

Consultation

DCC review: Phase 2 – Process for determination of Allowed Revenue

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We are consulting on a set of policy proposals for the design of an *ex-ante* cost control regime to be implemented for the Data Communications Company (DCC) under the Successor Licence. We are also consulting on proposals for a transition towards *ex-ante* business planning under the current Licence. We would like views from people with an interest in smart metering. We particularly welcome responses from DCC customers, including energy suppliers, distribution network operators, customer groups and other current or potential future users of the DCC network. We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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Contents

Executive summary	4
1. Introduction	8
2. Cost control scope & cycle	19
3. Managing risks and uncertainty	26
4. Financial incentives	50
5. Customer engagement	65
6. Implementation of the first Business Plan	78
Appendices	84

Executive summary

The Data Communications Company (DCC) is responsible under the Smart Meter Communication Licence for establishing and operating a secure national communications network for smart metering in Great Britain. The current Licensee is Smart DCC Ltd¹ (“DCC1”) whose Licence was awarded by the Government in 2013 and is now due to expire in September 2027.² We are reviewing the regulatory arrangements to be put in place for the Successor Licensee (“DCC2”).

In August 2023 we concluded the first, scoping phase of our review with a set of key features to form the basis of the design of the new regulatory model.³ This is the second policy consultation aimed at developing these key features into detailed policy proposals to underpin the new DCC Licence.

Our proposals for a reformed *ex-ante* cost control regime aim to:

- Achieve greater overall control over DCC’s expenditure
- Improve customer engagement and cost transparency for DCC customers
- Drive more accurate forecasting linked to business planning
- Put focus on efficient cost management

Cost control scope & cycle

We are proposing to confirm a move to a full *ex-ante* cost control regime for DCC2.

We are proposing to require DCC to submit to us a costed Business Plan to provide the basis for Ofgem’s approval of DCC’s costs upfront for a period of, initially, two years, from 2026 to 2028. We are seeking views on the duration of the price control cycle under the Successor Licence. We are also seeking views on the value of the annual Business Development Plan in its current form and whether it would benefit from integration with the proposed Business Plan.

Managing risk and uncertainty

Upfront approval of DCC’s Allowed Revenue would be based on forecast costs supported by justifications provided through DCC’s Business Plan. We seek views on general requirements on evidence which we would need to see as part of DCC’s Business Plan submission to determine efficient costs.

¹ A wholly owned subsidiary of Capita Plc

² Having been extended by Ofgem for a period of 24 months. See Ofgem (2024) Decision on the continuation of the Smart Meter Communication Licence and the rate of Shared Service Charge and Baseline Margin. www.ofgem.gov.uk/decision/decision-continuation-smart-meter-communication-licence-and-rate-shared-service-charge-and-baseline-margin

³ Ofgem (2023), DCC review: Phase 1 Decision. www.ofgem.gov.uk/publications/dcc-review-phase-1-decision.

Once DCC's Business Plan has been approved, DCC will be expected to operate within the agreed cost envelope of its Allowed Revenue. We propose to allow DCC flexibility in Internal Costs associated with resourcing such that DCC can prioritise and redeploy its internal resources where they are most needed. We do not propose to introduce the same flexibility for External Costs due to risks of cost overruns.

In a multiannual cost control cycle, it is likely that DCC's Allowed Revenue will not perfectly match its forecasts. We are seeking views on proposals to account for risks and uncertainty. These include:

First, allowing DCC to recover from its customers up to 2% over its annual Allowed Revenue to manage cashflows and small overspends.

Secondly, the introduction of three types of Uncertainty Mechanisms: Automatic adjustments to account for Passthrough or volume sensitive costs agreed at the business planning stage, an end-of-year reopener, which would enable DCC's Allowed Revenue to be amended for the following Regulatory Year where costs have arisen that could not be reasonably anticipated, and an emergency reopener to account for external shocks.

Financial incentives

We have previously concluded that DCC's "Core Mandatory Business" should be provided on a not-for-profit basis. We are now proposing to extend our conclusion to the entirety of DCC's Authorised Business, including any non-core service provision and Permitted Business.

The current framework includes External Contract Gain Share (ECGS) mechanism which allows DCC to retain a portion of savings achieved on its legacy Fundamental Service Provider contracts. We propose to remove the ECGS mechanism from the Successor Licence. We are interested in stakeholder views on options to drive efficiencies in External and Internal Costs by inclusion of open-ended or set stretch targets in future Business Plans.

We have previously consulted on a range of reputational incentives and an introduction of a targeted financial incentive model for DCC's senior management and staff driven by the Board's Remuneration Committee via remuneration policy. We are now looking for views on measures to be considered in any such model.

Customer engagement

In an *ex-ante* cost control framework and a not-for-profit model, customer engagement is crucial to ensure DCC's forecasts are transparently agreed upon ahead of costs being incurred. We are proposing to set up a Customer Challenge group ("the Group") under

the Smart Energy Code (SEC) to have a role in the cost control process by providing feedback and challenge to DCC on its Business Plan.

We are seeking stakeholder views on the scope, membership, focus and outputs of the Group

We propose that DCC engages with DCC for at least 3 months prior to its Business Plan submission to Ofgem. The Group would scrutinise the contents of the Plan and provide constructive feedback to DCC on the scope, quality of evidence, customer engagement, assumptions and cost forecasts. We also propose that the Group would provide a written report directly to Ofgem, setting out the Group's overall assessment of DCC's Business Plan and highlighting any areas of concerns or disagreement. Ofgem would draw on this report when undertaking its own review of DCC's submission.

Implementation of the first Business Plan

We said that, where possible, we would consider bringing some changes in early to drive the benefits of the new framework. We propose to require the current Licensee ("DCC1") to prepare and submit to us the first fully costed Business Plan to cover the period April 2024-March 2026. For DCC1 this Business Plan would cover the final year of its operations, including the Business Handover period. It would then serve as the basis for the Successor (DCC2) budget. We are looking for views on the implementation timeline and considerations.

For clarity we are not proposing to change the existing ex-post price control obligations on DCC1, nor its incentive regime.

Next steps

Alongside this publication we have published an invitation to a stakeholder event to be held virtually on **21 January 2025**. The stakeholder event will focus on our proposals in respect of setting up of the Customer Challenge Group in Q2 of 2025.

In Q1 2025 we plan to consult on further guidance documents:

- Business Planning Guidance including revised Price Control Processes guidance
- Regulatory Instructions and Guidance (RIGs) reporting templates and guidance
- Terms of Reference for the proposed Customer Challenge Group (subject to our proposal in chapter 5)

We will also publish:

- Our conclusion to the first consultation on future governance arrangements. The proposals in this consultation should be read alongside our proposed governance reforms.

Consultation - DCC review: Phase 2 – Process for determination of Allowed Revenue

- Our third policy consultation focused on the future role of DCC, its objectives and operational model

We have commenced and will continue our work on identifying and selecting the Successor Licensee with a further Prior Information Notice expected to be published in Q1 2025.

1. Introduction

Background

- 1.1 The Data Communications Company (DCC) holds a central role in the energy landscape of Great Britain, providing an essential communications network that underpins the functionality of smart metering systems. DCC is the term used to refer to the holder of the Smart Meter Communication Licence (“Licence”), which was originally awarded by the government in 2013 following a competitive tender. The Licence holder is responsible for establishing and operating a secure national communications network for smart metering in Great Britain and operates under the conditions of its licence. The current Licensee is Smart DCC Ltd, a wholly owned subsidiary of Capita Ltd.
- 1.2 Ahead of the expiry of the Licence (due on September 2027), we are carrying out a programme of work (“DCC review”) with the objective to:
- Put in place a new regulatory regime for DCC under the Successor Licence
 - Select and appoint a Successor Licensee (“DCC2”) to hold that Licence
- 1.3 We published a decision in August 2023, which concluded the first scoping phase of our ongoing review of the regulatory arrangements for DCC. The decision outlined considerations for a way forward to a detailed design of the new framework and its implementation. We concluded that the new framework should be based on a set of key features, which included:⁴
- Key feature #3: Costs of activities deemed to be sufficiently stable should be subject to an upfront approval by Ofgem via an *ex-ante* price control or a budget-setting process.
 - Key feature #5: DCC’s Core Mandatory Business will remain funded by charges on users.
- 1.4 This consultation develops detailed policy proposals building on these two key features.

What are we consulting on

- 1.5 We are consulting on a set of policy proposals for design of an *ex-ante* cost control regime to be implemented under the Successor Licence. We are also consulting on proposals for a transition towards *ex-ante* business planning under the current Licence.

⁴ Key feature #3. See Ofgem (2023), DCC Review: Phase 1 Decision, paragraph 2.33 and chapter 5. www.ofgem.gov.uk/decision/dcc-review-phase-1-decision

- 1.6 Under the current regulatory framework, DCC is required to submit to Ofgem Price Control information no later than 31st July following the end of the relevant Regulatory Year.⁵ In its submission, DCC must report all expenditure in a prescribed form (“Regulatory Instructions and Guidance”)⁶ and justify any material divergence in both incurred and forecast costs against previously approved forecasts.⁷ We sought stakeholder views on the effectiveness of different price control models (*ex-post*, *ex-ante* and hybrid) through our Phase 1 consultation process and found strong support for changes to the existing Price Control and a shift towards *ex-ante* regulation.⁸
- 1.7 Analysis of DCC’s financial data over period 2024-2026 showed that a majority of DCC’s costs would be suitable for *ex-ante* funding. In our conclusions document⁹ we said that we will move towards upfront cost control regime for costs of activities deemed to be sufficiently stable.
- 1.8 We said that implementation would be in two steps. First, where possible, we would introduce some changes prior to the expiry of the Term of the current Licence to drive the benefits of the new framework as soon as possible and to help a transition to the new framework. The full implementation would then follow under the Successor Licence.
- 1.9 Through this consultation we are inviting views on:
- Our proposals to introduce a fully *ex-ante* form of cost control and its key tenets including: the scope and cycle (chapter 2), managing risk and uncertainty (chapter 3), financial incentives (chapter 4) and customer engagement (chapter 5)
 - Our proposal for implementation starting with a Business Plan requirement on DCC1 (the current Licensee, Smart DCC Ltd). This will cover the period from April 2026 to March 2028 and associated implementation considerations (chapter 6)
- 1.10 Below we set out the scope of each chapter.

⁵ Licence Condition 32

⁶ Licence Condition 33

⁷ Licence Condition 37

⁸ Ofgem (2022), DCC review: Phase 1 Consultation. www.ofgem.gov.uk/consultation/dcc-review-phase-1-consultation

⁹ Ofgem (2023), DCC review: Phase 1 Decision. www.ofgem.gov.uk/decision/dcc-review-phase-1-decision

Chapter 2: Scope and cycle

- 1.11 In this chapter we present, and seek views on, our proposal to move towards a multiannual, fully *ex-ante* form of cost control with uncertainty mechanisms. We set out our analysis of options of annual vs multiannual cycle as well as our rationale for adopting a fully *ex-ante* form of cost control, as opposed to a hybrid model. We also discuss our proposal to require DCC to prepare a costed Business Plan as a core part of its Price Control submission to Ofgem.

Consultation questions

- Q1. What are your views on our proposal to move towards a multiannual, *ex-ante* cost control with uncertainty mechanisms? Do you agree with our proposal to require from DCC a costed Business Plan to form part of its cost control submission?
- Q2. What are your views on the length of the cost control cycles under the Successor Licence? What are your views on the interaction between the Business Development Plan and a costed Business Plan?

Chapter 3: Managing risk and uncertainty

- 1.12 In this chapter we discuss ways in which cost uncertainty can be managed, particularly if we implement a multiannual form of cost control. We invite views on our analysis and options relating to three main questions. Firstly, determining the efficient forecast costs for the first Business Plan; secondly, managing cashflows and small overruns within a regulatory year; and thirdly, use of uncertainty mechanisms within and at the end of a regulatory year for costs which cannot be managed within Allowed Revenue.

Consultation questions

- Q3. What are your views on the outlined general approach towards determining efficient forecast costs?
- Q4. What are your views on flexibility within DCC's Allowed Revenue? At what level should DCC be afforded flexibility to manage overspend/underspend?
- Q5. What are your views on our proposal to allow DCC to access working capital through a contingency set at 2% of its annual Allowed Revenue? Would this level of contingency be sufficient to manage risks to DCC's ability to finance its Mandatory Business? What are your views on the risk and benefits of cash v accruals-based reporting of Price Control information?
- Q6. What are your views on the proposed three types of Uncertainty Mechanisms?

Q7. What are your views on the reopener process, criteria and risks? What are your views on the trade-off between allowing DCC a more flexible approach to receive additional Allowed Revenue?

Chapter 4: Financial incentives

- 1.13 In this chapter we first present, and invite views on, our proposal to extend our conclusion that DCC's Core Mandatory Business should be carried out on a not for profit basis to all of DCC's Authorised Business. We explain the implications of this proposal in respect of Mandatory Business and Permitted Business.
- 1.14 We seek views on mechanisms to drive efficiencies in both External Costs and Internal Costs and our proposal in respect of the External Contract Gain Share (ECGS) mechanism under the Successor Licence.
- 1.15 Finally, we seek views on measures to be considered as part of a targeted incentive model on senior management and staff, which we consulted upon through our governance consultation.¹⁰ We are now seeking views on specific measures to be considered within the model to be implemented.

Consultation questions

- Q8. Do you agree with our proposal to require that all of DCC's Authorised should be carried out on a not for profit basis?
- Q9. What are your views on the proposal to allow DCC to apply for ringfenced funding to enable potential development of commercial or innovative services?
- Q10. Do you agree with our proposal to remove the ECGS mechanism from the Successor Licence? What are your views on considerations to introduce open ended or set stretch efficiency targets on DCC in respect of its External and Internal costs for a future cost control cycle? What other mechanisms or approaches could be effective to drive cost efficiencies?
- Q11. What are your views on the proposed measures to be considered as part of any targeted incentive model on senior managers and staff?

Chapter 5: Customer engagement

- 1.16 In this chapter we provide our analysis of DCC's existing customer engagement process in relation to business planning and cost forecasting. We discuss options for customer engagement in an *ex-ante* business planning regime and propose

¹⁰ Ofgem (2024), DCC Review Phase 2: Governance and Centralised Registration Service arrangements (consultation), chapter 4, section C. www.ofgem.gov.uk/consultation/dcc-review-phase-2-governance-and-centralised-registration-service-arrangements

the introduction of a Customer Challenge Group (“the Group”) under the Smart Energy Code (SEC). We seek customer views on whether this group should be set up as well as the details of its role, membership and outputs.

Consultation questions

- Q12. Do you agree with our proposal to set up a customer challenge group under the SEC to have a role in the business planning process?
- Q13. What are your views on the Group’s membership? Do you agree with our outlined core and non-core membership model?
- Q14. What are your view on the presented considerations for the scope, focus and responsibilities of the Group?
- Q15. Do you agree with the proposed outputs of the Group?

Chapter 6: Implementation considerations

1.17 In the final chapter, we discuss our proposed implementation approach to phase in the *ex-ante* framework from 2026. We lay out considerations in respect of requirements on DCC1 to produce a compliant Business Plan in 2025 and the interactions with the existing Price Control regime.

Consultation questions

- Q16. What are your views on our proposed implementation approach, the requirements on the first Business Plan and the interaction with the current Price Control process?

- 1.18 In developing our proposals, we have considered:
- Existing cost control mechanisms including: DCC’s existing ex-post regime, RII0-2 and the conclusions of the recently concluded FSNR review,¹¹ Elexon budget setting process, ESO and NESO price control mechanisms and water industry price controls
 - Views and feedback from DCC customers (especially energy suppliers, DNOs and Other Users), as well as consumer advocacy bodies and central bodies, received through our BAU Price Control process, Phase 1 consultation and a stakeholder workshop¹²
 - Internal and external expert advice
 - Evidence from DCC gathered over 2023/2024

¹¹ Ofgem (2023), Decision on frameworks for future systems and network regulation. www.ofgem.gov.uk/decision/decision-frameworks-future-systems-and-network-regulation

¹² 28 February 2024

- 1.19 To develop our proposals we have continued to draw on our overarching principles that the future regulatory models should:
- Drive delivery of a quality, cost-efficient and secure service
 - Be customer centric and consumer conscious
 - Enable full accountability and decisive governance
 - Allow DCC's role to evolve in an uncertain environment
 - Maximise the value of DCC infrastructure
- 1.20 We have also continued to apply the following factors identified in our Phase 1 consultation:¹³
- Dealing with cost uncertainty
 - Incentives to control or reduce costs
 - Incentives to deliver the right level of performance/quality of service
 - Transparency and stakeholder engagement
 - Regulatory and resource burden
- 1.21 In addition to the above, we have also considered DCC's financeability recognising the importance of DCC's capability to continue delivering its Mandatory Business.

Context and Related Publications

- 1.22 In autumn 2022 we consulted on the first 'scoping' phase of the DCC review. We published our phase 1 consultation response in August 2023¹⁴ in which we decided to adopt a set of key features to form the basis of the new regulatory model:
1. The company Board should be majority stakeholder or independent controlled and include consumer representation
 2. The Core Mandatory Business should be conducted on a not-for-profit basis
 3. Costs of activities deemed to be sufficiently stable should be subject to an upfront approval by Ofgem via an *ex-ante* price control or a budget-setting process.

¹³ Ofgem (2022), DCC review: Phase 1 Consultation, paragraph 6.15.

www.ofgem.gov.uk/consultation/dcc-review-phase-1-consultation

¹⁴ Ofgem (2023) DCC review: Phase 1 Decision. www.ofgem.gov.uk/decision/dcc-review-phase-1-decision

4. The operational model will remain primarily outsourced with key contracts procured competitively on the market (decisions made by the Board subject to Licence limitations)
 5. DCC's Core Mandatory Business will remain funded by charges on users
- 1.23 In November 2023 and February 2024, we hosted further stakeholder workshops to test our emerging proposals on the detailed policy design in relation to DCC's governance, cost control and future role.
- 1.24 In May 2024 we published our governance consultation to develop key feature #1.¹⁵ This also included our consultation on the future arrangements for the Centralised Registration Service (Switching), to which we published our decision on 2 December 2024.¹⁶
- 1.25 In July 2024, we consulted on whether to seek legislative changes to have more flexibility in the appointment process of the Successor Licensee.¹⁷ We published our conclusions in September 2024.¹⁸ Also in September 2024 we published our decision to extend the Licence by 24 months to September 2027.¹⁹
- 1.26 We set out in our 2024-25 Forward Work Programme that we will prepare governance for the not-for-profit successor to [the current] DCC, with milestones including this consultation, approval of DCC's revised Business Handover Plan,²⁰ and publication of further consultations on future DCC price control arrangements and future role of DCC.²¹

Links and considerations

- 1.27 This is the second of three policy consultations that we expect to form part of the second (detailed design) phase of the DCC review programme. These three consultations (and our decision in response to these) should be taken as a

¹⁵ Ofgem (2024), DCC Review Phase 2: Governance and Centralised Registration Service arrangements (consultation). www.ofgem.gov.uk/consultation/dcc-review-phase-2-governance-and-centralised-registration-service-arrangements

¹⁶ Ofgem (2024), DCC Review Phase 2: Governance and Centralised Registration Service arrangements (decision). www.ofgem.gov.uk/decision/dcc-review-phase-2-governance-and-centralised-registration-service-arrangements

¹⁷ Ofgem (2024), DCC review: Process for appointing the Successor Smart Meter Communication Licence holder. www.ofgem.gov.uk/consultation/dcc-review-process-appointing-successor-smart-meter-communication-licence-holder

¹⁸ Ofgem (2024), DCC review: Process for appointing the Successor Smart Meter Communication Licence holder - conclusions and next steps. www.ofgem.gov.uk/decision/dcc-review-process-appointing-successor-smart-meter-communication-licence-holder-conclusions-and-next-steps

¹⁹ Ofgem (2024), Decision on the continuation of the Smart Meter Communication Licence. www.ofgem.gov.uk/decision/decision-continuation-smart-meter-communication-licence-and-rate-shared-service-charge-and-baseline-margin

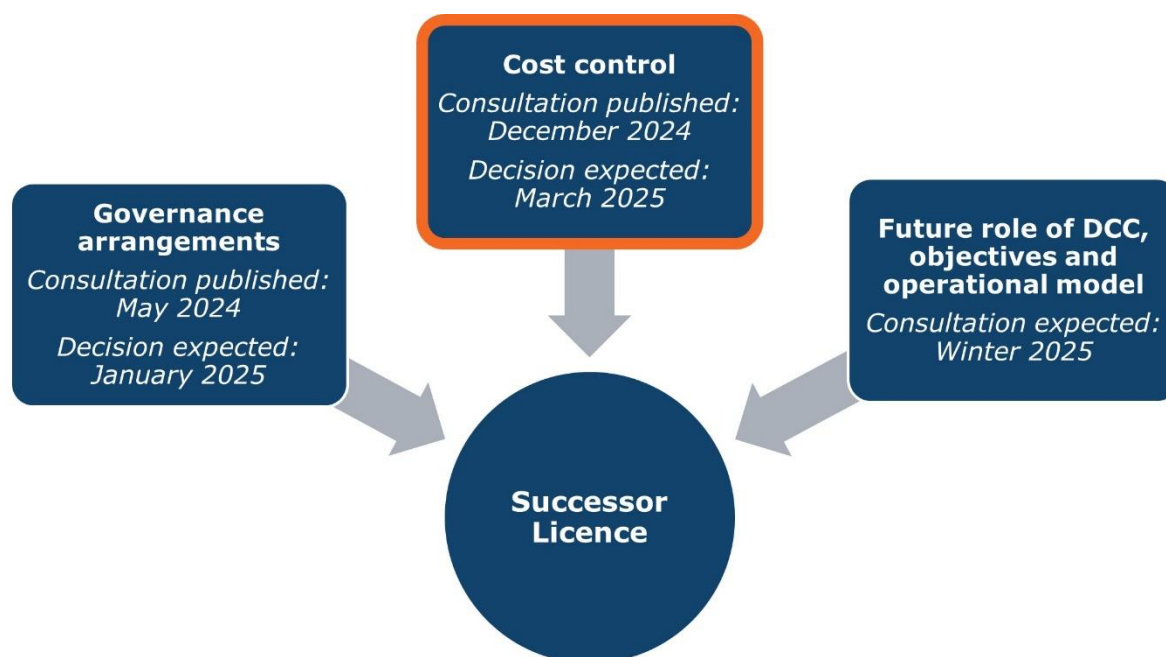
²⁰ Under LC 43 (Arrangements for the handover of business)

²¹ Ofgem (2024), 2024/25 Forward Work Programme, objective 13.2.

www.ofgem.gov.uk/publications/decision-consultation-ofgems-forward-work-programme-202425

whole. Below we set out the envisaged key tenets of our evolving proposals to provide further context of the role of stakeholders in the new framework.

