Decision

Making a positive difference for energy consumers

Successor Licensee Regulatory Instructions and Guidance (SL RIGs): Decision

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This decision document sets out the conclusion of our consultation on draft Successor Licensee Regulatory Instructions and Guidance (RIGs) documents to underpin the implementation of our conclusions on the process for determination of the Successor Licensee's Allowed Revenue.

The RIGs will be used by the Licensee to provide Successor Licensee Price Control Information under Licence Condition 34B.

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Executive Summary

We sought views on draft Successor Licensee Regulatory Instructions and Guidance ("SL RIGs") documents to underpin the implementation of the first *ex*-ante cost control cycle for the holder of the Successor Smart Meter Communication Licence (the "Successor Licensee"). The RIGs documents consist of:

1. Templates in an MS Excel formal to be used for the submission of Price Control Information

2. Accompanying guidance document setting out instructions on how to fill in the data templates

Following our consultation we have decided to implement the SL RIGs with key changes to the existing templates in the following areas:

- **Change from *ex-post* to an *ex-ante* reporting:** We confirm our proposal to change the reporting structure for forecast and incurred costs to align to a multiannual cost control regime. We have made further amendments to tab 3 (Revenue Reporting) of the Main RIGs to include revised formulas for the calculation of the Successor Licensee's Required Revenue and Regulated Revenue. (These formulas are subject to consultation on the conditions of the Successor Licence.)
- **Introduction of Service Families and ringfencing of budgets**: We confirm our proposal to structure the reporting of External Costs around Service Families (SFs) representing large programmes grouping together External Service Provider contracts (and non-resource External Services) delivering a common functionality or service. We also confirm that budget ringfencing will occur at the Service Family level. Upon further consideration, we have decided against the introduction of reporting per change programme within SFs. We confirm our proposal to create a separate reporting template (tab 7) for any ringfenced funding for the development of additional Mandatory Business (Additional User Services) or Permitted Business services (public good initiatives or Value-Added Services).
- **Replacement of Cost Centres by Internal Functions and changes in Ledger Code reporting**: We confirm that we will continue to require the reporting of Internal Costs by General Ledger (GL) codes but will remove the GL code for "Internal Services", and split the GL code for "External Services" (ES) into Resource and Non-Resource ES. We confirm that the Internal Costs reporting will be based around Internal Functions to replace existing cost centres. On DCC's

request we have removed "Customer Engagement" IF from tab 6a and replaced it with a space for DCC to justify a new IF, if required.

- **Introduction of Uncertainty Mechanisms**: We confirm our proposal to create separate tabs (4e and 5e) for the reporting of any costs agreed to be subject to the Automatic Adjustment (AA) Uncertainty Mechanism (UM). However, we have made further changes to a proposed tab 11 (UM) by disaggregating it into twelve tabs "UM (xx)" to mirror the cost reporting tabs and provide a more detailed and automated way of reporting reopener applications and AA UMs.
- **New requirement on information to be provided via Supplementary Schedules**: We confirm that we will make Supplementary Schedules (SS) a formal part of the SL RIGs. We will require specific information to be reported through the SS, as specified in our guidance; however, we will not prescribe a specific template for the information provision.
- **New requirement on accruals vs cash-based reporting:** We confirm our proposed change to tab 3 (Revenue Reporting) to "bridge" the gap between accruals and cash-based reporting. We have included a new formula to calculate the Regulated Revenue of the Successor Licensee (subject to an upcoming consultation on the draft conditions of the Successor Licence).

We have made minor amendments to our guidance document to reflect the above changes, provide further clarification and to correct omissions or typographical errors highlighted by the respondents.

The SL RIGs will come into effect under LC 34B of the Licence from the date that Condition comes into effect on 29 August 2025. However, we are providing the final template to enable DCC to plan accordingly to be able to meet its Licence obligations in respect of SL Price Control reporting.

The SL RIGs may be reviewed and amended by the Authority, subject to LC 34B of the Licence and the conditions of the Successor Licence.

