

# Decision

## DCC Price Control: Regulatory Year 24/25

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### Overview:

The Data and Communications Company (DCC) is required to report Price Control Information by 31 July each year. It must report in accordance with the Regulatory Instructions and Guidance (RIGs) that we publish.

Each July, DCC can also propose an adjustment to its Baseline Margin (BM) and External Contract Gain Share values (ECGS). Ofgem assesses these proposals and determine whether any adjustments are justified.

In November 2025, we ran a consultation on our proposals following a review of the report and information submitted by DCC in July 2025 for the Regulatory Year from 1 April 2024 until 31 March 2025.

This document sets out our decisions and the reasons for them on the costs DCC reported under its Price Control for the Regulatory Year 2024/25 and its application to adjust the BM and ECGS values under the Licence<sup>1</sup> (“Decision Document”).

Alongside this document we have published notices of our Price Control Decisions and Determinations and Directions relating to the calculation of Allowed Revenue set out in the Price Control Conditions in the Licence.

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<sup>1</sup> Smart Meter Communications Licence awarded to DCC, that commenced on 23 September 2013, (the “Licence”).

**Decision DCC Price Control: Regulatory Year 24/25**

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## Decision DCC Price Control: Regulatory Year 24/25

### Executive summary

DCC performs a critical role in the energy market, and it is essential that it is funded to deliver high-quality, value-for-money services. It is through the Price Control that Ofgem seeks to strike the right balance between enabling necessary investment to maintain and improve service quality and ensuring that DCC operates economically and efficiently.

The assessment of DCC's costs is carried out in accordance with the principles set out in our Price Control Guidance.<sup>2</sup> This Decision Document sets out<sup>3</sup> our final determinations for the DCC Price Control for Regulatory Year 2024/25 (RY24/25).<sup>4</sup> It includes our conclusions on internal and external costs, performance incentives, adjustments to Baseline Margin values, and the External Contract Gain Share mechanism. Our decisions are informed by our initial assessment, the consultation published in November 2025, the responses received from seven stakeholders, and additional evidence provided throughout the process.

At the consultation stage, we identified several areas of Unacceptable Costs and proposed a disallowance of **£30.841m**. Following consultation, stakeholders have provided a range of new information and views, and DCC has provided additional credible evidence demonstrating that some of these costs were incurred economically and efficiently. We have therefore revised our decision on disallowances downwards where appropriate, while maintaining the view that some areas of cost remain unacceptable.

In line with the Licence, we have examined whether such costs should be disallowed or addressed through undertakings from DCC. Under LC37.8–37.9, we may accept or reject an undertaking and expect any such proposal to deliver outcomes equivalent to, or better than, a disallowance. **We have decided to accept one of the three undertakings (in place of a disallowance) that DCC has submitted.** We are exercising our right under the Licence to accept this undertaking, and we have determined that doing so will deliver the greatest long-term benefit to consumers. **Considering all adjustments together, our final decision for RY24/25 is to disallow £11.245m.**

### Cost Assessment

Each of the key areas of our decisions is described below, as part of this executive summary:

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<sup>2</sup> [DCC Price Control Guidance: Processes and Procedures 2022](#)

<sup>3</sup> The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority ("the Authority"). Ofgem is the office of the Authority.

<sup>4</sup> Ofgem DCC price control [RY24/25 Consultation](#): ("Any references to Ofgem's consultation position, refer to the proposals set out in this document").

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Overall, DCC's total reported costs for RY24/25 are £751.4m. Excluding passthrough costs, the figure is £721m<sup>5</sup>. This represents a 10.7% increase in total costs compared to last year's approved forecasts as set out in our RY23/24 price control decision (external costs £47.934 and internal costs £38.147m).

DCC forecast costs increase for the remaining two years of the Licence term, with total costs expected to peak at £906.15m in RY26/27 (in RY24/25 prices).

DCC's latest forecast for total costs over the entire Licence period (from RY13/14 to RY26/27) is £7.17b. Excluding Pass-Through Costs (PTCs), this forecast is £6.826b.

**Table 1: Summary of decision disallowances, all in [£m]<sup>6</sup>**

Decision	Incurred costs: RY24/25	Forecast costs: RY25/26	Forecast costs: RY26/27
Internal Costs (incl. SSC, excl. Switching)	5.757	7.143	15.516
External Costs (excl. Switching)	5.488	19.049	23.760 <sup>7</sup>
Switching Costs			14.597
<b>Total disallowances (incl. SSC)</b>	<b>11.245</b>	<b>26.192</b>	<b>53.874</b>

**Table 2: Summary of consultation proposal, all in [£m]**

Consultation proposal	Incurred costs: RY24/25	Forecast costs: RY25/26	Forecast costs: RY26/27
Internal Costs proposal (incl. SSC, excl. Switching)	7.033	12.110	21.381
External Costs proposal (excl. Switching)	23.807	27.419	17.215
Switching Costs proposal		15.286	14.597

<sup>5</sup> Pass-Through Costs include the fee paid by the Licensee to the Authority and the payments to SECCo Ltd for purposes associated with the governance and administration of the Smart Energy Code (SEC).

<sup>6</sup> These figures are approximated and may be subject to rounding error.

<sup>7</sup> The disallowance was lower at consultation because we calculated forecast costs only up to the transfer date. This was corrected in the decision to reflect forecasts for the entire year.

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Consultation proposal	Incurred costs: RY24/25	Forecast costs: RY25/26	Forecast costs: RY26/27
Total proposed disallowances (incl. SSC) (incl. SSC)	30.841	54.815	53.193

**We consulted on a set of proposals to disallow £30.841m of costs incurred in RY24/25. We have decided to reduce our proposed disallowance by £19.596m from the consultation proposal.** Before reaching our final determination, we gave due consideration to all the consultation responses that were received on the RY24/25 Consultation, including additional evidence and undertakings provided by DCC. We have also considered other relevant matters, including licence requirements under LC 37 and Ofgem’s general duties.

As an outcome of consultation review process, **our decision is to determine that a total of £11.245m, split between £5.757m Internal Costs** (including the associated shared Service Charge) **and £5.488m External Costs**, incurred in RY24/25 shall be disallowed from DCC’s Allowed Revenue.

**Our determination on RY24/25 Unacceptable Costs comprises:**

- i. A portion of incurred External Costs. We deem that £10.501m of incurred External Costs were Unacceptable, of which we have decided to **disallow £5.488m** in the following areas: SMETS1 Dual Control Organisation (DCO) operational costs (**£3.188m**) and project costs (**£0.668m**); Test Automation Framework (TAF) project costs (**£0.484m**); Data Service Provider (DSP) leadership funding project costs (**0.916m**); SMETS1 FOC project costs (**£0.208m**); DSP technical resource project costs (**£0.024m**). **We have also decided to accept one of the three undertakings (in place of a disallowance) that DCC has submitted.** Details of these decisions are set out in Chapter 2.
- ii. A portion of Internal Costs associated with the following: Payroll (**£1.861m**); benchmarking of staff remuneration (**£0.449m**); planning, scoping and resourcing of business-as-usual activities (**£1.701m**); and Business Accuracy Programme (**£1.458m**). Details of these decisions are set out in Chapter 3.

We partially reduced the disallowance amount from our consultation position where further satisfactory evidence was received. This is for example the case for a proportion of the External Costs associated with the DCO delayed benefits, DCO project costs, DSP SMETS1 Technical resources, ANSO contract re-procurement, Cloud hosting for Device Manager; as well as a portion of the costs associated with payroll costs.

In addition, we have also determined that £7.143m (RY25/26) and £15.516m (RY26/27) in forecast Internal Costs (including the associated Shared Service Charge), and £19.050m (RY25/26) and £23.760m (RY26/27) in forecast External Costs are not sufficiently likely to occur or are not economic and efficient and direct that they be removed from DCC’s future Price Control reporting.

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Furthermore, we have also decided to temporarily exclude RY27/28 forecast costs (£14.597m in total, of which £3.354m of Internal Costs and £11.243m of External Costs) associated with the Switching programme. We consider these costs are not certain enough to include in DCC's future reporting of its Allowed Revenue calculation.

We expect DCC to take steps to improve its forecasting and provide clear and transparent cost forecasts for its customers and stakeholders, and as part of the price control. As DCC is now considered to be a well-established organisation, we would expect DCC to be able to forecast with more certainty, and to be able to justify costs further into the future.

## Performance Incentives

All DCC's margin is at risk against its performance, either through the Operational Performance Regime (OPR) or any of the Baseline Margin Project Performance Schemes (BMPPAS).

This is the seventh year in which DCC's performance is being assessed under the OPR, and the fourth year in which both customer engagement and contract management are incentivised against the revised OPR, which came into effect in April 2021.

We have reviewed all responses and are adjusting our position which corresponds to a Baseline Margin reduction of £1.288m, and comprises:

- A reduction of £0.966m because of DCC's performance in contract management, corresponding to a total score of 2.19 awarded (out of a possible 3) for the contract management incentive.
- A reduction of £0.322m because of DCC's performance in customer engagement, corresponding to a total score of 2.55 awarded (out of a possible 3) for the customer engagement incentive.

## Baseline Margin Adjustment (BMA)

The BM adjustment mechanism was included in the Licence to recognise the uncertainty and risk of DCC's Mandatory Business over time. It is intended to ensure that DCC is compensated for material changes in certain aspects of its Mandatory Business under the Licence.

This year, DCC applied for a BM adjustment of £11.422m for increases in the volume and complexity of work, changes to timescales, or increased cost certainty of activities. We have reviewed all consultation responses and decided to direct an adjustment of £8.601m out of DCC's application to reflect the price control decisions on Unacceptable Internal Costs and the elements of DCC's application where we have not seen sufficient evidence of a material change that could not have been foreseen or the ground raised does not appear to meet the conditions in the Licence.

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### External Contract Gain Share (ECGS)

The DCC Allowed Revenue formula includes an ECGS term which allows for an upward adjustment to DCC's revenue in recognition of a reduction in External Costs that DCC helped achieve. Between RY15/16 (DCC's first ECGS adjustment application) and RY24/25 (including this year's application), DCC has secured cost reductions of £289.864m relating to savings in the FSP contracts, comms hub financing and the establishment and running of an in-house test lab service; of these savings, £166.846m (57.6%) have been passed onto customers.

This year, DCC applied for an adjustment to its ECGS term of £4.937m. This relates to the ongoing savings achieved through interest rate reductions negotiated for comms hub financing and the operation of its in-house test lab services. DCC estimates £13.164m in savings to industry for RY24/25, of which it proposed that £8.228m be returned to customers. We maintain our consultation proposal to accept DCC's ECGS adjustment application in full.

### Switching Programme

Separately to the Baseline Margin, DCC receives a margin on the Switching Programme, which is at risk under a separate performance regime. For RY24/25, this margin is £0.227m.<sup>89</sup> This is the third year in which DCC's performance for Switching is being assessed under the Switching Incentive Regime (SIR).

We received only one response, from DCC, and have revised our consultation position accordingly:

- i. After reviewing consultation response, we determined that DCC's margin at risk against the operational performance element of the SIR shall be reduced by 100%, amounting to £0.182m. This is because the Retail Energy Code (REC) parties reported that DCC achieved 0% service levels.
- ii. We reviewed submissions and evidence from both DCC and REC to assess DCC's customer engagement performance. Based on customer feedback, we awarded an overall score of 2.25 out of 3 for customer engagement, resulting in a £0.011m margin reduction (we have corrected the margin reduction from £0.004m to £0.011m based on the RIGs reporting).

This results in a total margin reduction of £0.193m for both the customer engagement incentive and operational performance.

We are also revising our consultation position to disallow both the RY25/26 and RY26/27 forecast costs. This decision follows our review of DCC response and RECCo switching budget approval process. Since RECCo has now approved the RY25/26

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<sup>8</sup> Ofgem DCC price control [RY24/25 Consultation](#): Pages 144-153.

<sup>9</sup> Ofgem (2023), Decision on consultation on proposals to introduce a DCC Switching performance incentive regime. [Link](#)

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forecast cost, it will now be included in the Allowed Revenue. However, we are temporarily excluding the RY26/27 forecast costs from the Allowed Revenue until RECCo approval is received.

## Definitions

Where words or expressions are capitalised in this Decision Document, the definition is either:

- set out in this Decision Document; or
- in the Licence.

Should there be any conflict or inconsistency between definitions in this Decision Document and the Licence, the definitions in the Licences shall prevail.

## Allowed Revenue Decision

Our decisions on the various components outlined above results in a total Allowed Revenue over the entire Licence period of £6.78bn (including Pass-Through Costs). See Appendix 1 for Allowed Revenue as proposed by DCC and the impacts of this year's decision.

## Decision DCC Price Control: Regulatory Year 24/25

# 1. Introduction

This section sets out the role of DCC, purpose of our decision, decision making process, and decision stages.