Figure 1.1: Visualisation of DCC review policy workstreams



- 1.28 We published our first policy consultation on the future governance arrangements in May 2024. In it we set out our proposals in respect of the Board composition, requirements on directors, the appointment process and incentives. We presented our preferred options including that the future Board should be majority independent-controlled with consumer representation and that customer (user) representation should be assured via requirements on industry experience on the Board, representation in the appointment process and enhanced customer engagement through a proposed customer satisfaction survey. We expect to publish our response to this consultation in early 2025.
- 1.29 We have already commenced work on the selection of the Successor Licensee through market engagement and a webinar in November 2024. We are planning to publish another Prior Information Notice (PIN) shortly and commence the selection process in the spring 2025. Under our current assumptions, we anticipate the appointment of a Successor Licensee to occur in the spring 2026, followed by a 6-8 month Business Handover period. We therefore expect the Business Transfer Date (whereafter DCC2 will be solely responsible for delivering

Mandatory Business under the Successor Licence) to occur by the end of 2026.²²

This means that the following BAU price control cycles will need to conclude:

Table 1.1 Overview of the remaining Price Control submissions to be made by DCC1 within the remainder of the Licence Term

Regulatory year covered	Date of DCC's submission	Date of Ofgem's decision
April 2023 – March 2024	July 2024 – submitted	February 2025
April 2024 – March 2025	July 2025	February 2026
April 2025 – March 2026	July 2026	February 2027
April 2026 – Business Transfer Date (expected by end 2026)	Post-Business Transfer Date Q1 2027 subject to Licence changes	No later than September 2027 (Licence expiry)

1.30 We have recently published our decision to retain responsibility for the Centralised Registration Service (CRS) within the DCC Licence and intend for DCC1 to continue to operate under the Switching Incentive Regime (SIR) until the expiry of the current Licence. The SIR places 80% of DCC's switching margin at risk against its operational performance and 20% against customer engagement. Under our proposals for the Successor Licensee operating on a not-for-profit basis, the SIR would not apply under DCC2 due to no margin being put at risk. As detailed in our decision on the CRS, we are supportive of a review of the governance and operating model of the CRS being undertaken by RECCo and DCC and recognise that there will be implications of the outcome of this review for DCC2.

1.31 We envisage that DCC2 will continue to prepare a budget for Switching which will be consulted upon as part of RECCo's budget with REC parties and will contribute to DCC's allowed revenue. We will keep under review this arrangement following the outcome of the review being undertaken by DCC and RECCo, particularly the ongoing role of the REC Performance Assurance Board (PAB) for the CRS revenue. Going forward, we may consider whether it would be appropriate to include Switching into any target incentive model (as per chapter 4, section C) to assure good performance and costs management. We welcome stakeholder views on this issue.

²² For further details on our timing assumptions, please refer to our decision on Licence extension, available at: www.ofgem.gov.uk/decision/decision-continuation-smart-meter-communication-licence-and-rate-shared-service-charge-and-baseline-margin

Consultation stages

- 1.32 This consultation will open on 12 December 2024. Following our review of stakeholder representation, we expect to make our decision in March 2024, subject to internal governance.

Stage 1	Stage 2	Stage 3	Stage 4
Consultation opens	Consultation closes (awaiting decision).	Responses reviewed and published	Consultation decision
12/12/2024	Deadline for responses 06/02/2025	Expected by March 2025	Expected in March 2025

How to respond

- 1.33 We want to hear from anyone interested in this consultation. Please send your response to DCCregulation@ofgem.gov.uk.
- 1.34 We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
- 1.35 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, your data and confidentiality

- 1.36 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
- 1.37 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.
- 1.38 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing

its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 5.

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

General feedback

- 1.40 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:
- Do you have any comments about the overall process of this consultation?
 - Do you have any comments about its tone and content?
 - Was it easy to read and understand? Or could it have been better written?
 - Were its conclusions balanced?
 - Did it make reasoned recommendations for improvement?
 - Any further comments?
- 1.41 Please send any general feedback comments to stakeholders@ofgem.gov.uk

2. Cost control scope & cycle

Section summary

In our Phase 1 conclusion we said that costs “deemed to be sufficiently stable” should be subject to upfront approval by Ofgem through either a budget setting process or an *ex-ante* form of cost control. Our analysis of DCC’s historic, current and forecast costs (as of RY23/24) shows a clear trend towards stabilisation of costs overtime. We are now proposing to confirm a move to a full *ex-ante* cost control regime for DCC2.

We are proposing to require DCC to submit to us a costed Business Plan to provide the basis for Ofgem’s approval of DCC’s costs upfront for a period of, initially, two years, from 2026 to 2028. We are seeking views on the duration of the cost control cycle under the Successor Licence. We are also seeking views on the value of the Business Development Plan in its current form and whether it would benefit from integration with the proposed Business Plan.

Consultation questions

- Q1. What are your views on our proposal to move towards a multiannual, *ex-ante* cost control with uncertainty mechanisms? Do you agree with our proposal to require from DCC a costed Business Plan to form part of its cost control submission?
- Q2. What are your views on the length of the cost control cycles under the Successor Licence? What are your views on the interaction between the Business Development Plan and a costed Business Plan?

Background

2.1 In Phase 1 of our review we concluded that costs deemed to be sufficiently stable should be subject to upfront approval by Ofgem through either a budget setting process or an *ex-ante* form of cost control. We are now setting our proposals on the scope (full *ex-ante* regime) and cycle (multiannual process based on an approved Business Plan).

A. Cost control scope

2.2 In our Phase 1 decision, we provided a high-level assessment of DCC’s costs and their potential suitability for *ex-ante* regulation, using DCC’s forecast data for years 2024-2026 under a model three-year scenario. We identified that up to 70-80% of DCC costs, comprising corporate overheads (internal costs associated with the running of the business) and costs to operate (costs of life BAU programmes and associated functional support, and costs of maintenance and

expected technology refresh) would be suitable for *ex-ante* funding.²³ We identified c.20-30% of DCC's costs as "costs to change" associated with change programmes, particularly in early stages of lifecycle (although some of DCC's contracts have seen cost volatility throughout live operations), SEC release management and functional support for programmes. These costs are comparably less stable (for example, on account of changing assumptions during a design, build, test stage of a new solution or due to issues impacting a number of interconnected solutions) and less predictable within a longer cost control cycle (for example, the cost of SEC Releases may be hard to forecast 24 or 36 months in advance) and we therefore acknowledged that any regime would have to include suitable provisions to account for uncertainty.

2.3 We have therefore considered two broad options:

- **Option A: Full *ex-ante* regime** (all costs are approved upfront) with either an annual true-up or uncertainty mechanisms to deal with residual uncertainty
- **Option B: A hybrid regime** (most costs are approved upfront but agreed costs to change subject to an *ex-post* assessment)

2.4 Following further analysis and engagement, **we propose to pursue Option A** and move to a full *ex-ante* cost control regime for all of DCC's Allowed Revenue with accommodation of uncertainty through uncertainty mechanisms. We have set out our analysis of DCC's cost data in Appendix 1; however, our key observations are:

- The majority of DCC's costs are now associated with live operations. These costs are based on the negotiated contracts with DCC's External Service Providers. Historically, External Costs have seen significant volatility as key programmes such as SMETS2, SMETS1 or ECoS were being built. This is reflected in the steady increase in DCC's External Costs in the first eight regulatory years to 2021. While there still remains the need to continually maintain and, where needed, upgrade the service (for example the recent Scaling & Optimisation programme in the North Communication Region), the volatility in costs on account of in-live change is of relatively lesser magnitude compared to DBT costs. Through suitable customer engagement (through the SEC governance process or DCC's own forums) these costs can also be discussed and forecasted upfront.

²³ Ofgem (2023), DCC review: Phase 1 Decision. Table 5.1

- New programmes, such as 4G Comms Hubs & Networks and its recently procured contracts, will continue to require to go through a DBT stage and we recognise the risk and uncertainty in the early stages where assumptions can change, for example due to unforeseeable technical issues. Nonetheless, as new programmes now go through a robust multi-stage business case process,²⁴ which exposes the assumptions and expected costs, those costs can also be forecasted with a degree of certainty based on the most up to date set of assumptions. Post go-live, these programmes can be expected to behave similarly to those of existing programmes post go-live, *ie* plateau and be driven primarily by operational charges.
- DCC's Internal Costs, both resource and non-resource, have likewise been volatile as DCC grew to support introduction of new programmes. However, going forward, only Internal Costs in support of new programmes should see residual uncertainty reflecting the relative stabilisation of External Costs. As set out in our most recent RY23/24 Price Control consultation, we believe DCC can do more to control its Internal Costs by better planning, scoping, and resourcing of projects.²⁵ The residual uncertainty can be further mitigated by a flexible approach to DCC's internal resourcing (deploying resource where it's needed) and more accurate modelling and forecasting aligned to programme requirements.

2.5 A full *ex-ante* regime has several advantages compared to a hybrid regime:

- It would provide an incentive to control costs by imposing an obligation on DCC to operate within a pre-agreed cost envelope – DCC would not be able to recover additional costs (save for a small contingency amount subject to our proposal in chapter 3, section C) without further approval from Ofgem. Given our proposal to move to a not-for-profit model (chapter 4, section B), the absence of margin at risk would limit our ability to claw back any spend deemed to be Unacceptable (not economic and efficient) under an *ex-post* assessment within a hybrid regime.
- It provides an opportunity for a strong customer engagement to approve forecasts. It will be in the interest of both DCC and customers to agree on a level of Allowed Revenue to finance DCC's Mandatory Business, including

²⁴ Under LC16.6A-C whereby DCC has to seek non-objection from the Secretary of State for procurements with value over £10m

²⁵ Ofgem (2024), DCC Price Control consultation: RY23/24. Executive summary, p.6 and chapter 4 (Internal Costs). www.ofgem.gov.uk/consultation/dcc-price-control-consultation-regulatory-year-2023-2024

agreement on important trade-offs between scope, and sometimes quality, of the services delivered and their cost.

- It would be less burdensome to administer than a hybrid regime.

2.6 However, we recognise there are some risks in respect of dealing with cost uncertainty:

- A premature determination of an efficient cost by Ofgem could impede on DCC's negotiating position with External Service Providers (either to negotiate a change or sign a new contract/extension to a contract). – We believe this risk can be mitigated by setting allowances based on the most up to date evidence provided by DCC (for example the latest iteration of a business case or cost of an approved SEC code modification) and by following the existing practice of not publicly revealing the costs of individual contracts.
- Over/underestimate of costs could limit DCC's ability to progress work if it experiences cost overruns due to external factors, particularly in the area of costs to change. – We believe that this risk can be mitigated through introduction of uncertainty mechanisms, allowing DCC to either pass certain costs directly through its charges, or apply to Ofgem for additional funding, and providing a contingency for cashflow management and small overruns. We describe these proposals in detail in chapter 3.

2.7 We invite stakeholder views on this proposal and our considerations.

B. Cost control cycle

2.8 We have the option to introduce the *ex-ante* regime in annual (Option A) or multi-annual (Option B) cycles.

Option A – Annual cycles

2.9 Under Option A, DCC would prepare an annual submission to Ofgem who would approve DCC's Allowed Revenue (budget) for the regulatory year ahead. The key benefit of this approach is that it would help to manage uncertainty and without the need for introducing bespoke uncertainty mechanisms, in particular an end-of-year reopener. DCC may still require a contingency allowance to access working capital and manage small overruns and an emergency mechanism to access funds, for example in case of an insolvency event within DCC's supply chain.

2.10 Equally, however, an annual regime lacks a link to longer term strategy and does not require accurate forecasting – costs can still vary significantly year on

year and make it challenging for customers and Ofgem to challenge DCC on driving efficiencies in its long-term contracts and internal resourcing. This in turn means that it wouldn't provide more transparency on costs for customers. This approach would also likely prove disproportionately burdensome on Ofgem, DCC and customers, requiring continuous business planning and consultations. For those reasons we are not proposing to pursue this option.

Option B – multiannual cycles

- 2.11 Under this option, DCC would be required to prepare a costed Business Plan (the "Plan") covering a set period of time (cycle) and provide justifications for cost forecasts over that period. Under our proposals in chapter 5 (Customer engagement), the Plan would also be subject to a formal challenge by a customer challenge group set up under the SEC.
- 2.12 Compared to an annual budget approach, multi-annual planning would help to improve cost transparency as DCC would need to model its resource requirements and link its forecasts to longer-term strategy. This would in turn give customers a better view, and opportunity to challenge, the scope and cost of the services to be delivered over a number of regulatory years. DCC would also have to think more carefully about efficient cost allocation, in particular allocation of internal resources, which could help drive cost stabilisation.
- 2.13 A multiannual process could be less burdensome depending on the quality of the initial Plan and DCC's forecasts, however, it will require introduction of uncertainty mechanisms to deal with risk and uncertainty. These mechanisms would allow for adjustments of DCC's Allowed Revenue in response to specific predefined triggers or conditions, combining the stability of *ex-ante* regulation with the flexibility to handle unpredicted changes. However, as set out further in chapter 3, they can be administratively demanding to implement. The longer the cost control cycle, the less predictable some costs would become. Costs of change (eg new programmes, SEC mods) in particular would likely become less accurately forecastable and require potentially greater use of reopeners with impact on cost transparency and increased regulatory and resource burden.

Our view

- 2.14 **On balance, our current preferred option is Option B (multiannual approach).** In our assessment, a multiannual cycle would provide a better balance between driving improvements in cost transparency, customer engagement and regulatory burden, while managing uncertainty through appropriate uncertainty mechanisms and contingencies.

- 2.15 Our first proposal is therefore to introduce an obligation into the Successor Licence to require DCC to prepare and submit to Ofgem Price Control information no later than 31 July of the year preceding the first regulatory year of a set multiannual cost control cycle. The cost submission would comprise:
- Cost information submitted in line with Regulatory Instructions and Guidance (RIGs) provided by Ofgem. We will consult on a revised set of RIGs (data templates and associated guidance) in due course.
 - A costed Business Plan submitted in line with a Business Planning Guidance (BPG) provided by Ofgem. The purpose of the Business Plan would be to provide justification of DCC’s cost forecasts and set out how DCC will deliver its Mandatory Business in the upcoming cost control period. We will consult on the BPG separately in due course. Table in Appendix 2 provides a high-level overview of the BPG.
- 2.16 We present in chapter 6 our proposal for an initial two-year Business Plan to be prepared by DCC1 and to cover the period April 2026 to March 2028. Subject to that proposal, we therefore envisage the first Business Plan produced by the Successor Licensee under the enduring framework to be submitted by end-July 2027 and take effect from April 2028.
- 2.17 As laid out in chapter 6, we believe an initial two-yearly cycle would be suitable for implementation of the first Business Plan as it will enable the Successor Licensee to start operating on day 1 without a risk of disruptions and provide time to start its own engagement on the next Business Plan. However, we invite views on whether we should consider moving to a three-year cycle from April 2028. We recognise that a biennial cycle may still not provide a strong link to long-term strategy and that a two-year forecast may not give customers the level of cost certainty they would desire. A three-year cycle would help address these issues; however, as noted above, it might require repeated applications of uncertainty mechanisms as some costs will become hard to forecast three years in advance. We invite consultees to also consider our proposals in chapter 3 (Managing risk and uncertainty) when responding to this question.
- 2.18 If we continued to operate under two-yearly cycles, we believe the risk of a lack of long-term view could still be mitigated by preserving the existing obligation on DCC to set out its business development objectives for a five-year period in an annual Business Development Plan (BDP).²⁶ The BDP could continue to exist

²⁶ LC 14. The latest BDP can be found on DCC’s website here: www.smartdcc.co.uk/about-dcc/business-development-plan/

as a standalone document through which DCC would continue to update Ofgem, industry and the public on its business development, operations and strategic outlook, such as live and upcoming programmes and procurements or technology changes. Alternatively, the BDP could become a part of the DCC's costed Business Plan. The Plan would therefore consist of a five-year view of development objectives and a two-year detailed costed submission. Merging the documents could help reduce administrative burden on DCC and customers, particularly as both documents would be due on the same date and provide a consolidated view of DCC's business development for the purpose of both informing customers and public, as well as cost justification. We are interested in stakeholder views on the value of the annual BDP in its present form and whether the BDP and the Price Control Business Plan would benefit from consolidation.

3. Managing risks and uncertainty

Section summary

Upfront approval of DCC's Allowed Revenue would be based on forecast costs supported by justifications provided through DCC's Business Plan. We have identified and seek views on general requirements which we would need to see as part of DCC's Business Plan submission to determine efficient costs.

Once DCC's Business Plan has been approved, DCC will be expected to operate within the agreed cost envelope of its Allowed Revenue. However, DCC should be afforded a degree of flexibility to manage its budget. We seek views on a proposal to allow DCC flexibility in its resource costs and costs correlated with resourcing such that DCC can prioritise and redeploy its internal resources where they are most needed. Equally, however, we do not propose to introduce flexibility for External Costs due to risks of cost overruns.

In a multiannual cost control cycle, it is likely that DCC's Allowed Revenue will not perfectly match its forecasts. We are proposing and seeking views on a number of proposals to account for risks and uncertainty.

First, we propose that DCC should be allowed to recover from customers up to 2% over its annual Allowed Revenue to manage cashflows and small overspends. DCC would be able to apply for access to additional funding through an end-of-year reopener mechanism but would have to explain to Ofgem how it has managed its contingent funds and the circumstances, including any mitigating actions, which led to the drawdowns.

Secondly, we are considering options for the introduction of Uncertainty Mechanisms. We have identified and seek views on a list of factors which may impact DCC's costs after the approval of Business Plan. We propose to manage the impact of these factors via three types of Uncertainty Mechanisms:

- Automatic adjustment to account for Passthrough or volume sensitive costs agreed at the business planning stage
- An End-of-year reopener with a set application window at the of Q3, which would enable DCC's Allowed Revenue to be amended for the following Regulatory Year to account for new requirements, changes in assumptions or external factors
- An emergency reopener to account for external shocks

We propose to adopt a budgeting approach to the reopeners requiring DCC to apply for the additional revenue first before being allowed to increase charges to customers.

Consultation questions

- Q3. What are your views on the outlined general approach towards determining efficient forecast costs?
- Q4. What are your views on flexibility within DCC's Allowed Revenue? At what level should DCC be afforded flexibility to manage overspend/underspend?
- Q5. What are your views on our proposal to allow DCC to access working capital through a contingency set at 2% of its annual Allowed Revenue? Would this level of contingency be sufficient to manage risks to DCC's ability to finance its Mandatory Business? What are your views on the risk and benefits of cash v accruals-based reporting of Price Control information?
- Q6. What are your views on the proposed three types of Uncertainty Mechanisms?
- Q7. What are your views on the reopener process, criteria and risks? What are your views on the trade-off between allowing DCC a more flexible approach to receive additional Allowed Revenue?

Background

- 3.1 In a multiannual cost control cycle, it is likely that DCC's Allowed Revenue will not perfectly match its forecasts. For clarity, subject to our proposal in section A of chapter 4 (Not-for-profit arrangements for Authorised Business), DCC2 will operate on a not-for-profit basis without any Baseline Margin to account for the risk of cost disallowances. **A not-for-profit DCC will therefore have to recover all of its costs and no costs will be capable of being disallowed retrospectively.**
- 3.2 There are three broad scenarios which may occur:
- 3.3 **Scenario A: DCC underspends against its forecasts.** An underspend can either be against total Allowed Revenue or within a specific programme or even cost line. Firstly, we therefore discuss options for determining the right level of efficient costs and what flexibility ("fungibility") should exist in the Business Plan to allow DCC to manage potential underspends and overspends within the total allowance.
- 3.4 **Scenario B: DCC faces small amounts of overspend (up to 2-5% of annual Allowed Revenue),²⁷** either:

²⁷ We discuss the rationale for this range in section C (Contingency) of this chapter. 2-5% would equate to c.£12.75m-£31.87m in RY23/24 – calculated on the basis of DCC's RY23/24 Price Control reporting, with the submitted annual Allowed Revenue of £637.47m. See Ofgem (2024), DCC price control consultation: RY23/24. Appendix 3, Table A3.1.
www.ofgem.gov.uk/consultation/dcc-price-control-consultation-regulatory-year-2023-2024

- Temporary as a matter of cash flow management – for example where invoicing does not align to the recovery of charges; or
 - Permanent, for example where changes to assumptions require additional funding for an activity, but where the magnitude is low such that it would not be practical or proportionate for DCC to submit a reopener application for each such instance
- 3.5 Secondly, we therefore discuss options for dealing with small cost overruns and cashflow management.
- 3.6 **Scenario C: DCC faces the risk of significant overspend (over 2-5% of annual Allowed Revenue)**. Thirdly, we therefore discuss options for introduction of Uncertainty Mechanisms to deal with these factors, notably “reopeners”, or ways for DCC to apply to Ofgem for additional Allowed Revenue by amending (“reopening”) the Business Plan and cost control submission.

