Guidance

Business Plan Guidance & Cost Control Processes and Procedures for Smart Meter Communication Licence holder v1

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Smart DCC Ltd, as the current holder of the Smart Meter Communication Licence, will be required[1] to submit a Business Plan and Price Control Information to allow Ofgem[2] to determine the Allowed Revenue of the Successor Licensee in the First Cost Control Period (of the Successor Licensee) covering the period from the Transfer Date[3] to 31 March 2028. This document provides guidance on the appropriate format and content that should be included in the Business Plan and the cost control processes and procedures Ofgem expects to apply.

As per LCs 34A.10 and 34A.11 this Guidance Document outlines:

- Description of the Authorised Business of the Successor Licensee under a Successor Licence
- The Authority's best estimate of the Transfer Date

[1] Under LC34A LC34B per Ofgem (2025), Modifications to the Smart Meter Communication Licence for transition to ex-ante cost control and other changes required for Licence closure: decision. www.ofgem.gov.uk/decision/modifications-smart-meter-communication-licence-transition-ex-ante-cost-control-and-other-changes-required-licence-closure-decision
[2] Throughout this document we may use the terms "Ofgem", "Authority" and "we/us" interchangeably.
[3] Meaning the date on which the Licence Term (or Additional Licence Term) will expire; or any earlier date on which, by virtue of a direction to be given by the Authority, the Licensee will cease to carry on the Authorised Business although still remaining the holder of this Licence (LC 43.7)

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- What information relating to the Authorised Business of the Successor Licensee the Authority requires from the Licensee to determine the Successor Licensee's Required Revenue ("Mandatory Content")
- Requirements as to the form and way the Mandatory Content must be provided to the Authority
- The processes and procedures the Authority expects to follow to determine the Successor Licensee's Required Revenue
- The principles the Authority expects to apply to determine whether the costs to carry on the Authorised Business of the Successor Licensee are economic and efficient
- The processes and procedures the Authority expects to follow to adjust its determination of the Successor Licensee's Required Revenue – what factors we may consider in deciding whether to accept a re-opener application

This is the final version of the Business Plan Guidance which applies to the current Licensee pursuant to our statutory decision on interim Licence modifications. It is being published alongside the Terms of Reference for a Customer Challenge Group and will take effect from its publication date, 15th July 2025.

This guidance is subject to change as formal guidance will be re-issued under the Successor Licence.

Any enquiries related to the text of this publication should be sent to Ofgem at:

10 South Colonnade, Canary Wharf, London, E14 4PU.

This publication is available at www.ofgem.gov.uk. Any enquiries regarding the use and re-use of this information resource should be sent to: psi@nationalarchives.gsi.gov.uk

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1. Introduction

1.1 The holder of the Smart Meter Communication Licence is responsible for providing the communications, data transfer and management required to support smart metering. It is responsible for linking smart meters in homes and small businesses with energy suppliers, network operators and energy service companies. It is important that as a monopoly company, the Licensee is sufficiently incentivised to play its role well, delivering value for money and high quality services. The current Licensee is Smart DCC Ltd, which was awarded its Licence by the government in 2013 for an initial period of 12 years. We have decided to extend the Licence for 24 months, until 22 September 2027[4] while a Successor Licensee is selected.

1.2 In August 2022 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 and drive our agreed principles. In this decision, we confirmed that one of the key features for the future DCC regulatory framework would be that sufficiently stable costs would be subject to an upfront approval by Ofgem via an *ex-ante* cost control or a budget-setting process, with the expectation that it would improve cost transparency, customers' engagement and scrutiny.

1.3 In December 2024 we consulted on proposals for the detailed process for determining the Licensee's Allowed Revenue. We decided to implement the first *ex-ante* cycle by requiring the current Licensee (Smart DCC Ltd) to prepare and submit to us the first fully costed Business Plan to cover the period from the Transfer Date to 31st March 2028.[5] Together with Price Control Information submitted in line with the Successor Licensee Regulatory Instructions and Guidance (SL RIGs)[6] the Business Plan will serve as the basis for Ofgem's determination of the Allowed Revenue (budget) of the Successor Licensee. The Successor Licensee will prepare its own Business Plan to take effect from the Second Cost Control Period commencing on 1st April 2028.

[4] 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
[5] Under LC 34A. Ofgem (2025), Modifications to the Smart Meter Communication Licence for transition to ex-ante cost control and other changes required for Licence closure: decision. www.ofgem.gov.uk/decision/modifications-smart-meter-communication-licence-transition-ex-ante-cost-control-and-other-changes-required-licence-closure-decision
[6] Under LC 34B, Ibid.

1.4 DCC is required to submit the Business Plan and the Price Control Information no later than 31 December 2025. DCC is also required to engage on its draft Plan with a Customer Challenge Group constituted under the Smart Energy Code for at least four months prior to its submission to Ofgem. Please refer to our Customer Challenge Group Terms of Reference for further information.

Text of the Business Plan Guidance

1.5 To determine the Successor Licensee's Allowed Revenue in the First Cost Control Period, Ofgem requires information from the current Licensee on the activities that it expects will be necessary for the Successor Licensee to undertake, and their associated costs. The Licensee will provide this information to us in the form of a costed Business Plan and Price Control Information submitted in the Successor Licensee Regulatory Instructions and Guidance (SL RIGs) templates, which Ofgem will then assess.

1.6 The Licence gives us power to issue, and from time to time revise, guidance about the procedure we will follow and the matters we will take into account when considering whether, and to what extent, to exercise our power in relation to giving a direction that costs that we consider are not economic and efficient and are to be excluded from any calculation of the Successor Licensee's Allowed Revenue.

1.7 The Licence also gives us power to issue, and from time to time revise, guidance about the procedure we expect to follow and the matters we may take into account when determining the Successor Licensee's Allowed Revenue.

1.8 This document provides the Licensee with specific guidance for the Business Planning process, setting out the process by which the Licensee must submit the Business Plan to the Gas and Electricity Markets Authority ('the Authority') and the governance and process by which the Challenge Group will assess the Business Plan. It also covers the Authority's approach to cost assessment. It is not legally binding and the Licensee and other stakeholders should take their own legal advice on any questions relating to the interpretation and application of the Licence terms and conditions. This document should be read in conjunction with, not instead of, the relevant parts of the Licence. In the event of any inconsistency between the Licence and this document, the Licence Conditions take precedence.

1.9 This document should be read together with the Successor Licensee Regulatory Instructions and Guidance. They serve a different purpose to this guidance document: they set out how the Licensee should report the quantitative cost control information as required under its Licence.

1.10 This document is issued by the Authority under Licence Condition 34A of Smart Meter Communication Licence.[7]

1.11 Before issuing the guidance, the Authority will publish on the Authority's Website:

a) The text of the proposed Business Plan Guidance;

b) The date on which the Authority intends the DCC Business Plan Guidance document to come into effect; and

c) A period during which representations may be made on the content of this Guidance Document, which will not be less than 28 days.

Compliance

1.12 Where provisions of this guidance document require the compliance of the Licensee, the Licensee must comply with those provisions as if the guidance document were part of Licence Conditions 34A and 34B.

1.13 For the avoidance of doubt, this document is subordinate to the Licence. This document does not change any definitions or obligations contained within the Licence and in the event of any ambiguity over the guidance document, the Licence will take precedence.

1.14 The content of this guidance document does not alter or supplement the Licensee's compliance with its wider obligations under legislation, its Licence or industry codes.

Developing our approach

1.15 In this document, we are seeking to state and clarify a number of principles and issues. However, this guidance document cannot be fully exhaustive in the level of detail and full range of issues and factors we may consider in assessing any cost control.

1.16 We will continue to develop our approach to assessing costs and applications in respect of Allowed Revenue, drawing upon knowledge and approaches used elsewhere. This guidance will be reviewed and updated in future to reflect these changes, and other relevant amendments to the regulatory framework, when

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

appropriate. It is subject to change and a formal guidance will be re-issued under the conditions of the Successor Licence which the Authority will consult on along with the selection process of the Successor Licensee.

General feedback

1.17 We are keen to receive your comments about this guidance. We'd also like to get your answers to these questions:

- Do you have any comments about the overall quality of this guidance?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Any further comments?

Please send any general feedback comments to dccregulation@ofgem.gov.uk

2. The Business Plan process

This chapter provides an overview of the Business Plan process. It provides guidance on the steps, processes and timings involved in DCC's Business Plan cycle. This covers the cost control period starting on the Transfer Date and ending on 31 March 2028.

2.1 The submission of the first Business Plan for the First Cost Control Period will follow a bespoke process. For the purposes of the First Cost Control Period, the Licensee submitting the Business Plan and Price Control Information is to be Smart DCC Ltd.

2.2 The First Cost Control Period of the Successor Licensee will cover the period from the Transfer Date to 31 March 2028. Until the Authority has designated the Transfer Date under LC43, the Licensee should assume that the Transfer Date shall occur in on before November 2026.

2.3 In developing its plan, it is essential that the Licensee carries out robust and high quality engagement with stakeholders. This must include consultation with the Customer Challenge Group (CCG).[8]

2.4 The Licensee is expected to deliver its Business Plan and adhere to the requirements set out in LCs 34A and 34B.[9]

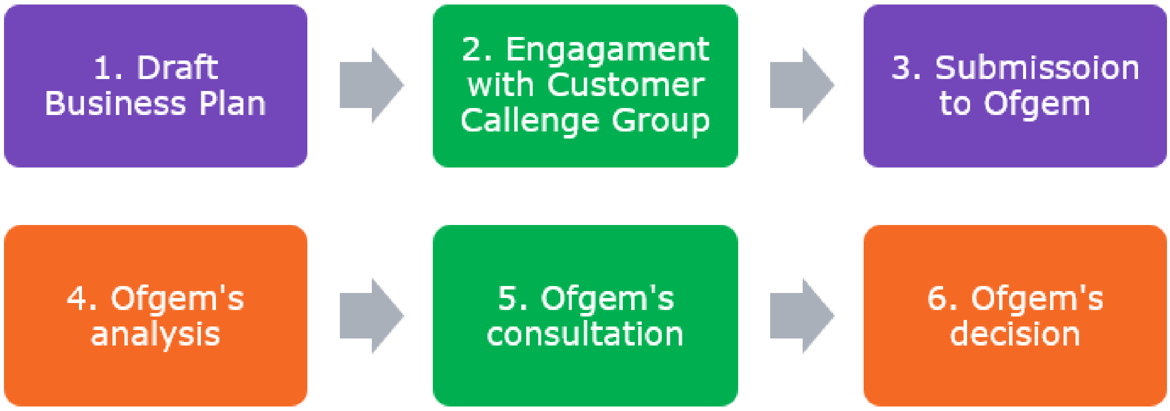
2.5 This guidance will take effect from the date on which its final version is published.

A. Stages in the business plan process

2.6 Figure 2.1 provides an overview of the key stages and timings in the Business Plan process, which is further described in this section. The content required for the Licensee's Business Plan submission is outlined in section 3, whilst further details on Ofgem's assessment process is in section 4.

[8] To be established under the Smart Energy Code. For more details see Customer Challenge Group Terms of Reference published alongside this document.
[9] Ofgem (2025), Modifications to the Smart Meter Communication Licence for transition to ex-ante cost control and other changes required for Licence closure: decision. www.ofgem.gov.uk/decision/modifications-smart-meter-communication-licence-transition-ex-ante-cost-control-and-other-changes-required-licence-closure-decision

Figure 2.1: Business Plan process (Purple = DCC-led process, Green = focus on stakeholder input, Orange = Ofgem's internal processes)



Step 1) Draft Business Plan (up to 4 months prior to due submission to the Authority)

2.7 The Licensee shall prepare a draft version of its Business Plan in line with the requirements set out in the Licence and this guidance.

2.8 In developing its Business Plan, the Licensee should undertake engagement to ensure that the draft Business Plan is robust and reflects the views of a wide spectrum of stakeholders, including but not limited to the SEC and REC parties and consumer representatives. The Licensee may engage with the Customer Challenge Group during this period.

2.9 The draft version of the Business Plan should reflect stakeholder views and feedback provided to the Licensee by the Authority and the Customer Challenge Group throughout the duration of the previous Cost Control cycle.

2.10 We expect that the draft costed Business Plan (including a Development Plan section) will be made publicly available on the Licensee's website, subject to appropriate redactions of sensitive information in line with guidance in section 4.

2.11 For the purposes of the First Business Plan, this work should be carried out and completed by the Licensee by 29th August 2025.

Step 2) Engagement with Customer Challenge Group (4 months prior to due submission to the Authority)

2.12 The Licensee shall submit and consult with the Customer Challenge Group on the draft Business Plan no later than 4 months prior to the date on which it must submit the Business Plan and Price Control Information to the Authority. For the purpose of the First Business Plan this date shall be 29th August 2025.

2.13 The formal Business Plan consultation period should strike a balance between being of a sufficient duration to enable the Customer Challenge Group to respond with its views and also allow the time for the Licensee to update the Business Plan in response to those views, prior to the final submission in Step 3.

2.14 The Licensee shall provide the Authority with a copy of the full Draft Business Plan in the form presented to the Customer Challenge Group, for information purposes; however, the Authority will not provide comments on the draft Plan at this stage.