## Context

- 1.1 DCC is the central communications body licensed to provide the communications, data transfer and management required to support smart metering. It is responsible for linking smart meters in homes and small businesses with the systems of energy suppliers, network operators and other companies.
- 1.2 DCC was awarded the Licence<sup>10</sup> in 2013 to undertake this activity. Under this Licence, DCC is entitled to an Allowed Revenue which is the total amount of revenue determined on an accruals basis in relation to each Regulatory Year in accordance with the Principal Formula set out at Part C of Condition 36 (Determination of the Licensee's Allowed Revenue) after the deduction of Value Added Tax (if any) and any other taxes based directly on the amount concerned.
- 1.3 Licence Condition (LC) 36, supplemented by LCs 35-41, sets out how DCC's Allowed Revenue is determined. These conditions enable the Authority to direct that any costs that it considers to have not been economically and efficiently incurred in the relevant Regulatory Year ("the Unacceptable Costs") to be excluded from any future calculation of the Licensee's Allowed Revenue under LC 36 on the basis that they have not been economically and efficiently incurred in the relevant Regulatory Year ("the Unacceptable Costs"). Also, in determining the Licensee's Allowed Revenue, the Authority has had regard to its guiding principal objective. As such, it will be carrying out its DCC administration functions in such a way to protect the interests of existing and future consumers. Also, when determining the Licensee's Allowed Revenue, it had regard to its statutory duties; and to the need to secure that the Licensee is able to finance the activities.<sup>11</sup>
- 1.4 Under the Regulatory Framework<sup>12</sup> it is our function to ensure that DCC's costs are incurred economically and efficiently. To facilitate this, we review DCC's costs and performance after the end of the Regulatory Year in which the costs were incurred, as well as forecast costs that DCC deem certain enough to include in its forecast Allowed Revenue. This approach is referred to as an 'ex-post' price control. DCC must submit price control information by 31 July following each

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<sup>10</sup> The Smart Meter Communication Licence, accessible at: [www.ofgem.gov.uk/licences-and-licence-conditions](http://www.ofgem.gov.uk/licences-and-licence-conditions)

<sup>11</sup> Section 4AA of the Gas Act 1986 and sections 3A, of the Electricity Act 1989, (the "Acts"). Taken together, the Licence, (in particular LCs 35-41) and the Acts, comprise the "Regulatory Framework."

<sup>12</sup> See footnote 9

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Regulatory Year in line with the (RIGs)<sup>13</sup>. Price Control reporting covering the Regulatory Year from 1 April 2024 until 31 March 2025 was submitted on 30 July 2025.

- 1.5 Over the Licence term the majority of DCC's costs are incurred by its Fundamental Service Providers (FSPs) who are responsible for delivering the data and communications services to support smart metering. One of DCC's key responsibilities is to effectively manage these large external contracts and ensure value for money and good quality service for consumers. The costs incurred by the FSPs are referred to as External Costs within DCC's Allowed Revenue.
- 1.6 All other costs incurred by DCC in relation to the provision of the service are either Internal Costs, Pass-Through Costs<sup>14</sup>, or costs associated with the Centralised Registration Service<sup>15</sup>.
- 1.7 In each Regulatory Year an amount of additional revenue, over and above the sum of the Internal Costs and External Costs, is included in the Allowed Revenue – this is the BM. Each July, DCC can propose an adjustment to its BM values. We assess this proposal and determine whether to adjust the values agreed when the Licence was awarded. DCC's BM is at risk against its performance previously under the Implementation Performance Regime (IPR) and now against the OPR and government directed project performance regimes. We determine the outcome of this performance as part of our price control assessment.
- 1.8 Separately, DCC receives a percentage margin for its activity on the Switching Programme. This margin is subject to a separate SIR.
- 1.9 DCC also applied to amend the ECGS term of its Allowed Revenue as a result of External Cost savings. The ECGS is a mechanism within the price control that allows DCC to apply to increase its Allowed Revenue in recognition of its instrumental role in reducing External Costs.

## Related Publications

- 1.10 DCC's Licence is at: [Smart Meter Communication Licence](#)
- 1.11 The DCC Regulatory Instructions and Guidance 2023 is at: [Data Communications Company \(DCC\): Regulatory Instructions and Guidance 2023](#)

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<sup>13</sup> See Ofgem (2022), Data Communications Company (DCC): Regulatory Instructions and Guidance 2022.

[www.ofgem.gov.uk/publications/data-communications-company-dcc-regulatory-instructions-](http://www.ofgem.gov.uk/publications/data-communications-company-dcc-regulatory-instructions-)

<sup>14</sup> Principally the cost of the Alternative HAN Company and the Smart Energy Code administration secretariat.

<sup>15</sup> Centralised Registration Service refers to the new switching service, introduced as part of the Switching Programme. See Ofgem website for details:

[www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/switching-](http://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/switching-)

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- 1.12 The DCC Price Control Guidance: Processes and Procedures is at: [DCC Price Control Guidance: Processes and Procedures 2022](#)
- 1.13 Last year’s consultation document is at: [DCC Price Control consultation: Regulatory Year 2023/24](#)
- 1.14 Last year’s decision document is at: [DCC Price Control Decision Regulatory Year 2023/24](#)
- 1.15 This year’s consultation document is at: [DCC Price Control consultation: Regulatory Year 2024/25](#)
- 1.16 The Price Control part of DCC’s website at: [www.smartdcc.co.uk/about/price-control](http://www.smartdcc.co.uk/about/price-control)

## Our Decision-making process

- 1.17 The DCC Price Control process should also be viewed in the wider context of helping to achieve Ofgem’s key strategic<sup>16</sup> priorities through:
- Working with government, industry and consumer groups to deliver a net-zero economy, at the lowest cost to consumers
  - Stamping out sharp and bad practice, ensuring fair treatment for all consumers, especially the vulnerable
  - Enabling competition and innovation, which drivers down prices and results in new products and services for consumers
- 1.18 As required by the DCC Licence<sup>17</sup>, our assessment of DCC’s costs is carried out by comparing DCC’s incurred costs and revised forecast with DCC’s Licence Application Business Plan (LABP) and the previous year’s forecast. Our guidance document<sup>18</sup> sets out the approach in detail and the information we expect to be provided with to enable us to determine whether DCC’s costs are economic and efficient. Also, as noted above, regard is had to our guiding principal objective and statutory duties<sup>19</sup>.
- 1.19 We published our “RY24/25 consultation” in November 2025 with our detailed proposals and conducted a stakeholder meeting on the consultation in December 2025. This document sets out our decisions on DCC’s:
- Incurred and forecast External Costs for RY24/25 (Section 2)

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<sup>16</sup> Ofgem forward work plan [Link](#) and Ofgem’s Multiyear Strategy ‘Protect, Build, Change, Deliver document [Link](#).

<sup>17</sup> Licence Condition 37 of the Smart Meter Communication Licence

<sup>18</sup> Ofgem (2022), DCC Price Control Guidance: Processes and Procedures 2022. [www.ofgem.gov.uk/publications/dcc-price-control-guidance-processes-and-procedures-2022](http://www.ofgem.gov.uk/publications/dcc-price-control-guidance-processes-and-procedures-2022)

<sup>19</sup> Refer to footnote 14

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- Incurred and forecast Internal Costs for RY24/25 (Section 3)
  - Performance under the Operational Performance Regime (OPR) (Section 4)
  - Application for an adjustment to its Baseline Margin and External Contract Gain Share (Section 5); and
  - Switching Programme, Costs, and Performance (Section 6)
- 1.20 We received seven formal responses to the “RY24/25 Consultation” (which will be included on the same web page as the Decision Document). All non-confidential responses are published on our website. As noted above, we have fully considered all responses received to our consultation.
- 1.21 We have summarised the key points received from the responses and provided an explanation of the reasons for our decisions. If a point is not included in our summary, this does not infer that this information was not taken into account in our decision.
- 1.22 Please note that we may provide feedback to DCC directly on the detailed points it raised in its consultation response.
- 1.23 A Notice of our Price Control decision, determinations and directions accompanies this document. We also include a Notice providing DCC with a direction so that it can reflect our decisions in its next Charging Statement.
- 1.24 For further context to these decisions please read this document alongside our November 2025<sup>20</sup> consultation on the RY24/25 Price Control.

### Decision-making stages

- **Stage 1** Consultation open: 07 November 2025
- **Stage 2** Consultation closes (awaiting decision). Deadline for responses: 05 January 2026
- **Stage 3** Responses reviewed and published: 21 January 2026
- **Stage 4** Consultation 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 report. We would also like to get your answers to these questions:

Q1. Do you have any comments about the overall quality of this document?

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<sup>20</sup> Ofgem (2025), DCC Price Control consultation: Regulatory Year 2024/25: [DCC Price Control consultation: Regulatory Year 2024/25](#)

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Q2. Do you have any comments about its tone and content?

Q3. Was it easy to read and understand? Or could it have been better written?

Q4. Are its conclusions balanced?

Q5. Did it make reasoned recommendations?

Q6. Any further comments Please send any general feedback comments to [DCCregulation@ofgem.gov.uk](mailto:DCCregulation@ofgem.gov.uk).

## Decision DCC Price Control: Regulatory Year 24/25

### 2. External Costs

#### Section summary

We consulted on a set of proposals to disallow up to £23.087m of External Costs incurred in RY24/25. We have revised our position downwards. We deem that £10.501m of incurred External Costs were Unacceptable, of which we have decided to **disallow £5.488m** in the following areas: SMETS1 Dual Control Organisation (DCO) operational costs (£3.188m) and project costs (£0.668m); Test Automation Framework (TAF) project costs (£0.484m); Data Service Provider (DSP) leadership funding project costs (£0.916m); SMETS1 FOC project costs (£0.208m); DSP technical resource project costs (£0.024m). **We have also decided to accept an undertaking (in place of a disallowance) on External Costs and will publish further details associated with this decision in due course.** We have decided not to make a disallowance of incurred costs in the following areas: ANSO re-procurement and Cloud hosting for Device Manager but we will revisit these areas in future RYs.

We have further decided that £19.050m of forecast costs for RY25/26 and £23.760m of forecast costs for RY26/27 are not economic and efficient or likely to occur and should be removed from DCC's future Price Control reporting.

#### Questions posed at consultation

- Q1. Do you agree with our proposal to disallow £8.159m in overage charges incurred in RY24/25 under a SMETS1 contract? Do you agree with our proposal to not disallow the costs of settlement which DCC reached with another SMETS1 SP but reduce OPR contract management scores?
- Q2. What are your views on our proposal to disallow the costs of delayed benefits of the ANSO contract from November 2024?
- Q3. What are your views on our proposal to disallow a proportion of DCO service run and project costs from April 2024?
- Q4. Do you agree with our proposal to disallow up to £1.289m of additional costs under the Test Automation Framework?
- Q5. Do you agree with our proposal to disallow a proportion of costs incurred on DSP change oversight and support between January and December 2025, and all forecast costs beyond October 2026?
- Q6. Do you agree with our proposal to disallow £0.208m of costs associated with FOC migration failure?
- Q7. What are your views on our proposal to disallow £0.701m in DSP SMETS1 consultancy support?
- Q8. Do you agree with our proposal to disallow £0.570m of cloud hosting costs?
- Q9. Do you have any other views on External Costs?

## Decision DCC Price Control: Regulatory Year 24/25

### Q1) Overages

**Proposal at consultation:** Disallow £8.159m out of c.£15.5m of overage charges incurred in RY24/25 on “Contract 2”. Not disallow £9.5m in settlement for overages incurred in RY24/25 on “Contract 1”; reduce OPR Contract Management score instead.

**Decision:** Maintain consultation position in respect of Contract 1. **A decision has been made in respect of Contract 2, and we will publish the details of that decision in due course.**

#### Context

- 2.1 Please note that due to commercial sensitivity some details have been omitted from this document. DCC’s response to our consultation has been published alongside with appropriate redactions.
- 2.2 DCC incurs overages on two SMETS1 contracts. Overage is a charge paid to Service Providers (SPs) on SMS above a contracted threshold of permitted volumes – if user traffic generates more SMS than DCC has contracted for, DCC must pay overage charges to the SP.
- 2.3 DCC incurred c.£25m in overage costs in RY24/25 related to 2 issues:
  - Contract 1: A settlement for historic overages up to March 2025 (£9.5m)
  - Contract 2: Overages worth £15.5m per contract terms
- 2.4 In our consultation we set out specific concerns about DCC’s approach to managing the overage charges. In relation to Contract 2, we did not see compelling evidence that DCC actively monitored the performance of the contract and took appropriate action when significant overage charges were being incurred. We saw no evidence that DCC attempted to approach the SP to renegotiate overage charges within the contracts at any point until RY24/25 or that a “lack of commercial leverage” played any part in DCC’s decision not to act. We therefore considered DCC’s engagement with the SP and used the lower bound of benefits that could have been realised and recalculated the overages in RY24/25 had DCC acted sufficiently in time. On that basis we proposed to disallow £8.159m of the c.£15.5m of overages incurred on Contract 2 in RY24/25.
- 2.5 We were also concerned about the cost of a settlement DCC reached with Contract 1 SP; specifically, the payment of a fixed Network Service Charge (£6.5m in RY24/25) paid in exchange for a waiver of historic overages. We were concerned that the charge was reflective of a pressure on DCC to settle when facing large back-billed amounts, a disadvantageous position due to DCC’s own process failure to monitor invoices. However, on balance, we were minded not to exercise the power to disallow these costs in light of greater benefits being delivered via the waiver of historic overage amounts and a renegotiated agreement for the future management of the overages. Instead, we proposed to reduce the OPR

## Decision DCC Price Control: Regulatory Year 24/25

Contract Management score on account of DCC's failure to monitor the contract and have in place an adequate process to verify invoices.