Introduction

The Data Communications Company (DCC) is responsible under the Smart Meter Communication Licence for establishing and operating a secure national communications network for smart metering in Great Britain. The current Licensee is Smart DCC Ltd ("DCC1") whose Licence was awarded by the Government in 2013 and is now due to expire in September 2027. Ahead of the Licence expiry we are reviewing ("DCC review") the regulatory regime to put in place a new set of arrangements under a Successor Licence and to award that Licence to a Successor Licensee.

In August 2023 we concluded the first, scoping phase of the DCC review with a set of key features to form the basis of the design of the new regulatory model. One of these was a transition to an ex-ante form of cost control.

In December 2024 we published a consultation on the detailed design of an *ex-ante* cost control regime and its implementation. We published our decision in May 2025. This included our conclusions that DCC1 will be responsible for submitting to Ofgem the Price Control Information to allow Ofgem to set the Allowed Revenue of the Successor Licensee in the First Cost Control Period (from Transfer Date[1] until 31st March 2028).

We subsequently consulted and sought views on the reporting templates and associated guidance for DCC1's Price Control Information submission: the Successor Licensee RIGs.

This decision should be read alongside our May 2025 conclusions document, our July 2025 statutory decision to modify the Licence and our decision on two other guidance documents: Terms of Reference for Customer Challenge Group and Business Plan Guidance. An overview and links to the key documents are provided below ("Related publications").

[1] Transfer Date has the meaning given to that term in LC 43.7.

Related publications

Document	Published	Link
Consultation on the *ex-ante* process for determination of the Successor Licensee's Allowed Revenue	December 2024	www.ofgem.gov.uk/consultation/dcc-review-phase-2-determination-allowed-revenue
Decision on the detailed design and implementation of the *ex-ante* cost control arrangements	May 2025	www.ofgem.gov.uk/publications/dcc-review-phase-2-determination-allowed-revenue-conclusions
Consultation on draft Successor Licensee Regulatory Instructions and Guidance	June 2025	www.ofgem.gov.uk/consultation/draft-regulatory-instructions-and-guidance-successor-licensee
Statutory decision on interim changes to the DCC Licence	July 2025	www.ofgem.gov.uk/decision/modifications-smart-meter-communication-licence-transition-ex-ante-cost-control-and-other-changes-required-licence-closure-decision
Decision on the Terms of Reference for Customer Challenge Group and the Business Plan Guidance	July 2025	www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance
The DCC Licence	-	www.ofgem.gov.uk/licences-and-licence-conditions

Decision-making stages

Date	Stage description
17/06/2025	Stage 1: Consultation opened
16/07/2025	Stage 2: Consultation closed (awaiting decision), Deadline for responses
31/07/2025	Stage 3: Responses reviewed and published
31/07/2025	Stage 4: Decision published

General feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this decision. We would also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments

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

1. Our decision on the SL RIGs changes

Section summary

We received two responses. Both respondents were supportive of our proposed changes and provided further comments and suggestions to improve the templates and the guidance. We have decided to proceed with most of our proposals with main changes in the following areas:

- Tab 3 (Revenue Reporting) now includes revised Required Revenue and Regulated Revenue formulae (subject to an upcoming consultation on the draft conditions of the Successor Licence)
- Tab 11 (Uncertainty Mechanisms) has been disaggregated to provide detailed reporting for Automatic Adjustments (especially indexation changes) and reopener applications
- Inclusion of Internal Costs reporting for information in tabs 4a-4d
- Removal of Customer Engagement Internal Function
- Removal of programme-breakdowns from tabs 4a-4d and 5a-5d
- Cut-off for historic reporting in RY24/25

We have also made smaller amendments across the templates and the guidance documents to clarify reporting requirements and correct typographical errors.

Questions posed at consultation

Q1. What are your views on our proposed changes to reflect the shift from ex-post to ex-ante reporting? How many RYs of historic costs in the current Licence should be reported in the SL RIGs?

Q2. What are your views on our proposals to introduce Service Families and ringfenced budgets at the Service Family-level? Do you agree with the structure of the Service Families?

Q3. What are your views on the proposed replacement of Cost Centres by Internal Functions and changes in Ledger Code reporting? Do you agree with the proposed Internal Functions? Do you agree with the split of External Services into separate resource and non-resource GL codes?

