

Decision Appendix

Appendix 4: Industry Charges

Contents

Acr	Acronyms2				
1.	Introduction Purpose of this paper Summary of our decisions Structure of this paper	3 4 6			
2.	Background Current approach to setting the allowances Case for change	8 9			
3.	Approach to setting the allowance Context Decision Rationale Stakeholder response summary Considerations	11 11 12 13 14			
4.	Charges for inclusion and their calculation Context Decision Rationale Stakeholder response summary Considerations Charges for inclusion and their calculation Future changes in the regulatory landscape	16 16 17 18 18 18			
An cha	nex 1 – Methodology for calculation of new pass-through industry arges	21			

Acronyms

BSC

Balancing and Settlement Code

CDSP

Central Data Service Provider

СоМСоР

Consolidated Metering Code of Practice

CPIH

Consumer Prices Index including owner occupiers' housing costs

DCUSA

Distribution Connection and Use of System Agreement

DCC

Data Communications Company

DESNZ

Department for Energy Security and Net Zero

MHHS

Market-wide Half Hourly Settlement

REC

Retail Energy Code

RECCo

Retail Energy Code Company

SEGB

Smart Energy Great Britain

SMETS2

Smart Metering Equipment Technical Specifications of second generation

SMICoP

Smart Meter Installation Code of Practice

SMNCC

Smart Metering Net Cost Change

1.Introduction

Section summary

This chapter sets out the context for the review of industry charges as part of our operating cost and debt allowances review, a summary of our decisions, and the structure of the remaining chapters.

Purpose of this paper

- 1.1 Energy suppliers are required to pay charges to various industry bodies in supplying customers with energy. Some of these charges relate to the maintenance of the industry codes that energy suppliers are required to sign up to and comply with (such as the Balancing and Settlement Code (BSC)), and are typically paid to industry code administrators (such as Elexon). Suppliers also pay charges to industry bodies that provide essential services to the industry (such as Xoserve, which is the Central Data Service Provider (CDSP) for the gas market).
- 1.2 Every year, industry bodies set out their expenditure for the next financial year in business plans. They also set out the charges that will be levied on suppliers, reflecting the share of expenditure that suppliers must pay for.¹
- 1.3 Industry bodies' business plans are typically subject to a consultation process, which provides suppliers with an opportunity to make any representations on the draft budget.² However, in practice suppliers have limited control over the level of industry costs. In consideration of this, we refer to these costs as 'pass-through industry charges'.
- 1.4 In our May 2024 policy consultation 'Energy Price Cap: Operating cost allowances review' ('our May 2024 policy consultation') and our December 2024 statutory consultation 'Energy price cap operating cost and debt allowances consultation' ('our December 2024 statutory consultation'), we consulted on

 $^{^{\}rm 1}$ In some cases, the charges might be included in the business plan, rather than a separate charging statement.

² The Data Communications Company (DCC) follows a different process, given its costs are subject to an ex post price control every year.

our approach to setting forward-looking allowances for these pass-through industry charges.^{3,4} This included:

- whether the charges should be captured in the operating cost allowance;
- what charges we would set an allowance for; and
- how we would update the charges over time.
- 1.5 This document sets out our decisions, having considered the feedback received in response to our December 2024 statutory consultation.

Summary of our decisions

- 1.6 To set and implement the industry charge allowance, we have decided to proceed with our statutory consultation proposals (further details of which are set out in Chapter 3):
 - to set an allowance for industry charges as a separate pass-through component going forward.
 - to allocate charges equally across payment methods, and allocate costs between standing charge and unit rate based on the ratio that we have used for the operating cost allowance under the existing default tariff price cap ('the cap') methodology (around 51% for electricity and 73% for gas on the standing charge).
 - to update the allowance every six months using publicly available charging statements,⁵ using draft charging statements to update Annex 5 where final statements may not yet be released in time for our February cap update.
 - to expand the scope of 'Annex 5 Smart metering net cost change allowance methodology' to include pass-through industry charges, and rename the Annex 'Annex 5 – Smart metering net cost change and industry charge allowance methodology'. We will also maintain six-monthly updates of the Annex.