### Summary of respondents' views (other than DCC)

#### Contract 1

- 2.6 Two respondents commented specifically on our Contract 1.
- 2.7 One agreed with our minded-to position not to disallow costs. However, they shared our concern about DCC's failure to validate invoices from the SP and suggested that DCC should be required to implement process changes to avoid a repeat of this issue.
- 2.8 The other observed that prior to SMETS1 enrolment, they did not pay overage charges to the same SP as the data required (eg scheduled meter reads) was "pushed from the CH to the adapter", therefore not requiring a "wake-up" SMS to be sent. They commented that DCC may have changed the meter reads to a "data pull" to align with SMETS2 processes and questioned whether DCC understood the impact of this change during contract negotiation. They also noted that the Distribution Network Operators (DNOs) could play a role.

### Summary of DCC's response

#### Contract 1

- 2.9 DCC re-stated the course of its actions in RY24/25 which included:
- i. Agreeing to a settlement of £9.5m for historic overages (October 2023 – September 2024) and further overages for period October 2024 – March 2025, totalling c.£93m
  - ii. Contract renegotiations which DCC claims to have connected with the SP's wider provision in DCC to maximise its commercial leverage. DCC negotiated new terms from April 2025. DCC highlighted that the new SMS rate in the restated contract (1p per SMS) is below market rate of c.2.5p per SMS, drawing on a more direct platform structure of Contract 1. DCC explained that this would not be possible on Contract 2 as its solution is 'off platform' with roaming SIMs and reliant on subcontractors.
- 2.10 DCC explained that without action the total variable SMS costs for April 2025 – March 2029 would be c.£240m (based on Q1 2025 Capacity Demand Planning profiles). Together with the technical changes, DCC expects that its steps will reduce the total overages in period October 2022 to March 2029 to c.£184.5m.
- 2.11 DCC welcomed our proposal not to disallow incurred costs and accepted our minded-to position to reduce the OPR Contract Management scores instead.

## Decision DCC Price Control: Regulatory Year 24/25

### Reasons for our decision

#### Contract 1

2.12 Following careful consideration of stakeholders' representations, and having received no further evidence in relation to our proposal under Contract 1 and noting DCC's acceptance of it, we have decided to maintain our minded-to position and proceed with a reduction in the following OPR Contract Management scores in domain 6 (Contract Lifecycle) in the following areas:

- *6.1: Does the contract continue to support DCC's strategic intent?* – score reduction from 3 to 2
- *6.3: Is change controlled and well managed and does the contract remain current?* – score reduction from 2 to 1

2.13 As set out in our consultation, our proposal complements the independent auditor's findings but takes into account additional evidence around DCC's failure to actively monitor the contract to ensure that it remains fit for purpose and current.

2.14 As a contract management organisation, it is crucial that DCC should have in place appropriate processes to validate its invoices and fully understand all charges and payments.

## Q2) ANSO re-procurement

**Proposal at consultation:** *disallow the differential between the costs of the new and the old ANSO contract from November 2024 corresponding to £6.120m in RY24/25; £18.413m in RY25/26 and £12.740m in RY26/27.*

**Decision:** *accept the costs of the old solution until July 2025 (no disallowance in RY24/25), disallow forecast costs based on market benchmark, thereafter, corresponding to £11.240m in RY25/26 and £17.286m in RY26/27.*

### Context

2.15 Application, Network, Security, and Operations (ANSO) service supports SMETS1 Final Operating Capability (FOC) cohort of meters. It is classed as Fundamental Service Capability under the Licence and DCC must procure it competitively from an External Service Provider. DCC signed the original ANSO contract in April 2019 with an initial term lasting from April 2021 to November 2023. It also included optional three one-year extensions. In March 2022 DCC extended the contract until July 2025 but without any utilising the contracted extensions – instead, it signed a contractual change with the Service Provider.

2.16 DCC reprocured the ANSO service during RY24/25 and extended the existing contract further to July 2027 with an expectation that the new solution will go live from November 2026. The operational costs of the ANSO solution under the new

## Decision DCC Price Control: Regulatory Year 24/25

contract are significantly lower (c. £18m *pa*) compared to the original contract due to a move from on-premises hosting solution to a public cloud.

2.17 Our consultation position outlined concerns that DCC’s unilateral extension of the original contract and a failure to procure a replacement in time resulted in avoidable uneconomic costs to consumers. Specifically, that was:

- No evidence of a business case or customer support for the March 2022 extension
- No explanation for why DCC did not or could not reprocure the ANSO service to meet the contract end-date in November 2023, or a one-year extension to November 2024 aligned to the closure of the FOC meter migrations
- No explanation for why DCC did not procure a replacement in time for its own revised contract expiry in July 2025

2.18 We identified, and proposed to disallow, Unacceptable Costs equating to the differential between the costs of the old contract and the new contract from November 2024.

### Summary of respondents’ views (other than DCC)

2.19 We received mixed responses with four respondents disagreeing, one agreeing and one not commenting on the proposal

2.20 Respondents’ comments focused on the following main points:

#### **The context of the FOC service performance before 2024**

2.21 One respondent, a supplier with FOC meters, stated that their expectation on DCC was to focus on maintaining the stability of FOC services during the 2020 – 2024 enrolment period. They further stated that they “would not have supported DCC had it proposed implementing changes to underlying systems or platforms in the same timeframe”.

2.22 Another FOC supplier noted that although they were not consulted on when ANSO should be reprocured, they did “actively pursue stability in the SMETS1 solution” for enrolment.

2.23 One respondent noted that service stability appears to have been a “genuine and realistic concern for DCC and energy suppliers with large FOC cohorts”.

#### **Timing of re-procurement and acceptability of public cloud solution**

2.24 Some respondents were sceptical that the November 2024 date for a live solution was realistic.

2.25 One stated that “had DCC proposed cloud hosting for ANSO or other key SMETS1 FOC services in 2022, this would have been rejected”, explaining that they “would have expected the DCC to adopt a ‘fast follower’ cloud strategy at that time”.

## Decision DCC Price Control: Regulatory Year 24/25

### Methodology used to calculate the Unacceptable Costs

- 2.26 Several respondents recognised that the new contract provides improved terms which should lead to substantial future cost savings.
- 2.27 Some disagreed that the results of a successful negotiation should be used to calculate a disallowance, particularly as it may disincentivise DCC in negotiating with service providers, noting that the bigger the savings achieved, the larger the disallowance. One respondent noted that Ofgem has not expressed concerns about ANSO in any price control since the March 2022 extension, arguing that Ofgem's concerns only emerged as a result of savings negotiated by DCC in re-procurement.

### Summary of DCC's response

- 2.28 DCC disagree with our proposal. It provided a body of additional evidence in support of the following arguments:

#### Timing of procurement in the context of FOC stability

- 2.29 DCC provided an internal tiering document detailing expected timelines for procurement of contracts of different scope and complexity. DCC argued that for a new ANSO contract to be ready to go live, preparatory work would have had to commence up to 36 months earlier in 2021, shortly after the original contract commenced, and procurement in 2022.
- 2.30 DCC argued that re-procurement was not desirable in 2022 due to uncertainty and stability concerns around the FOC service at the time. DCC argued that industry's priority was system stabilisation and that acceleration would have introduced operational risk. DCC was of the view that it was right to commence re-procurement once stability was reached in February 2024. DCC's supporting evidence included industry correspondence showing uncertainty around meter migrations at different points in 2022 and 2023. DCC also provided minutes of a SEC Panel discussion from June 2021 when it claims to have sought the Panel's endorsement of its intention to extend the ANSO contract to prioritise stability in the SMETS1 ecosystem.

### Governance

- 2.31 DCC argued that the contract extension was executed under a business case approved by the Secretary of State which explicitly covered a period until November 2026 (when the new contract is expected to go live). Furthermore, DCC argued that extensions to the contract have been exempt from further non-objections by the Secretary of State under LC16.6A-C as the contract was delivered under LC13 plans.

## Decision DCC Price Control: Regulatory Year 24/25

### Technical constraints and acceptability of public cloud solution

2.32 DCC argued that a move to a public cloud would not have been possible in time for November 2024 due to a lack of industry readiness for public cloud technology until September 2022, in particular for critical infrastructure. DCC asserted that: “Prior to this point [September 2022], the technical maturity and commercial viability required to deliver the efficiencies now associated with the new ANSO solution simply did not exist.”

### Unfounded methodology used to calculate the Unacceptable Costs

2.33 DCC highlighted that the new contract delivers substantial value to consumers. DCC provided a third-party benchmarking report showing that the new contract is in a top quartile and 25% below market average (for total costs). However, DCC disagreed that it should form the basis for calculating inefficient costs, as the market average price should inform any fair benchmarking exercise.

### Reasons for our decision

2.34 We address each of DCC’s main arguments in turn below, noting supporting statements from other respondents.

### Timing of procurement in the context of FOC stability

2.35 We accept DCC’s argument that it is important to establish when a re-procurement activity should have commenced and consider whether it was possible and appropriate for DCC to do so. We have considered the time it took DCC to reprocure the new contract. Evidence shows that DCC developed Strategic Outline Case (SOC) in June 2024, issued RFP to the market in November 2024 and is working towards a go-live date in November 2026. We can therefore reasonably extrapolate a similar timeline for an earlier procurement:

- For a November 2024 go-live date, the SOC would have been needed in June 2022 and the RFP in November 2022
- For a July 2025 go-live date, the SOC would have been needed in January 2023 and the RFP in July 2023

2.36 We accept that the FOC platform experienced stability issues and note DCC’s and respondents’ arguments that pursuing service stabilisation was a priority for industry in 2022 and 2023. However, we are not persuaded that this precluded DCC from developing a business case and engaging with the market to secure a new solution to be available once FOC migrations concluded. DCC itself put forward evidence showing substantial timelines involved in a three-stage business case process with a full competitive tender and design, build and test period before a go-live date. It therefore remains without a good explanation why DCC did not act at any point until 2024 despite clear contractual limitations and own deadline of July 2025. The evidence provided does not show that DCC

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consulted on the merits of a unilateral contract extension, nor that it considered the future ANSO service at any point.

**Governance**

2.37 We note DCC's interpretation of the LC16.6A-C requirements as pertains to this case. Although we remain of the view that the unilateral extension of the contract in March 2022 constituted a variation to the contract out with the non-objection provided by the Secretary of State, we do not consider this to be a deciding factor in assessing whether Unacceptable Costs were incurred.

2.38 We are, however, concerned by DCC's evidence showing that DCC did not understand the terms of the original contract when it chose to extend it in March 2022, believing that the contract was due to expire in July 2022 instead of November 2023. This clearly shows that the extension was premature, without considering the long-term value of the contract and any strategy for the future of the ANSO service. Furthermore, it shows that DCC's claimed alignment of the planned go-live date of the new service with the absolute expiry date of the original contract in November 2026 is accidental as DCC operated under the assumption that the contract was expiring in July 2025, underscoring significant belatedness in preparatory activities for a reprocurement in 2024.

**Technical constraints and our conclusion on the timing of the reprocurement**

2.39 On further analysis of the evidence presented by DCC centred around the availability and acceptability of the public cloud solution for critical infrastructure,<sup>21</sup> together with comments from industry parties, we accept that it would have been difficult for DCC to pursue a public cloud solution for ANSO in 2022. We are therefore persuaded that a SOC in June 2022 and a RFP in November 2022, required for a November 2024 go-live date per our timing assumptions above, would have been unlikely to succeed.

2.40 Consequently, we have decided to change our consultation position, and we no longer consider November 2024 to be the date from which DCC should have moved to a new service. Nevertheless, we remain concerned about DCC's handling of the contract extension and the re-procurement timeline. As discussed above, DCC assumed that the contract was due to expire in July 2025 (following its three-year extension), yet it did not commence any preparatory work until 2024. Although there were concerns about FOC stability, nothing precluded DCC from developing a strategic case and engaging with the market for a future solution to be ready once it was safe to re-platform FOC post-migration. Consistent with DCC's evidence, public cloud did become a viable option in 2023 which would have allowed DCC to meet its own July 2025 deadline.

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<sup>21</sup> Not discussed here due to confidentiality

## Decision DCC Price Control: Regulatory Year 24/25

### Calculating Unacceptable Costs

- 2.41 Following careful consideration of stakeholders' representations and evidence provided by DCC, we no longer consider that Unacceptable Costs linked to ANSO were incurred in RY24/25. However, we are not persuaded that costs incurred after July 2025 were fully economic and efficient for the reasons above.
- 2.42 We accept the arguments put forward by DCC and other respondents that a market benchmark is a more appropriate counterfactual when calculating inefficient costs than an outcome of successful negotiations. As noted in our consultation, we recognise and welcome that DCC achieved substantial savings via the new contract and understand the concern that using a market-beating outcome as a benchmark could create perverse incentives and discourage future efforts to drive additional value by creating competitive tension.
- 2.43 We have therefore decided to amend our position in respect of costs forecasted for RY25/26 and 26/27, recalculated based on a market average using DCC's own benchmarking report. We consider that the following costs are not economic and efficient and direct that they should be removed from DCC's forecasts in respect of DCC's future reporting of its Allowed Revenue calculation: £11.240m in RY25/26 and £17.286m in RY26/27. These amounts represent the differential between the market average and the operational costs of the extended ANSO contract after July 2025. We will, however, revisit this issue in RY25/26 when DCC will be invited to justify all costs incurred in that Regulatory Year. Our determination of DCC's Allowed Revenue in RY25/26 will follow the standard process including further consultation with DCC and other parties and our decision on the forecast costs will not prejudice our future decision-making on incurred costs.