Q4. What are your views on the ways in which application of Uncertainty Mechanisms would be captured in the SL RIGs? Do you agree with the separate reporting of costs subject to Automatic Adjustments?

Q5. Do you agree that Supplementary Schedules should become part of the RIGs templates? What are your views on the proposed list of required information? Do you agree that the Licensee should have the flexibility to report the information in format of its choosing, so long as the information is accurate and complete?

Q6. Do you agree with the proposed bridging of accruals vs cash-based reporting? Are there other factors which may need to be accounted for?

Q7. Do you have any other comments or suggested areas for changes or improvements?

Background

1.1 The basis for the SL RIGs have been the existing RIGs in place for DCC1. However, we proposed several modifications in line with our conclusions on the form of the *ex-ante* cost control; namely:

- Change from *ex-post* to an *ex-ante* reporting
- Introduction of Service Families and ringfencing of budgets
- Replacement of Cost Centres by Internal Functions and changes in Ledger Code reporting
- Introduction of Uncertainty Mechanisms
- New requirement on information to be provided via Supplementary Schedules
- New requirement on accruals vs cash-based reporting

1.2 We received 2 responses – one from DCC and one from the SEC Panel. Both respondents were broadly supportive of our proposals to enhance cost transparency, introduce ringfenced Service Family budgets, and transition to an *ex-ante* cost reporting. Nevertheless, they raised specific comments and suggestions which we summarise below per section.

Change from ex-post to an ex-ante reporting

1.3 We proposed to change the reporting structure for forecast and incurred costs to align to our decision to move to a multiannual cost control regime.

Summary of responses

1.4 Both respondents supported the proposals. One recommended that the framework should include a means to reconcile actual supplier smart meter rollout with allowed costs based on forecasts, to avoid significant mismatches or unintended under/over-recovery.

1.5 Both respondents recommended at least 3 years of historic cost reporting to monitor trends. DCC recommended that historic cost reporting should commence from RY22/23, arguing that this is when DCC became fully operational (with reference to SMETS1 enrolment and adoption) and therefore that it is the first year in which the scope of DCC's service would provide a meaningful comparison to subsequent costs.

Our view

1.6 We have decided to implement the proposed changes to the RIGs structure in line with our consultation and to retain three years of historic cost reporting commencing in RY24/25. We believe that this will be sufficient to reveal cost trends. Ofgem will be able to consult Price Control submissions from previous Regulatory Years if needed.

1.7 We have concluded that costs driven by supplier rollout of smart meters will be capable of being subject to Automatic Adjustment Uncertainty Mechanism. We expect that the baseline Required Revenue will be set on the basis of forecast provided to DCC by energy suppliers; this allowance will be ringfenced (reported in tab 4e) and the costs will be subject to upwards or downwards adjustments in line with actual rollout performance. We have provided further information on the mechanism in our Business Plan Guidance.[2]

Changes to tab 3 (Revenue Reporting)

1.8 We have replaced the existing Allowed Revenue formula[3] with a new Required Revenue formula to calculate the Successor Licensee's revenue, where the Required Revenue equals a sum of the total External Costs (on an accruals basis), total Internal Costs, total Pass-Through Costs,[4] less Value-Added Services Contribution (set at zero in the First Cost Control Period):

$RQRt = ECAt + ICt + PTCt - VASCt$

1.9 This formula omits the following terms:

- Centralised Registration Service Revenue (CRSRt)
- Baseline Margin (BMt) and Baseline Margin Performance Adjustment (BMPAt)
- External Contract Gain Share (ECGSt)
- K-factor (Kt)

[2] Ofgem (2025), Business Plan Guidance, 3.25-3.26, 6.5-6.7.
[3] Based on LC 36.7
[4] Payments to the Authority, SECCo and RECCo charges