2.15 In addition to the Licence requirements and this guidance, the engagement between the Licensee and the Customer Challenge Group shall be governed by the Customer Challenge Group Terms of Reference.[10]

Step 3) The Final Business Plan

2.16 In preparing the Business Plan for submission to the Authority, the Licensee must have due regard to the views provided to it by the Customer Challenge Group.

2.17 The Licensee shall submit its Business Plan to the Authority alongside its Price Control Information by a date set out in the Licence. For the purposes of the First Business Plan, this date shall be 31st December 2025.

2.18 The Licensee must publish a final version of its Business Plan on its website no later than 14 days following submission to the Authority, subject to appropriate redactions of sensitive information in line with paragraph 4.15.

2.19 In its final Business Plan the Licensee must demonstrate how it has incorporated the views of consulted parties and the Customer Challenge Group. This should include explanation for any area where the Licensee has not acted fully on the feedback it has received.

Steps 4-6) Ofgem analysis, consultation and decision

2.20 The Authority will assess the Licensee's submission to determine the Allowed Revenue to be set in the relevant Cost Control Cycle. In its analysis the Authority may draw on the views of the Customer Challenge Group set out in a report submitted by the Group to the Authority.[11] The Authority may seek further information or clarification from the Customer Challenge Group. The Authority may also request further information from the Licensee.[12]

[10] Published alongside this guidance
[11] Under section 5 of the ToR
[12] LC 34A Part E

2.21 Following its review of the final Business Plan, the Customer Challenge Group's report and any further information or evidence that it may consider necessary, the Authority will consult on its proposed determination of Allowed Revenue for a period of at least 28 days.

2.22 Following its review of consultation responses, Ofgem will publish its decision on the determination of the Successor Licensee's Allowed Revenue for the Cost Control period.

2.23 The Licence does not prescribe dates for the cost assessment to be completed but we will always aim to direct our final decision before the end of the Regulatory Year preceding the commencement of the cost control cycle to provide clarity to the Successor Licensee and to allow for changes to its budget; however, the time taken to complete the cost assessment will depend on the complexity and range of issues we need to assess. For the purposes of the First Cost Control Cycle, we will aim to publish our decision ahead of the Transfer Date (on which the First Cost Control Cycle will commence).

B. Revision and monitoring of the Business Plan

2.24 Following the approval of the Business Plan and determination of Allowed Revenue, the Successor Licensee must ensure that it delivers to the approved Plan and provide regular updates to the Authority and the Customer Challenge Group, including:

a) At minimum quarterly reporting to the Customer Challenge Group in line with paragraph 4.1(f) and 4.1(g) of the CCG Terms of Reference with the same information provided to the Authority

b) Subject to the Authority's requirement, six-monthly reporting via an appropriate RIGs template[13] to the Authority on the Licensee's cash position[14]

c) End-of-Year Reporting via the RIGs to the Authority providing reconciliation against the annual Allowed Revenue

2.25 The Business Plan may be modified on the basis of a reopener application submitted in line with guidance in section 6.

[13] Ofgem (2025), Draft Regulatory Instructions and Guidance (Successor Licensee). www.ofgem.gov.uk/consultation/draft-regulatory-instructions-and-guidance-successor-licensee

[14] As per our decision in Ofgem (2025), DCC Review Phase 2: Determination of Allowed Revenue – conclusions, paragraph 3.51. www.ofgem.gov.uk/publications/dcc-review-phase-2-determination-allowed-revenue-conclusions. This requirement will be implemented via the Successor Licence.

3. Mandatory contents of the Business Plan

This chapter outlines our expectations on the contents of DCC's Business Plan and provides specific guidance on what different elements of the Business Plan should contain.

Overview

3.1 DCC shall prepare a consolidated Business Plan in accordance with this guidance.[15] The Plan's contents shall comprise the following:

a) A Development Plan section for the purposes of providing a 5-year view of the broader strategic landscape

b) A costed Business Plan for the purposes of setting the Successor Licensee's Allowed Revenue for the relevant Cost Control period, including any necessary appendices with detailed justification of costs submitted in line with the SL Regulatory Instructions and Guidance

3.2 For the purposes of the first Business Plan to be submitted to the Authority under LC34A, the relevant cost control period is the First Price Control Period of the Successor Licensee from Transfer Date (determined by the Authority under LC43) until 31st March 2028.

3.3 The consolidated Business Plan will be based on stakeholder engagement and will be scrutinised, in its draft form, by a Customer Challenge Group as per the process set out in section 2. Consequently, the whole Business Plan must contain sufficient cost information and be submitted to the Challenge Group in order for it to conduct its work. Ofgem requires the Licensee to act in accordance with its Licence[16] to consult with the CCG and to have due regard to its feedback. We expect DCC to agree the level of detail on the aspects of its costed Business Plan to be shared with the CCG during the development process.

3.4 The integration of the two elements of the Business Plan is intended to be synergistic. The Development Plan section will provide an overview of the Licensee's business strategy for the next 5 year period. The costed Business Plan section is how DCC intends to give operational effect to its Development Plan in the relevant Cost Control period.

[15] LC 34A Part B
[16] LC 34A.12

3.5 It is for the Licensee to demonstrate that its proposed expenditure is economic and efficient. As part of the consolidated Plan, the Licensee should submit any information that is or could reasonably be required by the Authority to determine the Successor Licensee's Allowed Revenue;[17] in particular, any necessary evidence to justify the cost information submitted through the Successor Licensee Regulatory Instructions and Guidance templates. These documents may contain more granular and detailed cost and contract information, which may not be required by the Customer Challenge Group during engagement on the draft Business Plan.

A. Contents of the Development Plan section

3.6 The Development Plan section shall comprise the following mandatory contents:

a) The main trends and factors that are likely to affect the future development and performance of the Authorised Business, in whole or in part

b) The opportunities likely to be available to the Licensee for developing the infrastructure, systems, and processes in place for the provision of Services under or pursuant to the Smart Energy Code or Retail Energy Code

c) The current condition of any of such infrastructure, systems, and processes in terms of the capacity, loading, and utilisation factors applicable to them and the interdependence between them

d) The loading and utilisation of such infrastructure, systems, and processes by different types of Core Communication Services, Elective Communication Services, and Value Added Services

e) The availability of spare capacity within any of such infrastructure, systems, and processes, and the scope for using it for the purpose of providing new or amended Services requested by SEC Parties or REC Parties

f) Potential changes in the Licensee's business processes or ways of working that would result in a more efficient provision of Services, or in overall productivity gains or the reduction of operational risk

g) The emergence of any specific new or evolving relevant technologies that could improve the Licensee's management and operation of the Authorised Business, in whole or in part

[17] References to Allowed Revenue and Required Revenue, as defined in Licence Condition 34A, are used interchangeably in this document

3.7 The contents of the Development Plan section are not required to be costed; however, the Licensee may include its best estimate of long-term cost trends.

B. Contents of the costed Business Plan section

3.8 The costed Business Plan section must cover two broad narratives:

a) A qualitative part presenting the Licensee's proposed activities and outputs for the next Cost Control period, together with a compelling narrative on how and why it has settled on these activities and outputs

b) A quantitative part containing information on the costs expected to be incurred to deliver these activities together with an evidential base at an appropriate level that these costs are both economic, efficient and supported by DCC's customers

3.9 The costed Business Plan section should include the following information:

a) The proposed scope of the Licensee's Authorised Business over the Cost Control Period, its alignment to the Licensee's objectives and regulatory requirements under the SMCL and relevant Codes. This should include a presentation in line with chapter 4 requirements of:

b) What services DCC delivers and proposes to deliver over the Cost Control Period

c) What new Relevant Service Capability the Successor Licensee will need to procure to deliver the Mandatory Business Services

d) What changes will be required to the existing Relevant Service Capability

e) How the strategic considerations identified in the Development Plan section have informed investment decisions over the Cost Control period

f) The internal organisation, including workforce, systems, processes and investment, necessary to deliver the scope of Mandatory Business Services

g) Details of proposed changes to existing Programmes, comprising both internal and external resources, supported by evidence on drivers of change and cost benefit analysis supporting the changes

h) Evidence of engagement with relevant stakeholders, in particular SEC and REC Parties, and how it has shaped the contents of the Plan

i) Other requirements specified in this section

3.10 Notes: For the purposes of preparing the Business Plan for the First Cost Control Period, the Licensee should assume that the Authorised Business of the Successor

Licensee shall comprise the Authorised Business as set out in the Smart Meter Communication Licence, the Smart Energy Code and the Retail Energy Code, with regard to Ofgem's policy consultations and conclusions in respect of the Successor Licence.[18]

3.11 The contents of the Plan must be supported by forecast costs, subject to the guidance set out in this chapter and chapter 5 (Cost Control Principles). Additional detailed justification for quantitative Cost Control Information submitted through the SL RIGs as part of the price control submission should be provided in appendices to this Business Plan and follow the structure of the RIGs Guidance. Further details of the proposed submission structure is detailed in figure 4.1.

3.12 As a basic principle, where DCC is proposing new costs, the following information should be provided:

a) The regulatory driver(s) for that activity

b) Consideration of options and evidence of customer engagement undertaken and how it has shaped the option selected

c) Justification of the forecasted costs as economic and efficient, including profiling of the proposed costs and resources required, as appropriate

d) What efficiencies will be used to reduce costs

3.13 In support of proposed costs, the Business Plan must include:

a) Evidence that the costs are economic and efficient, for example as compared to historical benchmarks and/or benchmarking with comparators – further details are set out in section 5

b) Details of assumptions underpinning the cost forecasts and justification for projected changes in the efficient levels of costs over time caused by improvements in project delivery, technological innovation, procurement efficiencies, etc.

c) Any specific considerations as pertains to the described activity, project or programme, such as testing requirements or level of defects when a programme goes live

[18] Ofgem (2025), DCC Review Phase 2: Objectives, operational model and future role of DCC. www.ofgem.gov.uk/consultation/dcc-review-phase-2-objectives-operational-model-and-future-role-dcc

d) Details of which categories of expenditure are uncertain and more difficult to forecast using historical/independent benchmarks. This should include explanation of:

(1) The dependencies for different cost scenarios and their likelihood

(2) Any potential impact on service continuity and/or DCC's customers where necessary

(3) The risks of underutilisation/stranding that new/existing investments might face in the future under a range of plausible forecast scenarios

(4) The risk that an alternative solution may be the most efficient means of addressing the requirements

(5) The risk that the investment is premature

(6) Where this is the case, we expect the Licensee to demonstrate consideration of mechanisms that mitigate these risks associated with uncertainty, and/or other evidence to justify the submitted costs

C. Specific Requirements

External Costs

3.14 External Costs are costs which DCC incurs through provision of Fundamental Service Capability from External Service Providers set out in Schedule 1 of the Licence and the Regulatory Instructions and Guidance. It is the Licensee's responsibility to notify the Authority of changes to the existing External Service Provider contracts or of entering into a new contract with an External Service Provider for the provision of Fundamental Services Capability.

3.15 The information in support of forecasted External Costs should include:

a) Comparison against historic rates (in its submission the Licensee may suggest the suitable comparator period; if Ofgem requires additional information it will request it) for enduring costs and repeated change (eg testing rates) in existing contracts with evidence of any variation in base charges

b) Details of all new procurements demonstrating customer engagement on scope and requirements, compliant approach to market, negotiations and resulting value for money proposition – where contracts are underway, forecasts should reflect the most up to date view available to the Licensee. Where this differs from forecast costs included in a business case to which the

Secretary of State has previously provided a non-objection,[19] the Licensee will explain what has driven these differences

c) An explanation of which costs are fixed and which are variable (for example are volume dependent), and, for the proposed costs, any optionality around variable costs

d) Detailing of assumptions, dependencies and risks per contract as the basis for any future reopener application

e) Evidence of customer engagement on requirements and scope for contractual changes (CRs/PRs):

- For SEC modifications, alignment to costs approved under SEC change process
- For non-SEC, Licensee-driven change, evidence of the Licensee's own engagement with customers and External 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

3.16 The Licensee may 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 is important that the Licensee provides evidence of the most up to date relevant assumptions, dependencies and risks behind those costs. For example, where contract negotiations are underway, the Licensee 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 the Successor Licensee would be asked to explain any change in circumstances in case it required additional Allowed Revenue.

Internal Costs

3.17 Internal Costs comprise the costs that are economically and efficiently incurred by the Licensee for the purposes of the provision of the Mandatory Business services (excluding External Costs and Pass-Through Costs).

3.18 In general, the Licensee should clearly outline which of its Internal Costs cover services provided by a Related Undertaking, in particular a shareholder, and

[19] Under LC16.6A-C

which it expects to incur directly. This distinction should also clearly show the breakdown between ongoing/run the business costs, versus one-off costs incurred to deliver new systems or capabilities. The Licensee should also demonstrate how these services provide value for money and provide a full list of services and costs in the RIGs. In the First Cost Control Period, some of these services may be provided under traditional service agreements (TSAs). The Licensee should identify and justify any such services in its submission.