### Q3) DCO

**Proposal at consultation:** Disallow £5.844m in RY24/25 comprising delayed benefits of the new solution from April 2024, technical upgrades and ongoing DCOc to DCOa support; £8.166m in RY25/26 comprising further delayed benefits and avoidable project costs; and £2.428m in RY24/26 comprising future project costs unrelated to the set-up of the new solution.

**Decision:** Reduce disallowance to £3.857m in RY24/25 comprising delayed benefits post-April 2024 and DCOc project costs; £6.917m in RY25/26 comprising further delayed benefits until October 2025 and forecast project costs; maintain proposal for RY26/27.

### Context

- 2.44 The Dual Control Organisation (DCO) service is a feature of the SMETS1 solution. It was originally provided by two service providers: DCOa (Service Management and Hosting) and DCOb (Application Support and Maintenance). In 2022,

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following the demise of DCOa's subcontractor, DCC directly transferred the DCO hosting service to an affiliated Service Provider DCOc. This was carried out as an interim, emergency solution on a temporary contract expiring on 31<sup>st</sup> March 2024.

- 2.45 The interim solution was comparatively less efficient and more expensive with upfront set-up costs and increased enduring "run" costs. We scrutinised the solution in our previous Price Control reviews. We determined that it was not fully economic and efficient but accepted the solution on a temporary basis with a clear condition that DCC must reprocure an enduring service no later than April 2024. The other two DCO contracts were also up for re-procurement by October 2024.
- 2.46 DCC has now reprocured all three DCO services however, it failed to do so in time with the go-live date in October 2025. The DCOc hosting service returns under DCOa contract and a switch from an on-premises hosting solution to a hybrid model reduces the monthly run costs by c.£0.350m.
- 2.47 We proposed to disallow a portion of the costs incurred by DCC on the run costs from April 2024 on the basis that DCC's failure to re-procure the solution on time has led to inefficient costs being incurred for longer. We were also concerned and proposed to disallow a portion of unjustified additional expenditure on technical upgrades to the incumbent solution and ongoing support, on the basis that these costs could have been avoided if DCC had reprocured the contracts in time.
- 2.48 On the basis of a third-party benchmarking report, we did not propose to disallow any build costs of the new solution, £14.15m over RY24/25 and 25/26.

**Summary of respondents' views (other than DCC)**

- 2.49 We received mixed responses to our proposal.
- 2.50 One respondent agreed with our positions. They noted that DCC should be proactive in its contract management and expressed concerns that all three contracts were allowed to expire and the resulting increase in costs.
- 2.51 Three respondents disagreed with the proposals. One commented that it was not clear whether April 2024 was a realistic transition date for the DCO service. Similarly, another respondent referred to DCC's rectification plan from early 2024 which outlined that the new solution could be in place in October 2024 at the earliest.
- 2.52 Another respondent praised DCC's actions during the original migration of the hosting service from DCOa to DCOc in 2022, highlighting that it was caused by circumstances outside DCC's control and delivered in a short timeframe and without service disruption. Consequently, they considered that DCC was right to adopt a risk adverse strategy to further changes to the DCO solution or in its planning for migration between DCO service providers. They therefore believed it

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important to consider the risk of transition on continuity of service when setting disallowances.

- 2.53 Two respondents did not support the methodology used to calculate the proposed disallowance in run costs. They considered that using the results of a successful negotiation could disincentivise DCC’s contract future management. One urged Ofgem to quantify the impacts using market rates instead.
- 2.54 Finally, one respondent questioned whether the technology upgrade costs would have been required under the new solution regardless of the timing of the new contracts going live and therefore being efficient.
- 2.55 Two respondents did not comment on this issue.

### Summary of DCC’s response

#### Run costs

##### Determining the go-live date

- 2.56 DCC acknowledged that the re-procurement could have started earlier but argued that April 2024 was not a realistic target.
- 2.57 DCC put forward several factors explaining its failure to re-procure for 1<sup>st</sup> April 2024:
- After the 2022 transfer of the hosting service to DCOc, DCC required time to split out roles and responsibilities in the contract and reach agreement between the parties.
  - DCC asked one of the providers to manage the other. DCC explained that it took time to put this in place, but insisted it was operationally the right thing to do to have one accountable Service Provider.
  - Not everything in the hosting solution was capable of being “lifted and shifted”, including the service wrapper and service monitoring tools
- 2.58 DCC instead proposed that Ofgem should calculate Unacceptable Costs from October 2024 in line with the rectification plan which DCC produced in early 2024. DCC highlighted that the plan assumed a contract award in July 2024 and a go-live date by October 2024 at the earliest and April 2025 at the latest.

##### Calculating Unacceptable Costs

- 2.59 DCC argued that the use of £350k per month, the difference between the run costs of the old DCO solution and the new solution, as a benchmark is inappropriate as this penalises DCC for delivering better than market savings to consumers. Instead DCC proposed that it would be fairer to reduce the monthly benchmark by 11% to reflect market average. DCC referred to a third-party

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benchmarking report it commissioned as part of the Final Business Case as evidence.

- 2.60 Furthermore, DCC asked Ofgem to consider developments in the public cloud technology. DCC claimed that the solution used in the new hosting contract became c.40% more efficient in 2025 with double vCPU, memory and network bandwidth. DCC argued that using the same solution in 2024 would have increased the set-up costs correspondingly as DCC would have had to purchase additional kit. DCC estimated that the costs could have been c.£800k higher in 2024 and asked that Ofgem consider this benefit in any run cost disallowance calculation.

**Project costs**

- 2.61 DCC disagreed with our proposal to disallow £1.331m of technology upgrade costs. DCC argued that these costs would have been incurred regardless of the timeline of the solution shift. This is because they related to technology upgrades on the DCO application layer, which has been re-used in the new solution. DCC explained that it is only the underlying hosted infrastructure that has been changed (a move from “on-premises” to hybrid Cloud) to drive a better value for money. DCC further argued that multiannual £4m technology investment (which included the £1.331m additional expenditure in RY24/25) compared favourably to the c.£16m required to build the solution from scratch in 2018.
- 2.62 DCC submitted a closure report detailing the scope and costs of the security upgrade project. As the reported expenditure exceeded the justification provided in the closure report we sought further clarification. DCC subsequently provided a reconciliation against the RIGs, explaining that the closure report did not include the following: costs incurred prior to October 2024, costs of impact assessments, costs funded by Operations not classed as project costs, and cost processed after the draft closure report was prepared.
- 2.63 DCC also disagreed with a proposed £0.066m disallowance of a DCOc change request for ongoing support to DCOa which, DCC argued, related to mitigating the impact of increased volumes and represented a legitimate spend.
- 2.64 DCC did not comment on or contest a proposed £0.244m disallowance of a change request covering further DCOc support services to DCOa.
- 2.65 In relation to further forecast costs for RY25/26 and RY26/27, DCC argued that these forecast cover transition and migration activities and are related to the new solution. DCC was of the view that those costs should be allowable, noting that they featured in the overall business case.

## Decision DCC Price Control: Regulatory Year 24/25

### Reasons for our decision

#### Run costs

#### Determining the go-live date

- 2.66 It was DCC’s responsibility to ensure that a compliant solution was in place in time for the contract expiry in March 2024. DCC has been aware of the DCOc contract expiry date since it entered into the agreement in 2022. We recognised the circumstances which led to the initial split of the DCO solution and the migration to the DCOc provider in our RY22/23 Price Control consultation and decision.<sup>22</sup> We accepted DCC’s justification of an interim emergency solution in that price control review; however, we also clearly set out our expectation that DCC should replace it with a compliant, competitively procured contract that would provide value for money on an enduring basis. This expectation was also communicated to DCC at the time of the contract shift and in subsequent months.<sup>23</sup>
- 2.67 In our view DCC’s evidence does not justify its failure to meet the 1<sup>st</sup> April 2024 go-live date as it does not account for long periods of inaction between autumn 2022 and early 2024. We are not persuaded by the argument that the process of splitting roles and responsibilities between DCOa and DCOc and setting up of new service wrapper and monitoring tools precluded DCC from developing a business case and approaching the market for an enduring hosting solution. The scope of the requirements for the hosting function was well known since the “lift and shift” in 2022 as was the available technology. Even before the demise of the original hosting provider DCC was actively assessing a cloud hosting option (eventually not adopted due to time constraints) which is not a part of the enduring model.
- 2.68 While DCC did submit the abovementioned rectification plan in March 2024 in which it targeted October 2024 as the earliest date for a transition to a new contract, we do not accept that the rectification plan provided a fully efficient procurement approach. The plan was produced only as a result of Ofgem’s intervention upon DCC formally informing Ofgem in autumn 2023 of its intention to extend all three DCO contracts until end-2026. Although the rectification plan accelerated the procurement against DCC’s intended course of action, it merely mitigated the impacts of the delays beyond April 2024. For those reasons Ofgem never approved the plan.

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<sup>22</sup> [DCC Price Control consultation: Regulatory Year 2022/23](#), paragraphs 3.46-3.63.  
[DCC Price Control decision: regulatory year 2022 to 2023](#), paragraphs 2.1-2.36.

<sup>23</sup> In September 2022, we wrote to DCC asking what factors it was taking into account (for example value for money as well as Licence compliance) whilst analysing the different options for the enduring solution. We subsequently also wrote to DCC, on at least two occasions (in April and June 2023) to plan for a competitive re-procurement of the enduring solution for the DCO Applications and Hosting contract.

## Decision DCC Price Control: Regulatory Year 24/25

- 2.69 We note one respondent's concern about DCO stability and the impact of migrations, but we did not see any compelling evidence to suggest that DCC delayed the re-procurement for that reason, merely stating that an earlier procurement was "impractical" because of a service split but without substantive evidence behind that claim.
- 2.70 Following careful consideration of stakeholders' representations and evidence provided by DCC, for the reasons set out above we maintain our consultation position in respect of 1<sup>st</sup> April 2024 being the date on which Unacceptable Costs occurred as a result of DCC's failure to reprocure the DCOc contract in time.

### Calculating Unacceptable Costs

- 2.71 We accept DCC's and other respondents' argument that it would be more appropriate to use a market benchmark to quantify the amount of inefficient costs as opposed to the final negotiated position. We understand the concern that using the outcome of successful commercial negotiations as an efficient counterfactual could inadvertently disincentivise DCC contract managers in driving additional value for money from procurement. Drawing on the third-party benchmarking report presented by DCC, we have decided to reduce the calculation of the monthly inefficiency by 9.8%. This is commensurate with 9.8% below market mean for Lot 1 Hosting.
- 2.72 We have also considered the impact of the technological efficiencies on the set-up costs between 2024 and 2025. We are persuaded by the argument that the relevant set-up costs could have plausibly been higher in 24/25. We have therefore decided to further reduce the level of Unacceptable Costs in RY24/25 by £0.600m. This corresponds to 9 months (or three quarters) of the increased spend on set-up costs in 2024.
- 2.73 We have determined **£3.188m of operational costs incurred in RY24/25** to be Unacceptable. We further consider **£2.210m of forecast costs for RY25/26** to not be economic and efficient.

### Project costs in RY24/25

- 2.74 In relation to the security upgrade costs, we accept the closure report and its reconciliation against the RIGs. We observe that the main discrepancy can be explained with reference to a RY22/23 justification for one of the early PRs. As DCOa and DCOb providers were re-awarded the contracts to continue providing the DCO service without changes to the underlying architecture, on balance, we are persuaded that the costs incurred by these Service Providers can be deemed efficient.
- 2.75 However, we remain concerned about the remaining costs incurred by DCOc, including technical upgrades and further support provided to DCOa. Had DCC re-procured the hosting contract in time, this Service Provider would not have incurred those costs after 1<sup>st</sup> April 2024. We remain of the view that those costs

## Decision DCC Price Control: Regulatory Year 24/25

arose as a result of the inefficiency of the split solution and we do not deem such costs should be borne by consumers as economic and efficient expenditure. Following careful consideration of representations and evidence concerning this, we therefore maintain our consultation proposal and determine that **£0.668m of project costs incurred by DCOc in RY24/25** are Unacceptable and further **£0.100m forecast costs for RY25/26** are not economic and efficient.

### Further forecast costs

2.76 We have not seen satisfactory evidence in support of the forecast project costs in RY25/26 and RY27/28. 94% of these costs relate to unspecified future PRs and CRs. While we note a shift in DCC's approach to forecasting, which now includes uncommitted but budgeted future spend, we would expect the level of change to reduce in new contracts; equally, we have not seen any explanation for how these future costs have been derived, for example a clear link to the business case. We therefore do not have sufficient confidence that these costs, **£4.607m in RY25/26 and £2.428m in RY26/27**, are likely to occur and are economic and efficient.

### Decision to direct a cost disallowance

2.77 In accordance with LC37.8, having identified costs that we consider to be Unacceptable, we may direct that such costs are excluded from the calculation of future Allowed Revenues or accept an Undertaking from DCC in respect of those costs. DCC has not offered an Undertaking in respect of DCO costs, therefore, our decision is limited to the question of whether to disallow the costs that we have identified as Unacceptable.

