

To:

Smart DCC Ltd

SEC parties

REC parties

Other interested stakeholders

Email: DCCregulation@ofgem.gov.uk

Date: 17 June 2025

Dear company secretaries and stakeholders,

Consultation on the Successor Licensee's Regulatory Instructions and Guidance (RIGs)

The Data Communications Company (DCC) is responsible under the Smart Meter Communication Licence ("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 We³ have been reviewing the regulatory arrangements ahead of the licence expiry to put in place a new regime under a Successor Licence (and to appoint a Successor Licensee, or "DCC2", to hold that licence). This has included a review of the price control arrangements.

In May 2025, we published our decision on the process for determination of the Successor Licensee's Allowed Revenue ("cost control").⁴ In it we set out our conclusions to move to a fully *ex-ante* form of cost control, such that the Allowed Revenue of the Successor Licensee

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 The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority

⁴ Ofgem (2025), DCC Review Phase 2: Determination of Allowed Revenue – conclusions. www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions

will be decided on upfront on the basis of a costed Business Plan⁵ and Price Control Information.⁶ We also concluded that we would implement the first cost control cycle starting from the Transfer Date⁷ and require the current Licensee to submit to us the first Business Plan and Price Control Information by 31 December 2025.⁸

We have already published a consultation on the draft text of a guidance to help DCC1 prepare the first costed Business Plan.⁹ We are now consulting on the Successor Licensee's Regulatory Instructions and Guidance (SL RIGs) to help DCC1 report the Price Control Information – the quantitative data on proposed costs for the first cost control period (from Transfer Date¹⁰ to 31 March 2028) to help us calculate the Allowed Revenue of the Successor Licensee in that period.

What we are consulting on

We are seeking views on the draft Successor Licensee Regulatory Instructions and Guidance (RIGs) to underpin the implementation of our conclusions on the process for determination of the Successor Licensee's Allowed Revenue. These consist of:

- Main SL RIGs Template in an MS Excel format to be used for the submission of Price Control Information¹¹
- Accompanying guidance document setting out instructions on how to fill in the data templates

What are the RIGs

The RIGs form the basis on which DCC must report Specified Information, which includes Price Control Information. They provide:

- A complete statement of the specified information which DCC is required to report

⁵ Under LC34A – subject to statutory consultation. See Ofgem (2025), Modifications to the Smart Meter Communication Licence for transition to ex-ante cost control [...]. www.ofgem.gov.uk/consultation/modifications-smart-meter-communication-licence-transition-ex-ante-cost-control-and-other-changes-required-licence-closure

⁶ Under LC34B – subject to statutory consultation. Ibid.

⁷ Transfer Date has the meaning given to that term in LC 43.7.

⁸ Subject to statutory consultation. See Ofgem (2025), Modifications to the Smart Meter Communication Licence for transition to ex-ante cost control [...]. www.ofgem.gov.uk/consultation/modifications-smart-meter-communication-licence-transition-ex-ante-cost-control-and-other-changes-required-licence-closure

⁹ Ofgem (2025), [...] Draft Business Plan Guidance. www.ofgem.gov.uk/consultation/draft-terms-reference-customer-challenge-group-and-draft-business-plan-guidance

¹⁰ We will formally set the Transfer Date using powers under LC 43.7(b). We expect to designate the Transfer Date in summer 2025. Our current best assumption is that the Transfer Date will occur before or in November 2026.

¹¹ For the first Price Control Period under LC34B of the current Licence, subject to statutory consultation. Ofgem (2025), Modifications to the Smart Meter Communication Licence for transition to ex-ante cost control [...]. www.ofgem.gov.uk/consultation/modifications-smart-meter-communication-licence-transition-ex-ante-cost-control-and-other-changes-required-licence-closure

- Instructions and guidance on the Authority’s requirements with respect to the collection, recording, and provision of Specified Information
- Instructions and guidance on the standards of accuracy and reliability that apply to recording the specified information (including different classes of Specified Information)
- Explanations of the meaning of words and phrases used in defining price control specified information
- How the specified information must be recorded, and given to the Authority
- How the Authority will monitor and assess the DCC’s compliance with the RIGs

What changes and proposed and why

The basis for the Successor Licensee’s RIGs is the existing RIGs that is in place for DCC1. However, we are proposing several modifications in line with our conclusions on the form of the *ex-ante* cost control. They include:

1. Change from ex-post to an ex-ante reporting

Relevant Main RIGs sheets: all

We are proposing to change the reporting structure for forecast and incurred costs to align to our decision to move to a multiannual cost control regime. In general, the Main RIGs template will show External and Internal Costs (including External and Internal Centralised Registration Service Costs¹²) in the following manner:

- Costs incurred in previous Regulatory Years (RY) will be reported up until the final RY of the current Licence. We expect this to be the RY26/27, commencing on 1st April 2026. Whilst historic reporting will be helpful to track trends in costs and help with assessment, costs going back many years may have less relevance as time passes
- The Licensee will propose (forecast) costs for each RY of the cost control period (“Business Plan Submission Forecast”)
- The Authority will determine the level of economic and efficient costs to be used to calculate the Allowed Revenue for each RY of the cost control period (“Allowance”)
- The Licensee will report its incurred costs for each line item at the end of each RY (“Actual”)

¹² Switching

- The templates will calculate any differences between the allowed and incurred costs (“Performance”). Any difference between the allowed forecasts and incurred costs will be accounted for and explained by the Licensee via either of the following:
 - Cost fungibility within ringfenced budgets and flexible redeployment of resources¹³
 - Use of Contingency¹⁴
 - Use of Uncertainty Mechanisms (either Automatic Adjustments or Reopeners)¹⁵

2. External Costs: Introduction of Service Families and ringfencing of budgets

Relevant Main RIGs sheets: 4, 4a-d, 5, 5a-d

In our decision document,¹⁶ we set out our conclusions that:

- External Costs will be fungible within individual, pre-defined programmes, each with a ringfenced budget
- Resource and resource-driven Internal Costs will be fungible across programmes (allowing the Successor Licensee to flexibly redeploy its resources)
- Non-resource Internal Costs (non-resource External Services) will default to in-programme-only fungibility

On that basis, we are proposing to introduce a new concept of reporting by Service Families in tabs 4a-d and 5a-d. “Service Families” (SFs) would represent large programmes grouping together External Service Provider contracts (and non-resource External Services) delivering a common functionality or service. They are designed to be sufficiently independent of each other but internally consistent and we expect clear lines of accountability for their management to exist within Smart DCC and the Successor Licensee’s internal organisation.

We propose to introduce the following SFs:

- **4a:** SMETS1
- **4b:** SMETS2
- **4c:** 4G and Connectivity

¹³ Ofgem (2025), DCC Review Phase 2: Determination of Allowed Revenue – conclusions, Chapter 3 Part B. www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions

¹⁴ Ibid. Chapter 3, Part C

¹⁵ Ibid. Chapter 3, Part D

¹⁶ Ibid. Chapter 3, Part B

- **4d:** Centralised Registration Service (Switching)
- **5a:** Meter Data Management
- **5b:** Privacy and Security
- **5c:** Service Management
- **5d:** Testing Services

Each Service Family contains at least one Fundamental Service Provider Contract (our published draft guidance provides an overview of all existing FSC contracts allocated into these SFs), together with any non-resource External Services.

SFs 4a-4d reflect the four main types of smart metering services provided by DCC to its users, collectively known as the 'Smart Energy' SF Group. SFs 5a-5d reflect the main types of enabling services supporting the delivery of services in SFs 4a-4d, collectively known as 'Enabling Services & Testing' SF Group.

Each SF will operate with a ringfenced budget and the primary purpose of the proposed reporting is to set and monitor those budgets. We are cognisant that changes in one SF may lead to changes in another SF (for example, to resolve an issue in SMETS1 SF (4a), DCC may require a Change Request, and therefore additional expenditure, to a contract in another SF, for example Data Service Provider in SF 5a). However, in order to prevent double counting and maintain a clear budgetary ringfencing, we propose that all contract variations should be reported in the SF which is home to the relevant contract. Further details on what requirements led to a specific contractual change would be provided via Supplementary Schedules (see proposal #5).

3. Ringfenced Costs

Relevant Main RIGs sheets: 7

In our decision we also said that we may allow the Licensee to apply for ringfenced budget funding for development of additional Mandatory Business (Additional User Services) or Permitted Business services (public good initiatives or Value-Added Services).¹⁷ We propose to create a separate reporting template (tab 7 in the SL RIGs) for any such allowed funding.

4. Internal Costs: Replacement of Cost Centres by Internal Functions and changes in Ledger Code reporting

¹⁷ Ibid. Chapter 4, Part A. In the first cost control period, the Licensee would be able to apply only for ringfenced funding for public good initiatives only. See Paragraph 4.25.

