



Ofgem's Consultation on the Successor Licensee's Regulatory Instructions and Guidance (RIGs) Smart DCC Response

1. Executive Summary

DCC is pleased to have the opportunity to respond to Ofgem's consultation on the Draft Successor Licensee's Regulatory Instructions and Guidance (RIGs). The RIGs are crucial for setting fair revenue for the Successor Licensee as they define how cost data should be submitted, and with the transition to ex ante arrangements it is even more important that there is clarity on Ofgem's reporting requirements.

DCC broadly welcomes the draft RIGS template and the accompanying guidance which reflect the decisions Ofgem has made on the ex ante framework in its Conclusions on the Determination of Allowed Revenue¹. DCC also acknowledges the extensive work Ofgem has undertaken with us prior to publication to update the RIGS to reflect how DCC is structured and how it delivers its services.

We have responded positively to all of Ofgem's consultation questions, and our comments are largely reserved for points of clarification or minor changes that DCC believes would enhance clarity. Although it is not an issue on which Ofgem has asked a specific consultation question, we can also confirm we welcome the intention to include a separate RIGS tab for additional Mandatory Business or Permitted Business services.

We have also set out more detailed comments on the RIGS template and guidance document which are intended to help further refine these documents.

The RIGs should support a high-level understanding of DCC's cost base and there are two areas in which we remain concerned that high-level clarity will not be provided through the intended RIGS reporting:

- Cost per meter calculations. DCC has previously considered how it might provide clarity on the all-up costs of delivering its services by meter/WAN type. There are clearly different costs associated with the three Smart Energy categories associated with the SMETS1 and SMETS2 meters, but to arrive at a true understanding of the costs for each meter type the Enabling and Testing service costs would need to be apportioned alongside these costs. The proposed RIGS do not enable this notional cost allocation.
- BAU v Change Costs. The cost base for any organisation will typically entail business as usual (BAU) costs and time-limited costs associated with delivering change. To understand the long-term efficiency of an organisation it is important to be able to clearly identify which costs are associated with BAU, which should in turn help understand whether change projects are supporting efficiency improvement. We are not clear that the RIGs as proposed achieve that goal.

We note that Annexes 1-4 will not be required for the first ex ante reporting period. We look forward to the consultation on their future form as part of the upcoming consultation on remuneration guidance. We also welcome the acknowledgement that it may be beneficial to look at revising some aspects of the RIGS after the 1st ex ante cycle.

Annexes:

Proposed revisions to RIGS template

¹ [DCC Review Phase 2: Determination of Allowed Revenue - conclusions | Ofgem](#)

2. DCC Response

The following section sets out the DCC response to each of the consultation questions.

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

DCC is supportive of the proposed changes to the RIGS structure to reflect the move from ex post to ex ante reporting. We recognise the need to provide historic data for comparison. We agree it is also important to capture DCC's forecast costs, Ofgem's determination of economic and efficient costs, DCC's actual costs and the performance delta of actual costs against Ofgem's determined Allowed Revenue as DCC moves through the ex ante cycle.

While we support the inclusion of historic costs to enable cost trend analysis, we believe it is important to ensure the time series of data is limited to those years which are of relevance to any analysis and to avoid nugatory workload. For that reason, DCC recommends that historic cost reporting commences from RY22/23. This is when DCC went fully operational with SMETS1 and it represents the first year in which the scope of DCC's service costs provide a meaningful comparison to subsequent costs. Beginning the historic time series in RY22/23 would provide Ofgem with three years of historic costs against which to compare forecast costs in the ex ante period.

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

DCC welcomes the intention to introduce the service family structure into the RIGS which aligns with how DCC now structures the delivery of its services to its customers. We believe that structuring the cost templates in this way will provide more meaningful insight because it effectively groups related costs showing the combined costs of a suite of change programmes and BAU contracts to deliver a specific set of services, thereby increasing costs transparency and accountability. DCC is conscious that under the current reporting approach it is not always clear what the total cost of service is because of the disaggregated way costs are presented.