A. Determining efficient costs

- 3.7 Subject to our proposal under Q1 (chapter 2, section A), all costs will be subject to *ex-ante* reporting; therefore, going forward, it will be important to ensure that DCC’s Business Plan contains both accurate forecasts as well as appropriate justifications.
- 3.8 Although DCC currently reports its incurred costs *ex-post* (after the fact), as part of its annual Price Control submission, DCC is expected to include and justify forecast costs, too. Our guidance sets out the principles for updating forecasts.²⁸ In general, forecast costs should only contain economic and efficient costs and be significantly more likely than not to occur. This will continue to be the case in the *ex-ante* model. The burden of proof will remain on DCC to justify its costs. If no or insufficient justification is provided in support of forecast costs, such costs may be considered to be Unacceptable and be removed from the Allowed Revenue. We cannot assume costs are economic and efficient without evidence.²⁹
- 3.9 DCC’s forecasting has historically been inconsistent and varied significantly between the Price Control baseline and actual expenditure. We understand that

²⁸ Ofgem (2022), DCC Price Control Guidance: Processes and Procedures 2022, paragraphs 2.18-2.24. www.ofgem.gov.uk/publications/dcc-price-control-guidance-processes-and-procedures-2022

²⁹ Ofgem (2022), DCC Price Control Guidance: Processes and Procedures 2022, paragraph 2.60. www.ofgem.gov.uk/publications/dcc-price-control-guidance-processes-and-procedures-2022

DCC uses different forecasts for its Price Control reporting and for updating its Charging Statements:

- In its Price Control reporting, DCC only includes those forecast costs which are considered a “committed spend” (based on contracted terms). This forecast has historically been lower than DCC’s actual expenditure (incurred costs) and DCC’s Price Control justifications have focused on providing an explanation for this divergence.
- DCC has argued that its forecast which is used to provide customers with an advance view of the Charging Statements, has historically been closer to the true expenditure. In DCC’s view this is because it uses a full outturn forecast and includes uncertain costs which do not meet a Price Control reporting threshold.

3.10 We are of the view that DCC should be able to accurately forecast under the existing Price Control arrangements and forecasts can be allowed if sufficient evidence and justification are provided. We have observed that DCC’s Price Control submissions have been lacking in supporting evidence, which has led to forecast cost disallowances across both External and Internal Costs requiring DCC to justify those costs once incurred. Nevertheless, we have likewise observed inaccuracies in DCC’s Charging Statement forecasts which have historically over-forecasted DCC’s expenditure and led to over-recovery of funds from customers.³⁰

3.11 We do not propose to fundamentally change how we assess the economy and efficiency of DCC’s costs. We will continue to require appropriate evidence to approve forecast Allowed Revenue. However, as set out above, we propose to introduce the requirements on DCC’s forecasting through a bespoke Business Planning Guidance document which will include our updated Price Control Processes and Procedures guidance.

3.12 While we will consult on the Business Planning Guidance separately, we invite views on the type of evidence we should require from DCC to assess both Internal and External Costs. Table 3.1 below provides a basic overview of and distinction between DCC’s costs Internal and External Costs, as well as

³⁰ See our Consultation on proposals to modify arrangements for the Over-Recovery of Allowed Revenue [...]. www.ofgem.gov.uk/consultation/consultation-proposals-modify-arrangements-over-recovery-allowed-revenue-housekeeping-changes-licence-and-baseline-margin-indexation-change

Centralised Registration Service (Switching) Costs (which are reported as assessed separately),³¹ Shared Service Charge and Passthrough Costs.

Table 3.1 Overview of different types of DCC’s costs

Cost type	Internal Costs³²	External Costs³³
What they are	Costs that are incurred by DCC for the purposes of the provision of Mandatory Business Services	Costs incurred by procuring Fundamental Service Capability ³⁴ (External Service Provider contracts)
Magnitude (as per RY23/24)	c.£144m	c.£483m
Price control reporting	<p>All Internal Costs are reported by General Ledger codes: Payroll, Non-Payroll, Recruitment, Accommodation, External Services, Internal Services, Service Management, Transition, IT services, and Office Sundry.</p> <p>Internal Baseline Costs are further reported by a cost centre (function):</p> <ul style="list-style-type: none"> • Corporate Management • Commercial • Finance & People • Operations • Design & Assurance • Security • Service Delivery <p>DCC reports separately on Additional Baseline and New Scope costs.³⁵</p>	<p>There are currently 22 FSC contracts. DCC reports on each separately but they can be grouped into distinct programmes:</p> <ul style="list-style-type: none"> • SMETS2, which include the original contracts with the Data and Communication Service Providers • SMETS1 Enrolment and Adoption • Enduring Change of Supplier (ECoS) • 4G Comms Hubs & Networks • Test Automation Framework (TAF)

³¹ Centralised Registration Service Revenue is a separate term under the Price Control formula as per LC 36 Part C.

³² For more details see Ofgem (2024), DCC Price Control consultation: RY23/24, Appendix 2. www.ofgem.gov.uk/consultation/dcc-price-control-consultation-regulatory-year-2023-2024

³³ For more details see Ofgem (2024), DCC Price Control consultation: RY23/24, Chapter 3 (External Costs), Appendix 1.

³⁴ Defined in LC 16 Part J. FSC relates to provision of key data and communication services.

³⁵ Additional Baseline refers to any costs that are associated with requirements that the Licensee was expected to deliver at the time of the licence award but were not fully costed in the LABP. They include activities such as: Smart Metering Key Infrastructure (SMKI), Parsing and Correlation Service, SMETS1 and Enduring Change of Supplier (ECoS).

New Scope refers to 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.

Cost type	Centralised Registration Service	Shared Service Charge	Pass-through costs
What they are	Costs of delivering the Centralised Registration Service (Switching)	Overhead costs paid to DCC's shareholder	Payments made to the Authority (set at zero), Alt HAN Co and SECCo
Magnitude (as per RY23/24)	c.£15m	c.£11m	c.£30m
Price control reporting	Switching costs are reported separately but they are also broken down into Internal and External Costs	Reported against Internal Costs Until 31/03/2025 calculated at 9.5% of relevant Internal Costs ³⁶ From 01/04/2025 rate reduced to 4.5%	Reported as a line item in the RIGs templates

3.13 We assess External Costs every year based on DCC's reporting and justifications. DCC has to justify its External Costs as 'economic and efficient'. DCC typically does this by reporting and justifying material contractual variations agreed with its service providers – change requests (CRs) and project requests (PRs). Material CRs/PRs are understood as those with a 'life value' that exceeds £1m. DCC justifies these through a narrative submission linked to its quantitative reporting for each programme and supporting evidence (such as copies of Impacts Assessments) of the scope, drivers and approach to commercial negotiations to ensure value for money. We also require justifications for any non-PR/CR cost variations such as changes in operational costs and for any new costs (eg costs of newly procured contracts) including evidence of: drivers for procurement, DCC's approach to market (competition), negotiations with the selected service provider, the scope of services being provided and the overall value for money.

3.14 To be able to approve External Costs upfront, we have identified and seek views on the following general requirements which we would need to be provided with as part of DCC's Business Plan submission:

³⁶ See Ofgem (2024), Decision on [...] the rate of Shared Service Charge and Baseline Margin. www.ofgem.gov.uk/decision/decision-continuation-smart-meter-communication-licence-and-rate-shared-service-charge-and-baseline-margin

- Comparison against historic rates for all enduring costs with evidence of any variation in base charges. This would include evidence for any extensions of contractual terms or previously agreed amendments
- Details of all new procurements demonstrating customer engagement on scope and requirements, compliant approach to market, negotiations and resulting value for money proposition.
- For large new contracts, evidence that cost forecasts reflect DCC's Greenbook Business cases developed under (current) LC 16.6A-C
- Evidence of assumptions, dependencies and risks per contract
- Evidence of customer engagement on the requirements, scope and costs for contractual changes (CRs/PRs):
 - For SEC modifications, alignment to the costs approved under the SEC change process
 - For non-SEC, DCC-driven change, evidence of DCC's own engagement with customers and service providers, clear cost-benefit analysis and/or impact assessment and evidence of utilisation of contractual T&Cs to challenge costs and poor performance where costs are expended on account of service not meeting contractual or SEC requirements

3.15 We recognise that DCC will need to include costs which are uncertain and may not be "committed" (based on a signed contract) at the time of the Business Plan development. For these costs in particular, it will be important that DCC provide evidence of the most up to date relevant assumptions, dependencies and risks behind those costs. For example, where contract negotiations are underway, DCC should provide evidence of the most up to date version of a live business case (for procurement of a new contract) or an impact assessment/statement of work (for contractual amendments). It would be against this evidence that DCC would be asked to explain any change in circumstances in case it required additional Allowed Revenue.

3.16 Similar to External Costs, we likewise assess Internal Costs every year. DCC has to justify all of its Internal Costs, both resource and non-resource with clear evidence around resourcing, benchmarking and procurement of any professional services. To be able to assess Internal Costs upfront, we have identified and seek views on the following general requirements:

- For both resource and non-resource costs, evidence of benchmarking against the midpoint of market rates with a 10% tolerance level. This is in line with the current benchmarking methodology.

- Modelling and assumptions for the required level of resource (overheads as well as resourcing of each programme or internal function) and evidence of value for money provided by redeployment vs hiring of new permanent staff or utilisation of temporary contractor resource
- Customer engagement on the scope and gap/cost-benefit analysis of any planned internal transformation programmes or investments
- Evidence of a compliant approach to market for procurement of External Services, including evidence of a driver/needs case and customer engagement, negotiations on the scope of services required, and overall value for money to be delivered
- Evidence that delivery of any new functions in-house as opposed to through competitive procurement is demonstrably the most economic and efficient option

B. Business Plan fungibility & managing underspend/overspend

- 3.17 Once DCC's Business Plan has been approved, DCC will be expected to operate within the agreed cost envelope of its Allowed Revenue. However, DCC should be afforded a degree of flexibility to manage its budget. In a fully non-flexible (non-fungible) Business Case, DCC would be unable to deviate from the cost submitted for each line item of its submission. For example, it would mean that DCC could not effectively redeploy internal resources as this would appear as an unauthorised overspend in the area of redeployment. Equally, however, a fully flexible (fungible) Plan could create the risk of unauthorised expenditure or poor cost management being obscured by forecast inflation or diversion of funding from core services impacting performance across the business.
- 3.18 We have considered options for fungibility separately for External and Internal Costs.

External Costs

- 3.19 We propose and seek views on making External Costs fungible within either the same programme (**Option A**) or keeping External Costs non-fungible (**Option B**).
- 3.20 For clarity, by programmes, we mean a set of external contracts and supporting internal resources and functions delivering a distinct set of obligations and services. We have set out an overview of the current programmes in table 3.1

above and in table A1.1 of our latest BAU Price Control consultation.³⁷ However, we will consult separately on the proposed programme distinction and what External Costs each programme comprises, as part of our further consultation on the revised Regulatory Instructions and Guidance (RIGs) templates and guidance.

- 3.21 Option A would afford DCC flexibility to manage its Allowed Revenue at the programme level. It can be argued that the customer and end-consumer see no difference if the overall costs, and therefore charges, do not deviate from approved forecasts and DCC still delivers required service within a particular programme. A programme ringfencing would help mitigate the risk of cross-programme contagion in case of cost overruns.
- 3.22 On the other hand, in practice, DCC has very little or no ability to flex its External Costs in response to particular challenges. If one contract faces overruns, it is unlikely that it would be possible for DCC to actively reduce costs of another contract to balance out its Allowed Revenue. If efficiencies can be achieved on a contract, DCC should seek to drive those regardless of whether it faces challenges in managing another contract. In our view, fungibility in External Costs can only be accidental. If DCC happens to simultaneously underspend on a separate contract, there is a risk that the cost overruns remain hidden leading to a repeat and potentially greater overspend in future, which may not be offset by a concurrent underspend. For those reasons **our current preferred option is Option B** (no fungibility in External Costs). We seek your views on whether you agree with us or whether you consider that the risk and contractual barriers highlighted in Option B can be mitigated.

Internal Costs

- 3.23 As set out above, we are of the view that DCC should be able to at minimum manage its internal resources such that it can effectively prioritise and, where needed, redeploy its workforce. Unlike in the External Costs area, DCC can flex its resource to respond to any cost challenge as they arise. We have therefore considered fungibility across programmes.
- 3.24 DCC's Internal Costs include both resource and non-resource costs. **We propose to allow cross-programme fungibility for resource costs and costs correlated with resourcing** (including Payroll, Accommodation, and IT Services). However, we are concerned that a full fungibility would create the

³⁷ DCC Price Control consultation: RY23/24, Appendix 1. www.ofgem.gov.uk/consultation/dcc-price-control-consultation-regulatory-year-2023-2024

same risks as in the area of External Costs for non-resource costs, specifically External Services. External Services comprise third party contracts which do not meet the definition of Fundamental Service Capability.³⁸ In our view it would be unlikely that DCC would be able to flex these contracts as part of any redeployment of resource. We therefore propose to ringfence non-resource costs which are not directly linked to workforce deployment. We seek views on our proposal and whether there are other considerations which we should take into account.

Reconciliation

3.25 Where overspend occurs, we propose that DCC will either:

- Manage this by drawing on its contingency – described in Section C below, or
- Use an Uncertainty Mechanism (either via an Automatic Adjustment to charging for pre-agreed factors, such as for volume-sensitive costs, or, for the majority of factors, apply for a Reopener) – described in Section D

3.26 For clarity, DCC's charging should reflect the overall Allowed Revenue. Any underspend against the total Allowed Revenue should be returned to customers through adjustment to charges. Concurrent overspend or underspend in different areas of the Business Plan would eventually be offset against each other as part of the Charging Statement; our proposal is that DCC would not be permitted to make that adjustment without a control in the form of Contingency and Uncertainty Mechanisms.

C. Contingency

3.27 As set out above, in a multiannual cost control cycle, it is likely that DCC's Allowed Revenue will not perfectly align to its forecast costs. Also, as a not-for-profit entity, 100% of DCC's costs, including overspend and underspend, will need to be passed through to DCC's customers.

3.28 Funding is an essential part of the future enduring regulatory framework for DCC. Given that the Allowed Revenue will be set, *ex-ante*, for two years (subject to our proposal in chapter 6), it is important that it is sufficient to enable DCC to maintain operational performance and the funding of the business. The cost control framework will require a mechanism to:

³⁸ External Services account for c.£39.5m (as per RY23/24 Price Control reporting)

- First, mitigate risks to DCC’s cash position. This is because DCC’s monthly incoming and outgoings are not perfectly aligned to the charges recovered by DCC in that month. For example, DCC may have to pay out a large invoice to a service provider on account of a milestone delivery. While the incomings and outgoings should balance out over time, DCC may require access to working capital to mitigate any temporary cash shortfall.
- Second, account for minor overruns above the approved Allowed Revenue where it would not be practical and proportionate to reopen the Business Plan.

3.29 Equally, however, it is important that in shaping up the future funding arrangements, consideration is given to ensuring that customers’ cash is not unduly accrued and used as a working capital. This is in line with Ofgem’s recent policy development for the retail market.³⁹

3.30 Under the existing arrangements, DCC’s costs are charged to customers and price volatilities are smoothed by the ability to raise debt. To account for variations to expenditure, DCC can reopen its charging statement in-year.⁴⁰ DCC recovers extra charges (“prudent estimate”) to cover for unforeseen expenditure and therefore to avoid the need to raise DCC charges in year. At present, a prudent estimate is set by DCC at the equivalent of 3 weeks of the annual internal and external costs. This is enabled by the current arrangements under which DCC is able to over-recover up to 5% of its Allowed Revenue without having to trigger a penalty interest rate direction (which requires DCC to justify why it could not have reasonably foreseen the over-recovered funds).⁴¹

Options analysis

3.31 We have proposed and seek views on three options to ensure that the funding arrangements are adequately managed in the enduring regulatory framework.

3.32 **Option A: flexible charging to customers.** Under this option, DCC would have the option to adjust customers’ charges through amendments to its charging statement more than once within a year (up to a monthly basis) to ensure that it always has the required funding. This option has the advantage of not requiring a contingency or not having to holding on to customers’ funds longer than necessary. However, some key risks associated with this option are:

³⁹ Ofgem (20210, Action plan on retail financial resilience. <https://www.ofgem.gov.uk/call-for-input/action-plan-retail-financial-resilience>

⁴⁰ LC 49 Part D

⁴¹ LC 36.20(a)

- Variability of charges would create uncertainty among DCC customers, impending on their ability to budget. This risk could be partially mitigated by placing a restriction on the number of times DCC could vary its charging statement in a year and the application of existing requirements on DCC to provide an explanation to Ofgem.⁴²
- Without an *ex-post* review, and the ability to disallow costs not incurred economically and efficiently, giving DCC the flexibility to recover cost overruns from customers without further controls could create the perception of a lack of control or lead to further overspends.

3.33 **Option B1: maintain existing mechanism allowing DCC to over-recover a “surplus” in excess of approved annual Allowed Revenue.** Under this option, DCC would be allowed to recover a surplus of up to 5% of its Allowed Revenue (aligned to the over-recovery threshold arrangements under the existing Licence)⁴³ without having to come to Ofgem to reopen its Business Plan to amend the level of approved Allowed Revenue. DCC would reflect this over-recovery within its charging statement.

3.34 This option would help DCC mitigate pressures on its cashflow position and provide a degree of contingency against cost overruns. Compared to option A, it would give customers more stability as monthly charging would not vary to the same extent. The ability to draw on a 5% surplus⁴⁴ could also mitigate the risk to DCC’s cash position in case of a significant disparity between monthly incomings and outgoings, and, while it would not eliminate their need altogether, reduce the need for frequent reopeners.

3.35 However, similar to option A, there are inherent risks with this approach. As with option A, the lack of *ex-post* review means that these costs could be expended without control on whether they were incurred economically and efficiently. This could create the risk of a lack of prudential financial management where, in the knowledge that there is no risk of costs being disallowed, DCC recovers and spends the 5% surplus by default, without seeking to manage its Allowed Revenue, and presents Ofgem with a reopener application on the grounds of financial distress. This risk could be mitigated by a requirement on DCC, at the time of applying for a re-opener, to justify how it has managed the surplus, including how it has considered the use of non-

⁴² LC 19.11(a)

⁴³ LC 36.20(a)

⁴⁴ 5% of DCC’s annual Allowed Revenue corresponds to c.£31.87m (as of RY23/24)

ringfenced (“fungible”) revenue, in particular internal resource costs (as discussed in section B of this chapter), to offset some, or all, of the overspend.

- 3.36 **Option B2 (preferred): use of over-recovery (surplus) set at a lower level of 2% of the annual Allowed Revenue**⁴⁵ with two additional features:
- If required, DCC would be able to replenish the surplus for the second year of the cost control cycle as part of the re-opener process
 - A reopener application would have to include DCC’s explanation for how it has managed the surplus and the circumstances, including any mitigating actions, which led to the use of the contingency.
- 3.37 We initially considered whether it would be appropriate to set the surplus at 5% of the Allowed Revenue, in line with the existing over-recovery threshold arrangements, and sought views in our February 2024 workshop. We heard from stakeholders a concern that 5% of annual Allowed Revenue would be too large a sum to withhold from customers. Equally, we heard concerns about the lack of controls on the use of these funds. In analysing DCC’s reported monthly cash balances in RY23/24, we observed that both the average and the median difference between monthly incomings and outgoings are equivalent to less than 1% of the Allowed Revenue for that year. We are however cognisant that throughout the year there might be specific months with a greater shortfall. While we would expect that higher incomings in preceding months would help DCC maintain a reasonable cash balance, to account for these extremities, we are proposing to set the surplus for managing cashflow variations at 2% of the Allowed Revenue. We welcome stakeholder views on this.
- 3.38 The disadvantage of this option is that there would not be any control over DCC using the available surplus, meaning that, by default, DCC might always spend the surplus in full. In order to mitigate this, we would require DCC to justify the use of the surplus at the time of a re-opener, with at risk a reduced re-opener allowance where DCC is unable to provide a satisfactory justification.

Our proposal

- 3.39 On balance, our current view is that option B2 would strike a balance between reasonable contingency and controls to prevent agreed forecasts being breached and to ensure DCC exercises prudent financial management. It would offer the benefit of a reopener to accommodate material increases in costs as a result of

⁴⁵ 2% of DCC’s annual Allowed Revenue corresponds to c.£12.75m (as of RY23/24)

unforeseen circumstances, as well as offer DCC the ability to manage its cashflows without significant risks of financial overruns.

- 3.40 We also consider that, comparably, this option contains the appropriate level of controls to ensure customers' funds is not accrued and withheld for longer than necessary. We invite stakeholder views on these options, their trade-offs, the level of proposed contingency and what controls may need to be in place.

Price control reporting

- 3.41 DCC's existing Price Control reporting in RIGs is carried out on a cash basis (*ie* reflecting when actual payments are received or made). This aligns with DCC's Charging Statement (cash which DCC needs to recover from its customers) but creates a disparity with when expenses occur. For example, when DCC progresses a change request with a service provider, DCC raises and justifies that contract amendment in the year in which it negotiated and signed the change but reports the costs on a cash-basis across future regulatory years. We are inviting views on whether it would be appropriate to move towards an accruals-based reporting for the *ex-ante* cost control.
- 3.42 Compared to the cash view, an accruals view could provide a better reflection of the costs incurred and forecasted and therefore potentially provide a better basis for evaluation of DCC's Business Plan. DCC would justify the scope and the cost of work needed to be delivered across the cost control cycle, regardless of when those costs are reflected in DCC's accounts. However, to maintain transparency of the cash-based reporting and alignment to the Charging Statements, DCC could be asked to include a net cash requirement in the accruals-based reporting to bridge any gap between the two views.
- 3.43 We welcome stakeholder views on these issues. We will consider matters relating to Price Control reporting further as part a consultation on revised RIGs templates and guidance.

D. Uncertainty Mechanisms

- 3.44 A range of factors can give rise to change in DCC's Allowed Revenue after the Business Plan approval. We have identified nine general factors set out in table 3.2. We are interested in stakeholder views on whether this captures the types of uncertainty DCC can face in an *ex-ante* form of cost control that may require an Uncertainty Mechanism to be used. We have provided some illustrative real-world examples.