2.78 In reaching our decision on whether to disallow those costs, we have taken account of:

- Our finding that DCC was able to, or should have been able to, control or otherwise influence the occurrence of the Unacceptable Costs;
- The likelihood that DCC will be able to recover any of the Unacceptable Costs through future procurement; and
- The likelihood that DCC, through appropriate future management actions, will be able to avoid, prevent or mitigate a further occurrence of the same or any similar costs.

2.79 In line with our Guidance, we have also considered actions that DCC may already take to avoid the recurrence of these costs and the likely impact of disallowing such costs on the operation of DCC's activities.

2.80 Having considered these factors, we have decided to direct the following costs are to be disallowed:

- **£3.188m of operational costs incurred in RY24/25;** and

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- **£0.668m of project costs incurred by DCOc in RY24/25.**

- 2.81 We further consider £6.917m and £2.428m in forecast costs in RYs 25/26 and 26/27, respectively to not be economic and efficient and likely to occur and direct that these be removed from DCC's future Price Control reporting. Our current view of forecast costs as not economic and efficient does not pre-determine our decision-making in the future and we invite DCC to justify these costs if and when they are incurred in RY25/26 and RY26/27.
- 2.82 Table 2.1 below provides a consolidated view of our decision and the total costs to be disallowed, including forecast costs. Areas of change from our consultation position are highlighted.

**Table 2.1: DCO cost disallowance per cost type and RY, in [£m]**

Type of cost	Disallowance area	24/25	25/26	26/27
Operational	Delayed benefits of the new solution (from April 2024 to October 2025)	3.188	2.210	-
PR/CR	Tech upgrade costs of DCOc and ongoing DCOc to DCOa support	0.668	0.100	-
PR/CR	Other future PRs/CRs unrelated to the set-up of the new solution	-	4.607	2.428
<b>TOTAL</b>		<b>3.857</b>	<b>6.917</b>	<b>2.428</b>

**Q4) TAF**

**Proposal at consultation:** Disallow up to £1.289m in costs of a change request.

**Decision:** Maintain our consultation position; disallow £0.484m of costs incurred in RY24/25.

**Context**

- 2.83 Test Automation Framework (TAF) is a programme which aims to make testing in DCC labs more efficient. DCC procured a delivery partner for TAF and incurred costs for the first time in 2022/23. DCC's justification of the procurement included the cost of the solution (composed of Fixed and Variable elements for the development and five years of operations) of £8.645m.
- 2.84 In RY23/24, the programme suffered a delay and incurred additional costs due to DCC missing a milestone in handing over its labs to the SP. We determined £0.740m of the new costs to be Unacceptable.

## Decision DCC Price Control: Regulatory Year 24/25

- 2.85 In RY 24/25, DCC reported total incurred and forecast costs of £10.808m including additional expenditure of £1.289m linked to a new material CR.
- 2.86 Our consultation explained our concerns that this additional expenditure arose as a result of issues within DCC's control, and we proposed to disallow *up to* the cost of the CR (£1.289m).

### Summary of respondents' views (other than DCC)

- 2.87 Three respondents supported our proposal.
- 2.88 One respondent observed that TAF was DCC's own initiative and DCC therefore had control over its design and delivery. They supported our view that DCC should ensure its Service Provider understands the requirements and assures the design. Similarly, another commented that DCC should possess sufficient understanding to properly scope contracts at the design stage.
- 2.89 One responded noted that they have repeatedly raised concerns about the TAF solution and its costs at the SEC Testing Advisory Group and expressed reservations that TAF has delivered significant benefits to industry. They suggested that DCC submit a detailed cost-benefit justification allowing to monitor the programme.
- 2.90 No respondent disagreed but three withheld comments. One of these respondents merely noted that the amount actually paid out by DCC to the SP under the CR is lower than the figure in the consultation.

### Summary of DCC's response

- 2.91 DCC acknowledged concerns about the delay cause by its SP but disagreed with our proposal to disallow costs of the CR. DCC advanced three main arguments.
- 2.92 Firstly, DCC explained that the CR comprised three milestones. Of these, milestones C2 and C3 represented deferred milestones from the original contract and would have been payable irrespective of scope clarifications. DCC therefore asserted that only genuinely new cost was represented by milestone C1 (New development and scripting completion), with a value of £0.484m. To date, this has also been the only payment made by DCC to the SP under the CR as milestones C2 (SIT testing completion) and C3 (Go-Live and transition) have not been met yet.
- 2.93 Secondly, DCC sought to justify the new costs associated with milestone C1. DCC explained that the work was "necessary to address critical gaps and evolving requirements that emerged during the build and early testing phases". The change "addressed several clarifications identified due to misunderstandings from the SP". DCC added that "amendments were also required to correct scope misunderstandings and reinstate previously removed testing activities." DCC argued that it negotiated these changes prudently and in doing so avoided further additional costs of c.£0.385m.

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2.94 DCC accepted that delays to milestones C2 and C3 were attributable to the SP's underperformance under the contract; however, DCC also explained that it has exercised contractual rights to apply to delay payments and requested rectification plans to get the programme back on track.

**Reasons for our decision**

2.95 Following careful consideration of stakeholders' representations and evidence provided by DCC, we accept DCC's explanation that only milestone C1 (£0.484m) represents new spend within the programme and that this was the only payment made to the SP under this CR in RY24/25. We therefore no longer consider the remaining £0.805m to be in scope of our assessment of Unacceptable Costs.

2.96 However, we remain concerned about the economy and efficiency of milestone C1. We do not dispute whether the work carried out under this milestone was needed to remedy issues that arose during the DBT phase, but we are not persuaded that the cost of this remedy should be passed on to consumers as economic and efficient spend. DCC's explanation confirms that the issues arose as a result of the Service Provider's poor understanding of the design requirements. As one respondent noted, the TAF programme is DCC-led, and it was DCC's responsibility to ensure that the design was appropriately scoped and assured and that the selected Service Provider understood the requirements. We deem this issue to be within DCC's control and do not consider the costs associated with milestone C1 to be economic and efficient. We therefore determine that **£0.484m** are Unacceptable Costs.

2.97 In accordance with LC37.8, having identified costs that we consider to be Unacceptable Costs, we may direct that such costs are excluded from the calculation of future Allowed Revenue or accept an Undertaking from DCC in respect of those costs. DCC did not offer an undertaking in accordance with LC37.8(b); therefore, our decision is limited to the question of whether to disallow the costs that we have identified as Unacceptable.

2.98 In reaching our decision on whether to disallow those costs, we have taken account of our finding that DCC was able to, or should have been able to, control or otherwise influence the occurrence of the Unacceptable Costs; the likelihood that DCC will be able to recover any of the Unacceptable Costs through future procurement; and the likelihood that DCC, through appropriate future management actions, will be able to avoid, prevent or mitigate a further occurrence of the same or any similar costs. We have also considered actions that DCC may already take to avoid the recurrence of these costs and the likely impact of disallowing such costs on the operation of DCC's activities and shall be removed from DCC's Allowed Revenue in RY24/25. Having considered these factors we have decided to **direct that the identified Unacceptable Costs of £0.484m incurred in RY24/25 be excluded from DCC's Allowed Revenue.**

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2.99 We welcome and support DCC's effort to get the TAF programme back on track, particularly in the context of the upcoming transition from DSP1 to DSP2. We will engage with DCC further out with the Price Control review to monitor progress and we will scrutinise future spend via the *ex-ante* cost control process.

### Q5) DSP consolidated leadership fund

**Proposal at consultation:** *Disallow the differential in monthly payments between the agreements pre- and post-January 2025 agreements until December 2025 (£0.916m in RY24/25, and £0.893m in RY25/26) & all forecast costs beyond the expiry of the DSP agreement in Oct 2026 (£4.046m).*

**Decision:** *Maintain our consultation position.*

#### Context

2.100 DCC procures resources from DSP to provide oversight and support for projects. Historically, this procurement was being done on an *ad hoc* basis but in 2021 DCC entered into arrangements with DSP which consolidated funding for the Service Provider's support for PRs/CRs. DCC justified this decision on the grounds that it saved money compared to the *ad hoc* approach.

2.101 In October 2024, DCC extended this agreement to 2026 but then proceeded to terminate it from January 2025, moving back to a disaggregated approach and continuing the aggregate funding only for 18 agreed roles.

2.102 In our consultation we laid out our view that DCC's decision to terminate the existing agreement was premature and led to avoidable increased costs; specifically:

- DCC became liable for an early termination fee
- DSP monthly charges from January 2025 continued to cover the pool of consolidated resource only for a set of pre-agreed programmes – with the expectations that these will tail off over time
- New PRs/CRs raised post-January 2025 require additional resources procured on an *ad hoc* basis

2.103 Consequently, we proposed to disallow the differential in costs paid above and beyond the original agreement from January 2025 until the earliest point in time when DCC's data showed that the new approach would be more beneficial (December 2025).

#### Summary of respondents' views (other than DCC)

2.104 Three respondents agreed with our proposal in full. One commented that DCC should only procure external resources where it is demonstrably economic and where it reflects actual business needs. They observed that while termination of

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the agreement may have appeared sensible, it resulted in early termination charges and additional resource costs.

2.105 A couple respondents questioned why DCC extended the contract in October 2024 only to terminate in January 2025, which has not been sufficiently explained. One further remarked that that whilst it is reasonable to expect DCC to review its SP contracts, DCC should enter such negotiations having assessed the different options, risks and cost factors. They also observed that as DCC progresses renegotiations of other contracts it should reflect and report on lessons learnt from this issue to avoid cost impacts in other areas.

2.106 One respondent disagreed. They argued that the cumulative cost-benefit analysis predicts that the project will return a net benefit and so a disallowance should not be applied to expenditure paid to achieve the renegotiation. They also considered it prudent to move to an *ad hoc* contract during the end-of-life period of the DSP such that DCC is not charged for services it no longer requires as the volume of change decreases.

2.107 Two respondents did not comment on this proposal.

### Summary of DCC's response

2.108 DCC disagreed with our proposal to disallow costs between January and December 2025. DCC reiterated that its decision to terminate the consolidated funding agreement in January 2025 was based on its expectation that the level of DSP change will decrease and that it was "prudent, aligned with DSP2 timeline, and avoided unnecessary costs".

2.109 DCC was of the view that the disallowance targeted short-term costs without proper consideration of longer-term value. DCC asked Ofgem to consider the costs over the life of the new *ad hoc* resourcing agreement when compared to the previous consolidated funding mechanism and not rely on monthly calculations for RY24/25 and RY25/26. DCC proposed that Ofgem should revisit any cost disallowances in RY26/27 when it has clarity on the overall impact of the change rather than partial costs and assumptions. DCC's assumption is that the change will eventually deliver savings of £0.696m with cost reduction in RY26/27 offsetting initial cost increase in RYs 24/25 and 25/26.

2.110 In relation to the cost forecast beyond October 2026, DCC explained that its business case expected further work requirements to support migration to the new DSP until at least October 2028; however, it acknowledged that it would need to evidence any new CRs/PRs when they are developed.

### Reasons for our decision

2.111 DCC should have in place such funding and resourcing mechanism that is best suited for the shape of the contract. In a period of high levels of change, a consolidated funding was a prudent approach to reduce duplication of effort;

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conversely, we do not dispute that in a period towards the end of the contract with a reduced level of change, *ad hoc* funding may provide better value. However, we saw no compelling reason for DCC's decision to alter the funding mechanism by terminating the agreement for consolidated funding in January 2025 as the level of change did not warrant the shift at that time.

- 2.112 Evidence shows that DCC was aware of the risk that the termination will lead to increased costs as it commissioned an impact assessment in which the Service Provider 1 identified material impacts on already costed change projects.
- 2.113 We understand the argument advanced by DCC and one of the industry respondents that we should consider the overall value of the new arrangement in the context of potential future benefits. This consideration would be appropriate if DCC considered a trade-off to invest upfront costs in the expectations of future benefits, or if it was compelled to make the change at the time, for example because it involved negotiations with the SP; however, that it not the case. DCC merely withdrew from an agreement it was already a party to. Had DCC maintained the existing arrangement until such time when change costs *actually* decreased, it would have avoided unnecessary additional costs while delivering the same future benefits. We are therefore not persuaded by the argument that the temporary increase in costs can be justified by any future benefits as those costs were not necessary for the benefits to be realised at all.
- 2.114 We reviewed DCC's data which continues to show a net negative position from January 2025 until at least December 2025. We would re-iterate that the December 2025 date is the earliest date from which the new arrangement would not result in net loss and even then, this assumes nil additional level of change projects, which is unlikely.
- 2.115 Following careful consideration of stakeholders' representations and evidence provided by DCC, for reasons set out above we maintain our consultation position and determine that **£0.916m of costs incurred in RY24/25 are Unacceptable** and further **£0.893m of forecast costs for RY25/26** are not economic and efficient.
- 2.116 We also maintain our consultation position in respect of further **£4.046m forecast costs for RY26/27** for which we have not been presented with additional justification and we therefore do not have confidence that they are likely to occur and will be incurred economically and efficiently.
- 2.117 In accordance with LC37.8, having identified costs that we consider to be Unacceptable Costs, we may direct that such costs are excluded from the calculation of future Allowed Revenue or accept an Undertaking from DCC in respect of those costs. DCC did not offer an undertaking in accordance with LC37.8(b); therefore, our decision is limited to the question of whether to disallow the costs that we have identified as Unacceptable.