³ Ofgem (2024), Energy price cap operating cost allowances review, Chapter 6. <u>https://www.ofgem.gov.uk/consultation/energy-price-cap-operating-cost-allowances-review</u>

⁴ Ofgem (2024), Energy price cap operating cost and debt allowances consultation – Appendix 4 Industry charges.

https://www.ofgem.gov.uk/consultation/energy-price-cap-operating-cost-and-debtallowances-consultation

⁵ Or updated using publicly available business plans where charges may not be included in a separate charging statement.

- not to adopt a true-up/down mechanism to account for over- or underrecovery of costs, for example due to short notice changes to budgets.
- 1.7 In terms of charges for inclusion in the allowance, we have decided to proceed with our statutory consultation proposals (further details of which are set out in Chapter 4):
 - to include a pass-through industry charge allowance for costs related to Elexon, Xoserve, the Retail Energy Code Company (RECCo) and the Distribution Connection and Use of System Agreement (DCUSA), alongside the existing pass-through Smart Metering Net Cost Change (SMNCC) allowance for the Data Communications Company (DCC) and Smart Energy GB (SEGB). The respective calculation of each charge is set out in Annex 1 to this document.
 - to remove the allowance for costs related to the Smart Metering Installation Code of Practice (SMICoP), as this has been superseded by the Consolidated Metering Code of Practice (CoMCoP) and CoMCoP costs are now included under RECCo charges.
- 1.8 Table 1 below sets out the decision pass-through industry charge allowance at cap 14a (April 2025 June 2025) and compares it to the current allowance for industry charges at cap 14a. The decision allowance includes an allowance for Elexon, Xoserve, RECCo and DCUSA costs based on final business plans for 2025/26, alongside the existing allowance for DCC and SEGB.

Table 1: Decision pass-through industry charge allowance at cap 14a based on data from final business plans for 2025/26 (nominal prices, £ per customer)

Fuel type	Decision allowance – Nil	Decision allowance – Benchmark	Change vs Cap 14a – Nil	Change vs Cap 14a – Benchmark
Electricity	9.04	17.83	-0.41	+1.64
Gas	10.48	14.39	+1.25	+1.46
Dual fuel	19.52	32.22	+0.84	+3.11

Note: Benchmark consumption is equal to 3,100 kWh for single-rate electricity, 12,000 kWh for gas and 4,200 kWh for multi-rate electricity. Values displayed are the same across payment methods (Standard Credit, Direct Debit and Prepayment Meter) and are shown for single-rate metering arrangement. Allowance values for electricity multi-

registered metering arrangement are £9.22 per customer at nil consumption and £18.20 per customer at benchmark consumption.⁶ Values may not sum due to rounding.

1.9 Table 2 below sets out the level of allowance for each industry charge. The updated allowance for Elexon, Xoserve, RECCo and DCUSA costs amounts to around £4 for a dual fuel customer (at benchmark consumption), or an approximately £3 increase on the existing allowance at cap 14a.

Table 2: Decision pass-through industry charge allowance at benchmark consumption by industry charge at cap 14a, based on data from final business plans for 2025/26 (nominal prices, £ per customer)

Industry charge	Electricity	Gas	Dual fuel
Elexon	1.03	-	1.03
Xoserve	-	1.50	1.50
RECCo	0.88	0.88	1.76
DCUSA	0.04	-	0.04
DCC	15.16	11.30	26.45
SEGB	0.72	0.72	1.44
Total	17.83	14.39	32.22

Note: Values displayed are the same across payment methods (Standard Credit, Direct Debit and Prepayment Meter) and are shown for single-rate metering arrangement. Values may not sum due to rounding.

1.10 Changes in allowances between our December 2024 statutory consultation and our decision reflect updated business plans for 2025/26.

Structure of this paper

1.11 The structure of the remaining chapters is set out below:

- **Chapter 2 Background.** In this chapter, we set out the current approach to calculating an allowance for industry charges, and the case for change.
- Chapter 3 Approach to setting the allowance. In this chapter, we set out our decision to set pass-through industry charges as a separate allowance based on industry body charging statements (or, where not available, business plans), rather than incorporating these costs into the core operating

⁶ We calculate a separate allowance for multi-registered metering arrangement because the Elexon charge is calculated on a volume basis. We provide further details on the methodology of the Elexon charge in Annex 1 to this document.

cost element of the allowance. We also discuss how we will update the allowance over time. We summarise and discuss any relevant stakeholder responses.