1.10 The terms BMt, BMPAt, ECGSt and Kt will not be relevant to the calculation of the Required Revenue under a not-for-profit regime in place for the Successor Licensee. The term CRSRt has been introduced due to the Switching budget being agreed separately via the Retail Energy Code Company (RECCo) budgeting process and a separate margin-based incentive model. Correspondingly, the Licence defined separate terms for CRS External Costs (CRSECt), Internal Costs (CRSICt), Margin (CRSMt) and Margin adjustment (CRSPAt), ECGS (CRSECGSt), Pass-Through Costs (CRSPTCt) and VAS Contribution (CRSVASCt), as well as Pre-Agreed Costs (CRSPCt) and their adjustment (CRSAt) subject to a direction by the Authority.[5] We are of the view that for the purposes of calculating the Required Revenue in the SL RIGs, the profit-related terms (CRSMt, CRSAt, CRSECGSt) should be removed and the remaining subsumed within the remaining terms of the Required Revenue formula (for example, Switching External Costs are calculated together with other External Costs, CRS Pass-Through Costs are reported together with other Pass-through on tab 7). For clarity, the Successor Licensee will be responsible for ensuring that it operates within the budget agreed as part of the RECCo budgeting process and Switching Costs will be reported via tab 4e as a separate Service Family.

1.11 It should be noted that this revised formula is intended to provide a way of summing up the components parts of the Successor Licensee’s Required Revenue for the purposes of the RIGs; however, it is subject to an upcoming consultation on the draft conditions of the Successor Licence.

External Costs: Introduction of Service Families and ringfencing of budgets

1.12 We proposed to introduce reporting by “Service Families” (SFs). We said that SFs would represent large programmes grouping together External Service Provider contracts (and non-resource External Services) delivering a common functionality or service. We explained that:

- Each Service Family would contain at least one Fundamental Service Provider Contract (with an overview of all existing FSC contracts allocated into these SFs provided in the accompanied guidance)
- Each SF would operate with a ringfenced budget
- All contract variations would be reported in the SF which is home to the relevant contract

[5] LC 36.9

1.13 We also proposed to create a separate reporting template (tab 7) for any ringfenced funding for the development of additional Mandatory Business (Additional User Services) or Permitted Business services (public good initiatives or Value-Added Services).

Summary of responses

1.14 Both respondents supported our proposal, noting especially logical grouping of External Service Provider (ESP) contracts by a common functionality. DCC welcomed clarity on cost fungibility. The Panel cautioned that the SFs should be clearly delineated with rules for allocation of contracts and costs and account for situations such as a single change request impacting multiple SFs.

1.15 DCC accepted the proposed distinction between "SMETS2" and "4G" SFs but asked for these to be relabelled as "SMETS2 – LRR[6]/2G/3G" and "SMETS2 – 4G", respectively, to help DCC better present the costs proposals within its Business Plan. DCC also suggested that, in a future cycle, a "Data Services" SF could emerge to support the delivery of Energy Data Best Practice obligations and Centralised Consent.

1.16 DCC proposed that cost reporting in SFs should, in addition to a split by ESP contracts, include a split by change programmes. Each programme would be assigned a portion of the External Costs and Non-resource External Services. DCC argued that this would help to separate out operational/BAU and change costs and noted that ESP costs relating to specific change programmes could be reported under an alternative SF to the 'home' SF where an activity is in support of that other service – DCC gave an example of forecasted DSP costs for Future Connectivity Programmes being reported within the SMETS2 – 4G SF.

1.17 The Panel asked that volumetric charging of customers be considered to improve fairness and transparency in cost allocation and align cost recovery with actual service utilisation.

Our view

1.18 We welcome respondents' support and confirm that we will implement the proposals within our consultation. We agree to DCC's suggestion to rename the "SMETS2" and "4G" SFs as this does not functionally impact our policy intent. We have relabelled these SFs in the templates and the guidance.

[6] Long-range radio

1.19 We agree that clear allocation of costs and contracts to SFs is crucial to ensure transparency and consistency in reporting and to prevent double counting. For that reason we maintain that costs incurred under any one ESP contract must always be reported in, and form a part of, only one SF (with the exception of volume-driven costs which are ringfenced separately). We have provided the rules for allocation of individual contracts in our guidance. We are open to reviewing the number of SFs ahead of the Second Cost Control Cycle (commencing on 1st April 2028) and consider whether additional SFs may be required to accommodate new contracts and functions.