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2.118 In reaching our decision on whether to disallow those costs, we have taken account of our finding that DCC was able to, or should have been able to, control or otherwise influence the occurrence of the Unacceptable Costs; the likelihood that DCC will be able to recover any of the Unacceptable Costs through future procurement; and the likelihood that DCC, through appropriate future management actions, will be able to avoid, prevent or mitigate a further occurrence of the same or any similar costs. We have also considered actions that DCC may already take to avoid the recurrence of these costs and the likely impact of disallowing such costs on the operation of DCC's activities and shall be removed from DCC's Allowed Revenue in RY24/25. Having considered these factors we have decided to **direct that the identified Unacceptable Costs of £0.916m incurred in RY24/25 be excluded from DCC's Allowed Revenue.**

2.119 **We further direct that £0.893m and £4.046m shall be removed from DCC's forecasts for RY25/26 and RY26/27, respectively.** We will review any future incurred costs in the upcoming RYs.

### Q6) FOC migration failure

**Proposal at consultation:** *Disallow 50% of the costs incurred in RY24/25 related to FOC migration failure, totalling £0.208m.*

**Decision:** *Our consultation position remains unchanged.*

#### Context

2.120 In previous years, the SMETS1 FOC migration experienced repeated delays and technical issues. We commented extensively on this area in our past Price Control consultations and decisions.

2.121 In RY24/25 DCC sought to justify additional project costs one of which related to a migration failure remediation ("rollback failures") which was subject of our Price Control assessment in RY23/24.<sup>24</sup>

2.122 As we previously established that DCC and the relevant Service provider shared in the responsibility for addressing rollback failures and determined a partial disallowance on the same grounds, we proposed to follow our previous decision and disallow 50% of the impacts project costs in RY24/25.

#### Summary of respondents' views (other than DCC)

2.123 One respondent explicitly supported our position. The agreed that the underlying issue and development of the remediation solution was within the control of the DCC and its contracted provider. Another was of the view that all of the costs should be disallowed as DCC should bear the full costs. They observed that

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<sup>24</sup> [DCC Price Control decision: regulatory year 2023 to 2024](#), paragraphs 2.26-2.47.

## Decision DCC Price Control: Regulatory Year 24/25

Category 1 and 2 incidents have continued to be raised on “almost a weekly basis” with no assurance offered around stability.

2.124 Four respondents did not comment. One noted they did not have sufficient information about potential costs of energy suppliers in meter replacement and the contractual ability to enforce liabilities with the SP to be able to provide an informed view. Another questioned the £700 per device cost quoted by DCC when calculating the benefits of the projects, noting it was high compared to device costs, stranding charges, and engineers’ time for exchanges.

### Summary of DCC’s response

2.125 DCC accepted our consultation proposal, acknowledging Ofgem’s position that these issues were within DCC’s or Service Provider’s control and that, in the absence of evidence of appropriate risk-sharing, it is reasonable for consumers not to bear the full cost.

2.126 DCC nonetheless wished to highlight the benefits that were delivered. DCC reiterated that this project aimed to restore the functionality of c.3000 “bricked up” devices, which neither successfully migrated nor rolled back to their previous configuration. DCC explained that the project was successful and the devices were successfully migrated into DCC’s systems, avoiding costs of replacing those devices, which DCC estimated could have been up to £2.1m.

2.127 DCC confirmed that no further costs will be incurred for FOC migration in RY25/26, explaining that the programme has now moved into the enduring support phase for all migrated meters.

### Reasons for our decision

2.128 As no new evidence has been provided our decision is to maintain our consultation proposal. Accordingly, our determination is that **£0.208m of costs incurred in RY24/25 were Unacceptable**.

2.129 In accordance with LC37.8, having identified costs that we consider to be Unacceptable Costs, we may direct that such costs are excluded from the calculation of future Allowed Revenue or accept an Undertaking from DCC in respect of those costs. DCC did not offer an undertaking in accordance with LC37.8(b); therefore, our decision is limited to the question of whether to disallow the costs that we have identified as Unacceptable.

2.130 In reaching our decision on whether to disallow those costs, we have taken account of our finding that DCC was able to, or should have been able to, control or otherwise influence the occurrence of the Unacceptable Costs; the likelihood that DCC will be able to recover any of the Unacceptable Costs through future procurement; and the likelihood that DCC, through appropriate future management actions, will be able to avoid, prevent or mitigate a further occurrence of the same or any similar costs. We have also considered actions

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that DCC may already take to avoid the recurrence of these costs and the likely impact of disallowing such costs on the operation of DCC's activities and shall be removed from DCC's Allowed Revenue in RY24/25. Having considered these factors we have decided to **direct that the identified Unacceptable Costs of £0.208m incurred in RY24/25 be excluded from DCC's Allowed Revenue.**

2.131 This decision is also in line with our prior determination that where an issue is within DCC and its Service Providers' control, appropriate risk sharing mechanisms should exist to protect consumer exposure to uneconomic costs. In the absence of evidence of such appropriate provisions, we take the view that the risk should be shared at least equally.

2.132 We note one respondent's comment in relation to category 1 and 2 incidents. We encourage this respondent to escalate the issue via appropriate industry forums and with DCC directly. We expect that as part of the implementation of the Successor Licence, the Successor Licensee will review its key system performance indicators in consultation with industry.

2.133 Also, it is important to observe DCC's assurance that further costs will be avoided. We will continue to scrutinise SMETS1 expenditure going forward, including through the new *ex-ante* cost control regime.

## Q7) DSP Technical Expert Resources

**Proposal at consultation:** *Disallow £0.701m of the £1.142m (corrected to £1.152m) incurred costs in RY24/25 related to activities that we consider were not resourced in the most economic and efficient manner.*

**Decision:** *Revise our position and disallow £0.024m. Allowing £1,127,942 of DSP SMETS1 consultancy resourcing costs.*

### Context

2.134 The SMETS1 programme began in 2019 and has evolved through multiple phases of migration and stabilisation. In RY24/25 DCC procured a team of consultants from its DSP SP to support DCC's SMETS1 Design team and other functions by providing the following deliverables: architectural support and approval of DCC supplier impact assessments design documentation, design, regulatory, and industry level presentations, support for incident resolution, etc.

2.135 During our consultation, we raised concerns about the reliance on consultants for a program without a clear endpoint illustrated by numerous extensions over time. We considered that DCC should prioritise building its in-house capabilities for these core Business as Usual (BAU) activities, rather than perpetuating dependence on external consultants.

2.136 DCC did not offer compelling evidence to justify this ongoing reliance. Consequently, we proposed disallowing a portion of the associated costs by

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comparing the consultancy rate cards against the benchmarking data that DCC submits as part of the annual price control, utilising our benchmarking model.

2.137 DCC asserted that its lack of internal SMETS1 design experience necessitated its reliance on DSP support during critical phases of design, migration, and service stabilisation.

### Summary of respondents' views (other than DCC)

2.138 We received four responses from respondents. One of these respondents agreed with our proposal, stating that it would have been reasonable to expect DCC to build and retain in-house SMETS1 expertise, especially as key SMETS1 operational services will continue until 2033. A further respondent was of the view that Ofgem ought to fully disallow the incurred costs. They expressed concern over the continued reliance on external contractors for BAU activities was a concerning trend. They noted that, twelve years after the licence was awarded and six years since the commencement of the SMETS1 rollout, DCC should have developed sufficient in-house expertise to manage these functions effectively. They were unclear why and/or how DCC has significantly increased its headcount from the lean efficient organisation envisioned in 2013 yet is still dependent on external technical experts for activities we would expect to fall within its core competencies. They disagreed with our proposal to disallow only £0.701m of these costs, arguing that this issue has been highlighted in previous price control reports. In their view, these costs should be fully disallowed to reinforce accountability and prevent recurrence.

2.139 Two respondents expressed uncertainty regarding the disallowance proposal. One of them was unsure which roles were referenced and whether they were still needed for FOC or Migration. The other respondent questioned whether the internal DCC processes, which are supported by Ofgem for these matters, were properly followed to justify the spending on external contractors and consultants, or if they were bypassed. This knowledge would have a material impact on whether they support our disallowance.

### Summary of DCC's response

2.140 DCC disagreed with our proposal to disallow £0.701m of costs associated with technical expertise support for SMETS1 DSP activities in RY24/25, the following factors were of note here: DCC emphasised that it was crucial to recognise that these resources were not "management consultants" but rather technical experts with extensive knowledge of DCC, our technical architecture, and specialised skills. Therefore, they should not be evaluated by Ofgem in the same manner as management consultants.

2.141 DCC claimed third party resources were engaged to provide specialist technical support and expertise during a period of uncertainty, high operational risk, and in relation to specific migration activities which were not enduring. The decision to

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use external resource was driven by necessity, given the extremely limited pool of candidates possessing the required SMETS1 and DSP expertise.

2.142 Furthermore, the recruitment of permanent staff commenced early in 2024 in line with the anticipated operation of SMETS1, and the full internal team was in place by Q4. Once full-time equivalent staff started, DCC began knowledge transfer of the steady state running activities, focusing the consultants on the more specialist migration work. This allowed the removal of consultants early by March 2025 before the end of migrations in October 2025.

2.143 DCC noted that recruiting permanent staff earlier would have led to duplication in costs where we would still have needed the knowledge and skills of the external experts, especially given the uncertainty around migration timelines and the specialist nature of the work.

2.144 Also, DCC pointed out that it successfully transitioned to an internal team by Q4 and exited third party arrangements by March 2025.

**Reasons for our decision**

2.145 We disagree with DCC's response that it exited third part arrangement in March 2025. Based on the evidence provided, technical experts were utilised until June 2025. Having carefully evaluated all the stakeholder feedback, we maintain the view that while outsourcing can in some cases be justified, this was not the case for RY 24/25. As DCC's use of technical expertise for activities such as presentations, supplier impact assessments, and incident resolution considered core BAU activities could have been performed by internal staff, as we do not view these activities as particularly specialised. Furthermore, we conducted another benchmarking analysis using the newly provided evidence and rate cards, comparing them against the benchmarking data submitted by DCC using our benchmarking model.

2.146 Also, in the consultation stage, we received evidence from DCC indicating that the incurred costs for RY24/25 was £1.142m. However, we subsequently received new evidence revealing that total incurred costs were £1.152m. This adjustment also reflects corrections related to the costs incurred in RY24/25, including a transcription error from DCC's July 2025 submission, new rate cards, and clarifications on benchmarking role mapping and day-rate inputs.

2.147 Accordingly, we have determined that £0.024m of the £1.152 million incurred costs are unacceptable costs. This amount reflects the revision of £0.701m proposed at the consultation stage, based on our review of day rates, role mapping, and benchmarking modelling.

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### Decision on directing a disallowance or to accept an Undertaking in respect of Unacceptable Costs

2.148 In accordance with LC37.8, having identified costs that we consider to be Unacceptable Costs, we may direct that such costs are excluded from the calculation of future allowed revenues (i.e. disallowed) or accept an Undertaking from DCC in respect of those costs.

2.149 DCC has not offered an Undertaking in respect of DSP Technical Resources costs in accordance with LC37.8(b), therefore our decision is limited to the question of whether to disallow the costs that we have identified as Unacceptable.

2.150 In reaching our decision on whether to disallow this cost, we have taken account of:

- our finding that DCC was able to, or should have been able to, control or otherwise influence the occurrence of the Unacceptable Costs;
- the likelihood that DCC will be able to recover any of the Unacceptable Costs through future procurement; and
- the likelihood that DCC, through appropriate future management actions, will be able to avoid, prevent or mitigate a further occurrence of the same or any similar costs.

2.151 In line with our Guidance, we have also considered actions that DCC may already have taken to avoid the recurrence of these costs and the likely impact of disallowing such costs on the operation of DCC's activities.

**2.152 Having considered these factors, we have decided to direct that c£0.024m from the total incurred costs of £1.152 m for RY24/25 is disallowed.**

### Q8) Cloud hosting for the Device Manager

**Proposal at consultation:** *disallow the costs (£0.570m) that were associated with the repeated procurement of a contract for the hosting service for the Device Manager.*

**Decision:** *we propose to withdraw our consultation proposal.*

#### Summary of respondents' views

2.153 Most stakeholders supported Ofgem's position. One respondent however sought clarity as to what measures Ofgem has implemented in response to DCC's non-compliance with its licence obligations.

2.154 DCC strongly disagreed with Ofgem's proposal. According to DCC, Ofgem's comparison between the second-best bidder's first-year estimated operational cost of £2.127m (for the period December 2024 to November 2025) and the spend in RY24/25 is fundamentally flawed because these figures represent different cost bases and periods.

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2.155 DCC noted that the costs incurred in RY24/25 include Design, Build and Test (DBT) expenditure with the existing provider and the second-best bidder until November 2024, followed by operational spend with the second-best bidder until March 2025. When actual costs are analysed, the combined DBT and operational phases were £0.549m lower than Ofgem's assumed figures. Furthermore, Azure hosting costs are inherently variable and consumption-driven, as confirmed in the second-best bidder's contract and supporting evidence shared with Ofgem.

### Reasons for our decision

2.156 Having carefully considered stakeholder feedback, DCC's arguments and the additional evidence they submitted during consultation; we accept that our consultation comparison did not sufficiently distinguish DBT hosting costs and steady state operational run costs, and that cloud hosting for the Device Manager is inherently variable and consumption driven-state operational run costs, and that cloud hosting for the Device Manager is inherently variable and consumption-driven. With these factors in mind, we no longer consider the evidence sufficient to support a disallowance and have therefore decided to rescind the proposed disallowance.