Table 3.2. Factors which may impact DCC’s costs after BP approval

Factor	Examples
Implementation of industry code change – materialisation of costs which were <u>not known</u> at the Business Planning stage	Costs of code modifications which were not known at the time of business planning, in particular code changes beyond the first year on the cost control cycle
Award or an extension of a contract - materialisation of costs which were in part <u>not sufficiently certain</u> at the Business Planning stage	DCC finalises contract procurement which was at a negotiation stage at the time of BP approval and the final costs vary to the business case rough order of magnitude or to DCC’s estimates (in the case of smaller contracts not subject to the business case process under LC16.6A-C).
Changes in assumptions on account of new customer requirements <u>not known</u> at the Business Planning stage	Larger volumes of comms hubs orders Network demand growth where an increase in the traffic (number of messages) on DCC’s network is correlated with the increase in charges DCC has to pay to its External Service Providers Enhancement of Service Level Agreements in an External Service Provider contract <i>NB, we would expect changes in customer requirements with impact on DCC’s contracts to be subject to code modification process</i>
Changes in assumptions on account of new technological requirements <u>not known</u> at the Business Planning stage	Software upgrade A tech refresh
Changes in assumptions on account of new regulatory requirements <u>not known</u> at the Business Planning stage	Inclusion of a new mandated service into DCC’s Licence Update to cybersecurity requirements <i>NB, we would expect regulatory changes to be implemented via either a code or Licence modification</i>
Changes in assumptions during the design, build, test (DBT) phase of a new programme	Additional testing required prior to go-live date
Technical issues outside DCC’s control (where cost passthrough to customers is demonstrably the only or the most economic option)	Costs to remedy operational incidents

Factor	Examples
Impact of inflation	External Costs example: Application of contractual indexation and a corresponding increase in operational charges Internal Costs example: Increase in costs of professional services with impact on the cost of contractors hired by DCC
Impact of external factors on DCC’s operations/supply chains – “ <i>force majeure</i> ”	Insolvency, supply chain disruption Covid-19

3.45 Where a contingency of 2-5% of annual Allowed Revenue, subject to our proposal in section C, would not suffice to address the impact of these factors, a different mechanism must be put in place to ensure that DCC can continue to deliver its Mandatory Business. We have therefore considered introducing a range of Uncertainty Mechanisms (UMs).

3.46 We have previously demonstrated that an analysis of DCC’s costs over 2024-2026 identified “costs to change” as the most susceptible to uncertainty.⁴⁶ We have considered how different types of costs may be subject to uncertainty and the types of factors which may impact those costs. Our view is presented in table 3.3 below. We are interested in stakeholder views on our assessment and whether we are missing elements of DCC’s costs which may be impacted, and what relevant factors may impact those costs.

⁴⁶ Ofgem (2023), DCC review: Phase 1 Decision. Table 5.1. www.ofgem.gov.uk/decision/dcc-review-phase-1-decision

Table 3.3 Assessment of which DCC’s costs are likely to face uncertainty

Type of cost	Reporting	Expected risk/uncertainty	Expected need for UM?
Corporate overheads - Internal Costs	Costs of the running the business including the following functions: <ul style="list-style-type: none"> • Finance • Commercial • People • Customer Experience • Regulatory and corporate affairs • Accommodation 	LOW – corporate overheads are within DCC’s control	NO - DCC should be able to manage these costs itself and absorb within the Business Plan
Costs to operate - External Costs	Operational/enduring charges	LOW – costs based on agreed contractual terms	YES for: <ul style="list-style-type: none"> • Impacts of inflation – indexation adjustment varies from contract to contract • Changes in assumptions on account of new customer requirements not known at the Business Planning stage • <i>Force majeure</i>
Costs to operate - External Costs	CRs/PRs not driven by SEC mods (DCC-led), eg for maintenance and expected technology refresh	MEDIUM – historically volatile, driven by technical changes, upgrades fixes. The magnitude is based on DCC’s ability to negotiate with External Service Providers with little or no customer engagement NB, On account of the limited customer engagement on these changes, subject to our proposals in chapter 5, these costs would become one of the focus areas for a customer challenge group	YES for: <ul style="list-style-type: none"> • Change in assumptions on account of new technological requirements not known at the Business Planning stage • Technical issues outside DCC’s control

Consultation - DCC review: Phase 2 – Process for determination of Allowed Revenue

Type of cost	Reporting	Expected risk/uncertainty	Expected need for UM?
Costs to operate – Internal Costs	Operational costs for the running of the Network and live programmes, including the following functions: <ul style="list-style-type: none"> • Operations • Service assurance • Contract/supplier management • Data and analytics • Security 	LOW – resourcing costs are within DCC’s control Some uncertainty may arise in potentially changing non-resource requirements	YES for: <ul style="list-style-type: none"> • Impacts of inflation • <i>Force majeure</i>
Costs to change – External Costs	Set-up costs of new contracts	HIGH – DBT phase of new programmes can be highly uncertain	YES for: <ul style="list-style-type: none"> • Award or an extension of a contract • Changes in assumptions in the design, build, test (DBT) phase of a new programme • New regulatory requirements
Costs to change – External Costs	SEC Release management - CRs/PRs driven by SEC mods	MEDIUM – while forecasts should reflect approved costs through the SEC change process, some uncertainty remains around unknown SEC mods in year 2 of the cost control cycle, and testing costs ⁴⁷	YES for: <ul style="list-style-type: none"> • Implementation of industry code change • New regulatory requirements
Costs to change – Internal Costs	Programme specific Internal Costs (for new programmes)	MEDIUM – DCC’s Internal Costs may respond to uncertainty in new programmes	YES for costs driven by new programme requirements and associated with the factors above

⁴⁷ In particular post-PIT testing activities and regression testing which are currently not part of the modification report approved by the SEC Change Board but determined as part of preparation for a Release of multiple modifications. For more information, see Ofgem (2024), DCC Price Control Consultation: RY23/24. 3.123-3.129. www.ofgem.gov.uk/consultation/dcc-price-control-consultation-regulatory-year-2023-2024

3.47 We have then considered which Uncertainty Mechanisms would be suitable to manage those factors. We have analysed Uncertainty Mechanisms used in other price controls, such as RIIO, and shortlisted the following:

- **Reopeners** – If predetermined criteria are met, the price control is “re-opened” within the period to decide whether additional allowances are required for a specific, preidentified activity
- **Volume drivers** - Adjusts allowances in line with the actual volume of work delivered where the unit cost is predictable but the volume during the price control period is uncertain
- **Pass-through** - Adjusts allowances for the actual costs incurred over which the company has no control and of which the full cost should be recoverable (eg in DCC’s case payments to SECCo and Alt HAN Co are considered Passthrough)
- **Indexation** – Provides companies with protection against the risk that outturn prices that are tracked through indexes differ from forecast prices when setting the price control (eg general inflation, energy prices, interest rates)
- **Use-it-or-lose-it allowance** – Allows cost recovery where need for the work has been identified but allowances are adjusted to reflect that nature and cost of the work is uncertain and avoid windfall gains

3.48 Having considered the factors potentially impacting DCC’s costs, we are proposing to introduce three types of UMs. In our view all of the factors we have identified can be addressed via these mechanisms, which we discuss in turn below.

Automatic adjustment

3.49 **First, we propose to introduce an Automatic adjustment mechanism** to account for:

- Agreed passthrough costs over which DCC has no control and which must be recovered in full
- Pre-agreed volume-sensitive costs where a unit price and a link to a specific factor can be determined.

3.50 DCC would be able to pass additional costs to customers through charges, eg existing Pass-through costs (SECCo, Alt HAN Co), but also volume-sensitive costs like comms hubs charges commensurate with the number of comms hubs

ordered, or, where DCC can demonstrate, any network charges which scale with the number of enrolled meters.

- 3.51 **Process:** DCC would be asked to identify both passthrough costs and volume sensitive costs in its Business Plan. DCC would submit evidence to justify:
- A regulatory obligation to incur these costs
 - That these costs are outside DCC's control
 - For volume-sensitive costs, the relevant factors, dependency and unit price impacted; forecast volumes for the duration of the cost control
- 3.52 If approved, DCC would be able to reflect changes in these costs directly in its Charging Statement, without additional requirement to ask for Ofgem's approval. This could happen either within a year if DCC reopens its Charging Statement or at the end of year 1 in preparation of the charging statement for year 2, which would reconcile any difference between forecast and outturn values. The benefit of this approach is streamlining and reduced regulatory burden on both DCC and Ofgem. There is a risk that if volume-drivers are not reported transparently, cost overruns are not further challenged by a potential reopener process. We are currently of the view that this can be mitigated by scrutiny of DCC's proposal by a customer challenge group (subject to our proposal in chapter 5).
- 3.53 We are interested in stakeholder views on the proposed mechanism and which factors could be considered for automatic adjustment.

End-of-year reopener

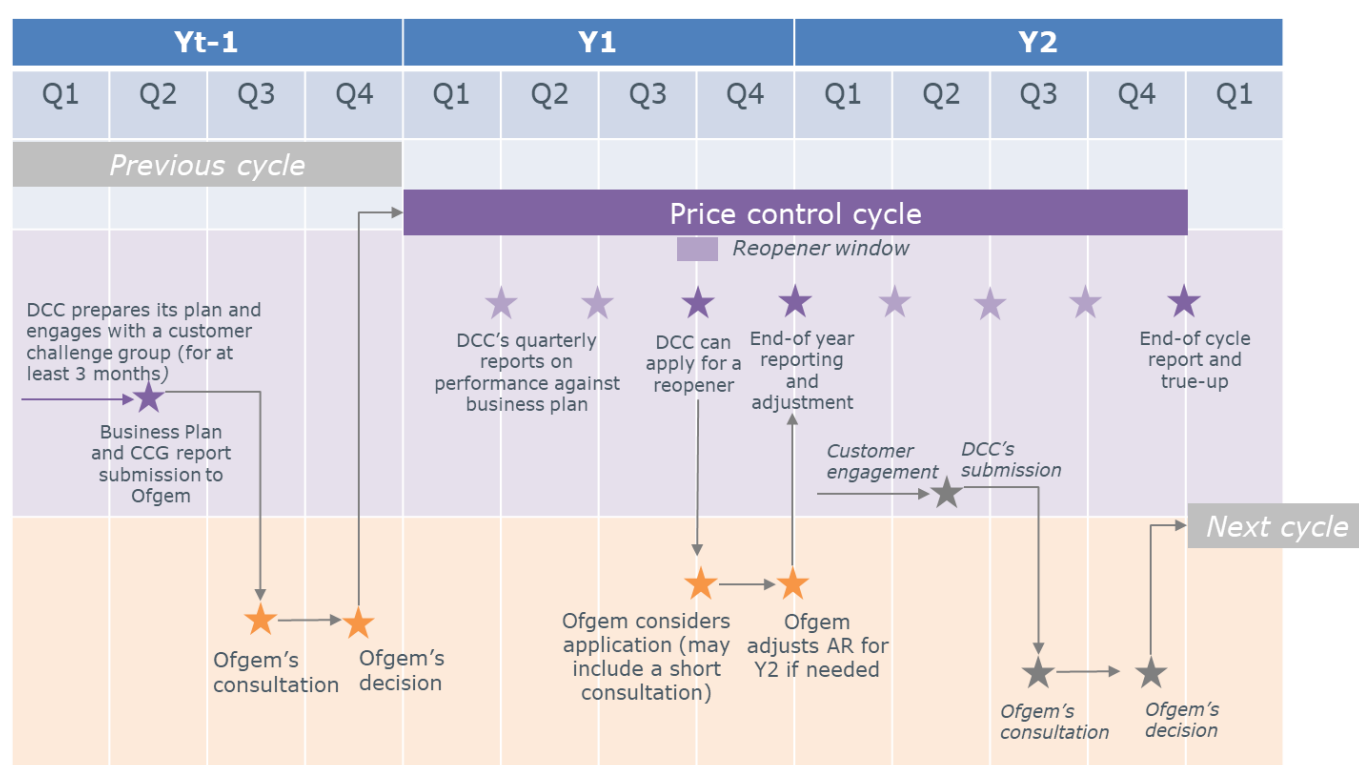
- 3.54 **Secondly, we propose to introduce an end-of-year reopener.** Of the factors identified in table 3.2 above, we have considered that a fixed end-of-year reopener could be used to account for the following:
- Implementation of industry code changes – inclusion of any unforecasted SEC mods for year 2
 - Award or an extension of a contract – adjustment to Allowed Revenue on the basis of a signed contract where the contracted costs differ from the BP stage
 - Changes in assumptions on account of new customer, technological or regulatory requirements not known at the BP stage – all non-SEC mod changes

- Changes in assumptions during the design, build, test (DBT) phase of a new programme, which can be explained against the assumptions detailed in the BP
 - Technical issues outside DCC's control
 - Impact of external factors on DCC's operations/supply chains, force majeure
- 3.55 A reopener mechanism effectively enables Ofgem to recalibrate Allowed Revenue where costs have arisen that could not be reasonably anticipated and ensures DCC can appropriately recover its costs. It provides protection against overspend and places an incentive on DCC to operate within the Allowed Revenue cap.
- 3.56 **Process:** DCC would be able to submit an application, setting out which circumstances or assumptions have changed and which areas of the Business Plan should be reopened and amended. DCC would submit an updated version of the RIGs templates with specific additional Allowed Revenue requested. Ofgem would follow a similar process in assessing whether the additional costs are economic and efficient and should be granted.
- 3.57 In line with RIIO precedent, we propose that the application would have to be submitted within a set window. There are two general approaches to reopeners – *budgeting* and *financing*.
- 3.58 Under a budgeting approach, DCC would not be allowed to charge its customers more than its AR (+ allowed contingency) until Ofgem has approved an application for additional AR. This provides a strong control on DCC's spend and prevents unauthorised spend but carries a risk of delay to delivery if activities need to be paused while DCC's application is being prepared and assessed. This can be mitigated by a prudent use of the contingency funding.
- 3.59 The consequence of this option is that a reopener window may have to occur at or around end of Q3 of Y1, such that Ofgem could assess DCC's application and make a direction to amend AR for Y2 by the end of Q4 of Y1. This would require a streamlined and efficient process followed by both DCC and Ofgem.
- 3.60 Under a financing approach, DCC would be able to access further working capital pending the assessment of its application. The main advantage of this approach is less time constraints as changes to the AR would not need to be directed by end Y1. However, in practice, this would create cost control risk. Given the retrospective nature of the reopener decision in this instance, even if Ofgem refuses DCC's application, it would be possible for DCC to have expended the working capital. Due to a lack of *ex-post* disallowance in the NFP model, these

costs could only be returned by reducing DCC’s AR in the next cost control cycle with the risk of impacting DCC’s other service.

3.61 **Proposal:** Our current preferred option is the **budgeting approach**, requiring DCC to apply for additional AR prior to varying customer charges above and beyond the AR approved at the business planning stage (+ contingency). Figure 3.1 below sets out an illustrative timeline of the main milestones including the reopener window. We invite views on these considerations and on the timeline implications.

Figure 3.1 Illustrative timeline of a two-year cost control cycle with a reopener window



Emergency reopener

3.62 Thirdly, we recognise that DCC may face circumstances where it would be detrimental to DCC’s services if DCC had to wait until the reopener window to apply for additional AR. In exceptional circumstances DCC may require a quick access to additional funding. We are therefore proposing to introduce an emergency reopener allowing DCC to submit an application at any point throughout the cost control period. This would be limited to: Impact of external factors on DCC’s operations/supply chains – *force majeure*

3.63 While we propose to also use the budgeting approach for this option (*ie* DCC would have to await Ofgem’s decision), Ofgem would be able to direct an

immediate change to AR if it deemed the circumstances critical. We recognise that there may be a risk of DCC relying to an emergency reopener too often, including due to insufficiently prudent management of its contingency. However, we have to balance this risk with the need to ensure business continuity. We welcome views on the controls that would need to be in place and the acceptable factors for this mechanism.

Dealing with inflation

3.64 A multiannual cycle will have to account for inflation. We have recently decided to move from RPI to CHPI index to measure inflation under the BAU Price Control.⁴⁸ We believe that our rationale continues to apply and we propose to continue with this approach in the Successor Licence.

3.65 We propose that DCC should account for inflation within its Business Plan. We recognise that inflation impacts different aspects of DCC's Mandatory Business. For example, we are aware that individual contracts have different indexation mechanisms. Equally, inflation impacts DCC's supply chain (for example in the cost of comms hub components impacting comms hub pricing)⁴⁹ and Internal Costs (costs of professional services, wages). We propose that, if DCC can provide evidence of contractual terms in respect of indexation, then inflationary impacts can be part of the automatic adjustment UM. For other inflationary impacts, requiring DCC's discretion (in particular as it pertains to Internal Costs), DCC should apply for adjustment as part of its annual reopener application.

Clarifications

3.66 For the avoidance of doubt, we are not suggesting that DCC itself would propose application of Uncertainty Mechanisms in its Business Plan (with the exception of volume drivers to be pre-approved) or that some costs would be excluded from the Business Plan with the view of future application of an UM. The basic principles behind our proposals are as follows:

- All costs should be forecasted and justified through DCC's Business Plan

⁴⁸ Ofgem (2023), Decision on [...] Baseline Margin Indexation change, chapter 4. www.ofgem.gov.uk/decision/decision-ofgem-proposals-modify-arrangements-over-recovery-allowed-revenue-housekeeping-changes-licence-and-baseline-margin-indexation-change

⁴⁹ DCC experienced increase in the cost of component parts within its comms hubs supply chain in 2021/22 which resulted in an intervention in the form of a temporary price support to the service provider. See Ofgem (2022), DCC Price Control consultation: RY21/22, 2.52-2.60. www.ofgem.gov.uk/consultation/dcc-price-control-consultation-regulatory-year-202122

- Costs which can be subject to automatic adjustment without the risk of unauthorised overspend should be pre-approved at the Business Plan stage
- DCC should be allowed to recover a modest surplus over its Allowed Revenue to manage cashflows and small overruns
- Where costs exceeded available contingency, DCC should be able to apply for a reopener to amend the Allowed Revenue
- A reopener application would be assessed against criteria set out in the Licence and associated guidance and approved if DCC meets those

3.67 In other price controls, to trigger a re-opener, a proposed adjustment has to exceed a certain threshold. For RIIO-2, for example, there is a threshold requirement that the adjustment required multiplied by the totex incentive mechanism rate exceeds 0.5% of the annual average *ex-ante* base revenue. We are not proposing to set a specific reopener threshold. Our proposed principle is that a reopener application would be submitted to seek adjustments to Allowed Revenue for Year 2 of the cost control period where DCC faces risk of overruns which cannot be managed through contingency and where DCC can justify that one or more of the outlined factors apply.

3.68 We have considered other UMs, such as use-it-or-lose-it, however, we did not identify any factors which would be suitably addressed by these mechanisms. We invite views on these.

4. Financial incentives

Section summary

We have previously concluded that DCC’s “Core Mandatory Business” should be provided on a not-for-profit basis. We are now proposing to extend our conclusion to the entirety of DCC’s Authorised Business, including any non-core service provision and Permitted Business. Consequently we propose to remove from the Successor Licence all aspects of Baseline Margin, which is currently applied on DCC’s Internal Costs. We are interested in whether stakeholders agree with us that DCC should be fully not-for-profit and what their views are on our proposal to retain the possibility of DCC carrying out Permitted (*ie* non-Mandatory) Business subject to customer support for inclusion of a ringfenced budget into DCC’s Business Plan.

The current framework includes External Contract Gain Share (ECGS) mechanism which allows DCC to retain a portion of savings achieved on its legacy contracts. We have considered the role of ECGS in a not-for-profit model and propose to remove the mechanism from the Successor Licence. We are interested in stakeholder views on options to drive efficiencies in External and Internal Costs and considerations to potentially include open-ended targets for External Costs and set stretch targets for Internal Costs in future Business Plans.

We have previously consulted on a range of reputational incentives and an introduction of a targeted financial incentive model for DCC’s senior management and staff driven by the Board’s Remuneration Committee via remuneration policy. We are now looking for views on concrete measures to be considered in any such model across the following areas:

- Customer satisfaction – using scores of customer satisfaction survey (subject to our proposal in our consultation on future governance arrangements)
- Performance and delivery – using DCC’s reporting against code (SEC and if relevant, REC) performance measures
- Business planning – assessing the quality of DCC’s submitted Business Plan
- Cost management – monitoring DCC’s delivery to its Business Plan and approved costs

For the avoidance of doubt, we are not proposing to change any existing financial incentives on DCC1, the current Licensee.

Consultation questions

- Q8. Do you agree with our proposal to require that all of DCC's Authorised should be carried out on a not for profit basis?
- Q9. What are your views on the proposal to allow DCC to apply for ringfenced funding to enable potential development of commercial or innovative services?
- Q10. Do you agree with our proposal to remove the ECGS mechanism from the Successor Licence? What are your views on considerations to introduce open ended or set stretch efficiency targets on DCC in respect of its External and Internal costs for a future cost control cycle? What other mechanisms or approaches could be effective to drive cost efficiencies?
- Q11. What are your views on the proposed measures to be considered as part of any targeted incentive model on senior managers and staff?

Background

- 4.1 DCC's current model is a for-profit, cost+ model with an *ex-post* price control. Financial incentives aimed at DCC's margin are the main drivers of good cost and performance management. DCC currently faces two main cost incentives:
- **Baseline Margin** – DCC is allowed to earn a BM of 15% (going down to 9% from 1st April 2025) on its Internal Costs. DCC is able to propose an adjustment to its BM through a BM Application under annual Price Control to reflect material change in its Mandatory Business
 - All of DCC's BM is placed against **performance incentives** – mainly OPR, but also *ad hoc* project incentives set by the Department of Energy and Net Zero
 - **External Contract Gain Share** (ECGS) – allows DCC to retain a portion of savings achieved on its legacy contracts, subject to Licence requirements to demonstrate how DCC contributed towards claimed savings
- 4.2 Under the existing Price Control arrangements, Ofgem can also remove from DCC's Allowed Revenue ("disallow") any costs deemed not to have been incurred economically and/or efficiently ("Unacceptable Costs"). This puts an incentive on DCC's shareholder to ensure DCC's Board manages costs well.
- 4.3 In Phase 1 of our review we concluded that at minimum DCC's "Core Mandatory Business" should operate on a not-for-profit basis.⁵⁰ We set out our rationale in our conclusions document. We explained that a not-for-profit model for the Core

⁵⁰ Ofgem (2023), DCC Review: Phase 1 Decision. <https://www.ofgem.gov.uk/decision/dcc-review-phase-1-decision>

Business would underpin the overall shift towards purpose-driven independent governance. It would also refocus away from a shareholder-led model with margin-based incentives towards a model where financial incentives perform an assurance role in respect of costs and performance and as such are targeted directly at the company, its senior management and staff.