1.20 Upon further consideration, we have decided against the introduction of reporting per change programme within SFs:

- We recognise that a per-programme reporting could provide further insight into change-related costs but we have already introduced change cost reporting lines under each ESP contract ("Licensee-led Project & Programme Costs" and "SEC-led Project & programme Costs"),[7] which provide visibility of different cost drivers while preserving the reporting of all External Costs per relevant ESP contracts.
- The change would not have provided a full programme-led view of costs as it would not factor in resource Internal Costs which are fully fungible and therefore reported in a separate section for information only.
- A separate annex providing a programme-down view of the Successor Licensee's costs could be considered for future cost control periods. DCC may nonetheless still provide a programme breakdown as additional information if it considers it to be helpful in its justification of proposed External Costs.

1.21 We note the interest in volumetric charging. One of the functions of the RIGs is to enable the Authority to calculate the efficient level of revenue which the Licensee is allowed to recover in charges from customers. However, the charges are levied in accordance with the Charging Methodology and Charging Statements, which set out the objectives, principles and rules for Service Charges (rather than the RIGs). Nonetheless, we note the work on charging review which has been carried out under DP218[8] and support DCC and the industry in working together on finding a way forward to ensure continued fair and transparent cost allocation.

[7] REC-led Project & Programme Costs for Switching SF in tab 4d
[8] Smart DCC (2024), DP218 'Review of the SEC Charging Methodology'. www.smartdcc.co.uk/consultations/dp218-review-of-the-sec-charging-methodology-consultation-on-proposed-changes-to-dcc-charges/

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

1.22 We proposed to continue requiring reporting of Internal Costs by General Ledger (GL) codes with the following changes: removal of the GL code for "Internal Services" (IS), and splitting of the GL code for "External Services" (ES) into "External Services (Resource)" (ESR) and "External Services (Non-Resource)" (ESNR) to align to our decision on fungibility of resource Internal Costs.

1.23 We also proposed:

- To require Internal Costs reporting by newly defined Internal Functions (IFs), replacing the current cost centres, split between "Service Delivery Overheads" (tab 6a) and "Corporate Overheads" (tab 6b)
- That Service Delivery Overheads be allocated (for information purposes without constituting their budget) into "Enabling Services & Testing" SF tabs (5a-5d)
- To require reporting of Full Time Employee numbers and costs per IF

Summary of responses

1.24 Both respondents were in support of our proposal to replace cost centres with IFs and to update the GL codes. The Panel commented on the potential of this way of reporting to be more insightful, as long as the definitions of each function are robust and consistently applied over time to maintain traceability.

1.25 DCC raised a concern about the allocation of Internal Costs to SFs. DCC argued that Service Delivery Overhead Costs (reported in tab 6a) support all SFs (across tabs 4a-4d and 5a-5d) and should therefore be reported at minimum for information within all of those.

Our view

1.26 We welcome respondents' support and confirm that we will proceed with our consultation proposals with the following main changes:

- First, we welcome DCC's proposal to report Service Delivery Overhead Internal Costs (tab 6a) across all SFs. We would observe that DCC previously told us that it would be unable to allocate Internal Costs to individual SFs, other than by way of a notional allocation based on comms hubs volumes. We have clarified the allocation rules in our guidance. We expect the reporting to be complete and transparent such that Internal Costs are clearly traceable across the SFs and sum up to the totals reported in tabs 6, 6a and 6b.

- We have decided not to proceed with the proposed Corporate Overhead (6b) function of "Licence Renewal". We do not consider this to be a relevant function within the Successor Licensee and do not expect the Successor Licensee to incur substantial costs in relation to "Licence Renewal" activities. Where distinct costs are incurred, which cannot be attributed to any internal function across tabs 6a and 6b, these may be reported in tab 7 under "Other Internal Costs". We will consult separately on the method of funding the Successor Licensee's activities prior to Business Transfer date and DCC1's activities (such as preparing the final *ex-post* price control submission) following the Transfer Date.