3.19 The forecasted Internal Costs within the Business Plan must be submitted alongside the following information:

a) For both resource and non-resource costs, evidence of benchmarking against the midpoint of market rates with a 10% tolerance level. For non-resource costs, the Licensee would be expected to demonstrate clearly that the costs are efficiently incurred *eg* via competitive procurement and/or benchmarking as appropriate

b) The 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

c) Customer engagement on the scope and gap/cost-benefit analysis of any planned internal transformation programmes or investments

d) Evidence of the Licensee’s 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

e) Evidence that delivery of any new functions in-house as opposed to through competitive procurement is demonstrably the most economic and efficient option

3.20 In some cases not all Internal Costs may be known for the whole cost control period, and the Licensee may provide its assessment of the most likely level of costs. It is for the Licensee to show that these costs represent the most likely outcome and will reflect economic and efficient costs.

Centralised Registration Service (CRS) Costs

3.21 CRS costs comprise the Internal and External Costs associated with the Switching Programme.

3.22 Consistent with Internal and External Costs, we require the same level of evidence and justification in relation to these costs, as set out in paragraphs above.

Uncertainty Mechanisms

3.23 Uncertainty in cost forecasts can arise for several reasons (we outline possible drivers in more detail in chapter 5). Uncertainty Mechanisms allow changes to the Licensee's Allowed Revenue to be made in light of what happens during the Cost Control period and help to ensure that customers only pay for the outputs that are delivered

3.24 There are three types of Uncertainty Mechanisms:

a) Automatic adjustments to account for Pass-through costs[20], volume sensitive costs,[21] and the impacts of inflation based on terms within External Service Provider contracts

b) An end-of-year reopener, enabling the Successor Licensee's Allowed Revenue to be amended for a subsequent Regulatory Year where costs have arisen that could not be reasonably anticipated

c) An emergency reopener to account for unanticipated external shocks (*force majeure*)

3.25 As part of its Business Plan, the Licensee should identify passthrough costs, contractual indexation and volume sensitive costs it proposes to be subject to the Automatic Adjustment UM. It should provide proposed forecasts for these costs over the cost control period with evidence of:

a) A regulatory obligation to incur these costs

b) That these costs are outside the Licensee's control

c) The assumptions, such own modelling using insights provided by users, used to calculate an economic and efficient forecast

d) For volume-sensitive costs, the relevant factors, dependency and unit price impacted and forecast volumes for the duration of the Cost Control

e) For inflationary costs, the Licensee should provide evidence of contractual terms in respect of indexation. For other inflationary impacts, requiring its

[20] Defined in Condition 1 of the Licence
[21] Agreed at the business planning stage

discretion, the Successor Licensee should apply for adjustment as part of its annual reopener application.[22]

3.26 In the event of overspend which cannot be managed by the Successor Licensee via its budget flexibility or contingency funding, a re-opener can be triggered within a set application window at the end of Q3 to allow the Successor Licensee to access funding or stop a given activity. There is not a specific reopener threshold, rather a reopener application should be submitted to seek adjustment to Allowed Revenue for Year 2 of the cost control period. The Business Plan must include sufficient information on the assumptions behind the forecast costs that a potential reopener application can refer back to, highlighting specific areas of change.

3.27 Further information on the requirements for re-opener applications and guidance on Uncertainty Mechanisms can be provided in chapter 6.

Procurement

3.28 The Business Plan must outline the Licensee's procurement approach, including reference to its procurement strategy that takes account of the principles established by LC 16.

3.29 This approach should include:

a) An outline of the proposed procurements in the pipeline within the cost control period including an overview of the internal assurance that is undertaken prior to the procurements

b) Assignment of key roles and responsibilities within each procurement

c) Identification of key metrics to measure service providers' performance

d) Planned dates for re-procurements

e) Criteria to assess and choose service providers

f) How the Licensee will use competition to identify and reveal efficient costs and efficient terms and conditions for contracts with service providers.

Ringfenced funding for additional Authorised Business

3.30 The Licensee may propose the inclusion in its Business Plan of a ringfenced fund for the development of additional Authorised Business (beyond the Mandatory Business requirements imposed by the Licence, the SEC and the REC).

[22] This is not expected to apply in the First Cost Control Period. The Licensee should provide its best estimates of all inflationary impacts as part of its Business Plan and Price Control submission.

3.31 For the purposes of the First Cost Control Cycle, this Licensee may only propose funding for additional activities meeting the lead criteria below:

a) They are in support of specific proposals which relate to energy policy

b) Their primary purpose is the delivery of a defined piece of work to achieve a specific public policy objective

3.32 If the proposal meets the above lead criteria, we will subsequently assess the proposal against the following criteria:

a) They are not already part of the Licensee's Mandatory Business

b) Their scope is immaterial in the wider context of the Licensee's Authorised Business

c) The Licensee is capable of their provision without procurement of additional Relevant Service Capability

3.33 As part its application, and in addition to the Business Case guidance already laid out in this document, the Licensee must provide evidence of:

a) What additional activities the proposed funding relates to and how those activities meet the requirements in paragraph 3.32

b) What feedback has been received by stakeholders on the proposal including if any objections had been raised by stakeholders

c) What public policy objective is being delivered and why the Licensee is best suited to deliver this activity

d) What benefits (tangible or non-tangible) will GB energy consumers derive from this activity, and over what time horizon

e) How the proposal is backed by robust evidence and justification, including justification for the proposed costs, in particular any additional Internal Costs (resource or non-resource)

f) What funding options the Licensee has considered, including the utilisation of any grants available

g) How the Licensee will monitor the delivery of the anticipated benefits against the incurrence of the proposed cost

h) How the Licensee will ensure that the proposal(s) will not negatively impact the network or the provision of its Mandatory Business

i) If applicable, plans for third-party involvement and how the Licensee will ensure protection of data, information and security of its system

j) How the Licensee will consider, and mitigate if necessary, the potential impacts of these activities on consumers in vulnerable situations

k) The steps that the Licensee will take to ensure that additional projects are not duplicative of previously funded work or of work being concurrently delivered by other parties

l) Any plans to collaborate and disseminate innovation learnings with other companies and other interested bodies

3.34 We will consider all evidence in the round in deciding whether to grant the ringfenced budget. No additional Allowed Revenue approved in this manner may be reallocated for the purposes of delivering any other aspect of the Successor Licensee's Authorised Business. As part of its End-of-Year reporting, the Successor Licensee must provide evidence of delivery of any approved additional activities and their benefits. If any funds remain unused due to a delay to delivery of a specific project, the Successor Licensee will be able to transfer such unused funds into the following Regulatory Year; in all other instances unused funds must be returned to the funding parties.

3.35 The scope of additional activities which the Licensee may propose through this mechanism may be expanded in future by the Authority's revision of this guidance.

D. Stakeholder Engagement

3.36 The Business Plan must set out how the Licensee has incorporated the views and feedback provided to it by stakeholders which the Licensee has consulted with in developing the Plan following the process set out in chapter 2 of this guidance, including at minimum the Customer Challenge, and any other parties.

3.37 Accordingly, the Business Plan should include:

a) A description of the methodology that the Licensee has used to identify its stakeholders and to engage with them to understand their needs

b) Separately, a description of any planned changes to the ongoing use of this methodology

c) The evidence accrued through the application of this methodology, including demonstration of how the Business Plan has been derived from this evidence

d) Evidence of the Licensee's communication and feedback events or activities with stakeholders about how their needs have been interpreted and formed the basis of the Business Plan

e) Plans of any future communication and feedback events or activities with stakeholders about how their needs have defined the business plan objectives and associated actions.

3.38 The Business Plan must set out the Licensee's approach to ongoing stakeholder engagement until the end of the relevant Cost Control Period, including a strategy for engagement as well as a set of proposed commitments to deliver the strategy within the Cost Control period. This must recognise the changing priorities of DCC's customers. This strategy must:

a) Be inclusive of all stakeholders, including through a consideration of the needs of both existing and future customers

b) Be responsive to stakeholder needs, including through setting how the Licensee will maintain an up-to-date understanding of customers' needs as well as how it will ensure views are captured and incorporated into the day-to-day operation of the business.

c) Include clearly defined performance commitments (relating to stakeholder engagement) which are appropriate, well-evidenced and stretching.

d) Incorporate and build on the best practice methods learned and consider best practice methods employed in other industries

e) Incorporate procedures for handling complaints and concerns raised by stakeholders

E. Supporting documents to the Business Plan section

3.39 Alongside the Business Plan, the Licensee should produce any additional information and deliver it to the Authority in Writing, which may be reasonably required by the Authority to determine the Successor Licensee's Allowed Revenue. This should include supporting materials explaining the forecast costs submitted through the quantitative submission using the Regulatory Instructions and Guidance.

3.40 As set out in paragraph 3.15, for External Costs, the evidence should include business cases developed for procurement of (including re-procurement or amendments to) External Service Provider contracts. In this section we focus solely on our expectation of business cases content. For clarity, this should not be viewed as an exhaustive list of the supporting materials we may require from the Licensee. Equally, not all business cases are required to be submitted in full so long as relevant information and justification are provided.

3.41 Business cases should include:

a) A clear statement of need which outlines the issue that the investment is designed to address, including how it aligns to the Licensee's objectives, and the level of support for the project amongst consulted parties.

b) The different options considered for meeting current and future requirements, including the cost of "doing nothing" and of "deferral" options and the associated cost benefit analysis (CBA).

c) For options discounted by the Licensee at this stage, full reasoning, detailing key assumptions, dependencies, and selection criteria given for exclusion

d) The reasons for the timing of costs under the different options considered, including expected outputs related to the cost

e) An evaluation of potential risks and how they will be mitigated

f) A roadmap for the next stages of the procurement, including timelines, resources, and stakeholders

3.42 Where a new procurement falls within the scope of LC 16.6A-C, the Licensee should provide a business case which received non-objection from the Secretary of State. Where a new procurement doesn't fall under LC16.6A-C, the Licensee should still present its own business case or an equivalent assessment.

3.43 The Licensee should include copies of business cases and supporting papers presented to its Executive Committee/Board for approval.

3.44 Where the business case is still in development, then the Business Plan should include the latest version of the relevant business case and the most recent cost assumptions within that business case along with a narrative explanation of how the assumptions have changed and developed, including any new assumptions.

4. Presentation and structure of the Business Plan

This chapter outlines the presentation and structure of DCC's Business Plan submission.

A. Presentation

4.1 The information provided in line with the Mandatory Contents guidance set out in section 3 should be presented through:

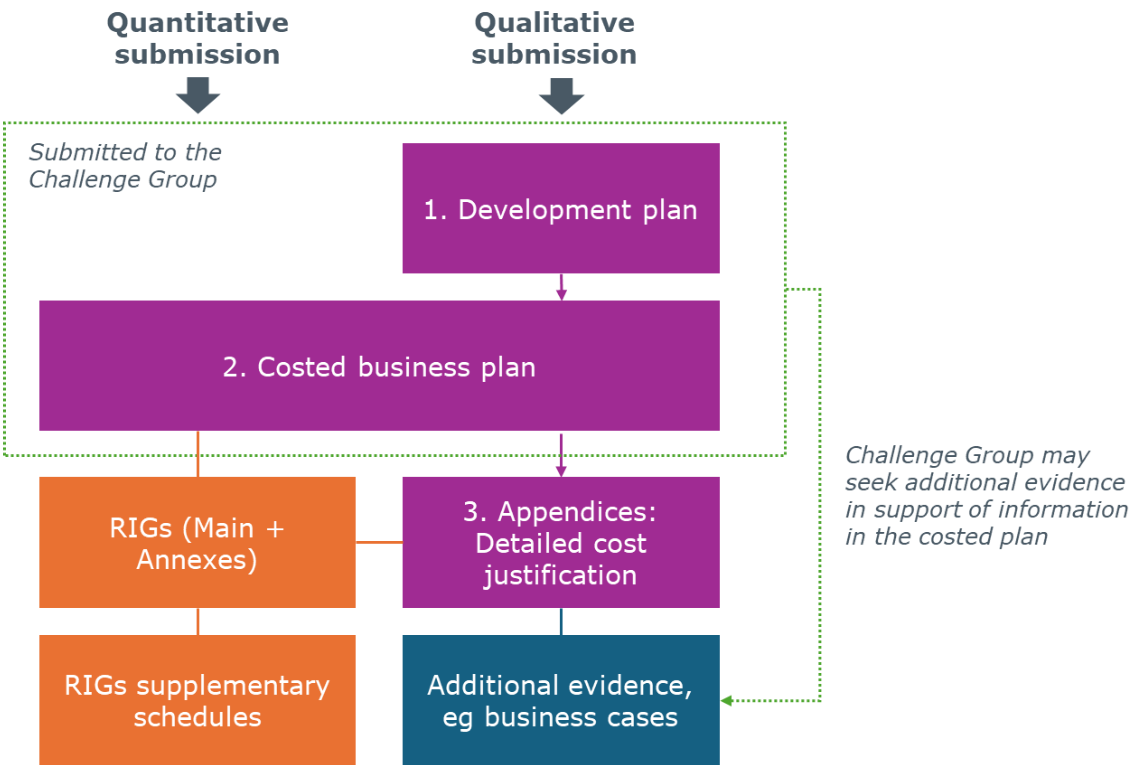
a) A combined Business Plan, including development and costed business plan sections

b) Appendices with detailed cost justifications for cost data submitted in the RIGs templates

c) Additional supporting evidence

4.2 The Business Plan contents should be presented in the overall context of the Licensee's Cost Control submission. Figure 4.1 provides an illustration of the structure of the Licensee's complete submission.