- 4.4 We have considered further representations from industry on this matter, including in response to our consultation on future governance arrangements,⁵¹ and a workshop in October 2024 where we sought further views and evidence in the context of the process for selecting and appointing a Successor Licensee.
- 4.5 We have heard two main concerns in respect of not-for-profit arrangements:
- A not-for-profit Licence may be challenging to award in a competitive tender process
 - A not-for-profit Licensee may lack incentives to control costs and drive good performance
- 4.6 In respect of the first risk, we have commenced market engagement to understand the level of interest in the market among prospective bidders. In October, we published our decision to seek primary legislation changes to gain more flexibility in the appointment process such that we may be able to opt for an alternative process if a competitive tender no longer looked likely to yield a good outcome.⁵² This means that, subject to those powers being conferred by statute, we will have the flexibility to opt for the most suitable process, depending on the circumstances, and mitigate this risk.
- 4.7 In respect of incentives to manage costs and drive performance. We outlined in our governance consultation a range of options on incentivisation of DCC Board, executive leadership and key staff to drive performance.⁵³ Our proposals in this consultation set out further safeguards for cost control.
- 4.8 In this chapter we present our proposals and seek views on not-for-profit arrangements for the entirety of DCC's Authorised Business, the removal of Baseline Margin from the Successor Licence and the Allowed Revenue formula,

⁵¹ Ofgem (2024), DCC Review Phase 2: Governance and Centralised Registration Service arrangements. www.ofgem.gov.uk/consultation/dcc-review-phase-2-governance-and-centralised-registration-service-arrangements

⁵² Ofgem (2024), DCC review: Process for appointing the Successor Smart Meter Communication Licence holder - conclusions and next steps. www.ofgem.gov.uk/decision/dcc-review-process-appointing-successor-smart-meter-communication-licence-holder-conclusions-and-next-steps

⁵³ Ofgem (2024), DCC Review Phase 2: Governance and Centralised Registration Service arrangements, chapter 4.

driving cost efficiency and the role of the External Contract Gain Share (ECGS) mechanism, and finally the targeted financial incentive model.

A. Not-for-profit arrangements for Authorised Business

- 4.9 Our Phase 1 conclusion stated that DCC’s “Core Mandatory Business” would consist of services and activities which relate directly to ensuring the continued provision of a secure, reliable and efficient smart metering service, and whose scope is defined in the DCC Licence or the SEC. We gave our view that this would comprise Core Communication Services (currently defined in Appendix 4 of the SEC) and Enabling Services.⁵⁴
- 4.10 We further outlined the possibility of “Additional Mandatory Business” services which could include newly mandated services by the Government or Ofgem, Ancillary Services in agreement with customers, and additional user services driven by customer demand. Finally, we considered retention of Permitted Business, or exploration of the re-use of assets to potentially generate additional revenue. We did not specify whether these activities would be provided on a for profit or a not-for-profit basis.
- 4.11 **We are now proposing to extend our conclusion to the entirety of DCC’s Authorised Business**

Additional Mandatory Business

- 4.12 The retention of margin or other profit arrangements for Additional Mandatory Business services could allow the setting of bespoke incentives on new mandated business. For example, it would allow for the continuation of the current Switching performance regime or future introduction of incentives on a new type of activity.
- 4.13 However, the consequence of a part for-profit, part not-for-profit arrangement would be a risk of distraction away from the (not-for-profit) Core Business as DCC may unduly focus on the area(s) where it can earn profit. It would also indirectly create an inverted hierarchy within DCC’s Mandatory Business not reflecting Licence objectives and stakeholder priorities in terms of focus on delivery of the core service.
- 4.14 Although we are yet to confirm the scope of any non-core Mandatory Business, DCC’s Core Mandatory Business can be expected to be of much larger and significant scope. This means that any benefits of retained profit on non-core

⁵⁴ As defined in under LC 6 Part B and in the SEC, see especially Section H

activities would be marginal to either mitigate the risk to the tender process or to significantly influence behaviour.

- 4.15 Extension of the no-for-profit model to the whole of Authorised Business would mean the loss of the Baseline Margin incentive as its retention would be incompatible with a not-for-profit model. Without Baseline Margin, the Operational Performance Regime and BMPPA (project performance adjustment to the BM set by the government) would no longer be linked to margin at risk. However, as discussed in our governance consultation, performance incentives could still have a role to play in the form of reputational incentives and a link to the company's remuneration policy. The removal of Baseline Margin from the model would also translate into direct savings of over £10 million each year (based on RY23/24 Price Control reporting).
- 4.16 We seek stakeholder views on our proposals:
- To extend our previous conclusion that "Core Mandatory Business" should be provided on a not-for-profit basis to all of Mandatory Business
 - Remove Baseline Margin mechanism from the Successor Licence, including the removal of the Baseline Margin and Baseline Margin Performance Adjustment terms from the Allowed Revenue formula,⁵⁵ and the removal of Baseline Margin Adjustment⁵⁶ and Baseline Margin Performance Adjustment⁵⁷ conditions
- 4.17 For the avoidance of doubt, DCC1 will continue to be eligible for Baseline Margin at the rate of 9% (from April 2025)⁵⁸ so long as it continues to incur Internal Costs in connection with provision of Mandatory Business, *ie* until the Business Transfer Date. Equally, we do not propose to make changes to DCC1's incentive regime which will continue to apply in its current form until the Transfer Date.

Permitted Business

- 4.18 We previously said that we intend for the new framework to include provisions allowing the exploration of re-use of the DCC infrastructure. We said that we considered that, on balance, the overall potential benefits of reusing the

⁵⁵ LCs 35 (Definitions for the Price Control Conditions) and 36 (Determination of the Licensee's Allowed Revenue)

⁵⁶ LC 36, Appendices 1 and 2

⁵⁷ LC 38

⁵⁸ Ofgem (2024), Decision on [...] the rate of Shared Service Charge and Baseline Margin.

www.ofgem.gov.uk/decision/decision-continuation-smart-meter-communication-licence-and-rate-shared-service-charge-and-baseline-margin

infrastructure to offset costs to customers and consumers, and to drive innovation, outweigh the risks associated with inclusion of such a provision.⁵⁹

- 4.19 We identified the issue of funding as one of two prerequisites for enabling exploration of re-use. The source of funding determines the distribution of risks and benefits and has implications for deciding what type of re-use activity is pursued. Any potential investor would expect to have a say in how a Value-Added Service (VAS) is developed and then share in the proceeds. We have identified three options for funding:
- Funding through an allowance under cost control. This may be suitable for innovation and re-use for the benefit of the energy sector and potentially unlocking benefits beyond offsetting charges to users
 - Investment by DCC's shareholder
 - Investment by a third-party investor, potentially opening up the most possibilities including outside the energy sector
- 4.20 DCC's revenue comes from charges on DCC's users and the Licence prohibits cross-subsidy between Mandatory and Permitted Business, as well as between DCC's Authorised Business and any Affiliate or Related Undertaking.⁶⁰ This creates limitations on DCC to directly fund the development of VAS.
- 4.21 We do not propose to change this cross-subsidy restriction. In our view there is a significant risk that allowing DCC to earn profit on commercial re-use would lead to the Board focusing on such opportunities to the detriment of Mandatory Business which is to be provided on a not-for-profit basis.
- 4.22 We have also not seen any substantial evidence of viable VAS to be developed. While this alone is not a reason to conclude that these services could never be conceived, it suggests that the primary originally intended benefit of reducing charges to users is unlikely to be realised to any significant extent.
- 4.23 We therefore propose not to allow the Successor Licensee to earn profit on any re-use of assets or VAS. Nonetheless, we remain minded not to foreclose the possibility of any additional services being developed. To preserve the opportunity of re-use in the future, we propose to permit DCC to apply through its Business Plan submission for additional ringfenced revenue which could be used to develop new innovative propositions or to attract third party investors.

⁵⁹ Ofgem (2023), DCC Review: Phase 1 Decision, 4.62. www.ofgem.gov.uk/decision/dcc-review-phase-1-decision

⁶⁰ LC 11.4

The proceeds from any commercially viable services would flow back to DCC customers through adjustment to the Allowed Revenue formula and DCC's Charging Statement. Where third party investor co-funds their development, we would expect the proceeds to be shared fairly. It would be crucial for DCC to seek support for any such funding and exploratory activities from its customers.

- 4.24 We are interested in whether stakeholders agree with us that DCC should be fully not-for-profit and what their views are on our proposal to potentially enable funding of exploratory work by inclusion of the possibility of a ringfenced budget into the Business Plan. We will provide further details in our upcoming consultation on Future Role of DCC.

B. Driving cost efficiencies and the role of ECGS in a NFP model

- 4.25 Under the existing framework, the External Contract Gain Share (ECGS) functions as an upward adjustment to the Allowed Revenue for where DCC is able to secure cost savings in the Fundamental Service Provider (FSP) contracts; its scope is currently limited to the realisations of savings against External Costs.
- 4.26 Also, at present, any savings realised by DCC to the FSP contracts, are shared amongst DCC, its customers and where relevant, the respective service provider that is party to the FSP contract.
- 4.27 We have assessed the relevance of the ECGS, as a financial incentive, in the context of *an ex-ante* regime, and for a not-for-profit model, where the financial incentive will be removed (on a company level as a whole). We have also considered the options on whether or not to extend the scope of the existing ECGS to include the realisation of savings against all costs, including Internal Costs. We set out below our analysis of the different options.

Options analysis

External Costs

- 4.28 The first option we considered (**Option A**) is to **remove** the existing **ECGS mechanism** in its entirety from the cost control regime. The key rationale behind this option is:
- Firstly, as part of the Business Planning process, DCC will be expected to present costs which are economic and efficient. If savings can be realised, DCC should identify these opportunities within the Business Plan.
 - Secondly, to date, the ECGS has delivered savings in limited areas, mostly on account of reduction of interest rates and in-house provision of test labs

- 4.29 Nonetheless, we recognise that through the removal of the ECGS, an important cost reduction incentive may be lost which could potentially lead to a degree of institutional inertia in respect of seeking efficiencies. We are however of the view that this risk can be mitigated through a robust business planning process. Subject to our proposals in chapter 5 (Customer engagement), DCC’s draft Business Plan will come under the scrutiny of a customer challenge group, and subsequently to Ofgem and a public consultation. This process should provide assurance that the approved External Costs are robustly evidenced, and economic and efficient. A purpose-driven DCC would still be expected to deliver to the Plan and drive efficiencies as part of its exercise of a general objective to carry on Mandatory Business in way that is “most likely to ensure the development, operation, and maintenance of an efficient, economical, co-ordinated, and secure system for the provision of Mandatory Business Services”.⁶¹
- 4.30 An alternative option (**Option B**) would be to **maintain the ECGS as a cost sharing incentive**, but to adjust it, by introducing upfront efficiency targets which could be set at a service provider contract, programme or total External Costs level. These targets would be consulted on as part of the Business Plan and would be intended to provide an incentive for DCC to go above and beyond the Business Plan.
- 4.31 Under the Business Handover Plan requirements, the Successor Licensee will inherit DCC’s existing contracts.⁶² This means that from the Successor’s perspective, all contracts will be “legacy contracts”, meaning that the Successor Licensee will not have been a party to the negotiations. Upon review of the terms of the novated contracts, the Successor should form a view of where efficiencies could be achieved. Retention of an ECGS-type incentive could incentivise DCC2 to actively pursue those efficiencies, rather than delivering to existing terms. Nonetheless, whilst this option has the benefit of setting clear expectations in terms of the savings to be achieved, the determination of any targets to that effect, may be challenging and potentially regarded as unrealistic given the pre-agreed scope and costs associated with the FSP contracts.

⁶¹ The First Enduring General Objective, LC 5.9.

⁶² The Business Handover Plan (LC 43.14) requires DCC, where a Handover Period is in force under LC 43, to novate to a Successor Licensee its interest in each External Service Provider Contract to which it is a party, on terms that are substantially the same as those contained in the Deed of Novation set out in Schedule 2 of the Licence.

- 4.32 The third option that we considered (**Option C**) involves, similar to Option B, the **retention of the ECGS as a cost sharing incentive but without the introduction of specific efficiency targets**; considering the challenges of placing specific targets on the future Licensee on what would be considered legacy contracts (with a pre-agreed scope and cost), targets under this option would be open-ended. Because the targets would not be specified, there is the risk that DCC would adopt a more passive approach in respect of seeking and achieving cost efficiencies.
- 4.33 Any financial incentive would be placed on senior management or staff, as opposed to flowing to the shareholder. Under options B or C which would retain the ECGS mechanism in a modified form, a link could be created between employee/executive remuneration and the achievement of any stretch targets in one of two ways:
- **Option B1/C1:** A small portion of savings could be ringfenced and distributed among eligible employees in the form of a bonus or otherwise reinvested in the organisation for the benefit of the employees at the discretion of the Board. This option would create a direct connection between the achievement of savings and personal reward. However, this option carries the risk of creating a perverse incentive to either inflate forecasts at the Business Plan stage, or place disproportionate focus on cost cutting at the expense of quality of service.
 - **Option B2/C2:** The Board could set organisation-wide incentives tied to remuneration in respect of achieving set targets (Option B) or exceeding the Business Plan (Option C). Ofgem could enforce either option through a review of DCC's Remuneration policy (subject to our upcoming decision on the future governance arrangements).⁶³ This option could provide a more balanced approach where achievement of cost savings is balanced with other organisational objectives set by the Board.

Internal costs

- 4.34 There is currently no incentive placed on DCC in respect of Internal Costs efficiencies. Indeed, under the current arrangements, DCC is allowed to earn Baseline Margin on qualifying Internal Costs. We would expect that our proposals to remove Baseline Margin (chapter 4, section B), together with the

⁶³ For reference, see Ofgem (2024), DCC Review Phase 2: Governance and Centralised Registration Service arrangements, chapter 4, section C. www.ofgem.gov.uk/consultation/dcc-review-phase-2-governance-and-centralised-registration-service-arrangements

introduction of business planning requirements and customer challenge group (chapter 5), and proposed limitations on DCC's ability to apply for a reopener of Internal Costs within its control (chapter 3, section D) would together help drive efficiencies in Internal Costs. Both the Customer Challenge Group and Ofgem would have a role to play during the development and consultation of the Business Plan to ensure that Internal Costs are set at an economic and efficient level. No introduction of additional savings targets may therefore be necessary (**Option A**).

- 4.35 However, in analogy to the options above on External Costs, we have considered the options of extending an ECGS-type mechanism to the area of Internal Costs either with the inclusion of **set (Option B)** or **open-ended (Option C) efficiency targets**.
- 4.36 Under Option B, Ofgem could introduce a stretch target for a reduction in Internal Costs above and beyond the Business Plan forecasts. The target would be subject to the Business Plan consultation but we envisage that it could be in the range of 1-3% of annual Internal Costs.⁶⁴ Introducing a specific savings target would set clear expectations on reduction in a cost area where DCC has to date had an incentive to seek increases⁶⁵ and where DCC's customers and Ofgem have expressed concerns over economy and efficiency.⁶⁶ It could also help counter an inherent organisational tendency towards continuous internal growth which may exist in a not-for-profit model even in the absence of a Baseline Margin incentive.
- 4.37 Nonetheless, there is a risk that targets could be regarded as arbitrary if the costs included in the Business Plan were already approved as economic and efficient. Akin to risks inherent in targets on External Costs, there is a risk of overcorrecting and a misaligned focus on cost-cutting with negative consequences for DCC's ability to attract and retain talent.
- 4.38 Similar to equivalent option on External Costs, the option of an ECGS without specific efficiency targets (Option C) on Internal Costs, carries the risk that DCC would adopt a more passive approach in respect of seeking and achieving cost efficiencies. This option does eliminate the challenge (under Option A) of specific

⁶⁴ c.£1.4-4.3m taking into account DCC's reported Internal Costs in RY23/24. See Ofgem (2024), DCC Price Control consultation: RY23/24, table 1.1. www.ofgem.gov.uk/consultation/dcc-price-control-consultation-regulatory-year-2023-2024

⁶⁵ Through application for Additional Baseline Margin

⁶⁶ See for example, See Ofgem (2024), DCC Price Control consultation: RY23/24, Executive Summary. www.ofgem.gov.uk/consultation/dcc-price-control-consultation-regulatory-year-2023-2024

targets being set arbitrarily in the context of an approved Business Plan. The disadvantage of this option is that it places the onus of securing cost savings entirely on DCC, with no upwards nor downward pressure for securing such savings.

Our proposal

- 4.39 Taking into account the pros and cons of the options above, our current preferred option is Option A, *ie* the removal of ECGS for External Costs. Because costs will have been subject to firm challenges from Ofgem and industry as part of the Business Plan process, it is fair to assume that these costs will be economic and efficient. We are minded not to introduce any targets at least for the first price control cycle and Business Plan. However, we propose to keep this option open in the future. If we conclude that it would be appropriate to strengthen DCC's incentive to drive efficiencies in External Costs that go beyond the approved Business Plan forecast costs, we may consider the introduction of alternative options. Of the options we presented, given the benefits and risks we are currently of the view that Option C2 could be suitable for External Costs.
- 4.40 For the same reasons, we propose not to introduce an ECGS-type mechanism on Internal Costs during the first Business Plan cycle. We may similarly decide to reintroduce targets in the future if we consider it appropriate or necessary to place greater importance on driving efficiencies in DCC's Internal Costs. In this case, our view is that introducing set targets (Option B) would be more effective as Internal Costs are within DCC's controls and set targets would provide clarity to the management on the expected outcome. Our preferred way of enforcing these targets would be through objective setting and reflection within a balanced Remuneration policy, as opposed to a direct link to the amount of savings achieved, in order to avoid potential perverse incentives.

C. Targeted financial incentive model

- 4.41 Financial incentives are still capable of playing an important role in a regulatory regime where DCC operates on a not-for-profit basis. Instead of focusing on the shareholder's profit margin, the financial incentivisation can be tailored directly towards senior management and staff.
- 4.42 In our governance consultation we set out our intention to introduce a target incentive model as assurance of cost and performance by tying remuneration to

key performance indicators.⁶⁷ We proposed to require the Board’s Remuneration Committee to be fully independent (comprising only Sufficiently Independent Directors) and to have due regard to DCC’s performance against key performance indicators (which would in themselves serve as reputational incentives) when setting remuneration principles, targets and policies for executive directors and other key staff. We will give our conclusion on the implementation of this proposal in our upcoming decision document. Subject to this decision, we are seeking views on what relevant outcomes could be considered to provide strong assurance for performance and cost control.

4.43 We have considered:

- Areas subject to existing incentives – in particular system performance, customer engagement and contract management⁶⁸
- Stakeholder feedback to date, including concerns about the control of costs in a not-for-profit model
- The context of our proposed shift to an *ex-ante* cost control model. Two key factors are necessary for success of our *ex-ante* proposals: the Business Plan is of good quality and the cost forecasts are robust; and DCC is capable of managing its budget and delivering to the agreed Business Plan

4.44 On that basis we have shortlisted four areas of focus which we propose could become part of any targeted financial incentive model: Customer satisfaction; Performance and delivery; Business Planning; and Cost management.

4.45 We do not propose to include contract management, which is currently incentivised under the OPR, as a distinct area for two reasons:

- As per our governance consultation, we proposed to strengthen the contract management incentive from a regulatory perspective by imposing a requirement on DCC Board to reflect on the findings of the contract management audit and explain to Ofgem how it will act upon the findings and recommendations⁶⁹
- The outcomes of good contract management should be reflected in DCC’s delivery to its Business Plan and therefore subsume within the proposed cost management area

⁶⁷ Ofgem (2024), DCC Review Phase 2: Governance [...] arrangements, chapter 4, section C. www.ofgem.gov.uk/consultation/dcc-review-phase-2-governance-and-centralised-registration-service-arrangements

⁶⁸ Incentivised under the existing Operational Performance Regime (OPR). We have set out our proposal in respect of these in our governance consultation, chapter 4, section B. Ibid.

⁶⁹ Ibid, 4.22.

- 4.46 For clarity, as also explained in our governance consultation, our preferred method of implementation is via requirements on the Remuneration Committee of DCC's Board to consider these in setting remuneration policy, with a possible Ofgem power of review.
- 4.47 Table 4.1 below provides an overview of our proposed focus areas. We are interested to hear from consultees whether they agree that this list covers the most important areas or whether there are others we should consider.

Table 4.1: Overview of proposed measures subject to a target financial incentive model

What is measured?	How and by whom?	Where is it set out?	Proposed application from
1. Customer satisfaction using scores attained by DCC from a customer satisfaction survey ⁷⁰	Survey run at minimum every two regulatory years and be assured by a third party independent of Ofgem and DCC ⁷¹	Ofgem may publish a separate Incentives guidance document detailing the requirements on the areas which should be surveyed	First survey carried out by the Successor Licensee within the second regulatory year following the Business Transfer Date
2. Performance and delivery using DCC's reporting against code (SEC and if relevant, REC) ⁷² performance measures	Automatic self-assessment, based on DCC's monthly reporting to the SEC	SEC minimum and target SLAs	Business Transfer Date
3. Business planning by assessing the quality of DCC's submitted Business Plan	Assessed by Ofgem as part of its review and consultation on DCC's submitted BP, taking into account formal feedback (in the form of a written report) from the Customer Challenge Group ⁷³	BP guidance document will contain the requirements on the form and content of the Plan	DCC2's submission of its own first BP (subject to our proposals in this consultation, submitted to Ofgem in 2027 to take effect from April 2028)

⁷⁰ Subject to our proposal under chapter 4, Q11 in our "DCC Review Phase 2: Governance [...] arrangements" consultation. www.ofgem.gov.uk/consultation/dcc-review-phase-2-governance-and-centralised-registration-service-arrangements

⁷¹ Ibid.