2.157 However, in reaching this conclusion, we consider it necessary to highlight the following matters:

- i. **Quality and completeness of reporting:** DCC did not make clear in its original RY24/25 submission that DBT activities were being delivered concurrently by both the outgoing hosting provider and the incoming hosting provider. This omission materially impeded our assessment. Going forward, DCC is reminded of its obligations under Licence Condition 29 to provide accurate, complete and timely reporting. Continued shortcomings in this area undermine confidence in DCC's submissions and reduce the effectiveness of the ex-post process.
- ii. **Transparency relating to consumption variability:** while we acknowledge that cloud hosting costs fluctuate based on usage, DCC did not clearly articulate the factors that drove consumption, how it monitored these drivers, or what steps were taken to manage and optimise usage. As consumption-based billing becomes a more significant component of DCC's cost base under the future ex-ante arrangements, we expect substantially improved explanations of variability and evidence of active cost control. Without this, reporting risks providing a misleading impression of cost performance-based billing becomes a more significant component of DCC's cost base.
- iii. **Fundamental Service Capability (FSC):** we remain concerned about DCC's continued position that this service does not constitute Fundamental Service Capability. Ofgem has repeatedly clarified that FSC restrictions apply in this context and that the relevant obligations are unambiguous within the Licence and associated guidance. DCC's approach did not align with these

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requirements. Although this issue is not determinative for RY24/25 cost efficiency, we expect DCC to ensure full compliance with FSC obligations in future procurement and delivery and will continue to scrutinise DCC's conduct closely.

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### 3. Internal Costs

#### Section summary

This section summarises DCC's incurred Internal Costs for RY24/25. We have reviewed all responses and **determined a total of £5.757m incurred Internal Costs for RY24/25** (including the associated Shared Service Charge) **as unacceptable**.

Our decision is based on various costs related to inefficiencies in resourcing activities, Business Accuracy Programme (BAP), costs incurred because of inadequate planning and scoping, and payroll (FSM and operations).

We also received an Undertaking from DCC relating to a subset of resource cost disallowances, but concluded that several commitments, including the maintenance of headcount controls and constraints on consultancy spend, are standard BAU activities, which DCC is already obliged to undertake under Part C of LC5.

We have also decided to revise our consultation proposal on DCC's forecast costs over RY25/26 and RY26/27 to allow partial costs for Corporate Management but maintain our position on all other areas due to a lack of clarity and certainty over forecasts.

#### Questions posed at consultation

- Q10. What are your views on our proposal to disallow a proportion of the RY24/25 resource costs associated with the Future Management System programme and the operations (3G sunset) cost centre?
- Q11. What are your views on our proposals on DCC's approach to benchmarking of staff remuneration for both contractor and permanent staff?
- Q12. What are your views on our proposal to disallow a proportion of the costs linked to the activities that we consider not to have been resourced in the most economic and efficient way?
- Q13. What are your views on our proposal to disallow costs directly associated with the Business Accuracy Programme?
- Q14. What are your views on our proposal to disallow forecast cost variances in RY25/26 and 26/27?

#### Q10) Payroll cost disallowances for Internal Costs

**Proposal at consultation:** *disallow a proportion of the RY24/25 resource costs associated with the Future Management System (FSM, £1.260m) programme and the operations (3G sunset), £0.601m) cost centre.*

**Decision** *Our consultation proposal remains unchanged.*

#### Respondents' views

- 3.1 Three stakeholders supported our proposal, noting the programme's significant delays or agreeing it was inappropriate for consumers to bear the financial

## Decision DCC Price Control: Regulatory Year 24/25

consequences of those delays. One stakeholder commented that an unacceptable cost adjustment would be necessary if DCC had not complied with the Licence during procurement.

- 3.2 Two stakeholders expressed concern that disallowing these costs could set an undesirable precedent for future programmes that are mandated by the Licence and delivered within approved budgets.
- 3.3 One stakeholder highlighted that, regarding 3G sunseting, the SEC OPSG held significant concerns about the migration from 3G to 2G and lacked confidence in the CSPs' ability to manage quality control. They viewed DCC's involvement as a response to those concerns.
- 3.4 DCC strongly disagreed with the proposed disallowance of £0.601m for 3G sunseting. DCC argued that the costs were mandatory and essential to protect continuity of smart metering services during 3G withdrawal. According to DCC, without its oversight and assurance, millions of smart meters would have been at risk of disruption. DCC further noted that the work was delivered to accelerated timelines, using benchmarked internal roles and without premium consultancy.
- 3.5 DCC also strongly disagreed with the proposed disallowance of £1.260m for FSM/DSMS. DCC argued that:
  - FSM required an accelerated, full Green Book compliant procurement (8 months rather than 12)
  - FSM is a distinct programme and should not be affected by previous DSMS-related disallowances.
  - FSM provides enhanced capability, including ServiceNow integration, improved order management and customer-pain-point resolution.
  - Internal teams were essential for managing the RFP, contract finalisation, and mobilisation; and
  - DSMS delays should not influence the assessment of FSM or create a precedent for future years.
- 3.6 DCC therefore requested that all RY24/25 internal resourcing for FSM/DSMS be allowed.

### Reasons for our decision

#### 3G Sunseting

- 3.7 We acknowledge the risks associated with the industry's move away from 3G and note stakeholder comments that some additional assurance activity was appropriate. However, following careful consideration of stakeholders' representations and evidence provided by DCC, we remain of the view that the

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increased internal resourcing for 3G sunsetting was not economic or efficient. This was on the basis that DCC did not explain why the uplift could not be absorbed within existing operational teams, which experienced a £1.9m increase in payroll costs during the same period; nor did it provide clear evidence of new activities that warranted additional staffing beyond BAU oversight of CSP C&S activities. Also, this is particularly relevant given that the CSP for Central and South regions initiated the 3G sunsetting work, funded the core technical solution, and delivered the key components (including the traffic management gateway).

- 3.8 In that context, DCC's role should have remained limited to its BAU oversight and supplier management responsibilities, not the creation of a new internal team.

### Future Management System (FSM)

- 3.9 Following careful consideration of stakeholder representations and review of DCC's evidence, our decision is that the consultation position remains unchanged. In making our decision, regard was had to the following factors:
- i. Despite a £2.9m increase against last year's forecasted resource levels, the FSM programme did not deliver operational outputs in RY24/25, and no demonstrable customer benefits were realised.
  - ii. Also, DCC has not provided any concrete evidence demonstrating that FSM differs materially in scope from DSMS. Despite repeated requests, DCC did not supply comparative analysis showing how FSM requirements diverge from DSMS, nor did it show why DSMS related capability could not be reused. The FSM activities described service management design, tooling integration, technical oversight, business process mapping, procurement and commercial work closely mirror the earlier DSMS activities.
  - iii. Furthermore, we cannot conclude that FSM required an incremental internal resourcing uplift process mapping, procurement and commercial work.
  - iv. Finally, DCC did not explain why existing internal capacity could not support the programme's needs, particularly in a year with no operational delivery. As such, we remain unconvinced that the significant internal resourcing uplift in RY24/25 was economic and efficient.

### **Decision on directing a disallowance or to accept an Undertaking in respect of Unacceptable Costs**

- 3.10 In accordance with LC37.8, having identified costs that we consider to be Unacceptable Costs, we may direct that such costs are excluded from the calculation of future allowed revenues (i.e. disallowed) or accept an Undertaking from DCC in respect of those costs.
- 3.11 In reaching our decision on whether to disallow those costs, we have taken account of:

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- our finding that DCC was able to, or should have been able to, control or otherwise influence the occurrence of the Unacceptable Costs;
- the likelihood that DCC will be able to recover any of the Unacceptable Costs through future procurement; and
- the likelihood that DCC, through appropriate future management actions, will be able to avoid, prevent or mitigate a further occurrence of the same or any similar costs.,
- In line with our Guidance, we have also considered actions that DCC may already have taken to avoid the recurrence of these costs and the likely impact of disallowing such costs on the operation of DCC's activities.

3.12 Having considered these factors, we have decided to direct £1.861m of the total incurred costs is disallowed.

### Q11) Benchmarking of staff remuneration for both contractor and permanent staff

**Proposal at consultation:** *Disallow £0.449m in contractor costs which fell above individual role benchmarks and were not properly justified.*

**Decision:** *Our consultation proposal remains unchanged.*

#### Respondents' views

3.13 We received 6 responses to this question.

3.14 DCC disagreed with our proposal. It reiterated its view from previous years that Ofgem should consider the net staff cost position across all roles' combined benchmarks (against which DCC paid £1.7m less) when considering the economy and efficiency of staff remuneration, rather than looking at individual instances where certain roles have been paid above their respective benchmarks.

3.15 Capita (DCC's parent company) also disagreed with our proposal. It highlighted the benchmarking process as an example of what it considers a highly burdensome price control process for DCC which demands perfection rather than evidence of economy and efficiency. It also stated that not considering the net staff cost position against the combined benchmark when forming our proposals and making our final determinations is unfair.

3.16 Other respondents agreed with our proposal, noting that it had resulted from a lack of evidence that DCC had adhered to its internal hiring processes and business case procedures when hiring for roles above their benchmarks.

3.17 Two respondents acknowledged the negative £1.7m net position against the aggregated staff benchmark but stated this figure masked anomalies by offsetting roles hired at above benchmarked rates.

## **Decision DCC Price Control: Regulatory Year 24/25**

- 3.18 One respondent noted DCC's efforts in reducing the total number of contractors overall as well as the number of roles hired above their benchmarks but stated this was corrective action resulting from DCC not following its own governance rules in previous years.
- 3.19 Another respondent was of the view that DCC should be building its expertise within the organisation rather than seeking external consultant expertise. They also observed that until recently, DCC had expanded each year without reduction in headcount, and that this continual expansion without review was, in their view, not economic nor efficient.

### **Reasons for our decision**

- 3.20 Having carefully considered the stakeholders' representations and evidence provided by DCC, our decision is to proceed with our consultation proposal. In making this decision, regard was had to the staff benchmarking exercise, and the degree of evidence which we have requested from DCC has not changed.
- 3.21 We continue to disagree with DCC's argument that a negative net position against all combined role benchmarks should be considered as a saving against any roles hired above their individual roles. The purpose of the benchmarking process is to ensure DCC hires staff at reasonable market rates at the individual role level – paying below the benchmark for some roles does not give licence to hire other staff at above-market rates without justification as to why this has been done.
- 3.22 Whilst we recognise stakeholder representations regarding the benchmarking process, we have taken a pragmatic approach to DCC's approach to permanent staff costs, in which instance the marginal variance of individual roles above their respective benchmarks out of over 700 staff is only around £0.05m. In recent years we also have not sought to penalise DCC for exempting certain roles from the benchmarking process as we accept some roles may be particularly niche and market rate data may not be available within the benchmark databases used.
- 3.23 We only expect evidence that DCC has followed its internal salary approval processes for prospective hires above their respective benchmarks for specific instances where a role has been hired at a rate noticeably above its benchmark. Namely, as mentioned by DCC in its price control submission, any accompanying business cases for these roles – the outcomes of which DCC states are recorded for the purposes of the price control. These have not been provided to us.

### **Decision on directing a disallowance or to accept an Undertaking in respect of Unacceptable Costs**

- 3.24 In accordance with LC37.8, having identified costs that we consider to be Unacceptable Costs, we may direct that such costs are excluded from the calculation of future allowed revenues (i.e. disallowed) or accept an Undertaking from DCC in respect of those costs.