Figure 4.1: Structure of Cost Control submission



4.3 Whereas the costed Business Plan is the basis for overall cost control information and the rationale for activities, the reporting via RIGs templates provides the quantitative data on the basis of which the Authority will calculate the Successor

Licensee's Allowed Revenue. The RIGs templates contain detailed instructions on what to report and offer guidance on how to complete the reporting templates.

4.4 The text of the Business Plan should be succinct, presenting proportionate evidence and justifications for the proposed expenditure and outputs. Further information, for example to justify line items and data points submitted in the RIGs templates, should be submitted through appendices and supplementary documents. Appendices and supporting evidence should be clearly signposted and referenced within the core Business Plan text. They may include technical or commercially sensitive information (eg copies of impacts assessments, business cases, Board papers etc). The annexes should be as clear and readable as the rest of the Business Plan.

B. Structure

4.5 The Business Plan structure should be based logically around the Licensee's Mandatory Business and aligned to the Regulatory Instructions and Guidance.

4.6 For the purposes of the First Business Plan, the breakdown of the required programme-based reporting will be specified via the Successor Licensee's Regulatory Instructions and Guidance.[23]

4.7 The Business Plan should provide sufficient quantitative and qualitative information for each programme of work. It should distinguish between External Costs and Internal Costs, detailing within each new areas of expenditure and distinguishing between fixed and variable costs and their drivers. The cost forecasts should be presented per each Regulatory Year of the Cost Control cycle.

4.8 For each programme (understood by the term Service Family)[24] the Business Plan should outline:

a) External Service Provider contracts and their fixed and variable components and proposed allowance to cover these contractual obligations

b) What code modifications are expected in the Cost Control period and the proposed budget for their implementation

c) The expected contract variations and proposed allowance for Licensee-led PRs/CRs

[23] Ofgem (2025), Draft Regulatory Instructions and Guidance (Successor Licensee). www.ofgem.gov.uk/consultation/draft-regulatory-instructions-and-guidance-successor-licensee
[24] Defined in Draft Regulatory Instructions and Guidance (Successor Licensee)

d) What new procurements are lined up within that programme and their status, and expected expenditure required

e) Any live or expected projects delivering a distinct piece of work and the associated requirements and proposed budget

f) What Internal Costs (resource and non-resource) have been allocated and their budget

C. Cross-referencing

4.9 The Licensee should try to ensure that information relevant to each programme or other assessment area is presented in its relevant chapter or section rather than spread throughout the Business Plan.

4.10 Where it is not possible to include all relevant information within its own single chapter or section (for example where a supplementary annex is required), the Licensee will need to clearly identify where in the Business Plan the relevant material is located. The Business Plan should include a table that maps information on these key areas to relevant parts of the Business Plan.

4.11 To allow the reader to navigate the Business Plan, the Licensee should effectively cross-reference between different sections, using hyperlinks where possible (for example, when referencing any of the data tables, annexes or any further detail which is explored elsewhere in the Business Plan).

4.12 It is important to have clear links between the data tables and the core narrative sections. Data tables should be clearly numbered and any data in the narrative should be clearly linked to the relevant data table number (and include a hyperlink wherever possible). For each data table, there should also be a link to where in the main narrative this data is discussed. For some data tables this may be more than one part of the Business Plan that describes the data.

D. Assurance and governance

4.13 Robust assurance and governance of the business plan submission is vital if stakeholders, including Ofgem, are to have confidence in the information presented in them. The submission can only be complete and of high quality where there are assurance checks on the systems and processes for developing and producing the business plan, and when stakeholders have confidence that the Licensee’s Board has been integral to the governance surrounding the submission.

4.14 All assurance processes undertaken by the Licensee should be clearly set out in the Licensee's Assurance Statement. The Assurance Statement should be submitted to Ofgem alongside the Business Plan submission and should include a statement from the Licensee's Board that they are satisfied that the Business Plan and the associated proposed costs and financial package have been appropriately challenged for accuracy, ambition, efficiency and customer interest.

E. Publication and redaction requirements

4.15 The Licensee should publish its Business Plan in a prominent place on its website within 14 days after submission to the Authority. The development section should be published in full; the costed Business Plan and annexes that contain sensitive information may be redacted prior to publication. Supporting evidence is not required to be published.

4.16 The Licensee should also submit and publish an executive summary alongside its Business Plan detailing the key data and information contained therein.

4.17 Where the Licensee redacts information from the published plan on grounds of commercial confidentiality (or any other reason), the reasons for such redaction must be clearly and comprehensively set out in an explanatory statement published alongside the plan. For example, if information is redacted on grounds of commercial confidentiality, we would expect to see an explanation of the particular commercial interest that the company considers would be prejudiced by disclosure.

4.18 The Licensee should comply with best practice with respect to accessibility to its published, and at a minimum the standards laid out by the Web Content Accessibility Guidelines (WCAG) 2.2 AA unless there are valid legal reasons not to.

5. Cost Assessment

Section summary

The procedures we expect to apply for our assessment of cost are outlined in this section. We set out some of the principles we expect to apply when determining whether costs are economic and efficient and should be included in the Successor Licensee's Allowed Revenue, as well as the methods of assessment we may use, and the types of criteria we may apply. This is presented as we expect the final version of this guidance to look like but is subject to change under the Successor Licence.

A. Cost assessment approach

5.1 The process for planning and approval of the Business Plan is set out in section 2 of this guidance, whereas the Mandatory Contents of the Business Plan are given in section 3. Section 4 sets out the structure of the submission. This section focuses on the process Ofgem will follow in our assessment of the Licensee's submission (steps 4-6 in section 2).

5.2 The new *ex-ante* regulatory framework requires us to review and set allowances for costs before they have been incurred. Economic regulation seeks to proxy or mimic competitive outcomes in monopolistic markets or businesses. The objectives of the cost control process are therefore to:

a) Robustly scrutinise the Licensee's costs and create incentives for it to manage its costs appropriately and ensure that the best possible outcomes for consumers are achieved; and

b) Monitor the costs incurred by the Successor Licensee and ensure that they are economic and efficient and provide value for money to consumers

5.3 The methods we use to assess costs to calculate the Successor Licensee's Allowed Revenue are likely to evolve over time but it is likely the following will be a core part of our approach:

a) In accordance with Licence Conditions 34A and 34B we will carry out analysis of the information provided by the Licensee in the RIGs reporting and the Business Plan

b) We may draw on the findings set out within the report submitted by the Customer Challenge Group

c) We may use information from other sources (see principle 7 below)

5.4 The reporting under the RIGs gives us cost control information for every regulatory year of the Licence on a consistent basis.[25] They provide a template for the Licensee to provide updated forecasts submitted ahead of the cost control, and our approved allowances under the cost control. The information provided allows us to look at the costs associated with the business plan separately to those costs that have been incurred as a consequence of uncertainty.

5.5 The information provided under the RIGs allows us to monitor effectively the revenue of the Licensee and to confirm that the revenues recovered are in line with the Licence. We will also use the cost control reporting and information submitted as part of the RIGs to monitor the Licensee's compliance with its obligations under the Licence, for example in relation to cross subsidy, procurement, and its approach to setting charges.

5.6 We will assess all forecast costs submitted as part of the submission ahead of the cost control to assess whether they are expected to be economic and efficient. In addition, we will assess the justification submitted by the Licensee on whether those costs are likely to provide value for money to electricity and gas consumers. Where we determine that the forecast costs are not expected to be economic and efficient or provide value for money to consumers, we will remove them from the calculation of the Allowed Revenue for the Cost Control Period.

5.7 We will require the Successor Licensee to report on its delivery to the approved Allowed Revenue to the Customer Challenge Group and to Ofgem at minimum quarterly. We will also consult at minimum with the Successor Licensee ahead of determining whether to adjust the Successor Licensee's Allowed Revenue in respect of any reopener applications. Further details of this process can be set out in Chapter 6 below.

5.8 In the following sections, we set out broad principles that we apply in our assessment of the Licensee's forecast costs. It is not possible to list an exhaustive set of principles and an approach for determining whether costs are economic and efficient. There needs to be flexibility to consider new evidence and scenarios not anticipated.

5.9 We are open to early engagement on any proposed significant changes in costs or submission structure. We are likely to signal to the Licensee if we are concerned that information we have received indicates that its forecast costs or costs it intends to incur may not be economic and efficient. We are not able to pre-

[25] LC 34B

approve any costs or specify definitively all the costs that might not be economic and efficient before the decision on the *ex-ante* allowances or review at the end of the regulatory year. This is because we can only complete our assessment of the costs once we have received all of the relevant information and have conducted our own analysis of it.

5.10 Our silence on a matter in previous cost control submissions or other forms of engagement should not be considered as indication of our future approach once the matter comes to be formally assessed within the relevant cost control. In particular, our silence on an issue should not be considered as tacit acceptance or approval.

B. Principles

5.11 Here we outline some principles that we expect to apply when we are reviewing the Licensee's cost forecasts. This set of principles is not an exhaustive list but should make our approach clearer.

5.12 In an *ex-ante* cost control regime, this assessment would primarily occur ahead of the start of the cost control period.

1. All costs which are sufficiently likely to be incurred to deliver Mandatory Business activities should be included in the forecast

5.13 The Licensee is expected to include in its forecast all economic and efficient costs; no sufficiently known costs should be purposely excluded.

5.14 The Licensee must demonstrate that the proposed forecasts are linked to its Mandatory Business and, using evidence set out in section 3 (Mandatory Contents), set out why in its view the forecasts are expected and likely to be incurred.

5.15 It may be challenging to accurately predict all costs for the full Cost Control period. We expect there to be some variation between activities and projects in terms of how far into the future the Licensee can quantify the costs that are likely to occur. Where the Licensee faces uncertainty, it should:

a) Set out the proportion of costs which are certain – for example based on agreed contractual terms

b) Set out the proportion of costs, which is uncertain, but likely to be incurred – for example based on an estimate for a code modification in the governance process

c) Propose an allowance and provide assumptions and evidence to justify that allowance

5.16 Below we have provided some examples for a preferred approach to dealing with costs which may in part be uncertain. This is not an exhaustive list.

Volume sensitive costs

5.17 Some costs may be dependent on customer demand and be driven by factors such as: numbers of meters installed; number of Comms Hubs on the network; number and size of messages to and from smart meters; incident and service request volumes related to the service desk provision; number of users of software licences; and cloud platform capacity.

5.18 For these costs, the Licensee should propose an allowance and provide evidence of:

a) The regulatory requirement to incur these costs

b) The contractual mechanisms used to deal with these costs and variations (and how they provide value for money), such as:

   (1) Defined capacity (where a contract variation is required to exceed it)

   (2) Purchased capacity (where excess capacity is subject to pre-specified charging arrangements)

   (3) Unit cost (where a price is set against a specific unit of measure)

c) The assumptions behind the forecast demand using data and insights from Users

d) An up-to-date capacity plan

5.19 If approved, variations from the forecasts would be subject to the Automatic Adjustment Uncertainty Mechanism (as set out in section 6) but should not be reallocated to other parts of the budget.

Code modifications

5.20 The costs of modifications which have been approved, or are expected to be approved, at the time of the Licensee’s Cost Control submission to Ofgem, should be included in the Business Plan and the RIGs with forecasts based on Impact Assessments or other available estimates.

5.21 Where new code modifications are approved or anticipated during Y1 for Y2 (or subsequent years) of the Cost Control Period, the Successor Licensee may apply for an adjustment to the Allowed Revenue via an end-of-year reopener application (subject to the process set out in section 6).

5.22 Where new unforeseen code modifications are approved and require the Successor Licensee to incur additional costs within the same year, the Successor Licensee should in the first instance attempt to accommodate the additional costs using budgetary flexibility and contingency. Where this is impossible and the implementation of the code modification is critical and cannot be deferred until the Licensee's next annual reopener window, the Successor Licensee may submit an emergency reopener application (subject to the process set out in section 6). The Licensee should provide code modifications documents as evidence. In the First Cost Control Period the Successor Licensee is not expected to submit an annual re-opener and may use the emergency reopener (as per paragraph 6.63).

Procurement of new Relevant Service Capability

5.23 The Licensee may plan to procure additional Relevant Service Capability during the Cost Control Cycle:

a) Where the Licensee has received a non-objection from the Secretary of State,[26] the forecasts should be based on the final business case which had been submitted to the Secretary of State

b) Where the Licensee is developing its business case, the forecasts should reflect the latest iteration of the business case submitted to the Secretary of State or the most up to date estimates with explanation for underlying assumptions

c) Where no costs are expected to be incurred in Y1 of the Cost Control cycle and the Licensee has not developed a business case, it should still forecast costs for the remainder of the Cost Control cycle on the basis of rough order of magnitude or other assumptions. The forecasts for Y2 (and subsequent years) would be capable of being adjusted on the basis of a reopener application at the end of Y1 when the Licensee should submit more accurate forecasts based on the business cases developed throughout Y1.[27]

5.24 The Licensee should follow a similar process for procurements of RSC, for which it is exempt from receiving a non-objection from the Secretary of State (for example on the basis of materiality). The forecasts should be based on the Licensee's own internal business cases submitted for the Board's approval.

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[26] In line with the requirements under LC16.6A-C

[27] This process will not apply for the first cost control cycle as the Successor Licensee is not expected to submit an end-of-year reopener application

Licensee-led cost of change

5.25 The Licensee may forecast to incur costs based on contract variations which do not fall within the code governance process. These forecasts should be based on Impact Assessments (IA) of Statements of Work (SoW) for project requests and change requests raised with External Service Providers.