DCC welcomes Ofgem's approach to structuring the RIGS to provide clarity on the permitted level of budget fungibility. We believe this will enable reallocation of underspend from one area to another to meet the priorities of the business, and in so doing prevent activity having to be stopped where minor cost overruns occur.

DCC accepts the proposal for the budget fungibility of each service family to be limited to the external costs and the non-resource element of external services. For the purposes of clarity, DCC understands this to mean:

On external costs, the full costs of all relevant Fundamental Service Provider (FSP) contracts minus those elements of cost which DCC proposes should be captured under the Volume Driven reporting tabs (4e and 5e) because they are volume-sensitive in nature.

On non-resource external services, this will cover the non-resource costs of any contracts that are not FSP contracts and do not fall within the scope of the other General Ledger codes.

We welcome Ofgem's proposal that resource and resource-driven Internal Costs should be fully fungible across programmes and recognise that Ofgem has structured the RIGS to achieve this.

DCC acknowledges Ofgem's logic that each service family should contain at least one FSP contract and accepts the proposed structuring of the service families, which differs from the service family structure we had originally proposed in two areas of Smart Energy service reporting:

SMETS2. Up to the publication of Ofgem's RIGS consultation DCC has grouped both SMETS2 and 4G and Connectivity costs under a single SMETS2 service family, and has shared its future planning with customers. Nevertheless, DCC is clear that it can provide clear separation of contract costs between SMETS2 and 4G and Connectivity costs as proposed by Ofgem.

There is, however, a need for greater clarity in the narrative around these costs. Both proposed service families relate to the delivery of communication capability to SMETS2 smart meters, which is why they are distinct from the SMETS1 service family. It is therefore potentially misleading to name one service family as SMETS2. DCC would propose to rename the SMETS2 service family as 'SMETS2 – LRR/2G/3G' and to rename the 4G and Connectivity service family as 'SMETS2 – 4G'. This would not alter Ofgem's proposed cost reporting but would aid clarity and we are likely to draw out strong interdependencies in our business plan narrative between the two service families.

Data Services. DCC believes that Data Services is an area of potential service growth in the future, which is why we had originally included it in our proposals for the Smart Energy service families. However, we acknowledge that we do not currently have in place any FSP contracts for Data Services and as such it should not feature as a service family in the first ex ante price control period.

For the first ex ante price control DCC will include all related expenditure under the Service Management service family. This includes likely expenditure to support the delivery of Energy Data Best Practice obligations and support to the delivery of Centralised Consent.

For subsequent ex ante price control cycles, we would wish to review the position with Ofgem to consider whether there is a need to amend the service family structure.

In all other respects, DCC is content with the proposed service family structure.

We also agree that all contract variations should be reported in the service family which is home to the relevant contract. We are also content to explain the details of contract variations in the Supplementary Schedules, although we have noted some concerns about the extent to which we can achieve full and upfront disclosure in our response to Question 5 on the Supplementary Schedules.

3. What are your views on the proposed replacement of Cost Centres by Internal Functions and changes in Ledger Code reporting? Do you agree with the

proposed Internal Functions? Do you agree with the split of External Services into separate resource and non-resource GL codes?

DCC welcomes the proposed replacement of Cost Centres by Internal Functions. DCC has evolved its internal structure as it has matured its approach to service delivery, and the proposed update will allow cost reporting to align with the way the organisation is now structured. This will make it far more efficient to report costs and provide cost justification.

DCC also supports the proposed changes to the use of General Ledger codes.

Internal Services. We agree it makes sense to remove the Internal Services code given the intended approach to future contracting.

External Services. We support the splitting of 'External Services' into 'External Services (Resource)' (ESR) and 'External Services (Non-Resource)' (ESNR). This will be important to ensure the reporting of costs align with the ringfenced fungibility proposals.

