worksheet also requires the Licensee to provide an associated commentary of the worksheet reconciliation of costs and revenues.

## **Previous year regulatory reporting reconciliations and commentary of Internal Costs by Cost Centre – Sheet 12c**

**PURPOSE:** this worksheet is intended to provide a detailed reconciliation of incurred and forecast Licensee Internal Costs in the current regulatory reporting year compared to estimates from the previous regulatory reporting year. It also requires the Licensee to explain any variations.

8.4. It is split into four parts:

8.4.1. Part 1 calculates changes in regulatory reported costs by main General Ledger (GL) accounting code. This part also allows the Licensee to explain variations from Internal Costs compared to the Internal Costs approved by the Authority in the previous price control review by GL accounting code.

8.4.2. Part 2 calculates the difference, for each Regulatory Year, between the Internal Costs reported in Part 3 and Part 4 of this worksheet. This illustrates how incurred and forecast Internal Costs for the current Regulatory Year have changed from what was reported by the Licensee for the previous Regulatory Year. This part also requires the Licensee to provide an associated explanation of any differences in reported Internal Costs compared to economic and efficient incurred and forecast costs submitted by the Licensee and approved by the Authority at the previous price control review.

8.4.3. Part 3 reports Internal Costs by cost centre as reported by the Licensee for the current Regulatory Year. The information on Internal Costs by cost centre in this part of the worksheet is drawn from Sheet 5 of this reporting template.

8.4.4. Part 4 requires the Licensee to report its economic and efficient Internal Costs by cost centre (as described in Section 5 of this document) for each Regulatory Year as identified in the previous Regulatory Year.

8.5. All material variations should be justified. It is up to the Licensee to consider whether a cost variation is better explained by cost centre (as per part 2), by GL accounting code (as per part 1) or as a combination of the two.



## **Licence Application Business Plan reconciliations and commentary of Internal Costs by Cost Centre – Sheet 12d**

**PURPOSE:** this worksheet is intended to provide a detailed reconciliation of incurred and forecast Internal Costs in the current regulatory reporting year compared to estimates from the previous regulatory reporting year. It also requires the Licensee to explain any variations.

8.6. It is split into three parts:

8.6.1. Part 1 calculates the difference, for each Regulatory Year, between the Internal Costs reported in Part 2 and Part 3 of the worksheet. This illustrates how incurred and forecast Internal Costs for the current regulatory reporting year have changed from what was forecast by the Licensee in the LABP.

8.6.2. Part 2 reports Internal Costs by cost centre as reported by the Licensee for the current Regulatory Year. The information on Internal Costs by cost centre in this part of the worksheet is drawn from Sheet 5 of this reporting template.

8.6.3. Part 1 requires the Licensee to report its Internal Costs by cost centre (as described in Section 5) for each Regulatory Year which was forecast in the LABP.

8.7. Since the comparison here only relates to LABP, this reconciliation should not include Additional Baseline, New Scope or CRS costs – ie the Licensee should only report Baseline costs which had been fully costed at LABP.

8.8. The worksheet also requires the Licensee to provide an associated commentary of the worksheet reconciliation of Internal Costs.

## 9. Specified Information – Supporting Questions

### Section summary

This section describes the Specified Information requested through supporting questions which should be provided by the Licensee as part of its annual regulatory reporting submission.

- 9.1. The information described in this section should be provided by the Licensee as part of its annual regulatory reporting submission.
- 9.2. **External Cost value for money provisions:** please report how the Licensee undertook its contract management responsibilities in the current regulatory reporting year. Please explain how value for money provisions in the DSP and CSP contracts have been applied in the current reporting year.
- 9.3. **Incurred and future costs:** please report actions undertaken by the Licensee to review incurred service provider costs, including service providers that are Affiliates or Related Undertakings, in the current regulatory reporting year and the actions that the Licensee proposes to take to review service provider costs in the forthcoming regulatory reporting year. Please provide commentary, your assessments, and analysis undertaken when considering changes to the contracts where appropriate. Please provide any supporting evidence that contract negotiations have achieved value for money.
- 9.4. **Service provider performance:** please provide the Licensee's assessment of the performance of its external contract service providers in the current regulatory reporting year. Please detail areas such as implementation and testing, operational performance, data security, business continuity and the on-going financial viability of its suppliers and expected implications for Licensee costs and revenues.
- 9.5. **Register/assessment of risks:** please detail short, medium and long term risks (if applicable) which the Licensee is monitoring with regards to its external service provider performance. How has performance in the current regulatory reporting year impacted on the Licensee's assessment of external service provider performance and risks and the implications for Licensee costs?