 Chapter 4 – Charges for inclusion and their calculation. In this chapter, we set out the list of industry charges we have decided to include in the passthrough allowance and the calculation for each charge. We summarise and discuss any relevant stakeholder responses. We also discuss future changes in the regulatory landscape that could impact on the allowance for industry charges.

2.Background

Section summary

In this chapter, we set out the current approach to calculating an allowance for industry charges under both the operating cost allowance and the SMNCC allowance. We outline the case for change.

Current approach to setting the allowances

- 2.1 When the cap came into effect in 2019, we included an allowance to suppliers for industry charges in two areas: the operating cost allowance and the SMNCC allowance.
- 2.2 As part of the operating cost allowance, we included an allowance for the cost of Elexon, the code administrator of the BSC, and Xoserve, the CDSP for the gas market.⁷ We set the allowance using 2017/18 charging statements and standardised it as a cost per customer, to ensure comparability across suppliers. The estimated charge we set in our 2018 decision was £0.23 per electricity customer for Elexon and £0.69 per gas customer for Xoserve. We indexed the allowance to be updated by inflation (measured using the Consumer Prices Index including owner occupiers' housing costs (CPIH)) at each relevant cap update, to allow for changes in costs.
- 2.3 When setting the cap, we included an allowance for pass-through smart metering charges, which covered the cost of DCC, SEGB, and SMICoP.⁸ We set this allowance to be updated using charging statements (for DCC) and budget plans (for SEGB), which accurately reflected the cost suppliers incurred. The allowance for SMICoP was based on an annual budget assumption of £250,000, which was provided to us by SMICoP at the time.
- 2.4 In line with the approach for the rest of SMNCC, the allowance for pass-through smart metering charges is calculated as a net change between the baseline data year (2017) and each cap period we set. This is to account for the fact that there were smart metering costs in the operating cost allowance baseline that we were unable to accurately remove before setting the allowance in 2019.

 ⁷ Ofgem (2018), Appendix 6 – Operating costs, paragraph 2.3. <u>https://www.ofgem.gov.uk/decision/default-tariff-cap-decision-overview</u>
 ⁸ Ofgem (2018), Appendix 7 – Smart metering costs, paragraph 2.15. <u>https://www.ofgem.gov.uk/decision/default-tariff-cap-decision-overview</u>

Case for change

2.5 As noted in our May 2024 policy consultation and December 2024 statutory consultation, Elexon and Xoserve costs have increased at a greater rate than CPIH. This is shown in Table 3 below. However, these differences are of low materiality (0.55% and 0.46% of the operating cost allowance per electricity and gas customer respectively, based on data from 2025/26 final business plans and charging statements) and may well balance out with downward trends in other cost lines within the operating cost allowance.

Table 3: Comparison between Elexon and Xoserve 2025/26 nominal charges to suppliers and our allowance (nominal prices, \pounds per customer)

	Charge to suppliers	Our allowance	Difference	% of operating cost allowance
Elexon	£1.03	£0.30	£0.73	0.55%
Xoserve	£1.50	£0.91	£0.59	0.46%

Notes: The "charge to suppliers" figures are calculated from Elexon's final business plan for 2025/26 and the CDSP final charging statement for 2025/26.^{9 10} The "% of operating cost allowance" figures are calculated as a proportion of the electricity and the gas operating cost allowance respectively for a direct debit customer. Values may not sum due to rounding.

- 2.6 We note that the purpose of our review of industry charges is to set a forwardlooking allowance, rather than to review whether the historical allowances were appropriate. We do not consider there is a need to correct for historical mismatching between the allowances and actual costs, because our data suggests overall that our current operating cost allowance has in recent years been slightly higher than costs at a weighted average benchmark.
- 2.7 The current approach does not explicitly account for costs of RECCo, the code administrator of the Retail Energy Code (REC). RECCo was set up in 2019, after the cap was introduced, and therefore its costs are not explicitly captured in our allowance. However, part of RECCo's role was to take on functions from other industry bodies, and we expect these industry bodies' costs may be captured in part in the allowance. Therefore, including RECCo charges now would likely be in

⁹ Elexon (2025), Business plan 2025/26.

https://www.elexon.co.uk/vision/business-plan/

¹⁰ Xoserve (2025), CDSP Annual Charging Statement 2025-26 (26 February 2025). https://www.gasgovernance.co.uk/DSC-Documents

part a reallocation of costs between industry bodies rather than a complete new set of costs.