5.26 Where the Licensee does not have an IA or SoW available but still considers it likely to incur costs for a planned contract variation, it should seek to provide alternative evidence, for example of benchmarking against historic costs and other External Service Providers.

5.27 The forecasts for Y2 (and subsequent years) would be capable of being adjusted on the basis of a reopener application at the end of Y1 when the Licensee should submit more accurate forecasts based on the negotiations and IA/SoWs developed throughout Y1.[28]

2. The Licensee must demonstrate that all forecast costs are economic and efficient

5.28 The Licence puts the burden of proof on the Licensee to justify costs as economic and efficient. If the Licensee fails to do this adequately, we may determine that the forecast costs are not expected to be economically and efficiently incurred and that they therefore should be excluded from the calculation of Allowed Revenue.

5.29 "Economic and efficient" are not defined terms in the Licence. As such, we will consider all evidence and explanation that the Licensee provides to justify expenditure. This includes, for example, giving consideration to any evidence and explanation of trade-offs the Licensee has made between cost, quality and/or timeliness of activity when we set the cost control.

5.30 We expect the Licensee to have an understanding of our expectations about the level and quality of evidence it needs to provide, when it completes its submission of the RIGs ahead of the cost control. So the information that the Licensee provides in its reporting under the RIGs should be complete and comprehensive. It is vital that the Licensee engages with us early on in the process if it has any questions on the information it needs to provide.

5.31 The Licensee must report in accordance with the RIGs, but the RIGs will never prescribe exactly how and to what level the Licensee should justify every cost

[28] This process will not apply for the first cost control cycle as the Successor Licensee is not expected to submit an end-of-year reopener application

variation. It is the Licensee's responsibility to make the best case for each cost forecast included in its submission. Part C of this section provides further guidance on the types of criteria we are likely to consider when assessing forecast cost against the economic and efficient test.

5.32 [This paragraph does not apply for the purposes of the assessment of the First Cost Control Cycle.] We consider it proportionate for the Licensee to reference justification and evidence from previous cost control submissions rather than restate the justification for the entire variation from the initial business plan year on year.

5.33 It is possible that for certain costs the Licensee will not be able to fully justify the forecasts through signed contracts, governance documents, approved business cases. In such instances, the Licensee should provide evidence of all the considerations made at the point of the Licensee's decision-making when proposing an allowance or reporting incurred costs. For example, this could be a business case explaining the issue to be resolved, the constraints faced, the options considered, and the steps followed to arrive at the most cost proportionate and efficient option including assessment of both quantitative and qualitative factors.

5.34 We also recognise that the Licensee has multiple stakeholders, and on occasion may not be in full control of the work that is to be delivered or the method of delivery. We will assess what is within the Licensee's 'reasonable control' when assessing the forecast costs and any appropriate uncertainty mechanisms. We expect the Licensee's assessment of options as part of a business plan to:

a) Take into account all relevant considerations, including financial/commercial, regulatory, and whole programme impacts as well as risks and constraints

b) Be proportionate to the likelihood of an option being plausible, and this may mean that some options are ruled out early on

c) Reflect stakeholder views, noting that the Licensee can share the full range of options being considered with stakeholders including customers

d) Document which options are not plausibly on the table for full consideration, and why. For example, if an option relies on regulatory change by Government or SEC and the Licensee can evidence that there is no appetite for such change.

5.35 Good quality reporting is not necessarily about the quantity of evidence; it is about providing a sufficient level of detail and evidence to give confidence the outcomes achieved are the most economic and efficient. A well-structured, clear cost control submission that meets the requirements of the RIGs may be beneficial in reducing the regulatory burden, reducing the number of follow-up questions we have to ask, and may improve the overall quality of the reporting. Where possible, the Licensee should be prepared to include breakdowns of costs and headcounts associated with individual programmes upon request.

5.36 If we have significant concerns with the justification provided or process in place for controlling costs it is likely that we will have to ask more questions and potentially require a more granular approach of explanation in order to complete our analysis of those costs. However, the level of detail that the Licensee provides should be proportionate and reflect the materiality of the forecasts.

What if we find costs not to be economic and efficient?

5.37 If no or insufficient justification or evidence is provided on how economic and efficient a forecast cost is, it is likely to be considered to be Unacceptable. We cannot assume costs are economic and efficient; the burden of evidence is on the Licensee. In such cases we may:

a) Use other evidence to determine the level of economic costs using other sources of information as per principle 7 set out from paragraph 5.56

b) Remove Unacceptable costs from the calculation of the Allowed Revenue

c) Outline the failure to provide justified costs in our assessment of the Business Plan submission for the Successor Licensee’s Board to take into account in setting its remuneration policy

5.38 We will consult on our proposed determination of Allowed Revenue as part of our cost control assessment, including how we arrived at any proposed adjustments and disallowances and our reasoning. This ensures the Licensee and other stakeholders can respond to our proposals and make representations.

5.39 We understand that in some cases it may be that we find that expenditure on a particular project is not economic or efficient. Where this is the case, and where this may leave the Successor Licensee with legal or regulatory cost commitments, the Licensee may provide an undertaking. If the undertaking is approved, Ofgem will allow the revenue to meet existing obligations in this case. The Licensee’s application for an undertaking must include:

a) Evidence of the legal or regulatory obligation on the Licensee to meet those spending commitments

b) A detailed plan from the Licensee on the changes it will implement to prevent further inefficient or uneconomic spend

What if we cannot determine the proportion of economic/efficient costs?

5.40 It is also possible that there may be circumstances where it is clear that the Licensee could have done better in terms of customer engagement, contract management and performance and delivery but the impact on costs is not directly quantifiable. It may therefore not be straightforward to determine the proportion of further forecast costs which are economic and efficient. Some examples of where it may not be possible to quantify a portion of uneconomic costs are:

a) Where there is a lack of clarity over how costs may have been different if timescales had been planned better

b) Where the need for future costs arise as a result of poor performance by a service provider

5.41 Where this is the case, we may require the Licensee to submit an undertaking to implement any lessons learned from the above scenarios to prevent them from reoccurring. We may also consider past poor performance when assessing future reopener applications or cost control submissions.

5.42 The outcomes of good contract management should be reflected in the Successor Licensee's delivery to its Business Plan and therefore subsumed within the incentive model. Equally, where we have identified issues with the Successor Licensee's contract management, we would expect the Remuneration Committee to take this into account in setting the remuneration policy. Ofgem will have the power to review the Committee's policy.[29]

3. Material variations from the Business Plan submission and updated forecasts need to be explained via reopener applications and End-of-Year reporting

5.43 The Successor Licensee must ensure that it manages its costs well throughout the Cost Control Period. However, the level of uncertainty the Successor Licensee is exposed to and the range of issues not known ahead of time could result in the Successor Licensee departing from the forecast costs in the Business Plan.

5.44 To mitigate against uncertainty, the Successor Licensee has a range of flexibility options:

[29] Ofgem (2025), DCC Review Phase 2: Governance arrangements – conclusions, 4.54-4.55. www.ofgem.gov.uk/decision/dcc-review-phase-2-governance-arrangements-conclusions

a) Budgetary flexibility, including the ability to reallocate internal resource costs across programmes and External Costs within programmes

b) Use over-recovery contingency to manage cashflows and small overspends

c) Utilise Uncertainty Mechanisms, including:

(1) Automatic adjustments to account for Pass-through, volume sensitive costs and contracted indexation impacts agreed at the business planning stage

(2) An end-of-year reopener to enable the Allowed Revenue to be amended for the following Regulatory Year where costs have arisen that could not be reasonably anticipated[30]

(3) An emergency reopener to account for external shocks

5.45 The Successor Licensee should use its budgetary flexibility in the first instance to accommodate cost variations. The Successor Licensee must also report on its delivery to the approved budget to the Customer Challenge Group and Ofgem at minimum each quarter, highlighting any potential or materialising cost overruns with explanations and plans to mitigate them.[31]

5.46 Where the Successor Licensee cannot accommodate cost variations via existing flexibility, it may submit an end-of-year reopener application to apply for an adjustment to its Allowed Revenue for the subsequent year. A reopener application must provide a clear explanation for how and why costs have deviated from approved forecasts, how the Successor Licensee has sought to accommodate them using budgetary flexibility of contingency funding and justify any proposed additional funding as economic and efficient. The reopener application guidance is set out in section 6.

5.47 We acknowledge that there could be situations which may impact milestones/service requirements that are outside of Licensee’s control. However, when the Successor Licensee’s poor planning or contract management result in the need to incur additional costs, such cost may not represent economic and efficient spend. In such instances we may:

a) Not approve the proposed reopener application in part or in full (and determine no or partial adjustment to the Allowed Revenue)

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[30] This process will not apply for the first cost control cycle as the Successor Licensee is not expected to submit an end-of-year reopener application.
[31] Customer Challenge Group ToR, paragraph 4.1.

b) Require an undertaking from the Successor Licensee in respect of managing any additional spend and ringfence the additional expenditure within the budget

5.48 We would expect the Successor Licensee's Remuneration Committee to consider our determination when setting remuneration principles, targets and policies for executive directors and other key staff under the Business Plan delivery measure.[32]

5.49 The Successor Licensee must submit its End-of-Year Reporting to Ofgem no later than 31st July following the end of each Regulatory Year. End-of-Year Reporting must be submitted in the RIGs templates and must include Price Control Information detailing the costs incurred by the Successor Licensee in the past RY against each line item of forecast costs approved by the Authority to provide unambiguous cost reconciliation against the approved Allowed Revenue for the past Regulatory Year. The Successor Licensee must clearly explain any cost reallocations. The End-of-Year Reporting must include the outcome of any approved adjustments to the Allowed Revenue for the forthcoming Regulatory Year or Years based on reopener applications.

5.50 We recognise that there may be instances where the Successor Licensee may defer expenditure into a following Regulatory Year on account of delays to programme implementation. However, cost deferrals must not be treated as an underspend to be reallocated to programmes which are running over budget. We will therefore expect the Successor Licensee to report on any such reprofiling as part of its end-of-year reporting and to explain it within any reopener application. The Successor Licensee should also explain any delays to the CCG as part of its quarterly reporting.

4. A decision for the current cost control and/or regulatory year does not necessarily affect future decisions

5.51 If the Licensee has some costs rejected from forecast costs in a submission ahead of a cost control due to insufficient evidence, it can present additional evidence if the cost category is subject to an uncertainty mechanism in any future regulatory year submission for consideration. This evidence will be considered independently of past decisions. Similarly, any subsequent approval will not have a retrospective impact on a past decision.

[32] This provision applies only from the second cost control cycle

5. We expect a long-term strategy to be in place

5.52 As the Licensee has now reached operational phase, we expect it to have a strategy in place for ensuring that costs are economic and efficient over the duration of the Licence, recognising that this strategy will need to evolve over time, including where the Licensee takes on new programmes and other mandatory work.

6. The Successor Licensee must reflect efficient cost management within its remuneration policy

5.53 The Successor Licensee's remuneration policy[33] should reflect the following cost control measures:

a) Quality of Business Plan – based on Ofgem's assessment against this guidance and determination of Allowed Revenue

b) Delivery of Business Plan – the ability to deliver on time and budget (to the approved Allowed Revenue)

5.54 We expect the Successor Licensee to provide a clear and evidenced justification as part of its ongoing reporting on the Business Plan to the Authority if its remuneration policy proposes that certain targets and policies for executive directors and other key staff should not be applied.

5.55 As part of ongoing reporting on the Business Plan, the Successor Licensee will need to ensure it provides sufficient detail on how it has managed its contingent surplus and the circumstances, including any mitigating actions and instances where it was not within its control, which led to the use of the contingency, which should be reflected in the policy. Ofgem's findings in the assessment of reopener applications should likewise be considered.

7. We may use other sources of information in our assessment

5.56 We may look at information from other sources in addition to the information provided under the RIGs to determine whether costs will be economically and efficiently incurred. This may include:

a) Performance information reported under the future quality of service RIGs, or from other sources

b) Other compliance documents or reporting submitted by the Licensee, for example the Regulatory Accounts and its procurement strategy. We will be

[33] Prepared subject to conditions of the Successor Licence and any Ofgem-issued guidance

checking these other sources of information for consistency and any differences in assumptions made by the Licensee

c) We may conduct a cost visit to ask additional questions or request supporting references and evidence

d) Consulting with the Challenge Group will be a key part of the process and we may take into account the report submitted by the Group before making our final decision

e) Public consultation will remain a key part of the process and we will take into account any further information or evidence that they give us before making our final decision. We are aware of the commercial sensitivities of sharing costs but we expect the Licensee to be providing transparency to its customers and allowing them to scrutinise costs where possible

f) It is likely we will use independent and market sources of information to compare costs and the Licensee's evidence. We may check any financing rates and we would expect such rates to be competitive

g) Where appropriate we may undertake specific benchmarking of certain Internal and External Costs. When considering the benchmarking of External Costs we are likely to look at comparable tasks and components

h) We may consider undertaking a forensic accounting audit to provide additional assurances about the information the Licensee has provided.