- 9.6. **Cost allocation and group charges:** please provide a copy of the Licensee's and its associated Parent Group cost allocation policy (where applicable). Please explain how the Licensee's regulated business share of corporate costs is determined and the policies put in place to manage those group charges. How has this changed from previous regulatory reporting years?
- 9.7. **Definition of Baseline:** please provide a full definition of the requirements that the Licensee considers to be included in its reported and forecast Baseline Internal and External Costs. Please confirm that this definition of requirements has been used to report incurred and forecast Baseline costs in the current year regulatory reporting template.
- 9.8. **New Scope project<sup>37</sup> definitions:** please provide definitions and justification for any additional New Scope projects that were added to the reporting template in the current regulatory reporting year. Please explain how the project scope relates to the scope of Baseline activities and existing New Scope projects. Please provide explanations for the New Scope projects' forecast costs.
- 9.9. **Prudent estimate of Allowed Revenue:** please detail the uncertainties, activities, assumptions and any relevant modelling that has informed the prudent estimate of Allowed Revenue for the current reporting year and updated forecasts of Allowed Revenue prudent estimates for future regulatory reporting years. Please describe the steps that the Licensee has taken to manage its prudent estimates of Allowed Revenue efficiently.
- 9.10. **Communications hubs:** please report on the roll-out of communications hubs. Please explain the communications hub financing arrangements in as far as they affect the Licensee, eg regarding cash flows. Please detail any risk which the Licensee is monitoring with regard to communications hub financing. Please detail any actions the Licensee has instructed its service providers to take to secure value for money.
- 9.11. **Events:** please list business events that are significant for explaining the reported costs and forecasts in the regulatory reporting templates. (For example: built-up cash

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<sup>37</sup> 'Project' in this context is not limited to 'Project' as defined in the Licence as work linked to a Baseline Margin Project Performance Adjustment Scheme.

reserves, implementation milestones, introduction of value added Service, etc.) Please include dates and further details and any other related information where applicable.

**9.12. Minimal Services and Value Added Services:** please report on any minimal services or value added services that the Licensee has provided during the current regulatory reporting year, or it intends to provide in the next regulatory reporting year.

**9.13. Procurement for Relevant Service Capability:**

9.13.1. For material procurements the Licensee has undertaken during the current Regulatory Year, please explain how each of these have been undertaken in line with the Licensee's procurement strategy,<sup>38</sup> and provide assessments and key documents supporting the outcomes of these procurement decisions. Please also explain what provisions the Licensee has in place to secure value for money on an ongoing basis<sup>39</sup> from the procurement.

9.13.2. If the Licensee has undertaken to provide new Relevant Service Capability from its own resources or from an Affiliate or Related Undertaking during the current Regulatory Year, in accordance with Licence Condition 16.6, please explain how the Licensee, having regard to the principles set out in Part B of Licence Condition 16 (excluding Principle 2), has satisfied itself that (a) for each material procurement of capability, that this would be the most economical and efficient option; or (b) the aggregate of each procurement of capability of the same type would be immaterial in terms of its value or use of resources within the overall context of the Mandatory Business of the Licensee.<sup>40</sup> For both (a) and (b), please provide assessments and key documents supporting the outcomes of these service provision decisions, and explain what provisions the Licensee has in place to secure value for money on an ongoing basis from this provision of services.

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<sup>38</sup> Part D of Licence Condition 16 sets out requirements relating to the Licensee's Procurement Strategy for Relevant Service Capability.

<sup>39</sup> Under LC16.11 DCC is required to ensure that Relevant Service Capability is procured in a manner that secures value money in terms of the combination of quality and cost over the lifetime of the contract.

<sup>40</sup> In line with LC16.6(b), DCC may consider the procurement of Relevant Service Capability by that means to be immaterial in terms of its value or use of resources within the overall context of the Mandatory Business of the Licensee.