2.8 The current approach also does not account for costs related to the Distribution Connection and Use of System Agreement (DCUSA). In our May 2024 policy consultation, we said we would explore whether to include an allowance for these costs, to the extent they constituted an operational cost to suppliers.

3. Approach to setting the allowance

Section summary

This chapter sets out our decision to set a separate pass-through allowance for industry charges. We also discuss how we will update the allowance over time.

Context

- 3.1 In our May 2024 policy consultation, we consulted on two options to set allowances for industry charges going forward:¹¹
 - Option 1: status quo Capture costs in the core operating cost baseline and update allowances in line with the methodology for core operating costs.
 - Option 2: new component Set a separate pass-through component using charging statements, which is regularly updated.
- 3.2 In our December 2024 statutory consultation, we proposed to adopt option 2.
- 3.3 Additionally, we proposed to include the allowance for pass-through industry charges in Annex 5, maintaining six-monthly updates of Annex 5, and to update the charges using draft business plans where final business plans (or charging statements) may not be available. We also proposed not to adopt a true-up mechanism.

Decision

- 3.4 To set the allowance, we have decided to proceed with our statutory consultation proposals to:
 - set an allowance for industry charges as a separate pass-through component going forward, to be updated every six months using publicly available charging statements (option 2 from the May 2024 policy consultation).¹²
 - allocate costs equally across payment methods, and allocate costs between the standing charge and unit rate based on the ratio used for the operating cost allowance under the existing cap methodology (around 51% for electricity and 73% for gas on the standing charge). We note this is different

¹¹ Ofgem (2024), Energy price cap operating cost allowances review, paragraphs 6.18 – 6.29.

https://www.ofgem.gov.uk/consultation/energy-price-cap-operating-cost-allowancesreview

¹² Or updated using publicly available business plans where charges may not be included in a separate charging statement.

from the allocation ratio we used for the core operating cost allowance, where we have moved to a new allocation between the standing charge and unit rate. See 'Appendix 1: Core operating costs' for further details.

- 3.5 To implement and update the allowance, we have decided to proceed with our statutory consultation proposals to:
 - expand the scope of 'Annex 5 Smart metering net cost change allowance methodology' to include the allowance for pass-through industry charges. The updated annex will now be named 'Annex 5 – Smart metering net cost change and industry charge allowance methodology' ('Annex 5').
 - use draft charging statements (or draft business plans) where final statements/plans may not be yet available to update Annex 5 in time for our February cap update, akin to the existing approach for DCC and SEGB cost allowances.
 - not to adopt a true-up/down mechanism to account for over- or underrecovery of costs, for example due to short notice changes to budgets.

Rationale

- 3.6 As discussed in our December 2024 statutory consultation, we consider that the benefits in terms of greater accuracy of allowances, transparency, and overall simplicity outweigh the complication of setting up a new component. This approach will also enable us to transparently account for any future changes in industry charges.
- 3.7 We consider that the equal allocation of costs across payment methods reflects the cost allocation in charging statements and how suppliers incur these costs across their customer base. This is because industry bodies do not charge suppliers based on the mix of customers' payment methods.
- 3.8 While most pass-through industry charges are not charged on a per unit of consumption basis, our current approach of including them under the operating cost allowance means the costs are split between the standing charge and unit rate. Therefore, we consider that allocating costs between the standing charge and unit rate based on the ratio used for the operating cost allowance under the existing cap methodology would maintain continuity in our approach and avoid further increases in standing charges. We discuss our approach to allocating costs between the standing costs between the standing costs '.

- 3.9 Including the allowance for industry charges within Annex 5, alongside the existing pass-through allowance for DCC and SEGB charges, will lead to greater consistency as it will bring together the total allowance for pass-through industry charges.
- 3.10 We do not consider that moving to quarterly updates of Annex 5 would be proportionate, given business plans are set once a year. Stakeholders were supportive of six-monthly updates. Additionally, our decision to use draft charging statements (or business plans) where final statements/plans may not be available in time for the February model update (as final business plans and charging statements are typically published between February and March) will minimise cash flow issues and allow us to capture expected levels of charges in a timely manner. This is akin to the approach we take to set a pass-through allowance for DCC costs in Annex 5 and is consistent with how we have accounted for draft charging statements in lieu of final charging statements in other areas of the price cap. Generally, we do not expect the differences between draft and final plans/statements to be material.
- 3.11 Where neither draft nor final charging statements may be available in time for our February cap update, we would use the next latest available information (eg previous year's charging statement) to update the allowance in the February cap update. We would then capture the new year's charging statement at the next scheduled opportunity ie as part of our August cap update. We note that year on year differences in charges are generally not material.
- 3.12 We do not consider it would be proportionate to incorporate a true-up/down in Annex 5 to account for over or under-recovery of allowances. We discuss our reasoning for this in the 'Considerations' section below.