Relevant Main RIGs sheets: 5, 5a-e, 6, 6a-b, 10, 11

To date DCC has reported on its Internal Costs via:

- Ledger Codes (GL) which separate out different types of costs, such as payroll, accommodation, IT etc.
- Cost Centres reflecting the internal structure (teams) of the organisation

We propose to continue requiring reporting by GL codes as these provide stability over time, allowing tracking of different types of costs over a number of RY. However, we propose to make the following changes:

- Remove the GL “Internal Services” (IS). IS currently include services provided by DCC’s shareholder (Capita). Going forward,¹⁸ any shareholder services provided to the Successor Licensee will have to be procured on the same principles as apply for other External Service Provider contracts. As such, any shareholder services should be reported as External Services. Correspondingly, we propose to remove sheet 10 (reporting Shared Services).
- Split existing “External Services” (ES) into “External Services (Resource)” (ESR) and “External Services (Non-Resource)” (ESNR). ESR would be fungible with other resource costs; whereas ESNR would be allocated, where possible, to individual SF and would only be fungible within that SF’s budget.

We also propose to require Internal Costs reporting by newly defined Internal Functions, replacing the current cost centres. This change is intended to reflect the current organisational structure and provide more clarity about what internal resources the Licensee requires and what function they serve. Each Internal Function’s costs would consist of Costs reported by GL code. The GL code will provide assurance that, should internal organisations change in future, Internal Costs will remain traceable and consistent with historic reporting. On the basis of information received from the Licensee, we propose the following Internal Functions:

- On tab **6a** (Service Delivery Overheads):
 - Chief Technology Officer (CTO)
 - Service Delivery
 - Operations
 - Lifecycle Management
 - Contract Management

¹⁸ Subject to our consultation proposal, see Ofgem (2025), DCC Review Phase 2: Objectives, operational model and future role of DCC, Chapter 3, Part C. www.ofgem.gov.uk/consultation/dcc-review-phase-2-objectives-operational-model-and-future-role-dcc

- Customer Experience
- On tab **6b** (Corporate Overheads):
 - Chief Financial Officer (CFO)
 - Commercial
 - Corporate Management
 - People
 - Security & Enterprise IT
 - Strategy and Regulation
 - Licence Renewal

We also propose that the Service Delivery Overhead Costs reported on tab 6a are then allocated to their respective Enabling Services & Testing SF tabs (5a-5d). This would be for information only – these costs would not contribute to the overall budget for those SFs.

We also propose to make corresponding changes to tab 11 (Staff Resourcing and Costs) and require reporting of Full Time Employee numbers and costs per Internal Function. Due to the deletion of the old tab 10 (Shared Services), this tab (Staff Resourcing and Costs) now becomes tab 10.

5. Introduction of Uncertainty Mechanisms

Relevant Main RIGs sheets: 1, 2, 3, 4, 4a-e, 5, 5a-e, 6, 6a-b, 7, 11

We concluded that we would introduce three types of Uncertainty Mechanisms (UMs) in the new cost control regime:

- Automatic Adjustment (AA) for Pass-through Costs,¹⁹ contractual indexation and any pre-agreed (with the Customer Challenge Group and approved by Ofgem) volume-driven costs such as
- An End-of-Year Re-opener to allow the Licensee to apply for an adjustment to the next RY's Allowed Revenue to account for changes in circumstances and assumptions from the business planning stage
- Emergency Reopener to account for any *force majeure* type events or implementation of urgent changes where contingency funding would not be sufficient

We published a draft Business Plan Guidance setting out the process for application of these UMs.²⁰ We propose to modify the RIGs to account for the introduction of UMs in the following ways:

Automatic Adjustments

To account for AA, we propose to create separate tabs (4e and 5e) to report any costs agreed to be subject to the AA. These would be reported per contract and allocated for information to relevant SFs but would not be part of that SF's budget to ensure that effects of volume movements are not used to unduly fund cost overruns. Our current view is that Comms Hubs Monthly Asset Charges, Comms Hub Maintenance Charges, User gateway connections and Explicit Charges could be subject to AA and reported separately. Any additional costs could be added through the business planning process and all costs would have to be approved by the Authority. The process for AA is set out in our draft Guidance.²¹

Re-openers

We have included an "Uncertainty Mechanism" line into cost reporting tabs. This would be used to insert any additional Allowed Revenue based on the Successor Licensee's application and Ofgem's approval. We have also included a summary tab 11 to capture all reopener costs.

¹⁹ These are currently SECCo and AlthANCo charges and any payments made to the Authority

²⁰ Ofgem (2025), Draft Business Plan Guidance. www.ofgem.gov.uk/consultation/draft-terms-reference-customer-challenge-group-and-draft-business-plan-guidance

²¹ Ibid., paragraphs 6.5-6.7, also 5.17-5.19.