1.27 We agree that IFs should be clearly defined to provide an agreed understanding on the purpose of the IFs and ensure consistency in reporting and allocation across the first and future cost control cycles. We sought further clarification from DCC on the definition of each IF. DCC provided a short description of each IF and, as part of this, told us that it intended to replace the IF "Customer Experience" with "Business Operations" to include "costs of the coordination of planning and delivery across the Design, Build, Run functions." Upon further consideration, we have decided to:

- Not include the IF descriptions in the first published version of our guidance. This is because we are not fully persuaded that the proposed definitions of IFs fully mitigate the risk of overlaps or duplication. Instead, we ask that DCC provides a justification for the purpose of, as well as its procedure for cost allocation into, each IF as part of its submission. Once approved via the first cost control process, we will update the guidance to reflect the agreed definitions and rules for allocation.
- Remove the Customer Experience IF but not include the new Business Operations function. This is because we do not at present have sufficient evidence on the need for this IF. Instead, we have provided space for DCC on tab 6a to propose an additional IF as part of its submission. This will give DCC the opportunity to justify the purpose, as well as the costs allocated into, the Business Operations (or other) IF.

Introduction of Uncertainty Mechanisms

1.28 We proposed to create separate tabs (4e and 5e) to report any costs agreed to be subject to the Automatic Adjustment (AA) Uncertainty Mechanism (UM). We explained that these would be reported per contract and allocated for information to relevant SFs but would not be part of that SF's budget to ensure that effects of volume movements are not used to unduly fund cost overruns. We identified Comms Hubs Monthly Asset Charges, Comms Hub Maintenance Charges, User gateway connections and Explicit Charges as cost categories subject to the AA.

1.29 We proposed to include an "Uncertainty Mechanism" line into cost reporting tabs to provide for an adjustment to the Allowed Revenue on the basis of approved UMs. We also proposed to create a summary tab 11 to capture all reopener costs.

Summary of responses

1.30 Both respondents agreed with our proposal to introduce reporting for UMs for managing unforeseen cost fluctuations and ensuring the Successor Licensee's ability to adapt to changing circumstances but made specific comments:

- The Panel emphasised that the use of UMs should be minimised to protect cost stability and predictability
- DCC queried where information on inflation indexation should be reported
- DCC also queried how non-volume-driven changes to comms hub costs (inflation and exchange rates) should be accounted for and whether they would be subject to the AA UM
- DCC also commented on the structure of tab 11, noting a lack of emergency re-opener reporting, no annual re-opener in the First Cost Control Cycle, duplication of volume-driven costs and how multiple re-opener applications should be distinguished

Our view

<u>Changes to tab 11 (Uncertainty Mechanisms)</u>

1.31 Please note that the UM process to be followed by the Successor Licensee will be subject to the conditions of the Successor Licence. Nonetheless, we have designed and included the anticipated process for reporting in the RIGs for completeness.

1.32 Following respondents' feedback and further considerations, we have decided to make changes to tab 11 (Uncertainty Mechanisms).

1.33 Firstly, we have disaggregated tab 11 into twelve tabs "UM (xx)" for each tab 4a-4e, 5a-5e and 6a-6b. Each "UM (xx)" tab mirrors the list of contracts and Non-Resource External Service Costs (for tabs 4a-4d and 5a-5d), Internal Functions (for tabs 6a-6b) and volume-sensitive cost categories (for tabs 4e and 5e) which are subject to UMs.

1.34 Secondly, for each new tab we created a mechanism allowing the Successor Licensee to apply for (reopeners) or report on (AA) UMs by selecting from a drop-list per line-item and filling in cost data. Some UM categories are restricted; for example, AA and emergency reopeners are not available for Internal Costs, but the sheets have been set up to provide flexibility for any cost control cycle.

- As part of any **re-opener application**, the Successor Licensee will be expected to use these tabs to indicate what additional revenue (adjustment) it is applying for. If approved by Ofgem, the revenue adjustment, updated via End-of-Year reporting, will then in aggregate feed through to the cost reporting tabs to balance out actual expenditure against the initially approved revenue at the Business Plan stage.
- The Successor Licensee will use the same tabs to report on any **Automatic Adjustments** as part of its annual End-of-Year Reporting process (by 31st July following the end of each RY). These will be applied automatically without a separate application to Ofgem but the inclusion in the tabs "UM (xx)" will provide visibility and transparency on what adjustments were made by the Successor Licensee and how costs have changed over time for each cost area. Importantly, this will include the automatic adjustments for contractual indexation. The Successor Licensee will use the AA category to report on how indexation has impacted the cost of individual contracts against the approved forecasts.