Stakeholder response summary

- 3.13 Five suppliers agreed with option 2 (ie setting the industry charge allowance as a separate pass-through component using charging statement). One supplier also agreed with including the allowance in Annex 5, while another supplier supported a six-monthly update window as frequent enough to balance charges with administrative burden.
- 3.14 Two suppliers disagreed with the proposed allocation of costs between standing charges and unit rates.
- 3.15 Finally, one supplier said that costs should be reconciled on an annual basis, to account for any over or under-recovery. It also said that some charges have been

unaccounted for in previous cap periods, and an annual review process should be conducted to ensure all costs are accounted for.

Considerations

Allocation between standing charge and unit rate

- 3.16 One supplier said that Ofgem should consider taking a more cost-reflective approach and allocate industry charges (or most of it) to the standing charge, given these costs are incurred on a per meter basis. However, it also said it does not support any increase in standing charges and Ofgem should look to re-adjust the ratio of standing charges to unit rates in another allowance to accommodate this (particularly an allowance that is more driven by consumption).
- 3.17 We consider our decision is appropriate as it maintains continuity in our approach. Additionally, we set the price cap as a total allowance, so the net effect of increasing the standing charge in the industry charge allowance and offsetting it with an equal decrease in another allowance now would be zero. We consider it is more consistent to maintain continuity across allowances.
- 3.18 Another supplier said that the allocation across payment methods would only be accurate if done on the standing charge, otherwise lower-consumption groups would under recover the costs allocated on the unit rate.
- 3.19 We acknowledge that on average PPM customers consume less energy than the average across payment methods. Therefore, where we allocate flat costs to the unit rate, a notional supplier with an above average proportion of PPM customers may on average under-recover its efficient operating costs, all else being equal. We have sought to address the cost uncertainties that PPM suppliers face by providing additional adjustments to the core operating cost and SMNCC PPM allowance. We discuss this further in 'Appendix 1: Core operating costs' and 'Appendix 3: Smart metering costs'.

Cost reconciliation

- 3.20 One supplier told us costs should be reconciled on an annual basis, to correct for over or under-recovery of costs. It said that inaccuracies are not justifiable when EBIT margins are already tight. It also said that some charges have been unaccounted for in previous cap periods, and an annual review process should be conducted to ensure all costs are accounted for.
- 3.21 The administrative burden of a reconciliation mechanism is not proportionate to the low level of materiality of the new pass-through industry charges (a ± 3 increase on the existing allowance at cap 14a). We will update the allowance

every six months to capture changes in the level of costs, which another supplier agreed strikes a balance between frequency of updates and administrative burden. In addition, as mentioned in our December 2024 statutory consultation, over- and under-spend could net off, as we have seen both upwards and downwards short notice revisions to business plans.^{13, 14}

- 3.22 The cap accounts for net uncertainty in various ways. We have set a weighted average benchmark across the operating cost review which we consider reduces the risk that small deviations would result in either resilience risks or under-recovery for an efficient supplier. Additionally, the headroom allowance accounts for uncertain cost pressures that are not already included in our efficient benchmark.
- 3.23 As a result, we expect to maintain a position that any under-recovery risk would need to be systematic and material to trigger a review. In the event of new passthrough industry charges levied on suppliers in future, we welcome communication from stakeholders and where appropriate we may consult on updating the allowance based on material and systematic changes. We discuss some of the future changes in the regulatory landscape in Chapter 4.

¹³ In December 2023, Elexon approved an in-year budget increase of £3.7 million. <u>https://www.elexon.com/documents/about/finances-report-policies/business-plan/2023-</u> <u>24/elexon-business-plan-2023-2024-amendment/</u>

¹⁴ In October 2024, RECCo announced that underspend of £9.8m would be returned to funding parties.

https://www.retailenergycode.co.uk/2023-24-budget-underspend-of-9-8m-to-bereturned-to-funding-parties-in-october-2024-rebate/

4. Charges for inclusion and their calculation

Section summary

This chapter sets out the industry charges we will include in the pass-through industry charge allowance and their respective calculation. We also set out future changes to the structure and charging arrangements of industry bodies which could impact our allowance.