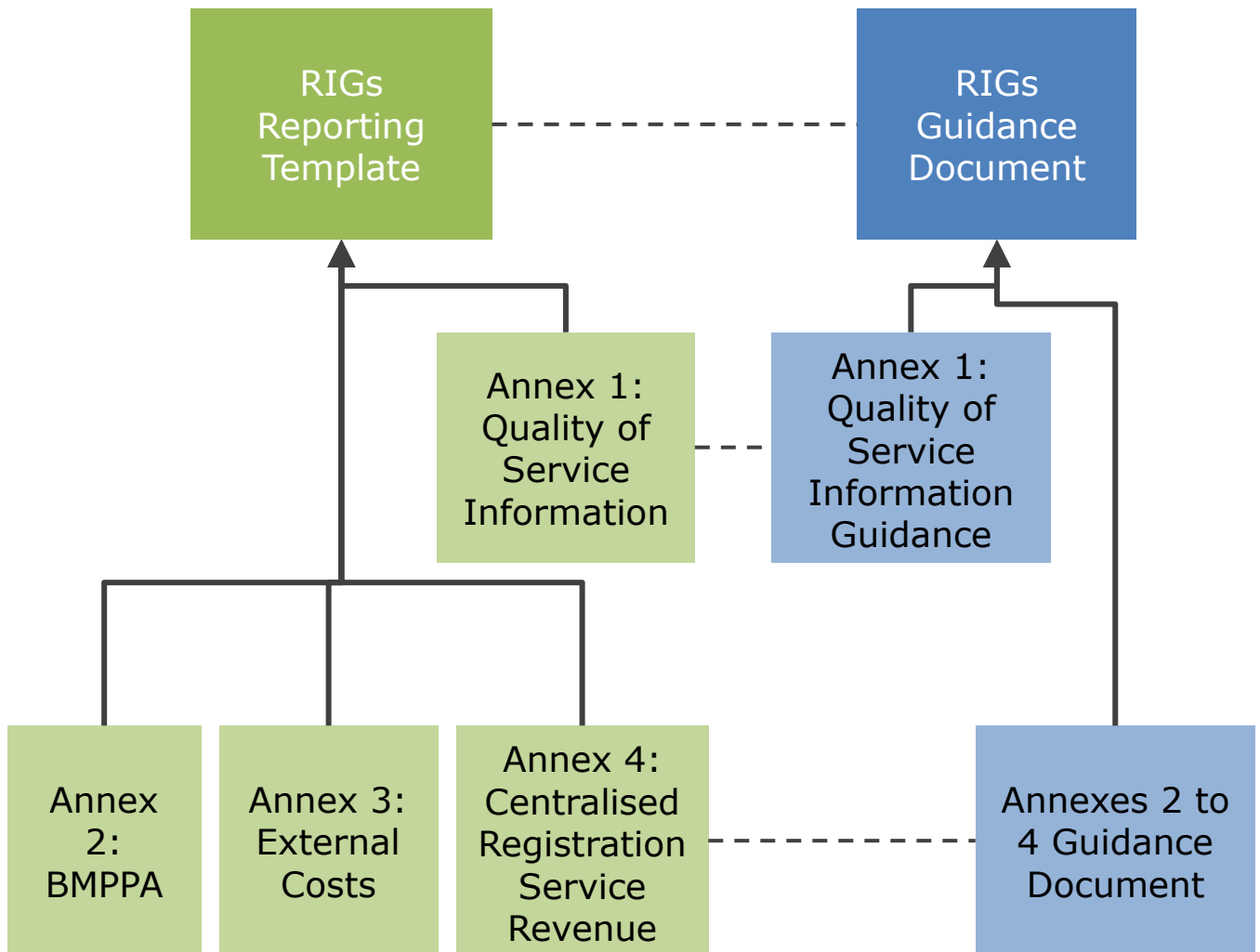
- 9.14. **Real Price Effects:** Please report on the assumptions used to inflate costs over time so as to report the Regulatory Year in nominal terms. This report should include descriptions of how cost centres are inflated over time relative to economy-wide inflation as measured by the retail prices index (RPI). So, for example, if the Licensee's labour costs are indexed to CPI, please report the extent to which those labour costs have risen relative to the previous reporting year and the difference between this increase and RPI.
- 9.15. **Organisational Chart:** Please provide an updated organisational chart with job specifications and role profiles as at the date of the DCC submission. Relevant supporting information should be provided explaining the structure of the business and any changes to the LABP.
- 9.16. **Income Statement:** Please explain any variance between Allowed Revenue and amended regulatory revenue as shown in Sheet 8.
- 9.17. **Approach to materiality:** Please explain how and why DCC has selected materiality thresholds to apply to its cost justifications. Please include an explanation of what proportion of DCC's cost base falls below DCC's materiality thresholds (ie how much cost does DCC consider to be "immaterial").