1.35 We believe these changes will make the reporting more transparent as it allows for tracking of individual adjustments across all cost categories and UMs without increasing reporting burden as we sought to automate the process such that only one input is required for each adjustment in the reporting template. We have provided more detailed guidance in section 10 of our accompanying guidance document.

Example of an Automatic Adjustment to account for contractual indexation

1.36 For contract S1SP_1 (tab 4a), DCC forecasts £1m in operational charges in RY26/27, assuming a 2% inflation rate. Ofgem approves this forecast in its Price Control decision.

1.37 The actual inflation is 2.5%. The Successor Licensee adjusts the portion of the operational charges which is contractually linked to the rate of inflation by 0.5% and may recover this additional amount in Service Charges without further approval from Ofgem.

1.38 At the End-of-Year reporting for RY26/27 by July 2027 the Successor Licensee reports on this adjustment via tab UM (4a), using reopener category "Automatic Adjustment (Indexation)" under the contract S1SP_1. The adjustment will then appear in tab 4a in row "Uncertainty Mechanisms", column "Allowance" of the S1SP_1 contract and will functionally offset the cost overrun under "Actual" operational costs (which will be higher than the allowance due to inflation being higher by 0.5%).

1.39 Costs subject to Automatic Adjustments may fluctuate and be higher or lower than the approved forecasts. If the actual volumes or inflation are lower than forecasted, the Successor Licensee <u>must</u> reflect these changes by applying a negative adjustment using the same process

Example of an emergency reopener

1.40 For contract DSP_1 (tab 5a), DCC forecasts £0.5m for "SEC-led Project & Programme costs" in RY27/28. Ofgem approves this forecast in its Price Control decision.

1.41 Two new SEC modifications with a combined value of £1m are approved via the SEC code governance process which impact on DSP_1 and which must be implemented within the same RY (and cannot be delayed until the second cost control period). The Successor Licensee submits an emergency reopener for an adjustment to the DSP_1 costs by £1m.

1.42 The Successor Licensee uses tab UM (5a), selects "Emergency Reopener" and proposes £1m under "In-period Licensee proposed allowance" for RY27/28. If approved by Ofgem, the Successor Licensee will be able to adjust its Charges to recover this additional revenue. It will use the End-of-Year Reporting process to reflect Ofgem's decision in tab UM (5a) under "Ofgem decision on amended allowance", which will appear, in aggregate, in tab 5a in row "Uncertainty Mechanisms", column "Allowance" of the DSP_1 contract and will functionally offset the cost overrun of £1m under "Actual" SEC-led Project & Programme costs.

1.43 In practice, an annual reopener application is likely to contain multiple adjustments, including potentially multiple adjustments to the same contract, eg to two different cost elements (SEC-led changes because of new SEC mods and License-led changes because of a necessary tech refresh). In such a case, we would expect only a single value to be reported per contract.

1.44 In respect of DCC's query of non-volume drivers of comms hubs costs: inflation and exchange rates; we explained that contractual indexation is subject to AA and should be reported using the newly created tabs 11x. DCC may apply for approval of other drivers for AA, which demonstrably lie outwith its control, such as exchange rate fluctuations.

New requirement on information to be provided via Supplementary Schedules

1.45 We proposed to make Supplementary Schedules (SS) a formal part of the SL RIGs and require the following information be provided via them:

- Breakdown of External Services
- Breakdown of all FTEs per role
- Breakdown of External Costs by change requests (CRs) and project requests (PRs) by SF
- Breakdown of all contracts provided by the shareholder
- Breakdown of all Transitional Service Agreements (TSAs)
- Breakdown of volume drivers and any other information in support of proposed costs to be subject to the Automatic Adjustment mechanism

1.46 We proposed not to set a template for the SS; instead, we suggested that the Licensee would be able to report the information in a way that best reflects its internal systems, processes and reporting capabilities, so long as the information was complete and accurate.