Context

- 4.1 In our December 2024 statutory consultation, we proposed to include a passthrough industry charge allowance for Elexon, Xoserve, RECCo and DCUSA costs, and set out a proposed calculation of each charge. We proposed to remove the SMICoP (now CoMCoP) allowance, as it is now covered under RECCo charges.
- 4.2 We also set out a proposal to move away from a net basis calculation of the existing DCC and SEGB pass-through charges, and start calculating these allowances on a total basis.

Decision

- 4.3 We have decided to proceed with:
 - including a pass-through industry charge allowance for Elexon, Xoserve, RECCo and DCUSA costs, alongside the existing allowance for DCC and SEGB costs. The respective calculation of each charge is set out in Annex 1 to this document.
 - removing the separate SMICoP cost allowance going forward, given RECCo confirmed that CoMCoP costs are now included under RECCo charges.
 - moving away from a net basis calculation for DCC and SEGB pass-through charges and start calculating these allowances on a total basis.

- 4.4 We have decided to use meter data from the sub-national electricity and gas consumption statistics from DESNZ to calculate Xoserve and DCUSA charges.^{15, 16} This data source is currently used in Annex 5 to calculate DCC and SEGB charges.
- 4.5 The difference between the decision pass-through industry charge allowance at cap 14a based on data from 2025/26 financial statements and the current allowance for industry charges at cap period 14a is just above £3, as discussed in Chapter 1.

Rationale

- 4.6 As part of our December 2024 statutory consultation, we reviewed the list of industry codes that suppliers are required to become a party to and/or comply with. We did not identify any other codes that suppliers pay for which would be unaccounted for in our allowance, other than the codes accounted for in our statutory consultation proposal. Therefore, we maintain our statutory consultation position. We did not receive further comments on this in response to our statutory consultation.
- 4.7 We have decided to remove the allowance for SMICoP (now CoMCoP) charges to avoid double-counting, as these costs are included under RECCo charges.
- 4.8 We consider the sub-national electricity and gas consumption statistics from DESNZ to be an appropriate source for the calculation of Xoserve and DCUSA charges, as this will bring consistency across Annex 5, given this data source is already used in Annex 5 to calculate DCC and SEGB charges. We did not receive comments on this.
- 4.9 We have been able to isolate and remove smart metering pass-through charges from the operating cost baseline. This has allowed us to move away from a net basis calculation of the DCC and SEGB charges (which we discussed in Chapter 2) and start calculating these charges on a total basis, in line with the calculation of the new pass-through industry charges in Annex 5.

¹⁵ Department for Energy Security and Net Zero (2024), Regional and local authority electricity consumption statistics – Sub-national electricity consumption statistics 2005 to 2023.

https://www.gov.uk/government/statistics/regional-and-local-authority-electricityconsumption-statistics

¹⁶ Department for Energy Security and Net Zero (2024), Regional and local authority gas consumption statistics – Sub-national gas consumption statistics 2005 to 2023. <u>https://www.gov.uk/government/statistics/regional-and-local-authority-gas-</u> <u>consumption-statistics</u>

4.10 We set out the calculation of each charge in Annex 1 to this document. We have sense-checked each calculation with the relevant industry body. We did not receive comments in response to our statutory consultation on this.

Stakeholder response summary

- 4.11 Two suppliers provided comments on the DCC charge one on the value for money of DCC charges and the effectiveness of the price control to control these costs, while another on the enrolled meters input used to calculate the allowance in Annex 5.
- 4.12 One supplier said that it would be appropriate to introduce an additional allowance for MHHS costs, which it said would naturally align with the industry charge allowance.