⁷² In respect of service level agreements for the Centralised Registration Service (Switching) detailed in the REC

⁷³ Subject to our proposals in chapter 5

What is measured?	How and by whom?	Where is it set out?	Proposed application from
<p>4. Cost management by monitoring DCC’s delivery to its Business Plan and approved costs, including prudential financial management of allowed contingency</p>	<p>Partly self-assessed by quarterly reporting against the Business Plan forecasts⁷⁴</p> <p>Partly assessed by Ofgem under a potential reopener application. As set out above in chapter 3, section C (Contingency), we propose to require DCC to explain as part of any reopener application how it has managed its contingent surplus and the circumstances, including any mitigating actions, which led to the use of the contingency</p>	<p>The cost forecasts within the approved Business Plan</p>	<p>April 2027</p> <p>Subject to our proposals in this consultation, DCC2 would have the opportunity to apply for an end-of-year reopener and its leadership should be accountable for its delivery thereafter</p>

⁷⁴ Consulted on in DCC Review Phase 2: Governance [...] arrangements consultation, paragraph 4.26

5. Customer engagement

Section summary

In an *ex-ante* cost control framework and a not-for-profit model, customer engagement is crucial to ensure DCC's forecasts are transparently agreed upon ahead of costs being incurred. Having considered the existing forums and channels through which DCC engages its customers, we have identified gaps which mean that BAU processes may not be sufficient to ensure customers can effectively input into DCC's business planning. We are therefore proposing to create a Customer Challenge group ("the Group") under the SEC to have a role in the cost control process by providing feedback and challenge to DCC on its Business Plan.

We are seeking stakeholder views on the scope, membership, focus and outputs of the Group.

- We propose a core membership on a voluntary basis consisting of representatives of DCC's customers and consumers and a non-core membership of experts entitled to reasonable remuneration.
- We propose that DCC engages with DCC for at least 3 months prior to its Business Plan submission to Ofgem. The Group would scrutinise the contents of the Plan and provide constructive feedback to DCC on the scope, quality of evidence, customer engagement, assumptions and cost forecasts.
- We propose that the Group would provide a written report directly to Ofgem, setting out the Group's overall assessment of DCC's Business Plan and highlighting any areas of concerns or disagreement. Ofgem would draw on this report when undertaking its own review of DCC's submission.

Consultation Questions

Q12. Do you agree with our proposal to set up a customer challenge group under the SEC to have a role in the business planning process?

Q13. What are your views on the Group's membership? Do you agree with our outlined core and non-core membership model?

Q14. What are your view on the presented considerations for the scope, focus and responsibilities of the Group?

Q15. Do you agree with the proposed outputs of the Group?

Background

5.1 In an *ex-ante* cost control framework and a not-for-profit model, customer engagement is crucial to ensure DCC's forecasts are transparently agreed upon

ahead of costs being incurred. This is particularly important to limit the risk of overspends in a model with limited clawback options and to provide transparency and budgeting certainty to DCC's customers who are subject to DCC's charges as paying users.

5.2 At minimum, customers must be given a fair opportunity to:

- Give a view on the scope and requirements of the service they require from DCC and at what cost
- Have a holistic view of DCC's costs and strategy
- Ask questions, be able to challenge DCC on its assumptions and plans

5.3 Under the current model, DCC already engages with its customers through the SEC governance, own forums as well as other governance groups. Appendix 3 provides an overview of the engagement undertaken by DCC at present.

5.4 DCC engages with stakeholders primarily through the Smart Energy Code (SEC), its Panel and sub-committees where DCC reports on its operations, including own performance, supports the code modification process and delivery of change. This includes specialised technical topics such as testing or security. DCC also participates in industry groups such as the Industry Managers Forum (IMF) set up to help deliver the smart meter rollout. In terms of cost transparency, DCC's engagement in the smart metering governance includes delivery of impact assessments in support of the code change process. This process has historically not proved reliable to reveal the true cost of change due to costs post PIT testing activities being agreed after the approval of code modifications by the Change board.⁷⁵ DCC itself also progresses changes to its contracts which are not governed by the SEC change process. Although DCC is expected to ascertain the views of its customers to be able to justify costs as economic and efficient, this has not always been the case.⁷⁶

5.5 DCC follows a customer engagement process as part of its preparation of business plans for major procurements under LC 16.6A-C which currently requires DCC to seek a non-objection from the Secretary of State in respect of procurement of new contracts (with value above £10m). DCC follows the HMT Greenbook Business Case approach and its engagement with stakeholders seeks to establish business requirements and through an iterative process arrive at an

⁷⁵ We have commented on this issue in our latest price control consultation. See Ofgem (2024), DCC Price control consultation RY23/24, paragraphs 3.123-3.129.

www.ofgem.gov.uk/consultation/dcc-price-control-consultation-regulatory-year-2023-2024

⁷⁶ For example, in our RY23/24 price control consultation, we consulted on disallowing up to £3.424m in cost of change which had no customer engagement. Ibid, 3.52-3.61.

agreed scope and cost of services to be procured. While this process allows customers to input into DCC’s business case development, it likewise has its challenges in providing true transparency:

- Costs are not certain until DCC signs the contracts with external service providers. Even then, historically, costs of new programmes have also proved volatile after the contract signature; in particular during the design, build and test phase in the run up to the go-live date and transition to operations.
- Circumstances may change after DCC has concluded its engagement; this was revealed through the recent 4G Comms Hubs & Networks programme where DCC changed its approach late in the process and awarded two contracts directly to a selected service provider which meant costs were not truly tested in the market.⁷⁷
- Not all of DCC’s procurements (those with a value under £10m) fall under this process and particularly costs of “External Services”, which are classed as Internal Costs under the Price Control, are not revealed to customers although they amount to c.£39m in RY23/24.

5.6 DCC engages with customers during development of its Business and Development Plan (BDP)⁷⁸. The BDP is intended to explain the DCC’s business development objectives for a five-year period.⁷⁹ While DCC is required to “take all reasonable steps to ascertain and take account of the views of SEC Parties (in particular) or REC Parties (where applicable)” in relation to the content of the BDP, it is developed through business-as-usual engagement activities without a set formal process. The BDP is also not costed.

5.7 DCC engages with stakeholders through the Quarterly Finance Forum (QFF). The objective of the QFF is for DCC to provide updates to its customers on the costs that have been incurred since the previous charging statement, a breakdown of upcoming charges and an overview of the latest forecasts for the next 3 years. As part of the meeting, DCC also provides updates on current programs and business cases. The QFF is convened on a voluntary basis. While we recognise the value of the QFF in DCC’s engagement, we have heard from stakeholders

⁷⁷ For details, see Ofgem (2024) Price Control Decision RY22/23, 2.56-2.72.

www.ofgem.gov.uk/decision/dcc-price-control-decision-regulatory-year-2022-2023

⁷⁸ The latest BDP can be found here: www.smartdcc.co.uk/media/y15h53pd/dcc-business-and-development-plan-2024-25-vfinal.pdf

⁷⁹ LC 14

that the forum has historically not worked well as a two-way route for DCC and customers to holistically engage on service requirements and costs.

Options Analysis for Stakeholder Engagement

- 5.8 We have assessed ways of working in other sectors to identify options for engagement to support the shift to *ex-ante* business planning and cost control. In particular, we have considered energy (RIIO-1, RIIO-2 and FSNR), water (Ofwat’s PR19 and PR24) and aviation sector (CAA’s H7 review of Heathrow) to scope out regulatory precedents in other areas for stakeholder engagement approaches and scrutinising price controls.
- 5.9 We have developed a list of options based on these precedents, taking into consideration the current level of engagement DCC undertakes with its customers and the timelines we propose for DCC’s submission for its business plan from April 2026 to March 2028.
- 5.10 We have comparatively assessed the options to identify the most suitable role for stakeholders in the preparation and scrutiny of DCC’s business plan, as detailed below. We have assessed the options for stakeholder engagement against the below set of criteria to identify our preferred option:
- Dealing with cost uncertainty
 - Incentives to control or reduce costs
 - Incentives to deliver the right level of performance/quality of service
 - Transparency and stakeholder engagement
 - Regulatory and resource burden

Option A: Status Quo

- 5.11 This option would improve upon the existing forms of customer engagement. DCC would continue to be obligated to ascertain and take account of the views of SEC and REC parties on the contents of its Business Plan ahead of submission to the Authority. However, it would be up to DCC how it chooses to engage.
- 5.12 We understand that stakeholders are engaged throughout the year to help develop plans and identify priority areas. This includes (but is not limited to) using the following forums to discuss specific topics:
- Quarterly Finance Forum: a forum where DCC presents their financial forecasts and discuss key programme updates.
 - Operations Forum: Engagement forum with customers to discuss key aspects of service management

- Design Release Forum: Forum to engage with customers and encourage their input into a proposed design.
- 5.13 Other forms of BAU engagement (SMIP governance, SEC change process, engagement throughout business case development for major procurements) would also be preserved. However, for the reasons set out above in paragraphs 5.4-5.7, we are concerned that this option would:
- Not provide customers with a sufficient opportunity for a holistic review of DCC’s costs and plans as the established processes are piecemeal, focused on specific procurements or changes
 - Leave significant gaps in the visibility of certain costs without a clear understanding of how DCC would seek customers’ views; in particular DCC’s Internal Costs (both resource and non-resource) and cost of change not subject to the SEC modification process
- 5.14 Without a clear upfront discussion with customers, there is a risk that DCC’s business planning will not accurately reflect customer needs and expectations leading to mid-cycle changes and an increased risk of overspend. Equally, a dedicated process would allow DCC to communicate its assumptions and explain where uncertainties lie, such that it will be easier to assess changes in circumstances and adjust DCC’s Allowed Revenue on the basis of a reopener application.⁸⁰
- 5.15 For those reasons, we believe there is a case for establishing a bespoke mechanism.

Option B: Independent engagement group set up by DCC

- 5.16 Following the example of network price control, we have considered the option of introducing an independent engagement group akin to User/Customer Engagement Groups under RIIO-2 (independent company-specific group which works to represent interests of energy consumers).
- 5.17 This group would be set up by Ofgem or DCC, but would operate at arm’s length from both, to advise DCC during the development of its business plan. It would engage with stakeholders and consumer representatives to gather input and feedback to ensure that DCC’s Plan delivers the right outcomes. At the end of the process it would provide a written report which would be enclosed to the Plan’s submission to Ofgem.

⁸⁰ For details, see chapter 3 (Managing risk and uncertainty)

5.18 There are a number of advantages an independent group presents:

- **Diversity of thought and viewpoints:** The frequent rotation and opportunity for a wide range of members from different sectors, including consumer representation, would give DCC a variety of perspectives on its plans. The Group could identify new approaches, solutions and ideas which DCC or its customers may not otherwise consider.
- **Collegiality:** An independent group could adopt a more 'critical friend' role to DCC, allowing DCC to confidently test ideas and proposals in a safe environment. The Group could still assure DCC's customer engagement by asking DCC questions about how it has sought customer views on key aspects of its Plan, or carry out own stakeholder engagement, but its focus would be on alignment to principles and the scope and content of the Plan rather than on cost scrutiny.
- **Tried and tested model:** The use of independent customer engagement groups has been used in RIIO-2 to provide challenge on whether the network companies' business plans address consumer needs and interest.

5.19 However, there are also disadvantages to this approach, particularly in the context of DCC Price Control and filling the gaps which exist despite current processes.:

- **Reduced level of cost scrutiny:** Whilst an independent group could prove less adversarial, it may not provide an adequate level of scrutiny prior to and at the business plan submission stage, at the draft determination stage and on any potential reopener applications. In an *ex-ante* cost control framework and where the core mandatory business operates on a not-for-profit model, this level of scrutiny from customers will be crucial to ensure DCC's forecasts are transparently agreed upon ahead of costs being incurred.
- **Challenging timeline:** There would be a significant resource burden on DCC and its customers to set up the new regulatory and governance arrangements for an independent group. As a result, it would be highly unlikely that the Group would be established with a sufficient amount of time to scrutinise DCC's first Business Plan. Under our proposal detailed in chapter 6, the first Business Plan would cover the period from April 2026 to March 2028 and be submitted to Ofgem by October 2025.

Preferred Option C: Customer challenge group set up under the SEC

5.20 Thirdly we have considered the option to set up a customer challenge group under the Smart Energy Code (SEC) with a formal role to:

- Scrutinise and offer robust feedback and challenge to DCC's Business Plan, including the cost forecasts and underlying assumptions
- Provide a written report to Ofgem of the Group's views of the Plan and recommendations to be taken into account during Ofgem's assessment of DCC's submission – the report would highlight any areas of agreement and disagreement and how DCC has responded to the challenges raised during the process
- Provide a response to Ofgem's consultation on Allowed Revenue following analysis of DCC's submission
- Receive and comment on DCC's reopener applications against the approved Plan (should DCC choose to submit one)

5.21 The key benefits to this approach are as follows:

- A customer challenge group with a core membership derived from DCC's funding parties recognises the central role of customers in the cost control process. It will induce discussions between DCC and customers on the trade-offs between the scope of services to be procured and delivered and their cost. This would help **improve transparency on requirements for both DCC and industry.**
- It would allow **customer representatives to get a full picture of DCC's Plan.** This means that costs which are currently not discussed via other engagement could be challenged in the overall context of DCC's planning. This includes in particular Internal Costs and cost of change outside the SEC modification process.
- It can draw on existing governance processes and resources under the auspices of the SEC. The SEC is a self-governed industry code that defines the rights and obligations of parties involved in smart metering in Great Britain. Smart Energy Code Administrator and Secretariat (SECAS) provides advice and support to the SEC Panel and its sub-committees. SECAS also offers a helpdesk, guidance materials, and education seminars to help parties understand the SEC and their obligations. With SECAS support, it would be **comparatively easier and faster to set up** this group, **identify and appoint members and be ready to engage with DCC on its first Business Plan in 2025.**

5.22 Through our engagement to date we have also heard concerns about this approach. We have considered these alongside possible mitigations:

- **Lack of diversity of viewpoints:** Deriving the core membership from DCC customer base could mean limited rotation of individuals within the SEC committee roles and therefore a limitation on the diversity of viewpoints. Similarly, the outputs could be dominated by a small group of large incumbent customers exercising outsized influence. We believe this risk can be mitigated through membership requirements akin to other SEC sub-committees but balance would be key to prevent domination by one group. We set out our considerations in respect of membership below.
- **Unclear decision-making and accountability:** We have heard a concern that DCC's control over own plans and costs could be restricted if an agreement from the Group was required on the final Plan. This could compromise DCC's operational autonomy and the ability of DCC's Board to make effective decisions. The aim of the Challenge Group would be to enhance the quality of DCC's plan, not to undermine the role of DCC's Board. We believe this concern can be mitigated by clearly set out Terms of Reference. We would expect a dynamic iterative process of engagement between DCC and the Group to work such that DCC can receive feedback and address comments but maintaining responsibility for the final Plan submitted to Ofgem. DCC would not be bound by the Group's views; rather it would be expected to provide an explanation on issues where it did not reach agreement with the Group to which Ofgem may apply additional scrutiny.
- **Integrity of outputs:** The sub-committees and groups within the SEC currently work within an advisory capacity to the SEC Panel or have limited remit where they can make independent decisions of the SEC Panel. We are considering whether the Challenge Group should submit its written Report directly to Ofgem.
- **Confidentiality and sensitive information:** The Plan, and especially its costed part, will likely include market-sensitive information pertaining to DCC's contracts. The Group members would need to have access to this information to be able to scrutinise and comment on the Plan. This may create the risk of confidentiality breaches and therefore a need to keep confidential information safe. There is an established process already in place for handling documents discussed at the SEC Panel, which could be adopted by the Group.

- **Increased administrative burden on DCC and industry.** We recognise that this engagement process would require active participation from DCC and members of the Group. The members would have to be appointed from industry and DCC would need to make available representatives to join the Group’s meetings to present the Plan or respond to questions. However, administrative burden could be mitigated with help from the SECAS Secretariat which would provide comprehensive administrative and technical support. In terms of resource requirements, a good upfront engagement with customers could reduce the intensity of engagement between Ofgem and DCC at the consultation stage if DCC demonstrated that it has arrived at an agreement with customers.

Our view

- 5.23 Our current view is that Option C, a Customer Challenge Group set up under the SEC, would provide the best balance between formalising the role of customers in the cost control process with manageable regulatory burden. It would also be capable of being set up and engaging with DCC on its first Business Plan on our proposed timeline. Consequently, this is our proposed option.
- 5.24 For clarity, we recognise the possibility of having two groups: an independent group set up by DCC and a customer challenge group set up under the SEC. However, in our view this would be time-consuming and administratively burdensome. It is important to note that the role of the challenge group and Open Hearings have been removed from the framework for enhanced engagement for RIIO-3 on account of stakeholder feedback highlighting significant regulatory burden across companies and the regulator to set up and maintain these groups.⁸¹ As DCC is only one company, we don’t believe it would be proportionate to create multiple groups.
- 5.25 Below we set out in more detail some considerations on the Group’s membership, focus and outputs to inform the Terms of Reference for this Group which we would consult on separately.

Membership

- 5.26 To ensure diversity of opinion and expertise, we propose that the Group membership should consist of two groups of members – **core** (with prescribed minimal representation of DCC customers and consumers) and **non-core**

⁸¹ Ofgem, 2023, Future Systems and Network Regulation: Framework Decision Overview, www.ofgem.gov.uk/sites/default/files/2023-10/FSNR%20Overview%20Document%20Final.pdf

(additional experts invited at the discretion of the Chair). Table 5.1 below provides an overview of a possible composition. We invite stakeholder views on this membership structure, any associated risks and further considerations.

Set-up and role of the Chair

- 5.27 With the exception of mandated minimal representation from key stakeholder constituencies, we do not propose to prescribe detailed processes for establishing the Group. The Panel could have the flexibility to establish arrangements that work effectively. For the first Group to be formed, we would expect the SEC Panel to first appoint a Chair who would be required to act independently and deliver the mandate of the Group. The Chair could then work with the Panel to invite applications from individuals to serve as core members. Those individuals would have suitable experience and qualifications required to fulfil the duties. The Chair could have the discretion to invite independent non-core members to assist with the Group's work.
- 5.28 It is important that the Chair and members are, and are seen to be, independent from DCC, its parent and service providers, as well as from Ofgem. To build trust and legitimacy, including confidence in the integrity of the outputs, appropriate transparent governance arrangements would have to be put in place.
- 5.29 SECAS could provide necessary secretariat support for this Group such that members have access to the resources and technical and financial information they need to carry out the Group's mandate effectively.

Remuneration

- 5.30 We are interested in stakeholder views on remuneration. Assuming that the current engagement between DCC and its customers is undertaken on a voluntary basis, we would not currently propose remuneration for the core members of the Group.
- 5.31 However, non-core members, non-customer affiliated individual experts in specific fields, could be entitled to receive remuneration at a reasonable rate at the Panel's (or Chair's) discretion. This would be to ensure that a temporary position on the Group is suitably attractive to persons of sufficient calibre.

Table 5.1: Possible membership of the Group

Core members	Representation
Large Suppliers	At least three representatives
Small Suppliers	At least one representative, who may act on a rota basis
Network Operators	At least one representative, who may act on a rota basis
Consumer members	At least two members, with at least one representing vulnerable consumers
Other SEC Parties	At least one representative, who may act on a rota basis
Non-Core Members	Representation
Individual experts at the discretion of the Group	Up to three members at a time coming from various disciplines (regulatory finance and economics, banking, contract management, commercial, academia, legal, innovators) at the discretion of the Chair or Panel.

Focus of the Challenge Group

- 5.32 As set out in the background section of this chapter, DCC already engages with customers through a variety of forums, which are detailed in Appendix 3.
- 5.33 We do not envisage that the Group would be a substitute for, or duplication of, DCC’s wider stakeholder engagement; rather we would expect it to operate in parallel and complement the existing processes.
- 5.34 Taking into account feedback we have heard from DCC and industry, we have identified areas which would benefit from additional oversight and which we propose to be the primary focus of the Group. Equally, we would not expect the Group to re-run complex engagements such as those carried out by DCC in respect of major procurements. In general we would propose for the Group to consider:
- **Quality** - is the Business Plan of acceptable quality in line with the Business planning Guidance? Is it comprehensive with evidence and justifications? Is there a clear link to DCC’s objectives and wider strategy?
 - **Engagement** - has DCC sought views of its customers on all areas of spend? How have these been reflected?

- **Costs** - Is there clear justification for forecast spend? Are there areas where there isn't a clear regulatory/customer mandate? Are there areas where the costs don't align to what DCC had presented to customers?
- 5.35 With this in mind, we have identified the following suggested areas of focus for the Group which we would like to get stakeholder views on:
- The alignment of the Plan to DCC's Licence objectives
 - DCC's development objectives and the link to a longer term strategy
 - The stakeholder engagement DCC has undertaken to inform its Plan and how it has reflected the feedback it has received
 - Assurance that costs of major procurements and SEC changes are in line with the most up to date business cases and SEC modification documents
 - Scrutiny of drivers, assumptions and engagement on External Costs associated with change requests driven by factors other than SEC change process
 - DCC's assumptions for Internal Costs, both resource and non-resource.
 - Proposed outputs and associated forecast costs including the modelling assumptions behind all of the above costs and how the costs compare to historical levels, other companies, and other industries.
 - DCC's approach to managing risk and uncertainty, for example identification of volume sensitive costs or other customer dependencies
 - Reopener applications submitted by DCC during the cost control period
- 5.36 We would expect DCC and the Group to engage on the draft Plan for at least 3 months prior to DCC's submission to Ofgem.
- 5.37 We would also like to receive views on whether issues should be escalated to Ofgem in situations where there is disagreement either within the Group or between DCC and the Group during the engagement process prior to submission of the report, particularly if the disagreement delays the Group's ability to carry out its challenge function in respect of the draft Plan.