6. New requirement on information to be provided via Supplementary Schedules

As part of its submission, DCC provides additional information in Supplementary Schedules (SS). We propose to make the SS a formal part of the SL RIGs and require the following information be provided via them:

1. Breakdown of External Services (resource and non-resource) with information on provider, description of the service provided, cost, and duration (including start and end date as well as whether the respective service is a new contract or an extension to an existing contract). Where the service relates to a non-resource External Services cost, we expect DCC to indicate the associated Service Family.
2. Breakdown of all FTEs with the following information per role: Internal Function, sub-team, Role ID, Job title, type (permanent/temporary) and % of FTE in each RY across the cost control period
3. Breakdown of External Costs by change requests (CRs) and project requests (PRs) by SF with each PR/CR detailing: FSC contract, RIGs category, RIGs reference, CR/PR number, CR/PR description, cost across RYs
4. Breakdown of all contracts provided by the shareholder, (including start and end date as well as whether the respective service is a new contract or an extension to an existing contract).
5. Breakdown of all Transitional Service Agreements between the Successor Licensee and the current Licensee or its Related Undertakings, including description, value and duration
6. Breakdown of volume drivers and any other information in support of proposed costs to be subject to the Automatic Adjustment mechanism, such as comms hub forecasts for each RY of the cost control period.

This will help ensure we have sufficient information to calculate the Allowed Revenue while keeping the reporting in Main RIGs sheets clear and consistent.

We do not propose to set a template for the SS and propose to allow the Licensee to report the information in a way that best reflects its internal systems, processes and reporting capabilities. However, we expect the required information to be complete and accurate.

7. New requirement on accruals vs cash-based reporting

Relevant Main RIGs sheet: 3

We concluded that we would require the SL RIGs to be reported on an accruals-basis with an additional report showing the cash view used for charging purposes. We therefore

propose to modify tab 3 (revenue reporting) to provide a “bridge” between cash-based and accruals-based reporting by:

- Adding Financing Repayments
- Removing Programme Costs subject to Financing
- Removing Other Costs subject to Financing

We would expect this data to be supported by a written explanation of the differences as part of any end-of-year reporting.

RIGs Annexes

The current RIGs contain four Annexes for reporting of additional information. Only the Main RIGs (and additional requirements on SS) are the subject of this consultation. Our current proposals in respect of the Annexes are as follows:

- **Annex 1** (Quality of Service Information) and **Annex 2** (Baseline Margin Project Performance Adjustment) are not required for the purposes of calculating the SL Allowed Revenue. We will consult on their future form as part of our upcoming consultation on remuneration guidance.
- **Annex 3** (External Costs) and **Annex 4** (Centralised Registration Service): Our current view is that Annex 3 and 4 may be redundant as the information presented therein would, subject to our proposed changes, be reported via the Main RIGs (Service Family reporting) and the SS. We propose not to use Annex 3 and 4 in the first cost control period but we may reintroduce them in future. We may consult on a subset of information used to report on Switching performance in Annex 4 as part of our consultation on remuneration guidance.

What are we asking for your views on?

We are interested in your views on our proposed changes. We would also welcome any other suggestions that will help ensure we have sufficient information to decide whether proposed costs should be approved as economic and efficient.

Consultation questions:

1. What are your views on our proposed changes to reflect the shift from ex-post to ex-ante reporting? How many RYs of historic costs in the current Licence should be reported in the SL RIGs?
2. What are your views on our proposals to introduce Service Families and ringfenced budgets at the Service Family-level? Do you agree with the structure of the Service Families?
3. What are your views on the proposed replacement of Cost Centres by Internal Functions and changes in Ledger Code reporting? Do you agree with the proposed Internal Functions? Do you agree with the split of External Services into separate resource and non-resource GL codes?
4. What are your views on the ways in which application of Uncertainty Mechanisms would be captured in the SL RIGs? Do you agree with the separate reporting of costs subject to Automatic Adjustments?
5. Do you agree that Supplementary Schedules should become part of the RIGs templates? What are your views on the proposed list of required information? Do you agree that the Licensee should have the flexibility to report the information in format of its choosing, so long as the information is accurate and complete?
6. Do you agree with the proposed bridging of accruals vs cash-based reporting? Are there other factors which may need to be accounted for?
7. Do you have any other comments or suggested areas for changes or improvements?

We consider that it may be beneficial to look at revising some aspects of the RIGs following our experience of the first *ex-ante* cost control period.

Consultation process

We invite all interested parties to provide their feedback on the draft RIGs by 15 July 2025. Subject to the outcome of the consultation and the responses received, we intend to publish the final version of both documents by 31 July 2025.

We may publish responses on our website. If you consider that information you provide should be treated in confidence, please provide the reasons for this when submitting your response.

How to respond

Please submit responses by 15 July 2025 to DCCregulation@Ofgem.gov.uk. We encourage concise, detailed, and specific feedback and welcome any additional suggestions or concerns stakeholders may wish to provide. Stakeholders may wish to consider forming their response based on the questions in this document.

We look forward to hearing from you,

Jakub Komarek

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