## Appendices

### Index

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## Appendix 1 – Structure of the Regulatory Instructions and Guidance (RIGs)



## Appendix 2 – Example Shared Services

Service	Non-exhaustive list of examples
Accounting/general ledger services	Includes Enterprise SAP solution.
HR Shared services	Includes HR business partner support, parent company manager guidance and support, payroll pensions and personnel record management, workforce and succession planning, recruitment support through internal resourcing and learning and development.
Property management	This includes services which ensure the facilities provider meets their obligations in maintaining DCC facilities. All Capita Group facilities are negotiated through the central management team.
IT shared service	This includes Capita Group wide IT services which are not charged directly to DCC. Examples of services are SAP maintenance and upgrade, Microsoft licenses, server maintenance, and day to day invoice processing. Day to day invoice processing excludes the validation and checking and querying of invoices which is being carried out by the DCC Finance Team.
Health and Safety	Includes services related to the Group Health and Safety team, who are expert in Health and Safety matters and provide guidance with regards to training and best practice.
Treasury function	Includes services which manage the relationship and administration of Capita Group banking arrangements.
Group Internal Audit	Includes providing the Capita Board comfort that business processes throughout the group are observed in line with group governance procedures and ensure that any weaknesses are addressed.
Group Procurement Function	Includes access to employee benefits, and other Group related items and services.
Group Finance	Includes statutory Group reporting to ensure consolidation of Group activities for Capita plc reporting purposes, managing of group auditors and Group wide audit process, support the DCC Finance