C. Types of criteria

5.57 The assessment we undertake in the cost control is to find out if forecast costs are expected to be incurred economically and efficiently and provide value to consumers. There are certain types of criteria we will apply when reaching this decision. Some of them are:

a) That evidence should be provided and clearly linked to explanation for newly proposed costs or variations from previously approved costs

b) That benchmarking evidence is robust

c) That the Licensee must provide evidence it is delivering value for money, for example by demonstrating savings achieved through challenging External Service Providers or implementing lessons learned from previous programmes

d) Robust evidence of how the Licensee has taken customer and Customer Challenge Group views into account

e) There are clear controls, governance and processes in place

f) That forecast costs align with independent bottom-up assessment of costs

5.58 These criteria are not exhaustive, and we may expand the criteria we apply as appropriate.

Criterion a) Providing evidence

5.59 If no or insufficient justification or evidence is provided on how economic and efficient a cost is, it is likely to be considered to be unacceptable. We cannot assume costs are economic and efficient; the burden of evidence is on the Licensee. While we will seek to request additional evidence where we lack information, we may follow other processes as set out in principle 7.

Criterion b) Benchmarking

5.60 If the Licensee provides benchmarking evidence, it should meet the following principles:

a) We should be confident that the Licensee’s approach and assumptions are objective

b) Its methodology should be clear so all stakeholders can understand it

c) The process and resulting assessment should be robust

d) It should consider the balance between costs and the quality of service

e) It is important the benchmarking technique is adaptable

f) If an approach imposes additional cost, it should only be used if it delivers much better information

g) There should be evidence to support assumptions, findings or decisions

h) If there are results above benchmarks, they need to be well justified

i) The benchmarking exercise should be replicable given the same inputs

Criterion c) value for money

5.61 The Licensee must provide evidence that it is delivering value for money

Internal costs

5.62 The Licensee must demonstrate that the level of Internal Costs (both resource and non-resource) provides value for money. The Licensee should refer to paragraph 3.19 for the type of evidence we will look for when assessing the Internal Cost forecasts.

5.63 Where External Services are procured for activities that are likely to be undertaken on a regular or ongoing basis, we expect the Licensee to consider whether it would be more economic and efficient to recruit the necessary skills to be able to undertake these activities in house.

5.64 In is also important that the Successor Licensee manages its Internal Costs well during the Cost Control Cycle and uses its allowance flexibly, for example by deploying workforce to priority areas before applying for additional allowance.

5.65 We will closely scrutinise any new Internal Cost forecasts which should be accompanied by a clear needs-case evidence-based justification.

External costs

5.66 The Licensee should refer to paragraphs 3.15-3.16 for the type of evidence we will look for when assessing the External Cost forecasts.

5.67 We will assess any procurement activity to ensure the outcomes are economic and efficient. When justifying these procurements, we expect the Licensee to:

a) Fully reflect on the feedback and learnings from any forensic audit reviews or previous cost controls in its procurement strategy. The Licensee should clarify when it considers it appropriate to use the different approaches outlined in its strategy

b) Provide clear evidence to confirm that consistent sourcing strategies have been used to forecast costs and if not, why different procurement routes have been chosen to base the forecast costs

c) Ensure that appropriate due diligence is carried out sufficiently early on in any procurement process

d) Provide consistent evidence on the evaluation processes and criteria used, and sufficient justification for discounting shortlisted bidders and for award recommendations

e) Confirm that the shortlisted bidder remains the most economic and efficient if changes in requirements occur midway through a procurement exercise

f) Demonstrate that it has followed its procurement strategy and appropriate governance safeguards were in place to ensure a fair process

5.68 The Licensee must ensure that cost changes to the External Costs in respect of existing contracts are justified as economic and efficient. When setting allowances, we will be looking for evidence that the Licensee is effectively managing the contracts through effective negotiation, drawing upon appropriate commercial expertise, using all the levers it has available to secure value for money and manage performance.

5.69 We will be looking for evidence from the Licensee showing how its forecasts are based on competitive agreed costs and rates. The Licensee needs to provide benchmarking wherever possible to demonstrate that alternative options, including the counterfactual, have been considered and evaluated. Evidence that costs have been robustly assessed and scrutinised by the Licensee will be a valuable input into our assessment.

5.70 If the Licensee considers its approach to service provider management, including the ultimate apportionment of costs between the Licensee and service providers, is economic and efficient in the wider context of the programme and delivers greater benefit for consumers, it must be able to evidence and justify it as such. This is particularly true where the Licensee’s decisions would result in consumers paying more for a service. The Licensee must provide explanations for how it has ensured commercial negotiations, separately and in aggregate if appropriate, have resulted in economic and efficient outcomes.

5.71 As the Licensee re-procures the external contracts, any part of the external contracts, or procures new Fundamental Service Provider contracts as defined by the Licence, we expect the Licensee to demonstrate that these new contracts will deliver value for money. In those instances, we will be looking for evidence that the Licensee followed a robust procurement process and managed the determination of the final price of those contracts similarly to how they manage change to existing contracts, for example through effective negotiation and use of commercial expertise. If any part of an FSP’s contract is reprocured, this needs to be evidenced as the best solution to secure an economic and efficient outcome.

Centralised Registration Service (CRS) costs

5.72 Consistent with Internal and External costs, we also require evidence and justification that forecast costs in relation to CRS are economic and efficient.

Criterion d) Robust evidence of how the Licensee has taken customer views into account

5.73 We expect that all costs under the cost control to have followed the stakeholder engagement process set out in this document.

5.74 Our general approach will be to consider criteria set out in table 5.1 below.

Table 5.1: evidence of how the Licensee has taken customer views into account

Aspect of customer engagement	Assessment Questions
Timing and frequency of engagement	Has the Licensee communicated and engaged with its customers at appropriate times to seek their views, allowed sufficient time for customers to provide feedback, and provided timely updates on its activities? (This includes providing general updates, reactive engagement, strategic engagement, and unplanned issues).
Quality of information provided by the Licensee	Has the Licensee's communication and engagement approach with its customers been tailored to the relevant audience and timed appropriately which enabled the audience to understand the issues to act on, and allowed sufficient time for the audience to provide feedback appropriately? (This includes providing customers with clear information on costs, benefits and/or consequences of the decisions and on the Licensee's broader engagement)
Taking account of customer views	Has the Licensee clearly explained how the views of its customers have informed its decision making, and where relevant, why the Licensee has decided not to incorporate these views?

5.75 This applies both to proposed new services and changes to agreed or existing services where there are substantive cost and/or service impacts.

5.76 For decisions that have substantive cost and/or service impacts, we expect to see evidence showing how the governance framework has been applied to inform decision-making. Examples of evidence can include but is not limited to the following:

a) Evidence that customer input was sought and gained in advance of key decision points

b) Evidence that customers were provided with information at a level of detail (including costs and benefits) that enabled them to develop an informed view, for example through sharing draft business cases or impact assessments

c) Evidence that customers were consulted on options and cost/service trade-offs

d) Evidence of how decisions took customer views alongside other factors into account, for example showing how and why initial proposals were amended or the reason the views were not reflected in final proposals.

5.77 How customer views have been taken into account is one of the many factors we consider when assessing if forecast costs are likely to be economic and efficient on a specific deliverable/project. We may consider the report produced by the Challenge Group to this effect.

Criterion e) Clear controls, governance and processes are in place

5.78 To make sure the Licensee is incurring costs economically and efficiently we expect it to have sufficient controls, a robust governance framework, and processes around costs. Where they are relevant to how the Licensee is forecasting its costs, we would expect evidence to support how these have been appropriately applied and that they remain fit for purpose. We expect the Licensee to be managing risks and have a clear strategy in place; we will be looking for evidence where possible that the Licensee has taken appropriate measures to mitigate risks and as a result it only incurs economic and efficient costs.

Criterion f) Independent bottom-up assessment of costs

5.79 In some instances, where costs are expected to be significant and are driven by underlying components, we may benchmark cost forecast against a bottom-up assessment of the costs using information from the Licensee, as well as other independent benchmarks. To support this process, we would expect that the Licensee justifies in its submissions the underlying drivers of costs, so as to enable this assessment whenever appropriate.

D. Targeted Incentives

5.80 A target incentive model will provide assurance of cost and performance by tying remuneration to key performance indicators. The Successor Licensee Board's Remuneration Committee will be fully independent and have due regard to the Successor Licensee's performance against key performance indicators when setting remuneration principles, targets and policies for executive directors and other key staff.

5.81 As part of our assessment, we may consult with the committee on their measures of the Successor Licensee's performance across four areas where appropriate:

customer satisfaction, performance and delivery, business planning and cost management.

6. Uncertainty Mechanisms Guidance

Section summary

This chapter sets out the expected process for application of Uncertainty Mechanisms, including information required as part of any re-opener applications submitted to the Authority and the procedure, we expect to follow to assess these applications. This is presented as we expect the final version of this guidance to look like but is subject to change under the Successor Licence.

6.1 This chapter sets out how the Successor Licensee must prepare its applications for reopeners, including:

a) The level of detail required in a reopener application

b) Requirements to publish the reopener application

c) When it is appropriate to make redactions in published reopener applications

d) Requirements to ensure senior leadership assurance of the application

6.2 The Successor Licensee must ensure that its application complies with this document and any other licence requirements prior to submission. Failure to prepare an application in accordance with any of the relevant requirements may result in rejection of the application.

A. Factors which may impact the Successor Licensee's Allowed Revenue

6.3 A range of factors can give rise to change in the Successor Licensee's Allowed Revenue after the Business Plan approval. We have identified nine general factors set out in table 6.1 below. This list is non-exhaustive.

Table 6.1: 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	The Successor Licensee finalises contract procurement which was at a negotiation

Factor	**Examples**
part not sufficiently certain at the Business Planning stage	stage at the time of BP approval and the final costs vary to the business case rough order of magnitude or to the Licensee'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 not known at the Business Planning stage	Larger volumes of comms hubs orders Network demand growth where an increase in the traffic (number of messages) on the Licensee's network is correlated with the increase in charges the Licensee has to pay to its External Service Providers Enhancement of Service Level Agreements in an External Service Provider contract *NB, we would expect changes in customer requirements with impact on the Licensee's contracts to be subject to code modification process*
Changes in assumptions on account of new technological requirements not known at the Business Planning stage	Software upgrade A technology refresh
Changes in assumptions on account of new regulatory requirements not known at the Business Planning stage	Inclusion of a new mandated service into the Licence Update to cybersecurity requirements *NB, we would expect regulatory changes to be implemented via either a code or Licence modification*
Changes in assumptions during the design, build, test (DBT) phase of a new programme	Additional testing required prior to go-live date

Factor	**Examples**
Technical issues outside the Licensee's control (where it has used all reasonable contractual levers to remedy the issue and cost passthrough to customers is demonstrably the only or the most economic option)	Costs to remedy operational incidents
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 the Licensee
Impact of external factors on the Licensee's operations/supply chains – "*force majeure*"	Insolvency, supply chain disruption Covid-19

6.4 Where budgetary flexibility and contingency would not suffice to address the impact of these factors, a different mechanism must be put in place to ensure that the Successor Licensee can continue to deliver its Mandatory Business. In such circumstances, we recognise that two broad types of adjustment mechanisms are required: automatic adjustment mechanisms; and re-openers (emergency and annual).

B. Automatic adjustments

6.5 An automatic adjustment mechanism will account for:

a) Agreed passthrough costs (defined in the Licence) over which the Successor Licensee has no control and which must be recovered in full

b) Pre-agreed volume-sensitive costs

c) Impacts of inflation on the basis of contractual terms

6.6 As mentioned in Chapter 3, the License should identify all costs which it proposes to be subject to Automatic Adjustment UM in its Business Plan. The Licensee should submit evidence to justify:

a) A regulatory obligation to incur these costs

b) That these costs are outside the Licensee's control

c) For inflation impacts, the relevant contractual terms

d) For volume-sensitive costs, the contractual mechanisms used to deal with these costs and variations (and how they provide value for money), such as:

(1) Defined capacity (where a contract variation is required to exceed it)

(2) Purchased capacity (where excess capacity is subject to pre-specified charging arrangements)

(3) Unit cost (where a price is set against a specific unit of measure)

e) The assumptions behind the forecast demand using data and insights from Users

f) An up-to-date capacity plan

6.7 If approved, the Successor Licensee may reflect changes in these costs directly in its Charging Statement, without additional requirement to ask for Ofgem's approval. This can happen either within a year if the Successor Licensee reopens its Charging Statement or at the end of the year in preparation of the charging statement for the following year, which would reconcile any difference between forecast and outturn values. However, the variations from the forecasts should not be reallocated to other parts of the budget as they do not represent true overspend/underspend.

C. Reopener applications

6.8 Any re-opener application must clearly provide the Authority with answers to the following questions:

a) Why an adjustment is needed and justified

b) What that adjustment should be

6.9 Of the factors identified in table 6.1 above, a fixed end-of-year reopener is suitable to account for the following:[34]

a) Implementation of industry code changes – inclusion of any unforested SEC mods for year 2 (or subsequent years)

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[34] This process will not apply for the first cost control cycle as the Successor Licensee is not expected to submit an end-of-year reopener application

b) 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

c) Changes in assumptions on account of new customer, technological or regulatory requirements not known at the BP stage – all non-SEC mod changes

d) 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

e) Technical issues outside the Successor Licensee’s control

f) Impact of external factors on the Successor Licensee’s operations/supply chains

6.10 The Successor Licensee is not prohibited from applying for a reopener due to other factors; however, its explanation should be clear. There may be some reopener applications where the Successor Licensee will not be able to provide the required information listed within this document. In such instances, the Successor Licensee must provide a justification for not providing all the required information, setting out which circumstances or assumptions have changed, and which areas of the Business Plan should be reopened and amended. We will consider whether there is sufficient information to progress a reopener application in the absence of all the required information on a case-by-case basis.