DCC does, however, have concerns in two areas relating to the reporting of Internal Costs:

Allocation of internal costs to service families. While the allocation of internal costs to service families is only for information purposes, DCC contends that Ofgem's proposed approach will lead to inaccurate reporting. In Section 4 of the consultation, Ofgem states:

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

DCC contends that service delivery overhead costs support all eight service families and therefore DCC should be able to report relevant internal costs against the Smart Energy service families as well as the Enabling and Testing service families. Allocating all the costs to the four Enabling and Testing services would create a misleading picture of resource allocation. DCC proposes that Ofgem should enable it to allocate the costs reported on tab 6a to the relevant service family tabs (4a-4d and 5a-5d).

External Service Reporting. We are concerned about the level of information required as part of the Supplementary Schedules. External Services contracts can be quite different in nature from other external contracts, with requirements emerging in response to challenges on programmes. We expect some of the costs we put forward in this area will be based on historic spend analysis and an assessment of programme maturity, and will not represent fully contracted spend at the point of business plan submission. That will mean that DCC cannot provide a complete picture of proposed External Service expenditure in the Supplementary Schedule as outlined in paragraph 11.2 of the RIGS Guidance Document. Where available, DCC shall provide the requested information, but we do not expect to be able to reconcile the data in the Supplementary Schedule to the proposed forecast in the Main RIGS.

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

DCC supports the proposal to establish separate reporting of costs associated with the application of Uncertainty Mechanisms.

Automatic Adjustments: We agree that the separate reporting of costs subject to automatic adjustments should be reported separately to avoid any confusion over budget fungibility. There are two points of clarity that DCC requires in relation to the reporting of these costs.

Inflation Indexation. Ofgem has confirmed that it will allow automatic adjustments for contractual indexation, but it is unclear where this information should be captured. Is it Ofgem's intent that DCC should list this information in the Volume-Driven Costs Summary? For instance, if a contract is based on the Retail Prices Index would DCC list the contract name, that it is based on RPI indexation, the assumed rate in line with OBR/ONS forecasts and when any uplift applies?

Comms Hub Charges. DCC has previously indicated a preference for Comms Hub asset and maintenance charges to be classed as passthrough. Ofgem has instead indicated these costs should be classed as Volume-Driven costs. While any changes in the costs associated with the volume of hubs can be mitigated through the volume-driven automatic adjustment, DCC is concerned that there are other aspects of Comms Hub costs which are variable such as inflation and exchange rates; it is not clear how the difference between forecast and actual costs will be addressed where these factors are the primary drivers.

Passthrough costs are also subject to automatic adjustment but DCC assumes the reporting of actual passthrough costs in tab 3 will form the basis for corrections to Allowed Revenue.

DCC welcomes the opportunity to share more information on the costs that should be reported under Automatic Adjustments. Under separate cover, we have provided detail of the inflation indexation terms of our contracts and a breakdown of the elements of our contract costs which are sensitive to changes in volume. It should be noted that these lists will be subject to further assurance ahead of submission of the final business plan and hence may be subject to change.

DCC also supports the proposal to show the changes to allowances as a result of re-openers, and the additional tab (tab 11) is helpful in this regard. However, DCC seeks the following clarifications in relation to re-opener reporting.

Reporting of Emergency Re-opener Costs. Tab 11 appears to be entirely focused on annual application windows and therefore it is not clear where any changes resulting from an emergency re-opener would be reflected.

Annual Application Windows. There will be no annual application window in the first ex ante business plan period, so it is not clear why 2026 and 2027 are listed as application years on tab 11.

Volume-Driven Costs. Given that the costs listed in tabs 4e and 5e are pre-approved for automatic adjustment, it is not clear why they also feature in the list of costs that might be subject to an annual re-opener application.

Commentary. Given that DCC could in future submit multiple re-opener applications across a three year price control cycle, would it more proportionate to reference the relevant re-opener applications in tab 11 rather than providing text based summaries of each which risks necessitating a lot of text on the spreadsheet?

5. Do you agree that Supplementary Schedules should become part of the RIGs templates? What are your views on the proposed list of required information?

Do you agree that the Licensee should have the flexibility to report the information in a format of its choosing, so long as the information is accurate and complete?

We support the proposal to include Supplementary Schedules as a formal part of the RIGs submission.