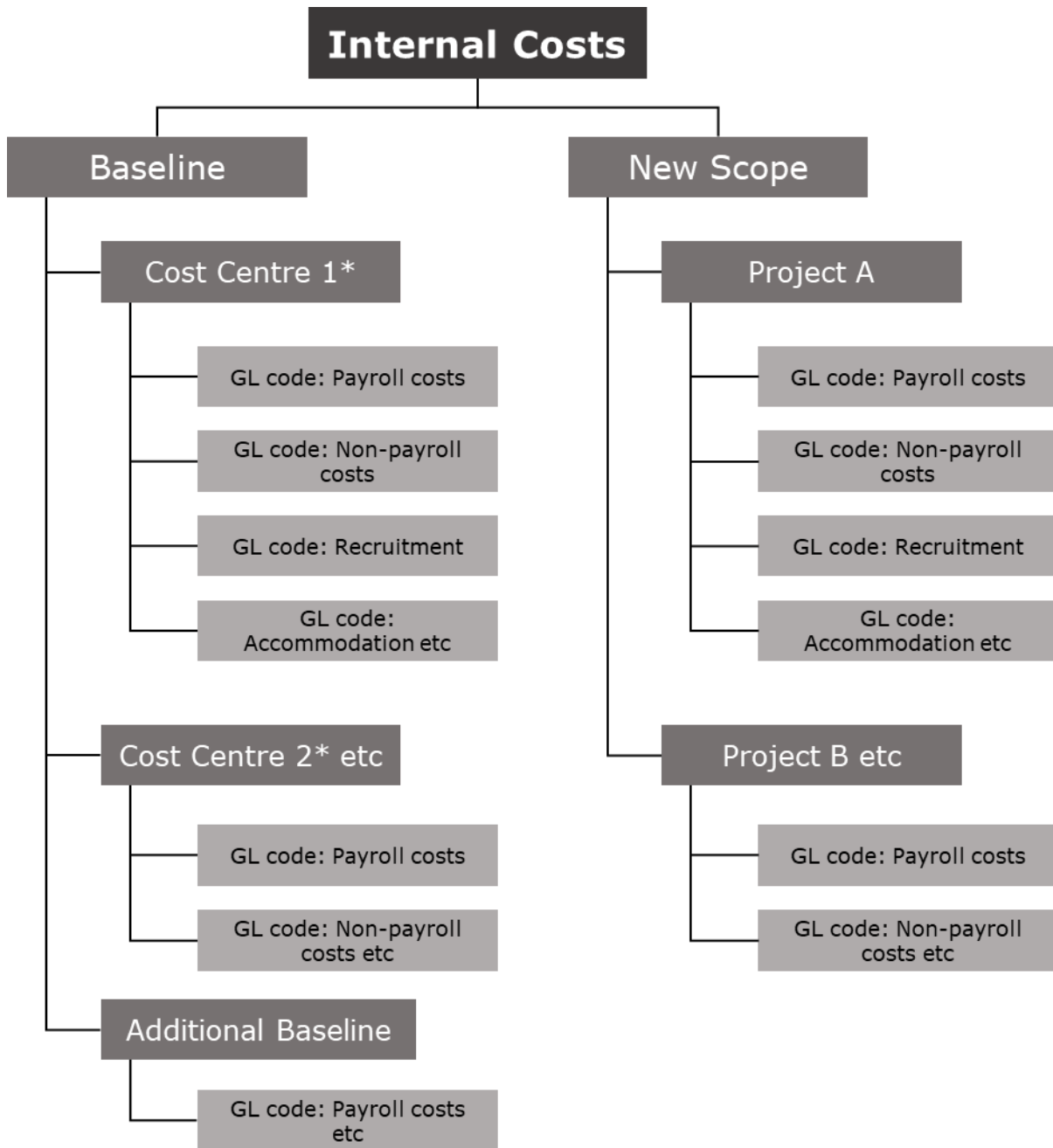


Service	Non-exhaustive list of examples
	team for preparation of DCC accounts and appropriate audit papers for reporting requirements under Condition 30 of the Licence.
Tax	Services that handle tax matters for the group including planning and filing of tax and VAT returns. They will support the DCC Finance team in preparation and filing of these returns.
Legal	Provision of ad hoc support to DCC from the Group legal advisors.
Insurance	Services that provide for group insurance arrangements across all insurance lines including Professional Indemnity, Employers Liability, Directors and Officers policy and motor insurance across the Group. This will provide cover for all Capita employees including those carrying out DCC activities.
Company Secretarial Services	This includes cost relating to managing and reporting to the City on Capita performance and financials and provision of services to Capita plc Board.
Group pensions	Provision of administration services for the employee benefits and choice programs available to Capita employees including DCC employees, including trustee costs and reporting requirements.
Payroll Management	This includes services which cover the cost of provision of payroll services and HMRC reporting on payroll costs for all Capita employees including DCC employees.
Group Car Fleet Management	This includes services including the provision and administration of the company cars under the employee benefit scheme.

## Appendix 3 – General Ledger Codes and Cost Reporting Hierarchy

Title	Description
Payroll costs	Cost of salaries, day rates, overtime, bonuses, car allowances, healthcare, National Insurance, pensions and other allowances.
Non-payroll costs	Cost of travel, subsistence, mobile phone and training expenses.
Recruitment	Cost of procuring internal and external resources.
Accommodation	All premises cost such as rent, rates, office maintenance.
External services	Cost of third-party suppliers including consulting fees, legal fees and bank charges.
Internal services	These are information technology and other professional services sourced from the Licensee’s parent group. These services are exclusive of the Shared services, and the costs for these services are charged directly to DCC.
Service management	Cost of providing a first line service desk. This includes the Service Management System.
Transition	Cost of setting up DCC and mobilising the business.
IT Services	This category is where all IT costs are reflected. This includes: BIMi, Billing, Document Management, FABRIC, FTP and Networks, Hosting, Programme and Architectures, Desktop support, Telephony and Website.
Office Sundry	Costs related to the office that are small in amount and relatively rare in occurrence.

### Hierarchy of Cost Reporting by Cost Centre



\* Cost centres include corporate management, industry, finance, commercial, design and assurance, operations, security and programme management.

## Appendix 4

### A

#### **Allowed Revenue**

Total amount of revenue determined on an accruals basis in relation to each Regulatory Year in accordance with the Principal Formula set out in Part C of Condition 36 after the deduction of value added tax and any other taxes.

#### **Authority**

The Gas and Electricity Markets Authority (GEMA).

### B

#### **Baseline**

Activity associated with delivering the requirements provided to the Licensee during the DCC Licensing Competition. This includes both activities that the Licensee was expected to fully cost in the LABP and activities that were known but not fully scoped at that time and so not able to be fully costed (for example, enrolment and adoption of SMETS1 meters, and development of Dual Band Communication Hubs).

### C

#### **Centralised Registration Service (CRS)**

A future service, procured and run by the DCC to facilitate switching at gas and electricity premises.