Outputs

- 5.38 We propose that the primary output of the Group would be an independent report on DCC's Business Plan. The Report would present a summary of the Group's assessment of the Plan, highlighting in particular any areas of concern where, in the opinion of the Group, the DCC's Plan may be weak or not properly justified.

- 5.39 Ofgem would draw on the Report’s findings and recommendation when carrying out its review of DCC’s submission.
- 5.40 We are considering whether the final report should be submitted directly to Ofgem to uphold the independent nature of the Group. We would expect DCC to publish both its plan and the report, if necessary suitably redacted, on its website.
- 5.41 During the regulatory year, the Group could also have a role in reviewing DCC’s application for reopeners within the cost control period. It could present to Ofgem a short summary of its recommendations as to whether Ofgem should approve the reopener, identifying specific areas or issues where costs have materially changed from the Business Plan. Ofgem would draw on this assessment when considering DCC’s application.
- 5.42 For clarity, we don’t propose for the Group to be a decision-making body. The assessment and determinations on the Business Plan and reopener applications would be for Ofgem to decide, taking into consideration all relevant information, including the outcomes of the stakeholder engagement.
- 5.43 We invite views on the proposed outputs of the Group; in particular the required contents of the Reports. We also ask for considerations as to whether the reports of the Group should be made publicly available.

Summary

- 5.44 Our current preferred option is Option C as believe that there are clear advantages in this Group being set up under the SEC. The Code Body already has the governance processes in place could help facilitate the Group’s set-up and proceedings in assessing, scrutinising and challenging the Business Plan, including the fort Plan. In addition, there would be less resource burden on DCC, Ofgem and Industry to set up the governance arrangements, including the membership, secretariat support and policies, which is crucial at a time of significant changes being undertaken within Industry.
- 5.45 We are keen to hear stakeholders’ views on our proposal and considerations in respect of the membership, focus and output of the Group, as well as on the risks and mitigations associated with this option.

6. Implementation of the first Business Plan

Section summary

We said that, where possible, we would consider bringing some changes early to drive the benefits of the new framework. We propose to require DCC1 to prepare and submit to us the first fully costed Business Plan to cover the period April 2026-March 2028. For DCC1 this Business Plan would cover the final year of its operations, including the Business Handover period. It would then serve as the basis for DCC2's budget. We are looking for views on the implementation timeline and considerations.

For clarity we are not proposing to change the existing *ex-post* Price Control obligations on DCC1, nor its incentive regime.

Consultation questions

Q16. What are your views on our proposed implementation approach, the requirements on the first Business Plan and the interaction with the current Price Control process?

6.1 We have considered three options for the implementation of the first *ex-ante* cycle and Business Plan:

- **Option A:** First Business Plan is prepared by DCC1 to cover period April 2026 to March 2028
- **Option B:** First Business Plan is prepared by DCC1 to cover period from Business Transfer Date to March 2028⁸²
- **Option C:** No requirement on DCC1. DCC2 is responsible for preparing its own Business Plan

6.2 **Our current preferred option is Option A.**

Rationale

6.3 We said that where possible we would look to introduce some changes during any extension to the current Licence Term to drive benefits of the new framework early and to help ease transition from one price control regime (and one Licensee) to another. In our view introducing a requirement on DCC1 to produce a Business Plan for period 2026-2028 would help achieve both by bringing forth several benefits:

⁸² Date at which the Successor Licensee becomes solely responsible for delivering Authorised Business, currently estimated to occur in Q4 2026, depending on the outcome of the appointment and business handover processes.

- It would start to drive improvements to DCC’s planning, forecasting and customer engagement within the remainder of the current Licence, all of which we have identified as priority areas through stakeholder feedback to date
- Upfront scrutiny and approval of forecasts would improve confidence in DCC’s costs over the critical Business Handover Period, which we currently expect to occur in Q2 and Q3 of 2026. Subject to DCC’s ability to deliver to the approved forecasts, this approach could also ease the burden within the final *ex-post* Price Control.⁸³ This is because DCC’s Price Control justifications are expected to focus on any material divergence from approved forecast – if DCC can deliver to the Business Plan forecasts, it can reduce the amount of variance to be justified.⁸⁴
- The Ofgem-approved Business Plan would serve as the basis for the first budget of the Successor Licensee, who will become solely responsible for the delivery of the Mandatory Business upon Business Transfer Date. An approved budget would allow the Successor to start operating on day 1, minimising risk of disruption, and allowing sufficient time to commence the preparation of its own Business Plan to take effect from April 2028.

Risks, challenges and implications

6.4 We recognise that there are risks associated with this option. First, implementation timeline: this option would require DCC, Ofgem and industry stakeholders to move at pace throughout 2025. Appendix 4 provides an illustrative implementation timeline with key dates and milestones:

- **Submission of DCC’s Plan to Ofgem by 30 September 2025:** For Ofgem to be able to carry out its analysis, consult and reach a decision on DCC’s Plan by March 2026, DCC1 would be required to submit its Business Plan no later than 30 September 2025.
- **Customer Challenge Group set up by June 2025:** Subject to our proposal in chapter 5, we would require DCC to engage on its draft Plan with a Customer Challenge Group for at least three months prior to its BP submission to Ofgem. This would require the Group to be set up and ready to receive DCC’s draft Plan by 1 July 2025.

⁸³ The last price control submission will happen after the Business Transfer Date. The BTD will mark the end-date of the final regulatory year of the current Licence for Price Control purposes.

⁸⁴ LC 37.6(a)

- 6.5 We are keen to hear stakeholder views on this proposed timeline, key risks and considerations.
- 6.6 Secondly, challenges arising from the Business Plan spanning both the current and the Successor Licence. To maintain clarity on expectations, we do not propose to change Price Control requirements on DCC1 but we would create a link between the approved Business Plan and DCC’s final Price Control.
- 6.7 After the Business Transfer Date, DCC1 will have to submit to us its final Price Control submission to justify costs incurred in RY26/27.⁸⁵ Under existing arrangements (LC 37 Part A), DCC must report, and explain, any material divergence from previously approved forecasts. We therefore propose that the relevant forecast against which DCC will be justifying its incurred costs will be the forecasts approved under the Business Plan. For the avoidance of doubt, this means that DCC1 will not be subject to the contingency and reopener mechanisms proposed in chapter 3. This is because all costs will continue to be subject to *ex-post* assessment and capable of being disallowed by Ofgem, which under our proposals, would not be possible for DCC2. In other words, DCC1 could deviate from the Business Plan forecast but would have to justify any divergence through its final Price Control submission and carry the risk of a disallowance.
- 6.8 Thirdly, reconciliation of the forecast Allowed Revenue between DCC1 and DCC2. We propose that the portion of the approved forecasts post-BTD would form the basis for DCC2’s initial budget. However, we recognise that DCC1 does not incur all of its costs uniformly. In other words, how do we determine what portion of the Business Plan forecast should be attributed to DCC1 and DCC2 if Business Transfer Date occurs mid-year? To determine the appropriate portion of Allowed Revenue between DCC1 and DCC2, we propose to:
- First, calculate the portion of Allowed Revenue on the basis of when the Business Transfer Date occurs within the regulatory year. For example, should the BTD occur on 1 October 2027 (exactly 6 months into RY26/27), the default portion of the approved forecasts against which DCC1 would report would be 50%.
 - Secondly, invite DCC to explain as part of its final submission where it deems the relevant forecast to be less or more than the calculated default portion. This may be for example on account of costs of a specific

⁸⁵ Lasting from 1 April 2026 to Business Transfer Date

contractual change being paid for before or after the BTD. We would not expect operational charges and Internal Costs to be affected.

- Thirdly, following the BTD, invite representation from the Successor Licensee (who will have gained access to all internal data and accounts) to our final *ex-post* Price Control consultation for DCC1. If the Successor provides evidence of an overspend by DCC1, we may require DCC1 to provide additional justification under the Price Control. Any unjustified costs would continue to be subject to a disallowance.
- Fourthly, as the Successor would only be able to operate with the residual Allowed Revenue for RY27/28, we would expect it to consider whether it requires to submit an application for a reopener to adjust the Allowed Revenue for Year 2 of the 2026-2028 cost control cycle in line with our proposals in chapter 3.

Implications

6.9 If we decided to proceed with this option, we would seek to make the Licence, and if necessary, code, modifications in the spring 2025. These Licence modifications would focus on:

- Introducing a requirement on DCC1 to prepare a costed Business Plan in accordance with a published BPG
- Introducing a requirement on DCC1 to engage with the Customer Challenge Group and seek its views on the draft Plan no later than 3 months prior to the Business plan submission to Ofgem
- Introducing a requirement on DCC1 to submit its Business Plan to Ofgem no later than 30th September 2025

6.10 We will also consider the optimal way to direct that an appropriate portion of the Business Plan forecast for RY26/27 be the relevant forecast for the purposes of the final Price Control submission under LC 37.6(a).

Counterfactuals – Options B and C

6.11 By shifting the effective date of the Business Plan to the BTD (Option B) would streamline the implementation process in regard to managing overlap between DCC1 and DCC2. It would also afford more time to DCC to develop the Plan, to customers to provide feedback and challenge, and to Ofgem to review, consult on and approve and provide DCC2 with approved operating allowance from day 1. However, there are two key issues with this approach for which reasons we do not propose to pursue this option:

- The date of the BTD will not be known until after the appointment of the Successor Licensee. It would therefore be challenging for DCC1 to prepare a costed plan from unknown date which is unlikely to be aligned to the start of a regulatory year
- There is a lack for incentive on DCC1 to provide a good quality Plan and forecasts if it is not required to deliver to that Plan for any period of time

6.12 Requiring the Successor Licensee to prepare its own Business Plan to take effect from the Business Transfer Date (Option C) would further streamline the process and ensure the Successor is not at risk of potential poor forecasting by its predecessor. However, this option likewise carries risks:

- For DCC2 to prepare its own Business Plan, it would require access to all of DCC1's data, including internal and confidential contractual information. This means that the process would have to start much later than under Options A or B (which can commence in Q1 2025) and likely lead to delays in the Business Handover.
- In addition, the Successor would be limited to its own resources until the transfer date. Developing a Business Plan prior to acquisition of DCC's resources under the Business Handover Plan would unlikely be economic. Since in-scope employees will be subject to transfer under TUPE regulations (as per DCC's Business Handover Plan),⁸⁶ it would be more practical for existing subject matter experts within DCC1 to help deliver the Business Plan after the transition to the Successor. This means that a budget for DCC2 will need to be in place in the interim.
- This option would also delay any benefits that could be achieved in the remainder of the current Licence Term through DCC1's engagement on the first Plan.

6.13 For those reasons we do not propose to pursue either Option B or C. We invite stakeholder views on this proposed implementation approach, our considerations and proposed timeline. In particular, we are keen to hear from industry stakeholders about the possibility to set up a customer challenge group by July 2025. Alongside this consultation we have published an invitation to a workshop to be held on 21 January 2025 where we would like to hear from stakeholders on this topic.

⁸⁶ Under LC 43

Clarifications

- 6.14 For the avoidance of doubt, we are not proposing to change the Price Control or incentive regime for DCC1. As set out above, DCC1 will continue to be subject to requirements to provide an *ex-post* justification of its incurred costs. DCC's existing incentives, including Baseline Margin and Baseline Margin Adjustment, External Contract Gain Share (ECGS) and all aspects of the Operational Performance Regime (OPR) will continue to apply for the remainder of the current Licence Term.
- 6.15 As part of the final Price Control following the BTD, we will also have to:
- Determine any amount of Unacceptable Costs to be removed from DCC1's Allowed Revenue
 - Determine the final amounts of the Baseline Margin and ECGS to be awarded
 - Determine the amount of over/under-recovery to be transferred to DCC2
- 6.16 We have commenced work to understand the specific implications of the Licence expiry on the *ex-post* Price Control mechanisms (for example, any additional Baseline Margin will have to be awarded up to RY26/27) and we will consult on any necessary changes separately.
- 6.17 Under any option, we plan to consult on amending the dates within the Licence relating to the submission of DCC's final Price Control to refer to the Business Transfer Date instead of 31 July. As the BTD is expected to occur earlier than the natural end of the RY (*ie* 31 March), we will propose to change the Price Control submission date to an earlier date, taking into account the end of the current Licence Term in September 2027 and the need to reach the final Price Control decision ahead of that expiry.

Appendices

Index

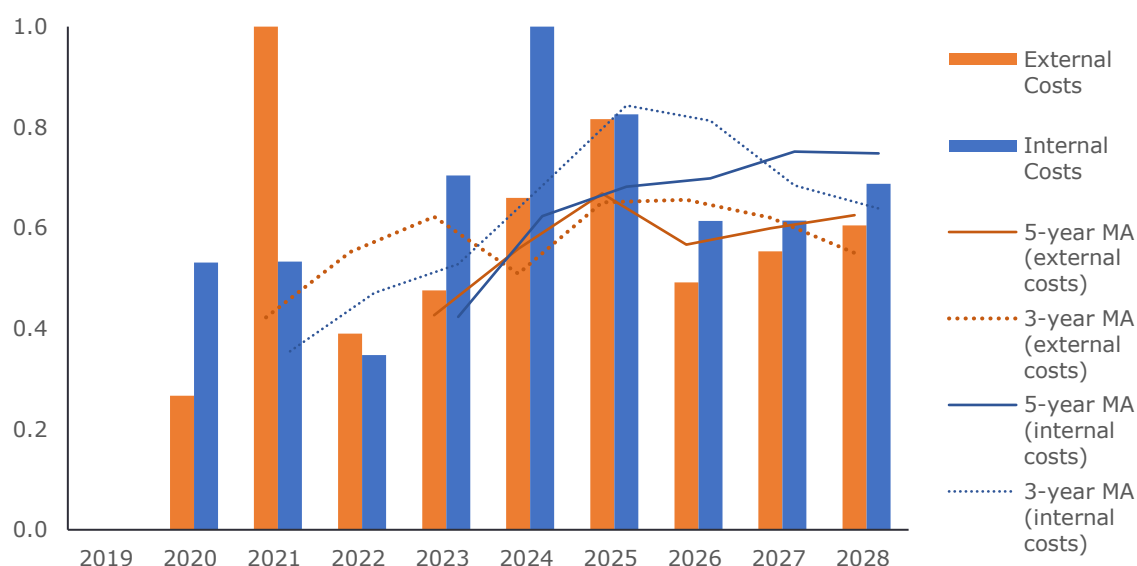
Appendix	Name of appendix	Page no.
1	Analysis of DCC's cost data	85
2	Proposed contents of the Business Planning Guidance	91
3	Overview of DCC's existing ways of customer engagement	92
4	Proposed timeline for implementation of the first Business Plan	94
5	Privacy notice on consultations	94

Appendix 1 – Analysis of DCC’s cost data


A1.1 We have analysed the actual costs, and the projections reported in the 2023/24 RY and have normalised the dataset to evaluate how External Costs, and Internal Costs have varied over time.⁸⁷ Our analysis covers 2019-2028.⁸⁸

A1.2 Figure A1.1 sets out normalised External and Internal Costs for the period 2019-2028. For both cost categories, 3- and 5-year moving averages have also been presented, indicating that following years of an increasing cost trend, costs are expected to stabilise or modestly decline from 2024 onwards.

Figure A1.1: DCC External and Internal Costs, normalised, 2019-2028



A1.3 Figure A1.1 shows that External Costs peaked in 2021, while Internal Costs peaked this year and are projected to decline in future. The moving averages show that DCC’s External and Internal Costs are stabilising over time and expected to remain stable for the remainder of the Licence term.

A1.4 Figures A1.2-7 below highlight costs for the DSP, CSPs, SMETS1 SPs, ECoS SPs, TAF SP, and 4G CH&N SPs. 

A1.5 Cost peaks for these programmes typically track with their respective design, build & test (DBT) phases, which often have higher costs. The figures show that costs stabilise after these periods, allowing for greater forecasting accuracy.

⁸⁷ We have used a min-max normalisation to compare External and Internal Costs. Min-max normalisation is a technique used to transform the values of a dataset into a common scale [0,1] meaning that the minimum and maximum values of the dataset will be 0 and 1, respectively.

⁸⁸ Costs for 2025 onward are forecasts provided by DCC as part of the RY23/24 Price Control.

A1.6 As these figures show, costs for some service providers and programmes (DSP, TAF) are expected to decrease steadily over time, while others (SMETS1, ECoS) are expected to rise steadily. CSP and 4G CH&N costs are expected to peak in the near-future and then remain stable.