6.11 Each application must include a table that maps out which sections of the application relate to individual requirements as set out in this section. An updated version of the RIGs templates with specific additional Allowed Revenue requested must be submitted alongside this application.

6.12 The immediately following section deals with the requirements for annual re-openers. The process for emergency reopeners is set out further below.

6.13 All reopener applications must include a needs case including the following:

Alignment with overall Business Plan and commitments

6.14 The application must include a clear statement of how the proposed expenditure aligns with the approved Business Plan, Licence requirements and wider strategy, and, if relevant, its business plan for future cost control periods.

Demonstration of needs case/problem statement

6.15 The application must include a clear statement as to the need for the proposed expenditure or the problem the Licensee is trying to address in the context of its significance for consumers, customers, and wider industry. It should refer back to the assumptions within the approved Business Plan, clearly identifying what circumstances have changed and why, drawing distinction between external factors and Licensee's own actions in dealing with the change.

6.16 The affected customers, consumers or assets must be identified, and the associated risk being addressed quantified, where possible.

6.17 As well as demonstrating the needs case, the application must also provide the rationale for the level of expenditure proposed and why this level should be regarded as being efficient.

Consideration of options and methodology for selection of the preferred option

6.18 The application must include a clear description of the list of options considered and the selection process undertaken to reach the preferred option. This must include the following:

a) A clear description of the various options considered, setting out the key features of each option, this should include options considered that were not ultimately adopted

b) A 'do minimum' option to act as a counterfactual to demonstrate the financial impact of no additional investment or programme expenditure taking place

c) An option to delay proposed capital expenditure recognising the option value of such delay

d) A clear statement of the criteria used to assess the various options and the assessment of each option against these criteria

e) A brief description of the process used to select the options: either the internal process (for which relevant documents should be included) or the existing industry process

f) An appropriate sensitivity analysis, using relevant statistical or other techniques

g) A clear summary of any CBA that has been carried out

h) A justification for the proposed timing of additional expenditure

The preferred option

6.19 The application must include a clear description of the preferred option, sufficient to allow us to make an informed decision on whether the preferred option is suitable. This should include the following:

a) a clear description of the key features of the preferred option including how that option will address the issues set out in the demonstration of needs case / problem statement. This should also include a clear description of why the option is preferred compared to the other options considered

b) A clear statement of the benefits to customers, both quantitative and qualitative, of the preferred option

c) If the preferred option is predicated on a particular scenario, a clear description of the scenario

d) A clear statement of the key benefits of the preferred option along with any drawbacks identified

e) A register of the various assets or programmes of work that will be impacted by implementation of the preferred option

f) Evidence of the technical feasibility of the preferred option, using technical annexes as appropriate

6.20 The application must include a clear statement as to any project delivery and monitoring plan for the preferred option. This should include the following:

a) A project delivery programme including provisional dates and key milestones

b) Governance structure of each project (*eg* project roles, responsibilities and the resources required)

c) A consideration of whether the Licensee has access to sufficient resources to ensure timely delivery

d) A description of how monitoring, lessons learned, and improvements will be tracked

e) A description of how performance will be monitored, including real users of the service whether external or internal

f) A description of how project constraints, dependencies, priorities, and risks will be tracked/managed including for example, information reflected in a prioritised backlog

g) Key performance indicators to be used to monitor the progress of the project

Evidence of stakeholder engagement

6.21 The application must include an explanation of how stakeholder engagement contributed to the identification and design of the preferred option. Stakeholder engagement may be limited to those categories of stakeholder who are materially impacted by the choice of preferred option.

6.22 If the Successor Licensee does not carry out stakeholder engagement, it must provide an explanation for why stakeholder engagement was not considered appropriate or necessary.

6.23 In any case, the Successor Licensee must seek a view on its reopener applications from the Customer Challenge Group.

Cost information

6.24 When the adjustment sought relates to the level of allowances, a reopener application must include sufficient cost information to provide:

a) Evidence to justify why the expenditure is additional to that already provided for by relevant *ex-ante* allowances, or that will be provided through other uncertainty mechanisms

b) Evidence to justify the assumptions, inputs and rationales behind cost calculations and results. Potential mitigation measures and sensitivity analysis should be conducted where appropriate.

c) Evidence to justify why the costs in question do not constitute a minor overspend nor new scope activities which can be funded from its contingent surplus and fungible revenue to offset this expenditure and why it is appropriate that customers should provide further funding for this

d) Why the level of costs is economic and efficient. Please note, the efficient and economic level of costs will be determined at the time of any determination of a reopener application.

e) Evidence to justify how the Licensee is managing its contingent surplus and the circumstances, including any mitigating actions, which led to the use of the contingency

6.25 The cost evidence included in the reopener application must be provided in accordance with the following requirements:

a) The Successor Licensee must submit an updated version of the RIGs templates with specific additional Allowed Revenue requested

b) All data tables must be clearly labelled and set out in a logical manner, including, where appropriate, instructions on the operation of workbook functionality

c) In a sufficient level of detail to clearly demonstrate how overall values were derived and in a way that can be easily replicated, including the use of transparent formulae

d) In a way that is easily comparable with other benchmarks, where applicable, or other data provided by the Successor Licensee to Ofgem

e) With all relevant assumptions and sources of data used provided and clearly justified

f) With key cost drivers explicitly identified and justified

g) With uncertainties in forecast cost levels and any potential mitigations clearly identified. These uncertainties should form the basis of any sensitivity analysis using appropriate techniques and, where appropriate, a register of these uncertainties must be included

h) A risk register for the specific project, for any allowances requested for project risk

i) To demonstrate that cost efficiency measures have been identified and their impact fully accounted for

j) Commitment to the use of good practice corporate governance, *ie* management structure that monitors and approves Programme and Project investments throughout project lifecycles. This is recognisable as a sequence of gate approvals as the project matures, its definition becomes more certain and potential risk events are understood and, where reasonable, mitigated.

6.26 While the evidence that needs to be provided to justify differences between forecasts and proposed updated forecasts during the cost control would need to reflect the particular case being considered, we provide below a non-exhaustive list of some ways the Successor Licensee can make sure it provides good quality reporting to support cost variations:

a) Statements and opinions should be supported by evidence

b) Commentary should be supported by appropriate assessments and analysis demonstrating costs have been assessed and scrutinised

c) Cost benefit analysis should be quantified as far as reasonably possible and supported by qualitative analysis including the assumptions made and non-monetary criteria considered

d) Justifications should include an explanation and evidence of how the Licensee has checked the costs agreed are competitive, and how they will remain so for the duration of any agreement

e) Where appropriate, evidence from independent sources should be used to strengthen justifications

f) Reporting should set out how different options have been considered, including how customer views have been sought and taken into account as well as potential impacts on service and energy consumers where appropriate, and the analysis supporting the preferred option

g) Supporting evidence demonstrating how value for money was achieved should be included, such as evidence of effective internal processes (*eg* recruitment/ procurement)

h) How the Licensee uses the levers under the contracts to ensure value for money should be referenced and evidenced

i) Where appropriate, evidence as to how any lessons learned will be implemented to avoid similar reopener events from re-occurring

6.27 Where the Successor Licensee cannot justify that the proposed variations are economic and efficient and provide value for money to consumers, we will reject the application for adjustment of Allowed Revenue.

Contingency

6.28 The Successor Licensee may recover up to 105% of its Allowed Revenue without having to come to Ofgem to reopen its Business Plan to amend the level of approved Allowed Revenue. The Successor Licensee must ensure its prudential financial management using the allowed contingency amount. A 5% contingency allowance is not intended to be the default but the maximum amount; nor is it intended to be spent as a matter of standard practice.

6.29 At the time of applying for a re-opener, the Successor Licensee will be required to justify how it has managed its contingency, including how it has utilised its budgetary flexibility to offset some, or all of any minor overspends against the approved Business Plan.

D. Guidance on style and structure of reopener applications

6.30 Reopener applications should follow a style and structure that clearly and concisely sets out the evidence that the licensee wishes to present in support of their request to have allowances or other cost control parameters adjusted.

6.31 Reopener applications should follow a logical structure that aligns with the various requirements set out in this document. The application should consist of a core narrative that concisely sets out all the relevant evidence that we require to make an informed decision. Further detailed analysis and technical information including can be set out in clearly identified annexes. Where evidence derived in the annexes is relied upon in the core narrative this should be clearly identified and the core narrative should include a specific reference to where the derivation is presented.

6.32 The core narrative should be clear and concise in the presentation of all the relevant evidence required to make an informed decision. The emphasis should be on the proportionate presentation of evidence avoiding duplication and superfluous information or narrative. The narrative should focus on quantifiable and objective evidence rather than subjective or qualitative assertions.

6.33 When determining the proportionate amount of evidence presented with respect to any particular issue, relevant factors should include:

a) materiality of the issue with respect to the overall decision

b) the complexity of the issues being considered

c) the quality of evidence being considered

d) the level of certainty about the future

e) interaction with other relevant considerations

6.34 As far as possible defined terms should have the same meaning as they have in the Licence. Data tables should be clearly and precisely labelled.

6.35 While the purpose of the annexes is to present detailed analysis and technical information, the same principles with respect to the clear and concise presentation of evidence should apply.

E. Authority assessment process

6.36 This section sets out an indicative framework that is intended to ensure that our decision-making process for re-openers is as agile, efficient, and proportionate as is reasonably practicable. Our objective is to make re-opener decisions in accordance with our principal objective and statutory duties. Our assessment process is designed to deliver the decision within 3 months after an end-of-year reopener application has been received and before the commencement of the new regulatory year. However, we recognise this may not always be possible.

6.37 This section also provides information on emergency re-opener applications.

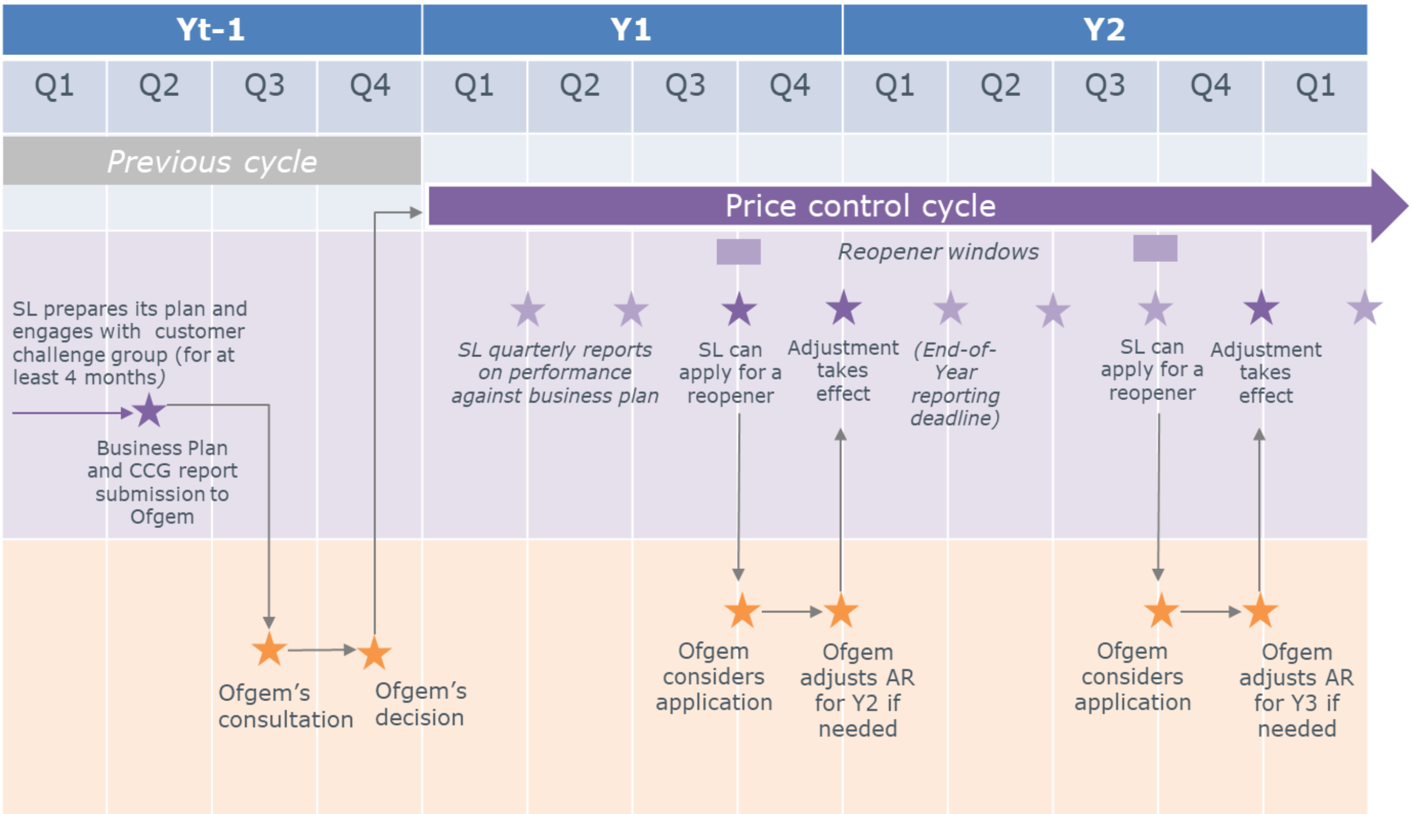
Stages in the indicative assessment process

6.38 Table 6.2 below summarises the various stages of our indicative assessment process. The rest of this section explains each stage of the process in greater detail.