#### **Communications hub**

A Device which complies with the requirements of CHTS and which contains two, logically separate Devices; the Communications Hub Function and the Gas Proxy Function.

#### **Communications Service Provider (CSP)**

Bodies awarded a contract to be a service provider of the DCC's communications services. Arqiva Limited and Telefónica UK Limited have been appointed to provide these services.

### D

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**Data Communications Company (DCC)**

The company that manages the data and communications to and from domestic consumers' smart meters.

**Data Services Provider (DSP)**

Body awarded the contract to deliver systems integration, application management and IT hosting services to the DCC. CGI IT UK Limited has been appointed to provide these services.

**Department for Business and Industrial Strategy (BEIS)**

The UK government department responsible for business, industrial strategy, science, innovation, energy, and climate change.

**Department for Energy and Climate Change (DECC)**

The UK government department (now part of BEIS) responsible for energy and climate change policy.

**E**

**ECoS**

The Enduring Change of Supplier programme, which is meant to replace the Transitional Change of Supplier (TCoS).

**External Costs**

The costs that were economically and efficiently incurred by the Licensee in procuring Fundamental Service Capability.

**G**

**GAAP**

Generally accepted accounting principles – this is the generic name for a set of accounting rules. There are various national GAAPs (including UK GAAP) as well as the international standards (IFRS).

**H**

## **HMRC**

Her Majesty's Revenue and Customs – the tax authorities in the UK.

## **I**

### **Internal Cost**

Costs (excluding External Costs and Pass-Through Costs) that were economically and efficiently incurred by the Licensee for the purposes of the provision of Mandatory Business Services under or pursuant to the SEC.

## **L**

### **Licence Application Business Plan (LABP)**

The plan submitted in the course or as a consequence of the licence application process. It contains estimates of revenues, costs, capital investments and cash flows for each Regulatory Year of the Licence Term, and was taken into account by the Secretary of State in determining the grant of the Licence.

## **M**

### **Mandatory Business Costs**

Costs associated with the Authorised business of that consists of the operation or provision, on behalf of or to SEC parties, of Mandatory Business Services under pursuant to the SEC,

## **N**

### **New Scope**

Activity associated with delivering requirements additional to those that the Licensee was expected to deliver at the time of Licence Award. The Centralised Registration Service is considered New Scope.

## **O**

### **Ofgem**

Office of Gas and Electricity Markets

## **P**

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### **Project**

Work linked to and incentivised by a Baseline Margin Project Performance Adjustment Scheme.

### **Project Baseline Margin**

Has the meaning given to the term in Appendix 2 to Licence Condition 36, it is the Baseline Margin associated with a Project.

## **R**

### **Regulatory Instructions and Guidance (RIGs)**

Provide the basis on which the Licensee must report price control information as required under the Smart Meter Communication Licence.

### **Regulated Revenue**

The actual revenue in a Regulatory Year, measured on an accruals basis received by the Licensee through Service Charges that are levied in accordance with the provisions of Condition 18.

### **Relevant Services Capability**

The internal and external resources which the DCC relies upon in order to provide services to DCC Users.

## **S**

### **Smart Energy Code (SEC)**

The SEC is an industry code which is a multiparty agreement that defines the rights and obligations between the Data Communications Company (DCC), Suppliers, Network Operators and other users of the DCC's services. All parties must comply with the Code.

### **SECCo**

A company established under the SEC, owned by SEC Parties and which acts as a contracting body for the SEC Panel.

### **SEC Panel**

Panel established to oversee the Smart Energy Code with powers and duties as set out in Section C of the SEC.

### **Service Charges**

The charges levied by and payable to DCC in connection with the operation or provision of Mandatory Business Services under or pursuant to the SEC.

### **Shared services**

Support services sourced from the Licensee's parent company and covered by the Shared services costs under Section 3.3.1 of the LABP.

### **Smart Meter**

Smart meter is a meter which, in addition to traditional metering functionality (measuring and registering the amount of energy which passes through it) is capable of providing additional functionality, for example two way communication allowing it to transmit meter reads and receive data remotely. It must also comply with the technical specification set out by the Smart Metering Programme.

### **Smart Meter Communication Licence**

The Smart Meter Communication Licences granted pursuant to Sections 7AB(2) and (4) of the Electricity Act 1989 and Sections 6(1A) and (1C) of the Gas Act 1986.