Considerations

Charges for inclusion and their calculation

DCC charge - level of costs

- 4.13 One supplier said that the price control mechanism is not effective in controlling DCC costs, and that Ofgem should do more to decrease these costs, which now make up around 90% of total industry charges. It said Ofgem should review DCC charges to identify if they offer value for money and evaluate them against the goals of the Smart Metering Implementation Programme. It also commented that suppliers have a limited ability to exert downward pressure on these costs.
- 4.14 To ensure that DCC costs are economic and efficient, we assess them on an annual basis under the existing ex-post price control arrangements. Our decision on costs for the regulatory year 2023/24 included a determination of costs deemed to be unacceptable, which will be returned to customers.¹⁷ We are reviewing the regulatory framework for DCC ahead of the expiry of the current Licence. In December 2024 we published a consultation on the design of a new ex-ante cost control regime to be put in place for the Successor Smart Meter Communication Licence holder.¹⁸ We will publish our conclusions in due course.

¹⁷ Ofgem (2025), DCC Price Control decision regulatory year 2023/24.

https://www.ofgem.gov.uk/decision/dcc-price-control-decision-regulatory-year-2023-2024

¹⁸ Ofgem (2024), DCC Review: Phase 2 – Process for Determination of Allowed Revenue (consultation).

https://www.ofgem.gov.uk/consultation/dcc-review-phase-2-determination-allowedrevenue

We welcome engagement with DCC customers on the details of our proposals to ensure that the future cost control regime is effective.

- DCC charge calculation input data
- 4.15 One supplier said that the input source used for the number of enrolled electricity and gas smart meters (Smart Metering Equipment Technical Specifications of second generation, or SMETS2 meters) in the calculation of the DCC allowance in Annex 5 is significantly different from the reported figure on DCC's website. It said the figure in Annex 5 appears to be based on historical modelled assumptions rather than DCC's data, and given the gap is material Annex 5 should be amended to reflect the actual number of smart meters enrolled.
- 4.16 We do not consider the number of reported SMETS2 meters on DCC's website to be a viable alternative as an input source. The figure reported by the DCC is overestimated as it includes non-domestic smart meters. The website also does not report the number of SMETS2 meters split by fuel type, which is needed for Annex 5. Therefore, we maintain the current data source (ie the modelled assumption from the non-pass through SMNCC model) as more appropriate. Additionally, the current data source will provide consistency between the passthrough and non-pass-through smart metering cost calculation, given this input source is used to set the SMNCC non-pass-through allowance.

MHHS

4.17 One supplier said that it would be appropriate to introduce an additional allowance for MHHS costs, which it said would naturally align with the industry charge allowance. We have addressed this in 'Appendix 1: Core operating costs'.

Future changes in the regulatory landscape

4.18 Ofgem and DESNZ are in the process of reforming the energy codes regulatory framework.¹⁹ The proposed changes include code consolidation, and the replacement of the existing roles of code administrators and code panels with licensed code managers, who will be responsible for the governance of the codes. These changes are likely to impact the industry bodies and industry codes we set an allowance for, and consequently the list of charges we include in the allowance.

¹⁹ Ofgem, Energy Code Reform.

https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatoryprogrammes/energy-code-reform

- 4.19 The timeline for implementation of the changes is still in development, although Ofgem has decided the implementation will proceed with a three-phase transition sequencing, with phase 1 concerning the BSC and REC.²⁰
- 4.20 We also note there are a few workstreams in progress which relate to DCC's costs and charging:
 - as part of its wider review of the regulatory arrangements for DCC, Ofgem has consulted on moving from an *ex-post* to an *ex-ante* price control regime;^{21, 22} and
 - DCC is considering whether and how it might be appropriate to change the way it recovers the costs associated with operating the smart meter network.²³
- 4.21 We will review whether the conclusion of either of these reviews or the introduction of new industry charges changes the structure of the costs captured in the allowance. Where appropriate and following consultation, we may seek to update the allowance if changes are material and systematic.

 ²⁰ Ofgem (2024), Implementation of energy code reform: consultation decision, page 50.
 <u>https://www.ofgem.gov.uk/decision/implementation-energy-code-reform-decision</u>
 ²¹ Ofgem (2023), DCC review: Phase 1 Decision.

https://www.ofgem.gov.uk/decision/dcc-review-phase-1-decision

²² Ofgem (2024), DCC Review: Phase 2 – Process for Determination of Allowed Revenue (consultation).

https://www.ofgem.gov.uk/consultation/dcc-review-phase-2-determination-allowedrevenue

²³ DCC (2024), DP218 'Review of the SEC Charging Methodology' – Consultation on proposed changes to DCC charges.

https://www.smartdcc.co.uk/consultations/dp218-review-of-the-sec-chargingmethodology-consultation-on-proposed-changes-to-dcc-charges