Summary of responses

1.47 Both respondents expressed support for the integration of the SS into the SL RIGs, the outline of the information required, as well as not prescribing a specific template.

1.48 DCC offered specific comments in relation to the types of information required, with key concerns around breakdowns of External Services and PRs/CRs. DCC highlighted that it may not be able to report a full schedule of External Services upfront as requirements for all services needed throughout a multiannual cost control period may not be fully defined, or the intended provider not confirmed, at the point DCC submits the final business plan. DCC suggested that a full list can be provided as part of End-of-Year Reporting. Similarly, DCC noted that not all PRs/CRs will be known at the time of the Business Plan submission; although a partial view of the uncertain portion of the forecast can be provided using historic rates and experience.

Our view

1.49 We will implement this proposal in line with our consultation position. We understand the challenge DCC highlights in relation to the completeness of information available at the time of its Price Control submission. We would expect that DCC provides a complete list of existing and confirmed External Services and PRs/CRs, with additional best estimates provided using insights from historic trends, anticipated business needs, live procurements/negotiations, IAs or code governance. Subject to our current proposal,[9] the Successor Licensee will be expected to report on an annual basis all contracts, to which it is, or is likely to become, a party, in the Register of Relevant Business Assets (including information on each contract's initial, current, and total value, and the most up to date information on its duration including any extensions). This requirement would help to provide regular updates to complement the Price Control reporting in SS.

New requirement on accruals vs cash-based reporting

1.50 We proposed to modify tab 3 (Revenue Reporting) to provide a "bridge" between cash-based and accruals-based reporting of External Costs by:

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

1.51 The purpose of the converted cash-based reporting would be to provide the basis for charging statements.

Summary of responses

1.52 Both respondents agreed with our proposal. DCC agreed that adding financing repayments and removing Programme and Other Costs subject to financing should be able to bridge the gap between cash and accruals reporting. The SEC Panel asked for further consideration of Working Capital Movements and impacts of Opex vs Capex expenditure.

Our view

1.53 We have decided to implement this proposal in line with our consultation position. We note the Panel's suggestions and will continue to engage with DCC to ensure an accurate cash view is provided as the basis for Regulated Revenue. We will

[9] Ofgem (2025), DCC Review Phase 2: Objectives, operational model and future role of DCC, 3.20-3.21. www.ofgem.gov.uk/consultation/dcc-review-phase-2-objectives-operational-model-and-future-role-dcc

monitor the Successor Licensee cash position via reporting requirements in tab 9 (Cash balances) to prevent undue over-recovery of charges with additional safeguards in the Successor Licence per our conclusions.[10]

Changes to tab 3 (Revenue Reporting)

1.54 We have included a new formula to calculate the Regulated Revenue of the Successor Licensee:

RGRt = [(ECCt + ICt + PTCt - VASCt)*1.05] – Ikt

1.55 Regulated Revenue[11] is intended to capture the actual revenue recovered by the Licensee via Service Charges levied in accordance with LC 18 (Charging Methodology for Services) LC 19 (Charging Statement for Services). The term and the revised formula are subject to consultation on the draft conditions of the Successor Licence; however, for the purposes of this version of the SL RIGs, we have retained the term Regulated Revenue and assumed it to equal the sum of the Required Revenue, calculated using the External Costs term on a cash basis, and the contingency amount of 5% of the Annual Required Revenue recoverable *in excess of* the Required Revenue, *less* the Inherited K-factor. "Inherited K-factor" refers to any sum transferred on or before the Transfer Date by the Licensee to the Successor Licensee, meaning that the Successor Licensee will not need to recover that portion of its Required Revenue via Charges. This only applies in the First Cost Control Period.

Other comments on the RIGs templates and the guidance

1.56 We received a number of comments and suggestions to help improve the consistency, accuracy and clarity of the documents. We have made amendments to the template and the guidance document to both reflect the policy changes described in the sections above, and to provide further clarifications or to correct omissions or typographical errors highlighted by the respondents.

[10] Ofgem (2025), DCC Review Phase 2: Determination of Allowed Revenue – conclusions, 3.51. www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions
[11] Currently defined in LC 35 Part B