Table 6.2: Stages of Assessment Process

Stage 1: Engagement	**Steps**
Pre-application engagement	The Successor Licensee must seek views from the Customer Challenge Group prior to its submission of an end-of-year reopener to Ofgem Emergency reopeners may be submitted directly, depending on the urgency
Stage 2-3: Assessment	
Application window for submission opens	End-of-year reopener should be submitted by 31st December in each Regulatory Year (except for the RY directly preceding a new Cost Control Cycle) Emergency reopeners may be submitted at any point.
Report submitted by Challenge Group	Customer Challenge Group submits a brief report to Ofgem with a recommendation to approve in full, approve in part or reject the Successor Licensee's application
Standard Assessment	All end-of-year applications will be subject to a standard assessment unless it is an emergency re-opener
Stage 4-5: Direction	
Consultation	We will consult at minimum with the Licensee ahead of determining whether to adjust the Successor Licensee's Allowed Revenue
Direction issued	We will publish our direction to adjust Allowed Revenue alongside our decision on the reopener application

Figure 6.1 Visualisation of the cost control cycle with annual reopener windows



Stage 1: Pre-application engagement

6.39 The Successor Licensee is required to report on its delivery to the Business Plan and approved Allowed Revenue to the Customer Challenge Group and to Ofgem at minimum quarterly. This should include any advance warning of potential cost overruns and likelihood of a reopener application being served.

6.40 We are open to further pre-application engagement with the Successor Licensee to understand the nature of upcoming reopener applications and to respond to help the Successor Licensee make sure it provides the information we are likely to need for our assessment, insofar as that is not clear through this guidance.

6.41 The appropriate timing, and extent, of the pre-application engagement will vary depending on the specific nature of the Re-opener application being discussed. We expect the Successor Licensee to initiate discussions with the Challenge Group from Q2 update in October at the latest. In the case of an emergency reopener this may not be possible.

6.42 None of the discussions during this pre-application engagement will commit either party during the later stages of the assessment process.

6.43 Should experience from pre-application engagement with the Challenge Group suggest that it would be helpful we may develop a more structured engagement process.

Stage 2: Application window for submission

6.44 The Successor Licensee must submit its reopener application during the application window. This will ordinarily be by the end of Q3 (December).[35]

Stage 3: Report submitted by Challenge Group

6.45 Upon the Successor Licensee's consultation with the Customer Challenge Group, the Group will present to Ofgem a concise summary of its recommendation as to whether Ofgem should approve the reopener, identifying the specific areas or issues where costs have materially changed from the business plan. The Challenge Group will submit a report to Ofgem alongside the Successor Licensee's submission of the reopener application, recommending whether Ofgem should approve the application. Details of the contents and presentation of the report can be found in the Terms of Reference published alongside this document.[36]

6.46 This recommendation will be based on reasons including but not limited to:

a) Whether the application very clearly does, or does not, contain the quantity and quality of evidence that we require in this section

b) The alignment of the proposed intervention with relevant policy objectives and precedent

c) The quality of pre-application engagement and the clarity with which the application is presented

d) Other factors that they may determine are relevant when reaching a decision on the application

Stage 4: Standard Assessment

6.47 Upon receipt of an application, we will check the application fits the relevant criteria and can proceed through the subsequent stages. An application that has been rejected may be submitted during another application window, assuming it fulfils the relevant criteria. An application will be deemed to be invalid if it does not:

a) Comply with the requirements of relevant licence conditions; and/or

[35] This date may be set out in the Successor Licence
[36] Terms of reference, section 5

b) Comply with the requirements set out in this reopener guidance

6.48 We will write to the Successor Licensee setting out the outcome of these checks setting out the reasons for our decision should we determine that the application is invalid.

6.49 We may ask clarification questions to gather further information. The Successor Licensee should not expect to use it as a means of submitting additional information that the original reopener application should have included and is missing. It is not our intention to use the process as a means of working up weak or poor-quality applications.

6.50 To aid the agility of the process, the Successor Licensee is expected to respond to a clarification question within five working days unless otherwise specified by us.

Stage 5: Consultation

6.51 Following our analysis, we will consult at minimum with the Successor Licensee on our findings and our proposed adjustment to the Allowed Revenue.

Stage 6: Decision and direction

6.52 We will issue a direction, setting out our decision on the adjustment of the Allowed Revenue, following consideration of consultation responses received in Stage 5. We will publish on our website:

a) The text of the direction

b) The reasons for the direction

6.53 The direction will be issued as soon as reasonably practicable. For the end-of-year reopener, we will aim to publish our decision and direction by end-March to allow the Successor Licensee to adjust its Allowed Revenue.

6.54 The Successor Licensee will not be allowed to charge its customers more than its Allowed Revenue (with the exception of allowed contingency) until Ofgem has approved its application.

F. Emergency reopener

6.55 The Successor Licensee may submit an application for an emergency reopener at any point throughout the Cost Control Period. An emergency reopener may only be submitted to account for:

a) *Force majeure* where external factors impact on the Licensee’s operations and supply chains and the Licensee requires a quick access to additional funding

b) Implementation of urgent code modifications which require costs to be incurred in the same Regulatory Year

c) Funding for any additional Mandatory Business introduced into the Licence or the codes directly by the Secretary of State or Ofgem, where new costs must be incurred within the same Regulatory Year – Ofgem may ask the Successor Licensee to submit a reopener in such an instance

6.56 With this option we would be likely to use our existing information gathering powers[37] to obtain any further evidence we deem necessary to make a decision whether or not it is appropriate to issue a direction amending allowances.

6.57 Should this option be utilised we would, where appropriate, follow the principles on which this indicative reopener assessment process is based. In particular, a proportionate approach to the information requested and level of analysis. We may also follow the various stages set out in table 6.2 above, where applicable, and Ofgem will be able to direct an immediate change to Allowed Revenue if it deemed the circumstances critical.

6.58 Nonetheless, when applying for an emergency reopener we would expect the Successor Licensee to provide as much information timing allows, especially on the need for and the proposed course of action, and the likely level of costs, as they were understood at the time of the application.

G. Other matters

Assurance and publication requirements

6.59 All reopener applications must be accompanied by written confirmation from a suitable senior person within the Licensee that the reopener application has been prepared and submitted, such that:

a) The proposed outcomes are financeable and represent good value for consumers

b) There were quality assurance processes in place to ensure accuracy of the information provided

c) The application has been subject to internal governance arrangements and received sign off at an appropriate level within the Successor Licensee

6.60 A point of contact must be provided for each reopener application, including name, position, email, and phone number.

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[37] The Authority may gather information under powers set out in section 47A Electricity Act 1989 or section 34A Gas Act 1986.

Publication and redaction requirements

6.61 The Successor Licensee must, within five working days of submitting a reopener application to Ofgem, publish its complete application in a prominent place on its website, in such a manner that relevant stakeholders can easily locate the application.

6.62 The Successor Licensee must publish its reopener application in its entirety making only necessary redactions. Where redactions are made, we expect the Licensee to publish an explanation for the redaction. We recognise that redactions may be appropriate for reasons including:

a) confidentiality

b) commercial sensitivity

c) security

First Cost Control Cycle

6.63 For the purposes of the First Cost Control Cyle (from the Transfer Date to 31st March 2028) we do not expect the Successor Licensee to submit any end-of-year reopener application. This is because the cycle is expected to last less than 24 months with the reopener window falling shortly after the date on which the Transfer Date is expected to occur. However, the Successor Licensee will be able to submit an emergency reopener for any unexpected external shocks, urgent code modifications or new Mandatory Business designated by Ofgem or the Secretary of State where additional costs are unavoidable within the First Cost Control Cycle. Unless circumstances prevent it, the Successor Licensee should consult with the Customer Challenge Group before submitting a reopener application.

Appendices

Appendix 1 – Overview of Information Required for Re-Opener Application

Issue	**Information**
Why a re-opener is appropriate?	Set out the uncertainty identified and why a reopener might be appropriate. How has the contingency available been managed and has Licensee considered realising efficiencies elsewhere to offset some of the proposed overspend?
What is the issue/risk that the proposed re-opener addresses?	Is the issue/risk regionally specific or industry wide?
If the reopener was adopted in the cost control, where would the ownership of risk lie in relation to the uncertainty covered by the proposed re-opener?	Clearly set out where the risks lie with regard to customers/Licensee/both, justifying why the apportionment is appropriate.
Materiality of issue	Quantification of the materiality of the issue (what is the expenditure exposure of the issue)
Frequency and probability of issue over the cost control period	What is the expected frequency and probability of the issue arising during the cost control period?
What are the justifications for the re-opener?	Set out the benefits of the re-opener
What are the drawbacks of the proposed re-opener?	Set out the drawbacks of the re-opener. Again, where possible, the materiality of these drawbacks need to be set out.
Explanation of how on balance, the re-opener delivers value for money while protecting the ability to finance efficient delivery.	Explanation of why the benefits of the re-opener outweigh the drawbacks.
We also expect the quantification of how the proposed re-opener delivers value for money whilst ensuring efficient delivery	

Appendix 2 – Glossary

A

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

Authority
The Gas and Electricity Markets Authority

B

Business Plan
Means the document prepared and submitted in accordance with Condition 34A of the Smart Meter Communication Licence.

Business Plan Cycle
The Business Plan cycle (or **Cost Control Cycle**) is the period for which the Business Plan is applicable. The First Business Plan cycle covers the period from the Transfer Date to 31 March 2028.

C

Centralised Registration Service (CRS)
A component of the switching service, procured by the DCC to facilitate switching at gas and electricity premises.

Communications Service Provider (CSP)
Bodies awarded a contract to be a service provider of the DCC's communications services.

D

Data and Communications Company (DCC)
This is a company that manages the data and communications to and from domestic consumers' smart meters

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

E

End-of-Year Reporting
Means a regulatory submission by the Successor Licensee of Price Control Information in the SL RIGs templates by 31st July following each RY through which the Successor Licensee:

- Reports on costs incurred by in the past RY against the forecast approved by the Authority and explains any cost reallocations and divergence from forecasts

- Updates its Allowed Revenue for the forthcoming Regulatory Year or Years based on the Authority's decision on any reopener application

External Costs
As defined in Licence Condition 35 of the Licence. The fundamental service capability predominately comprises of the communication service providers (CSP) and the data service providers (DSP). This definition means that costs associated with other externally procured contracts, for example the Smart Metering Key Infrastructure (SMKI) contract are reported under internal costs.

I

Internal Costs
As defined in Licence Condition 35 of the Licence. Costs (excluding external costs and pass-through costs) that were economically and efficiently incurred by the Licensee for the purposes of the provision of Mandatory Business Services under or pursuant to the SEC.

M

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

Mandatory Business Services
As defined in Licence Condition 1 of the Licence, means the services comprising of the Mandatory Business of the Licensee. These are the Core Communication Services, the Elective Communication Services, the Enabling Services, the Interoperability Checker Service, and the incorporation, delivery and provision of the Centralised Registration Service.

O

Ofgem
Office of Gas and Electricity Markets

P

Pass-Through Costs
The amount equal to the total amount fee paid by the licensee to the Authority and the payments to SECCo Ltd for purposes associated with the governance and administration of the SEC.

Price Control Information
Means the information Ofgem requires to calculate the Successor Licensee's Required Revenue.

R

Regulatory Accounts
As defined in Licence Condition 1, means the accounts of the Licensee produced in accordance with the provisions of Condition 30 (Requirements for the Regulatory Accounts).

Guidance – Business Plan Guidance & Cost Control Processes and Procedures for Smart Meter Communication Licence holder v1

Regulatory Instructions and Guidance (RIGs)
Provide the basis on which the licensee must report cost control information as required under the Smart Meter Communication Licence.

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

Regulatory Year
As defined in Licence Condition 1, means a period of 12 months beginning on the 1 April each calendar year and ending on 31 March of the next calendar year.

Relevant Services Capability
As defined in Licence Condition 1, means the capability procured (or provided from within the Licensee's own resources) in accordance with Condition 16 (procurement of Relevant Service Capability) for the purposes of securing the provision of Mandatory Business Services under or pursuant to the Smart Energy Code. This means the internal and external resources which the DCC relies upon in order to provide services to DCC Users

Required Revenue
Has the meaning given to that term in paragraph 34A.4 of the Smart Meter Communication Licence. References to Allowed Revenue and Required Revenue, as defined in Licence Condition 34A, are used interchangeably in this document.

S

Smart Energy Code (SEC)
The SEC is a new industry code which is a multiparty agreement which will define the rights and obligations between the Data and Communications Company (DCC) and the users of its services Suppliers, network operators and other users of the DCC's services who will all need to comply with the Code

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

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

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

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

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