In relation to the specific requirements Ofgem expects to be included in the Supplementary Schedules, DCC offers the following comments:

1. Breakdown of External Services: We support the split by Resource and Non-Resource as it will be crucial for defining fungibility. However, as highlighted in our response to Question 3, we do not think it will be possible to provide a complete schedule of external service costs to the level of detail set out because in some instances we will not have a fully defined requirement or will not know who the intended provider will be at the point we submit the final business plan – to provide a complete return in the schedule would necessitate DCC having a fully itemised plan for use of external services up to two years in advance of the requirement. A full breakdown of the requested information can be provided with certainty in end of year reporting, and we would be willing to discuss the challenges further if helpful.
2. Breakdown of all roles: DCC provides this information in support of ex post price control submissions and will continue to do so for the ex ante submission.
3. Breakdown of External Costs by Change Requests (CRs), Project Requests (PRs): Like External Services, not all these costs will be known at the time of the submission of the final business plan. Where available, DCC will endeavour to provide the required information. Some of these costs will be forecasted based on historic run-rate and experience. Like External Services, a full breakdown of the requested information can be provided with certainty in end of year reporting.
4. Breakdown of all contracts provided by DCC1's parent company: DCC expects that all services currently provided by DCC1's shareholder, Capita, will either be replaced through competitive procurement. or move to Transitional Service Arrangements from the Transfer Date. As a result, DCC does not expect to report any shareholder contracts in the first ex ante price control period unless the Successor Licensee successfully bids to run services through the procurement process. Suppliers of replacement services will not be known until after DCC has submitted its final business plan.
5. Breakdown of all Transitional Service Agreements between the Successor Licensee and DCC1, or its Related Undertakings: Capita has provided a list of services it could offer under a TSA, which has already been shared with Ofgem. However, this is subject to agreement with the Successor Licensee during the business handover period (which will be after the first business plan submission). As a result, DCC will not be able to provide this information at the time of the submission of the business plan but can provide as and when these are agreed.
6. Breakdown of volume drivers and any other information in support of proposed costs to be subject to the Automatic Adjustment mechanism. We will provide these details for passthrough costs, contract indexation and volume-driven costs.

DCC appreciates the proposed flexibility to report the required information in the best possible way. We will prepare the templates and work with Ofgem to ensure they are fit for purpose.

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

DCC welcomes the move to accruals-based reporting as it will align regulatory reporting to the way we run our own accounts. We are also supportive of the requirement for additional report showing the cash view, which will support the cash-based charging statement.

We believe the proposed modifications to tab 3 adding financing repayments and removing Programme and Other Costs subject to financing should be able to bridge the gap between cash and accruals reporting. At this stage, we do not believe there are any other factors that need to be accounted for. We will liaise with Ofgem if any further issues need to be addressed.

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

7.1. Guidance document

We have the following comments on the Guidance document:

- Page 6: In line with our response to question 2, we propose that Ofgem amends the names of 'SMETS2' and '4G Connectivity' to 'SMETS2-2G/3G/LRR' and 'SMETS2-4G' respectively, and then apply the revised naming conventions throughout the rest of the document.
- Page 8: In line with our response to question 3, we propose the reference to Service Delivery Costs being allocated to their respective Enabling Services & Testing SF tabs (5a-5d) be broadened to include the Smart Energy service families in tabs 4a-4d as well.
- Page 9: There is missing text in the first bullet point on the page.
- Page 9: Text should be amended from 'sheets 4e and 4e' to 'sheets 4e and 5e'.
- Page 9: The guidance should make clear that the end of year re-opener will not apply in the first ex ante cycle.
- Page 11: Paragraph 1.2 reads as applying to ex post arrangements. Ofgem should make clear that the paragraph applies to the current licensee rather than the Successor Licensee or else amend the paragraph.
- Page 12: There is missing text in paragraph 1.8, bullet point 12.
- Page 18: There is no explanation of what is required to be entered in the cell 'Flag for pre-price control submission' in the Universal Data tab of the RIGS template.
- Page 19: Paragraph 3.1 and the RIGs themselves are written as though there is a continuous licence term beginning in 2014. Can Ofgem clarify that it intends for the first year of the Successor Licensee's term to be year 14 rather than year 1?