Annex 1 – Methodology for calculation of new pass-through industry charges

Table A1 – List of new pass-through industry charges with methodology and data sources

Industry body	Activities funded	Cost amount (2025/26 nominal prices)	Methodology note	Data source
Elexon	 Settlement Services Customer and Code Management Technology Support Services Helix Programme MHHS Market Facilitator Demand Led Teleswitch (due in June 2025) 	£1.03 per electricity meter Calculated as [(total budget - MHHS)/(total volumes) + (MHHS)/(supply volumes)] * 3.1MWh (or 4.2MWh for multi- registered customers)	 Total budget costs less MHHS costs, divided by total generation and supply volumes. This gives a £ per MWh value. MHHS costs, divided by supply volumes. This gives a £ per MWh value. Sum 1) and 2) to calculate suppliers' total cost per MWh. To move from a volume basis to a meter basis, we multiply 3) by benchmark consumption value for single rate electricity (3.1MWh) and separately by the value for multi- registered electricity (4.2MWh). This gives a £ per meter value. 	Elexon 2025/26 business plan ²⁴ Section 8 Budget Summary – budget costs Section 8 Table 3.3 – volumes

²⁴ Elexon (2025), Business plan 2025/26.

https://www.elexon.com/governance/reports-and-finances/business-plan/

Industry body	Activities funded	Cost amount (2025/26 nominal prices)	Methodology note	Data source
Xoserve	 General Services (eg manage Shipper Transfers, Customer Relationship Management) Infrastructure (eg UK Link Sustain) Change (eg DSC Change budget) 	£1.50 per gas customer Calculated as (shipper user charge/total number of gas supply points)	Shipper user charge (used as a proxy for supplier costs) divided by the total number of gas supply points (domestic plus non-domestic). This gives a £ per meter value. We divide the shipper user charge by the total number of gas meters (domestic and non-domestic) because shipper charges include both domestic and non-domestic.	CDSP 2025/26 annual charging statement ²⁵ Table 4 – shipper users charges (after rebates) DESNZ Sub-national gas consumption statistics ²⁶ Table for year 2023 – Number of meters (all meters)
RECCo	 REC Operations (Board costs, Staff costs) REC Services (including Central Switching Services) Projects (including MHHS) Change Allowance 	£0.88 per meter (gas or electricity) Calculated as (energy suppliers charge + MHHS charge)	Sum of energy suppliers charge and energy suppliers MHHS charge. This gives a £ per Registrable Measurement Point, ie meter point.	REC charging statement (01 April 2025 v4) ²⁷ Table 1 – Energy suppliers charge and Energy suppliers MHHS project charge

²⁵ Xoserve (2025), CDSP Annual Charging Statement 2025-26 (26 February 2025).

https://www.gasgovernance.co.uk/DSC-Documents

²⁶ Department for Energy Security and Net Zero (2024), Regional and local authority gas consumption statistics – Sub-national gas consumption statistics 2005 to 2023.

https://www.gov.uk/government/statistics/regional-and-local-authority-gas-consumption-statistics

²⁷ RECCo (2025), Retail Energy Code Charging Statement (01 April 2025 v4).

https://recportal.co.uk/category-3-documents

Industry body	Activities funded	Cost amount (2025/26 nominal prices)	Methodology note	Data source
DCUSA	 Panel Panel Secretary Working Group Secretariat DCUSA Ltd 	£0.04 per electricity meter Calculated as (supplier cost/total number of electricity meters)	Total supplier costs divided by total number of electricity meters (domestic plus non-domestic). This gives a £ per meter value. We divide total supplier costs by the total number of electricity meters (domestic and non-domestic) because supplier charges do not distinguish between domestic and non-domestic.	DCUSA 2025/26 approved budget ²⁸ Section 5 – total amount recoverable from suppliers DESNZ sub-national electricity consumption statistics ²⁹ Table for year 2023 – Number of meters (all meters)

²⁸ DCUSA (2025), Approved Budget 2025/26.

https://www.dcusa.co.uk/guidance-documents/annual-reports-and-accounts/

²⁹ Department for Energy Security and Net Zero (2024), Regional and local authority electricity consumption statistics – Sub-national electricity consumption statistics 2005 to 2023.

https://www.gov.uk/government/statistics/regional-and-local-authority-electricity-consumption-statistics