Figure A1.2: DSP Costs, 2019-2028

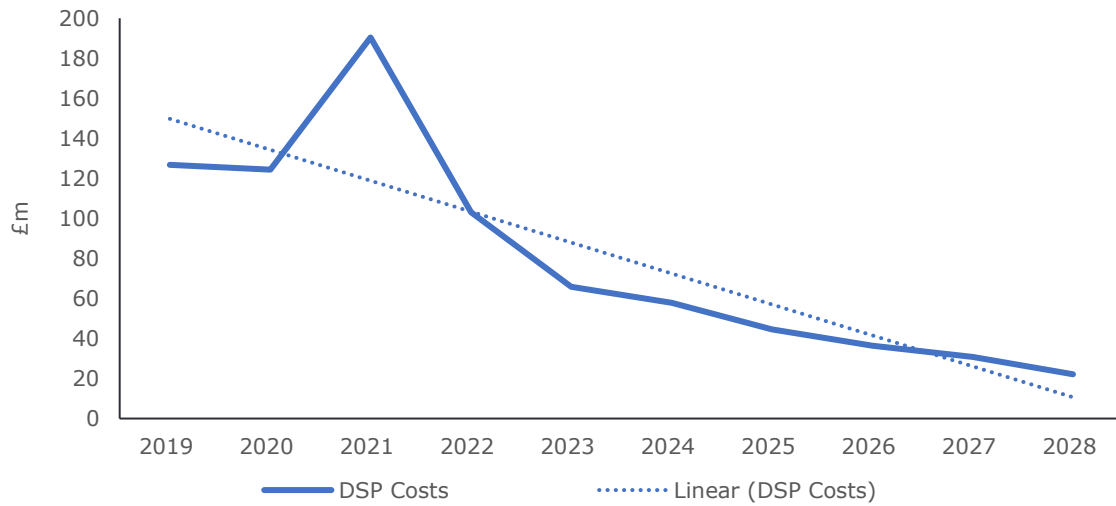


Figure A1.3: CSP Costs, 2019-2028

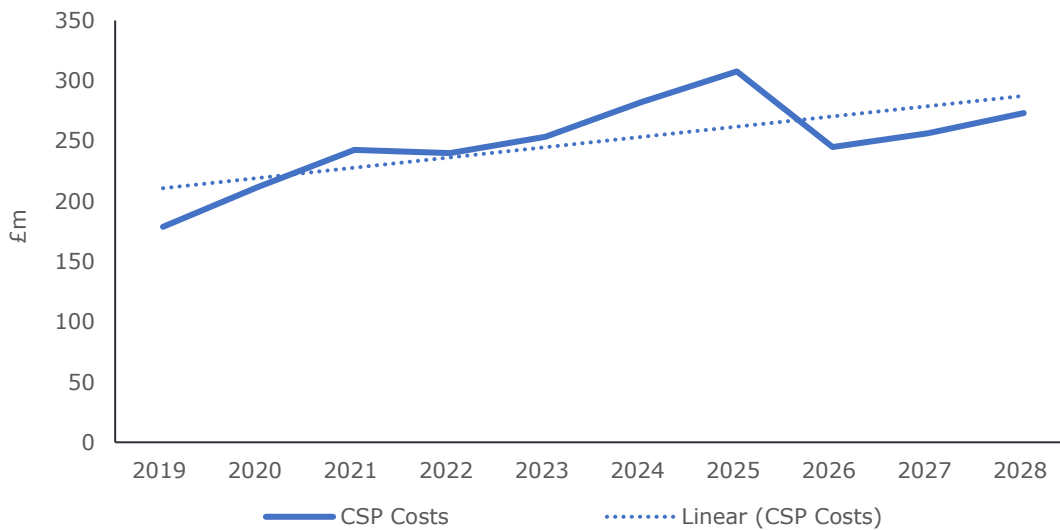


Figure A1.4: SMETS1 SP Costs, 2019-2028

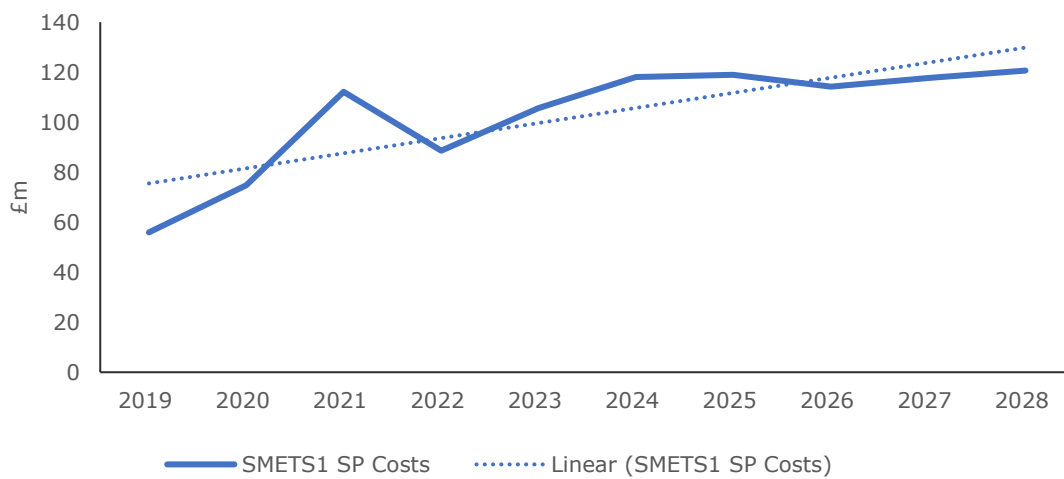


Figure A1.5: ECoS Costs, 2022-2018

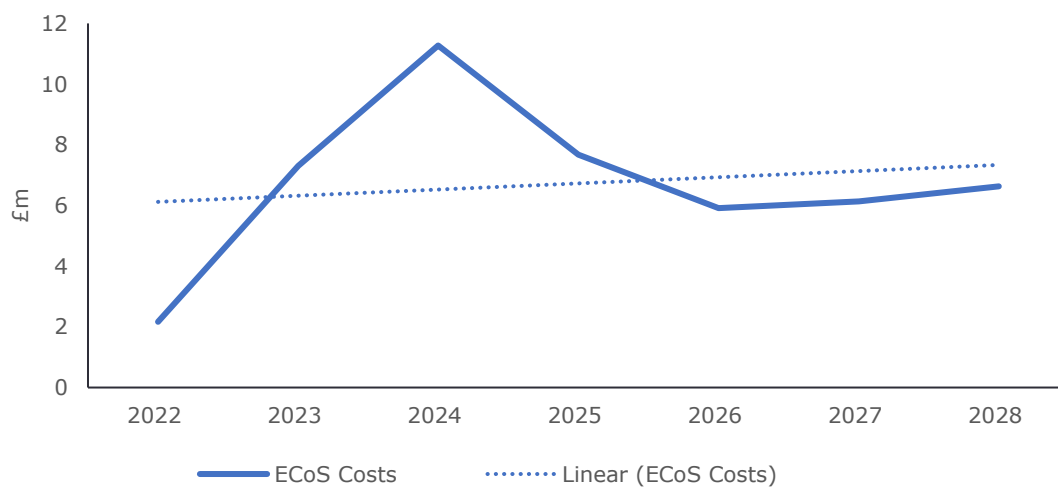


Figure A1.6: TAF Costs, 2023-2028

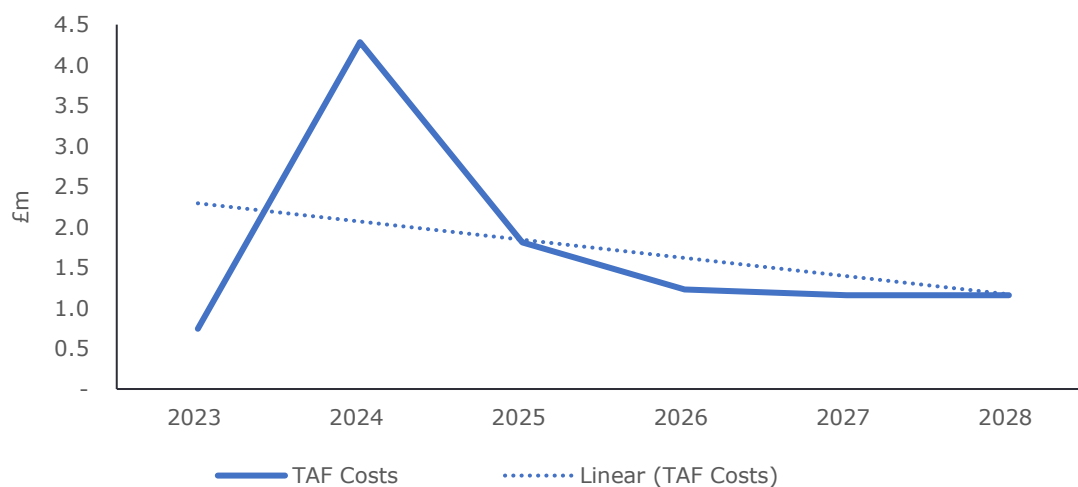
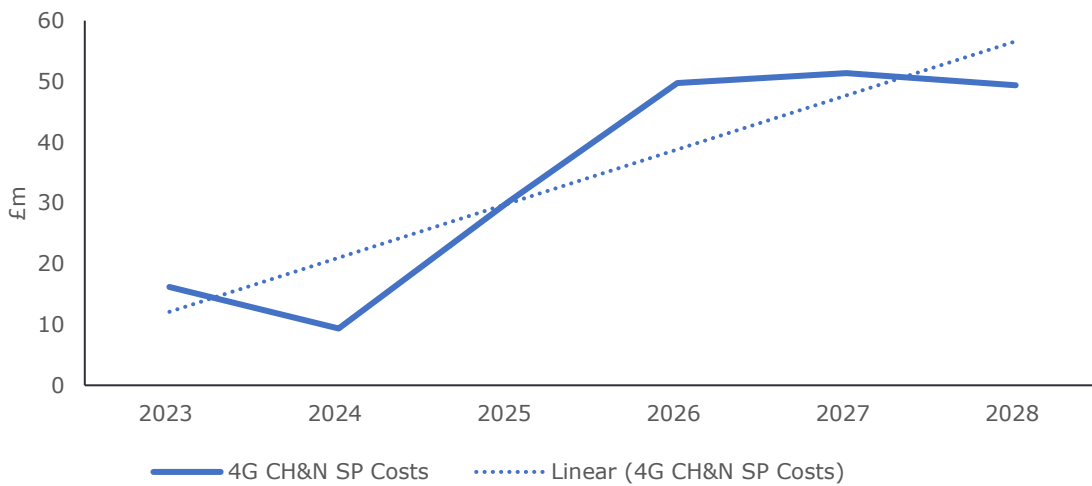
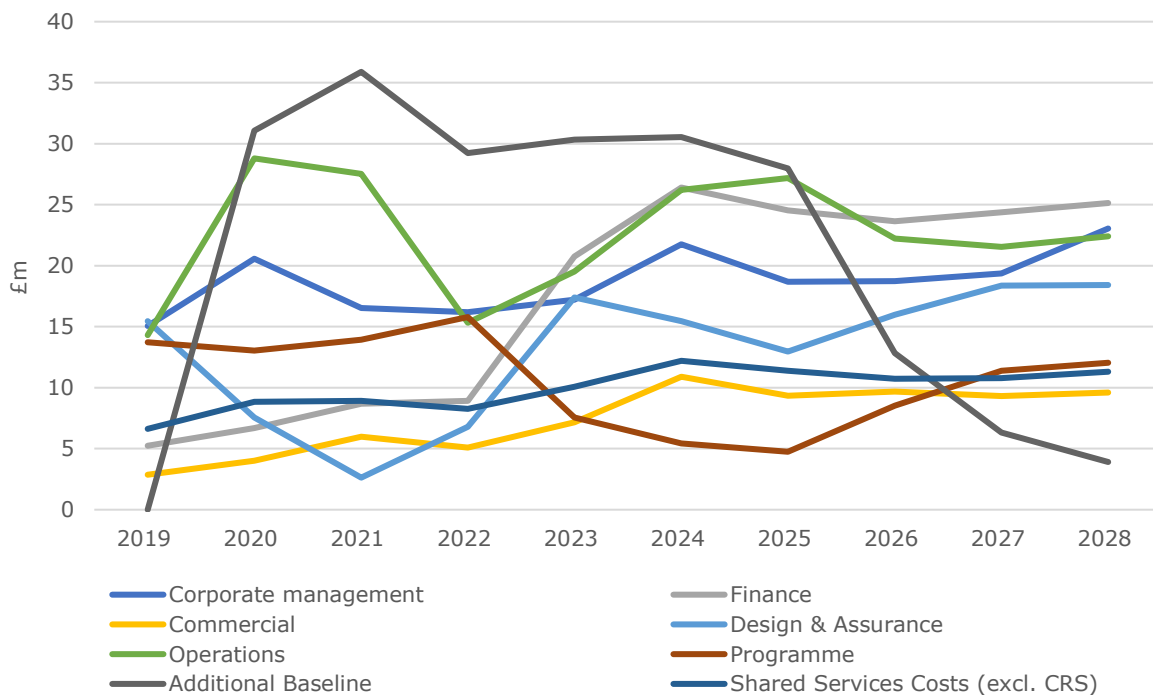


Figure A1.7: 4G CH&N Costs, 2023-2028



A1.7 Internal Costs show a similar trend towards stabilisation over the Licence term, shown in Figure A1.8 below.

Figure A1.8: Internal Costs by cost centre, 2019-2028⁸⁹



A1.8 To assess the cost uncertainty of each cost area (cost centres for Internal Costs and programmes for External Costs), we have considered how cost areas are spread around their arithmetic mean. We have calculated the arithmetic mean and standard

⁸⁹ Cost centres representing <5% of DCC’s Internal Costs in 2024 have been removed from the analysis.

deviation of each cost area. The further away the data is from its arithmetic mean, the greater the deviation, and thus the greater uncertainty there is over future values.

Figure A1.9: Standard deviation of External Costs by programme, 2019-2028

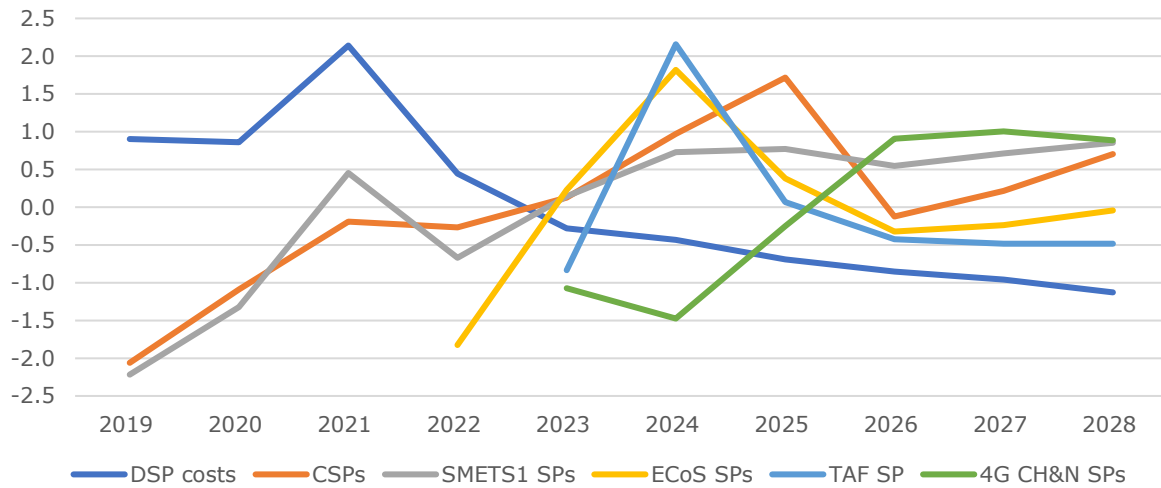
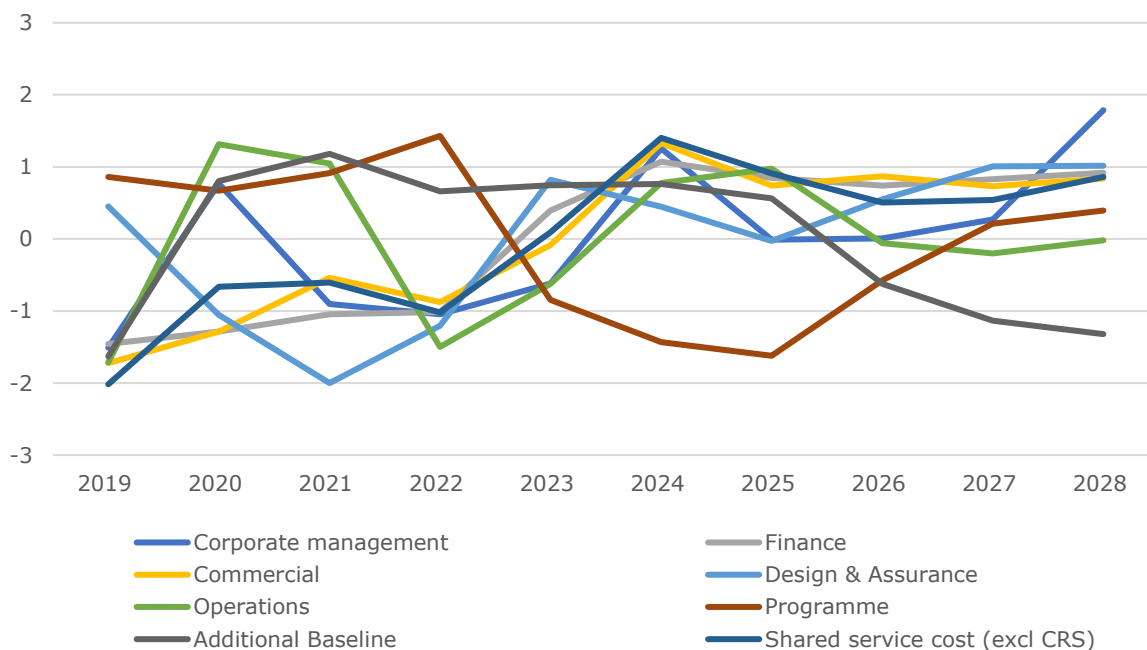


Figure A1.10: Standard deviation of Internal Costs by cost centre, 2019-2028⁹⁰



A1.9 Figures A1.9 and A1.10 illustrate that the variability of both external programmes and internal cost centres is expected to trend towards the average over time. While, for External Costs, the costs associated with the TAF programme are most variable, the

⁹⁰ Cost centres representing <5% of DCC’s Internal Costs in 2024 have been removed from the analysis.

overall cost base for this programme is the lowest among DCC's various programmes (see Figure A1.6).

A1.10 Our analysis shows that, overall, DCC's costs are expected to stabilise between now and 2028 (the end of the current Licence period). This suggests that an *ex-ante* price control would be appropriate for the majority of DCC's costs, with scope for uncertainty mechanisms for the most variable cost centres and/or programmes to address forecasting issues.

Appendix 2 – Proposed contents of the Business

Planning Guidance

Proposed contents of the BPG	What it will cover – non-exhaustive, for information only
The business planning process	<p>The stages in the business planning process, including DCC’s engagement with a customer challenge group (subject to our proposal in chapter 5):</p> <ol style="list-style-type: none"> 1. DCC-led customer engagement and preparation of a draft Plan 2. Submission of the draft Plan to, and engagement with, a customer challenge group 3. Submission of the final draft to Ofgem 4. Ofgem’s consultation and DCC’s representation and provision of further evidence 5. Ofgem’s decision
Contents of the Business Plan	<p>Requirements to provide:</p> <ul style="list-style-type: none"> • Evidence required for justification of all forecast costs • Evidence of stakeholder engagement in respect of scope and costs of all proposed Authorised Business activities • Evidence that costed activities comprise Mandatory Business and that outcomes deliver to DCC’s Licence objectives • Evidence for any proposals for Permitted Business including cost benefit analysis and funding mechanism • Information on procurement activity in the cost control period
Presentation and structure of the Business Plan	<ul style="list-style-type: none"> • Presentation and structure • Assurance and governance • Publication and redaction requirements
Cost control principles ⁹¹	<ul style="list-style-type: none"> • Timings of cost assessment process • Principles applied when reviewing costs • Types of criteria for determining if forecast costs are expected to be incurred economically and efficiently and provide value to customers
Uncertainty mechanisms guidance	<ul style="list-style-type: none"> • Requirements for the content of re-opener applications • Assurance and publication requirements including needs case and preferred option and cost-benefit analysis • Guidance on style and structure of re-opener applications • Authority assessment process

⁹¹ We expect this section to comprise modified Price Control Processes and Procedures Guidance. The current version is available on Ofgem’s website here: www.ofgem.gov.uk/publications/dcc-price-control-guidance-processes-and-procedures-2022

Appendix 3 – Overview of DCC’s existing ways of customer engagement

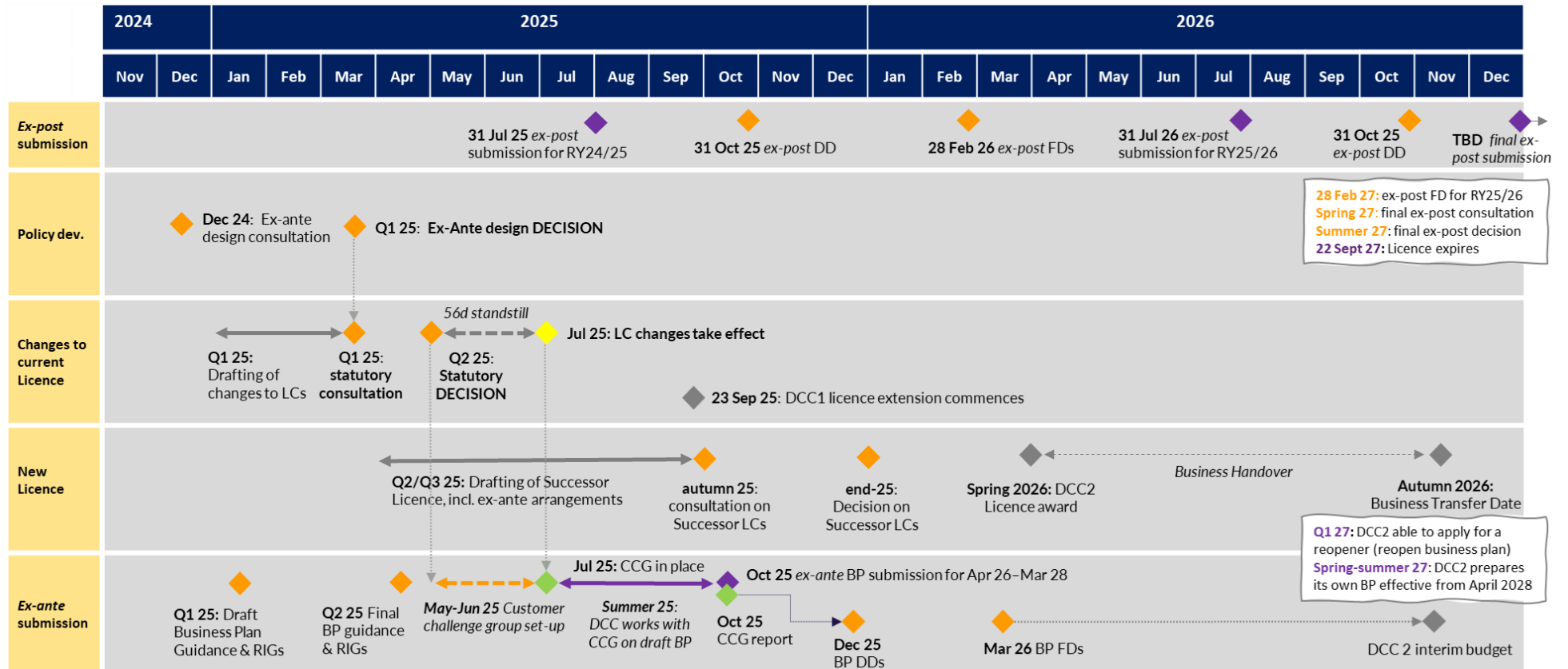
Frequency	Engagement Channel	Stakeholders involved	Areas of engagement	Outputs
Annual	Workshop and consultation	DCC customers Other interested parties SEC Panel	Business Development Plan (BD&P) which sets out the high-level strategic objectives and priorities for the next five years	DCC provides content for workshops DCC provides draft of business plan for consultation Customers provide feedback in workshop and via consultation DCC publishes final BD&P
Quarter	Quarterly Finance Forums (QFF)	DCC customers under NDA	DCC charging statement Cost forecast	DCC produces minutes
Monthly	SMIP governance SMDG IMF	DCC Customers DESNZ SEC Panel Energy UK/Energy Networks Association SEC Chairs	SMIP Impacting DCC programmes (e.g. 4G, DSP)	DCC provides progress updates, particularly focused on JIP milestones DESNZ provide minutes
Monthly	SEC Governance Panel OPSG TABASC TAG SCC SMKI PMA Change Board Privacy Committee	DCC Customers DESNZ Ofgem	All customer impacting project and programmes, including >£10m and TGB business cases SEC change In-life change (e.g. SEC releases) Operational performance	DCC provides content for discussion, including business cases to Panel SECAS provide meeting minutes and actions which include: Committee’s input to DCCs asks plus indication of support (or not)

Consultation - DCC review: Phase 2 – Process for determination of Allowed Revenue

Frequency	Engagement Channel	Stakeholders involved	Areas of engagement	Outputs
Monthly	DCC Operations Forum	DCC customers	Operational issues impacting DCC's customers	
Monthly	Top Issues Forum	DCC customers	Knowledge share, including fixes and ways of working	
Monthly	Other Users Forum	DCC customers		SECAS write minutes
Monthly	Small Suppliers Forum	DCC customers (small suppliers)	Programme highlights; relevant operational updates	SECAS to write minutes
Monthly	ENA led DIG	DCC customers DNOs DESNZ ENA	DCC operational performance and issue resolution	ENA write minutes
When required	Working Groups – e.g. ICHIS, Supply Chain, webinars/workshops, consultations	DCC customers		

Appendix 4 – Proposed timeline for implementation of the first Business Plan

Please note that with the exception of regulatory requirements on the continued ex-post Price Control cycle in row 1, all dates are indicative only, provided for illustrative purposes and subject to change.



Appendix 5 – Privacy notice on consultations

Personal data

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

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

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

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

2. Why we are collecting your personal data

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

3. Our legal basis for processing your personal data

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

4. With whom we will be sharing your personal data

(Include here all organisations outside Ofgem who will be given all or some of the data. There is no need to include organisations that will only receive anonymised data. If different organisations see different set of data, then make this clear. Be as specific as possible.)

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

Your personal data will be held for (be as clear as possible but allow room for changes to programmes or policy. It is acceptable to give a relative time e.g. ‘six months after the project is closed’)

6. Your rights

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

- know how we use your personal data
- access your personal data

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

7. Your personal data will not be sent overseas (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use “the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this”.

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

9. Your personal data will be stored in a secure government IT system. (If using a third-party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

10. More information for more information on how Ofgem processes your data, click on the link to our “[ofgem privacy promise](#)”.