- Page 21: Should paragraph 4.6 refer to CPIH rather than RPI, given that CPIH is the basis for the current licence? Paragraph 4.6 also refers to a supporting question for the Licensee to explain real price effects but we could not find this question.
- Page 22: Paragraph 4.8 and tab 3 of the RIGS set out the formula for Allowed Revenue. The Successor Licensee will be a not for profit organisation so the Baseline Margin, Baseline Margin Performance Adjustment and External Contract Gain Share will not apply. It is not clear therefore why the historic numbers for DCC1 are relevant to the calculation of the Successor Licensee's Required Revenue. If Ofgem decides that historic numbers need to be included, all cells relating to future forecasts should presumably be marked as 'Not Applicable' as the Successor Licensee should have no forecast for these terms.
- Page 22: Paragraph 4.8 also includes the Correction Factor as part of the Allowed Revenue. It would be helpful for Ofgem to make clear it does intend to apply penalty interest to the Successor Licensee as a not for profit organisation, and the only input required in this regard is on historic costs.
- Page 23: Paragraph 4.11 refers to Incentive Payments to External Service Providers (ESP). There have not been any incentive payment to ESPs since the very early days of DCC so these should not be included.
- Page 23: Paragraph 4.12 refers to performance related refunds from ESPs. We will not be able to forecast these figures and will only be able to input the actual numbers retrospectively.
- Page 23: Paragraphs 4.12, 4.13 and 4.15 read as only applying to historic costs, but should presumably also apply to forecast costs.
- Page 23: Paragraphs 4.14 and 4.15 refer to Annex 4. Given that Annex 4 will not comprise part of the ex ante submission, the text referring to Annex 4 in these paragraphs should be revised.
- Page 24: Given that there is no expectation that the Successor Licensee will deliver Value Added Services in the first ex ante period should paragraphs 4.17-4.20 be annotated to indicate they are not relevant to the first ex ante price control period?
- Page 30: To be consistent with the RIGS tab 4c, paragraph 5.23 should also list incentive payments for the Communication Service Providers.
- Page 31: Paragraph 5.29 states that the CRS Internal Operating Costs are for information purposes only. However, DCC wishes to clarify that these costs are charged to RECCo and as such are part of the 'budget' approved with them. Since Switching is a unique service family, it requires a different reporting template to other service families.
- Page 32: Ofgem's decision to split the SMETS2 service family between 2G/3G/Long Range Radio under SMETS2 and 4G under '4G and Connectivity' means there is also a need to make a distinction between comms hub volumes, which should be split between SMETS1, SMETS2 2G/3G/LRR and SMETS2 – 4G. The guidance in paragraph 5.33 should explain this and tab 4e will need to be amended accordingly.
- Page 33: As per paragraph 4.6, should paragraph 6.7 refer to CPIH instead of RPI? Similarly, there is no evidence of a supporting question in the RIGS.

- Page 39: Service Management appears to be missing from the list of Internal Costs in paragraph 7.2.
- Page 49: In line with our response to question 2, it would be helpful to confirm in paragraph 11.2 that Ofgem's expectations of reporting on non-resource external services means 'the non-resource costs of any contracts that are not FSP contracts and do not fall within the scope of the other General Ledger codes'.

7.2. RIGS Template

We have the following comments on the RIGS template:

- Sign-Off Sheet: Does the declaration need to be updated to reflect it is an ex ante submission provided in advance rather than after spend is incurred?
- Index: There is no 5e sheet listed in the Index.
- All Cost Reporting Tabs (tabs 2-8): While DCC understands the use of the term 'Historical' in row 8 of each reporting tab is designed to indicate costs prior to the Successor Licence period, it is inaccurate. Costs in 2025/26 and 2026/27 will be forecast at the point the business plan is submitted. It might be more accurate to change from 'Historical' to 'DCC1 Historical & Forecast Costs'.
- Fixed Data Sheet (Tab 1): In line with our query on paragraph 3.1 of the guidance, the Year of Licence Term includes successive integers beginning in 2014 which indicated that RY26/27 will be year 14, but RY26/27 will be the first year of the Successor Licensee term.
- Summary Data Sheet (Tab 2): It is not clear why there are active cells for Historic Shared Services (row 49) in the Successor Licence period beyond column U. Similarly, it is not clear why there are active cells for Baseline Margin, Baseline Margin Performance Adjustment and External Contract Gain Share (rows 53, 55, and 57) in the Successor Licence period, given the Successor Licensee will be not for profit.
- Revenue Reporting (Tab3): As per comments on paragraph 4.8 of the guidance it is not clear why data on Baseline Margin, Baseline Margin Performance Adjustment and ECGS (rows 41-49) is relevant to the proposed costs for the Successor Licensee. Equally Value Added Services should be deactivated for the 1st ex ante period in line with paragraph 4.25 of Ofgem's decision on the process for determination of Allowed Revenue².
- All Service Family Tabs (tabs 4a-4d, 5a-5d): The guidance document lists 'other cost areas' for each service family but there are no corresponding sections in the individual tabs for the change programmes to report these costs (except for ESNR costs). Providing a sub-section on Programme related costs and a row to report aggregate programme costs would help to clearly identify BAU v change costs as referenced above in the Executive Summary.
- All Service Family Tabs (tabs 4a-4d, 5a-5d): DCC have noted the new 'Licensee-led' and 'SEC-led Project & Programme' cost categories. It is important to clarify that where applicable supplier costs relating to specific change programmes may be reported under an alternative service family to the 'home' service family because

² [DCC Review: Phase 2 – Process for determination of Allowed Revenue \(conclusions\)](#)

activity is in support of that other service (e.g. forecasted DSP costs for Future Connectivity Programmes will be reported within the SMETS2 – 4G service family).

- All Service Family Tabs (tabs 4a-4d, 5a-5d): Would it be more accurate to label 'uncertainty mechanism' costs as 're-opener costs' to avoid double counting automatic adjustment data which will be provided in section 2 on each tab and in tabs 4e and 5e?
- Smart Energy Costs and CRS (Tabs 4 and 4d): To ensure alignment between budgeting agreements with RECCO and the CRS costs reported in the RIGS, CRS costs will need to include all relevant Internal Costs.
- SMETS1, SMETS2 and 4G Costs (Tab 4a, 4b and 4c): In line with our response to question 3, there should be provision for DCC to indicate the associated internal costs in section 2 of these tabs.
- SMETS2 Costs (Tab 4b): This tab is missing catalogue service costs for CSP North.
- Volume Costs (Tab 4e): The comms hub volumes in rows 110-113 need to be split as SMETS1, SMETS2 – LRR/2G/3G and SMETS2 – 4G. CSP North also needs to be added under Catalogue Services and DSP Catalogue Services need to be moved to tab 5e.
- Privacy and Security Costs (Tab 5b): The GBCS programme is listed in the guidance document in paragraph 6.15 but is not listed in tab 5b. S1-DCOc is listed twice (rows 44-52 and 74-82).
- Service Management Costs (Tab 5c): MHHS is listed in the guidance document in paragraph 6.19 but is not listed in tab 5c.
- Service Overhead and Corporate Overhead Costs (Tab 6a and 6b): The GL Codes listed here are already in tab 1.
- Service Related Overheads (Tab 6a): Row 94 should be modified to say 'Service Related Overhead Costs' by main GL accounting code instead of 'Overhead Costs' by main GL accounting code.
- Financial Statements (Tab 8): Given that values for 2027 and beyond are forecasts should row 8 read as Historical and Forecast rather than Historical and Actual?
- UMs (Tab 11): Ofgem asks for commentary on re-opener applications under question 1. Given that there could be multiple re-opener applications in future price controls would it be simpler to reference the relevant re-opener applications rather than include lots of text in the spreadsheet.

We attach a copy of Ofgem's RIGS template with proposed revisions – see highlighted cells and comments (note that structural updates have been made to tabs 4a and 4d only but would apply to all tabs 4a-5d).