## Decision DCC Price Control: Regulatory Year 24/25

- 3.25 DCC has not offered an Undertaking in respect of these costs in accordance with LC37.8(b), therefore our decision is limited to the question of whether to disallow the costs that we have identified as Unacceptable.
- 3.26 In reaching our decision on whether to disallow those costs, we have taken account of:
- our finding that DCC was able to, or should have been able to, control or otherwise influence the occurrence of the Unacceptable Costs;
  - the likelihood that DCC will be able to recover any of the Unacceptable Costs through future procurement; and
  - the likelihood that DCC, through appropriate future management actions, will be able to avoid, prevent or mitigate a further occurrence of the same or any similar costs.
- 3.27 In line with our Guidance, we have also considered actions that DCC may already have taken to avoid the recurrence of these costs and the likely impact of disallowing such costs on the operation of DCC's activities.
- 3.28 **Having considered these factors; we have decided to direct £0.449m of contractor staff costs paid above their respective benchmarks are disallowed without sufficient justification.**

## Q12) Planning, Scoping, and Resourcing of BAU activities

**Proposal at consultation:** *disallow £2.889m of the costs associated with activities that we considered to be not resourced in the most economic and efficient way.*

**Decision:** *Adjust the consultation position to reduce the cost disallowance to £1.701m to take account of DCC's feedback on Ofgem's benchmarking model regarding mapping errors and day-rate anomalies.*

### Respondents' views

- 3.29 Three respondents agreed with our proposal. One respondent raised concerns regarding DCC's broader compliance with the Licence including the retention of procurement documentation and emphasised that Ofgem should act more strongly where non-compliance is identified. One respondent sought further detail on the proposal.
- 3.30 One respondent argued that it is not reasonable to infer that in-house delivery is always preferable. They noted that companies operating in competitive environments frequently use a mix of internal and external resources.
- 3.31 DCC strongly disagreed with our consultation position and emphasized that its reliance on external legal, commercial, technical, and regulatory support is inherent to delivering a complex, multi-stakeholder national infrastructure programme. In summary, DCC argued that:

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- i. Outsourcing is often the safest and quickest method to secure specialist capability when internal recruitment is slower or impractical.
  - ii. All legal and consulting support was sourced through competitive frameworks, ensuring “market-tested” pricing and high quality.
  - iii. Some advice e.g. contractual negotiation, regulatory interpretation, and change implementation requires specialist expertise that cannot be maintained at scale in-house.
  - iv. The support is not constant and varies year-to-year depending on workload, making internal hiring impractical.
  - v. External advisers avoided delays and ensured compliance with SEC obligations and Licence Condition requirements.
- 3.32 DCC additionally explained that Ofgem wrongly assumes that BAU activity should be delivered entirely in-house and that the benchmarking approach implicitly assumes that the outsourcing of activities is inefficient. DCC emphasised that many large organisations in competitive sectors heavily depend on external specialists for surge activity, regulatory support, and niche tasks, and that is frequent practice to mix internal and external delivery.
- 3.33 DCC also claimed that the outsourcing of activities means that teams can be mobilised rapidly and benefit from prior knowledge of DCC systems, enabling continuity and reducing ramp-up time. In other words, according to DCC, external support allows for flexible scaling, reduces long-term staffing commitments, and avoids inefficiencies linked to under-utilised FTEs.
- 3.34 According to DCC, Ofgem’s benchmarking methodology is also unsuitable in respect of fixed-price or outcome-based contracts as Ofgem cannot access rate cards or underlying cost structures. According to DCC, these contracts represent best practice and provide cost certainty.
- 3.35 DCC also argued that Ofgem’s mapping is too broad and incorrectly groups technical, legal, financial, regulatory, and customer engagement support under “consultancy,” misrepresenting the nature of services. DCC claims that in doing so, Ofgem conflates distinct categories, leading to unjustified disallowances.
- 3.36 DCC also claimed that because many BAU work packages naturally align to contractor delivery as they are inherently “spiky” or require expertise that should not be retained internally. Ofgem’s assumption therefore of a blended internal/external model (70/30 or 30/70) is unrealistic; instead, DCC argues that Ofgem should assume 100% contractor delivery for these activities.
- 3.37 Additionally, DCC asserted that Ofgem’s benchmarking approach uses unrealistic resource assumptions; fails to account for programme context; does not reflect complexities of DCC’s operating environment; and that it is not possible to compare consultant activity to in-house equivalents.

## Decision DCC Price Control: Regulatory Year 24/25

3.38 Finally, DCC argued that various mapping and calculation errors had been identified within the benchmarking. According to DCC, this makes the model unreliable meaning therefore that Ofgem should reduce all disallowances to zero.

### Reasons for our decision

3.39 Having reviewed the stakeholder feedback, and all evidence submitted by DCC, and our decision is to reduce the proposed disallowance from £2.889m to £1.701m, as this better reflects the specific corrections related to mapping and day-rate inputs.

3.40 However, after careful considering of the full body of evidence, we remain of the view that DCC has not demonstrated that outsourcing was necessary, the least-cost option, or that internal capability planning was adequate. In making our decision, Ofgem has had regard to the following factors: as we have made clear in previous price control decisions,<sup>25</sup> while Ofgem is not opposed to the use of consultants, we expect a regulated monopoly to maximise value for money, maintain appropriate internal capability, and carefully evaluate resourcing options before outsourcing BAU activity.

3.41 We do not dispute that external expertise has a legitimate role. However, DCC's submission does not provide sufficient evidence to demonstrate that outsourcing was the most economic and efficient route. In particular, in our view DCC's evidence base suffered from the following deficiencies:

- i. Competitive procurement tests price reasonableness, not whether outsourcing was necessary compared with internal delivery.
- ii. Many outsourced tasks such as planning, business analysis, change management, programme support, legal drafting are core BAU functions for a regulated utility and should ordinarily be delivered internally.
- iii. DCC has outsourced these categories year after year, indicating structural dependency, not sporadic specialist demand.
- iv. A lack of internal capability is not justification for outsourcing; it is evidence of poor long-term workforce planning.
- v. Several of the activities are predictable and recurring (charging, SEC change work, business planning cycles) and should therefore be supported by a stable internal capability.
  - DCC provided no evidence comparing internal vs external costs, nor any assessment showing that outsourcing represented the least-cost delivery option.

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<sup>25</sup> Ofgem DCC Price control: RY23/24 [Link](#)

**Decision DCC Price Control: Regulatory Year 24/25**

- 3.42 In summary, while external support can be appropriate, DCC did not justify the scale, scope, or recurrence of outsourced BAU activity. We also reject DCC's suggestion that Ofgem assumes all BAU work must be delivered in-house. The disallowance represents £1.701m out of £35.904m of non-resource costs, a small proportion. Our assessment considers whether outsourcing is proportionate, well justified, supported by consideration of alternatives, and demonstrably cost-effective. DCC provided no evidence meeting these criteria.
- 3.43 With respect to DCC's argument that the outsourcing of external support is a normal business practice, we consider that this is not sufficient to demonstrate compliance with the Licence. As we expect DCC to show that costs are incurred in the most economic and efficient way, relative to feasible alternatives.
- 3.44 Notwithstanding, we acknowledge the benefits cited by DCC mobilisation speed, familiarity with systems and flexibility. However, these do not replace the requirement to demonstrate efficiency. Furthermore, regard should be had here to:
- Rapid mobilisation and familiarity come at a cost premium
  - Repeat use of the same individuals indicates vendor lock-in, not efficiency.
  - Insufficient internal capability is not a justification for outsourcing; it signals a failure to build capacity expected of a monopoly provider.
  - Recurrent tasks such as BAU assurance, business-case development and regulatory drafting should be delivered in-house.
  - DCC did not assess whether the advantages of quick ramp-up outweighed the long-term premium cost of dependency on external support.
- 3.45 We also disagree with DCC's assertion that fixed-price contracts cannot be benchmarked. Benchmarking fixed-price BAU services is standard regulatory practice and does not require full rate-card visibility. A lack of transparency does not exempt DCC from its obligations under the Licence. It should also be noted that our approach has been used in previous years in circumstances where DCC has not provided data on role-mix, rate cards or the underlying mix of rate cards x time worked per role. We also note that if DCC itself cannot benchmark the value of fixed-price contracts, this raises questions about the value-for-money assurance applied at procurement.
- 3.46 Having carefully considered DCC's argument that outsourcing offers flexibility and avoids permanent staffing costs, we are of the view that flexibility alone does not justify the systematic outsourcing of BAU work. Much of the work that is outsourced by DCC, is recurring. In line with our previous positions, where activities recur annually, we expect DCC to resource them internally (either permanent or contractor) to minimise long-term cost. Also, DCC provided no evidence of internal capability planning or scenario analysis to that effect.

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- 3.47 We further disagree with DCC's assertion that outsourced BAU activity should be benchmarked based on 100% contractor delivery as it would establish over-reliance on premium external resources. Furthermore, in our view, it is important to consider that a fully contractor-based delivery model would be inconsistent with efficient long-term capability planning and would remove incentives to train and retain staff.
- 3.48 Overall, we welcome DCC's feedback on the model that had to do with minor mapping and incorrect rate-card data factoring in the model. Whilst we accept these corrections and have made the necessary adjustments accordingly, we do not consider (contrary to DCC's argument) that these issues undermine the core methodology, justify allowing all costs, and overturn the substantive efficiency concerns.

### Decision on directing a disallowance or to accept an Undertaking in respect of Unacceptable Costs

- 3.49 In accordance with LC37.8, having identified costs that we consider to be Unacceptable Costs, we may direct that such costs are excluded from the calculation of future allowed revenues (i.e. disallowed) or accept an Undertaking from DCC in respect of those costs.
- 3.50 DCC has not offered an Undertaking in respect of planning, resourcing, and scoping costs in accordance with LC37.8(b), therefore our decision is limited to the question of whether to disallow the costs that we have identified as Unacceptable.
- 3.51 In reaching our decision on whether to disallow those costs, we have taken account of:
- our finding that DCC was able to, or should have been able to, control or otherwise influence the occurrence of the Unacceptable Costs;
  - the likelihood that DCC will be able to recover any of the Unacceptable Costs through future procurement; and
  - the likelihood that DCC, through appropriate future management actions, will be able to avoid, prevent or mitigate a further occurrence of the same or any similar costs.
- 3.52 In line with our Guidance, we have also considered actions that DCC may already have taken to avoid the recurrence of these costs and the likely impact of disallowing such costs on the operation of DCC's activities.
- 3.53 **Having considered these factors, we have decided to direct £1.701m of the total incurred costs is disallowed for RY24/25.**

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### Q13) Business Accuracy Programme

**Proposal at consultation:** *Reject all costs that are directly and indirectly associated with the Business Accuracy Programme (BAP) on the grounds of insufficient evidence of benefits realisation and concerns related to lack of transparency in customer engagement and overlap in scope and Shared Service Charge (SSC). The total disallowance cost amounts to £1.458m for RY24/25.*

**Decision:** *Our consultation proposal remains unchanged.*

#### Respondents' views

- 3.54 One respondent agreed with Ofgem's proposal and noted that, while accuracy improvements are important, DCC should already be performing its core obligations to ensure the accuracy of data and reporting. They questioned why additional expenditure was required to meet obligations that are already set out in the Licence and SEC.
- 3.55 Another respondent expressed concern that funding internal improvement programmes could create a risk that DCC treats regulatory compliance as optional unless it receives additional funding.
- 3.56 DCC strongly disagreed with our proposed disallowance. DCC argued that:
- i. The BAP was essential to ensure the continued integrity of business processes and data quality across the organisation
  - ii. The BAP was required to address complexities arising from the growth of the smart metering system and the associated increase in DCC's operational responsibilities
  - iii. Costs were incurred to improve the accuracy of performance metrics, charging assurance, and forecasting inputs relied upon by Ofgem and industry
  - iv. Activities were delivered using appropriately benchmarked internal and external resource
  - v. Improvements would reduce costs in future years by reducing rework, operational corrections, and the risk of inaccurate reporting
  - vi. The work was necessary to ensure continued compliance with SEC and Licence obligations.
- 3.57 DCC further argued that Ofgem's proposal failed to recognise that the programme addressed shortcomings identified by customers and auditors, and that without targeted investment, DCC would not be able to deliver the required improvements at the necessary pace.

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### Reasons for our decision

- 3.58 We have carefully reviewed all the evidence received by stakeholders and that provided by DCC during the consultation and also had regard to our position in previous years, that Ofgem recognises the importance of accurate reporting, forecasting and operational information. DCC has however not demonstrated that the activities under this programme required additional expenditure or that the costs incurred were economic and efficient.
- 3.59 As noted above, in previous years, Ofgem has consistently found that business-accuracy, data-quality, forecasting and reporting-improvement activities are core BAU responsibilities, and therefore should not be funded as standalone programmes. DCC itself has described the Business Accuracy and Finance Transformation initiative as a strategic internal improvement programme, aimed at “improving and streamlining... planning, forecasting and reporting processes,” and enabling “greater cost transparency and customer engagement”.
- 3.60 These activities are not new obligations, and our rationale from previous determinations remains the same in this year’s assessment. These are that:
- DCC is responsible for maintaining accurate operational, financial, performance and charging data as part of its enduring Licence duties.
  - improvements to internal processes, controls, or assurance frameworks should be delivered within existing baselines.
  - DCC should not expect consumers to fund programmes that remedy shortcomings in core BAU capabilities.
- 3.61 We also note that DCC did not clearly demonstrate which BAP activities were genuinely incremental, mandated, or could not have been delivered through BAU resourcing. Each of the respective activities are a direct continuation from previous years’ activities. We consider activities such as process documentation, model refinement, data-quality assurance, and improved reporting controls are standard internal-governance functions that are expected of a mature regulated entity.
- 3.62 DCC further asserted that BAP addressed issues identified by customers and auditors. We recognise these concerns however this reinforces our view that the programme is reactive in nature and relates to standard activities that DCC is expected to deliver. As in previous years, we expect DCC to embed accuracy improvements within BAU teams and budgets.
- 3.63 Accordingly, having regard to the above noted factors, we maintain the view that these costs are to be classified as Unacceptable Costs in full.

### Decision on directing a disallowance or to accept an Undertaking in respect of Unacceptable Costs

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- 3.64 In accordance with LC37.8, having identified costs that we consider to be Unacceptable Costs, we may direct that such costs are excluded from the calculation of future allowed revenues (i.e. disallowed) or accept an Undertaking from DCC in respect of those costs.
- 3.65 DCC has not offered an Undertaking in respect of the BAP costs in accordance with LC37.8(b), therefore our decision is limited to the question of whether to disallow the costs that we have identified as Unacceptable.
- 3.66 In reaching our decision on whether to disallow those costs, we have taken account of:
- our finding that DCC was able to, or should have been able to, control or otherwise influence the occurrence of the Unacceptable Costs;
  - the likelihood that DCC will be able to recover any of the Unacceptable Costs through future procurement; and
  - the likelihood that DCC, through appropriate future management actions, will be able to avoid, prevent or mitigate a further occurrence of the same or any similar costs.,
- 3.67 In line with our Guidance, we have also considered actions that DCC may already have taken to avoid the recurrence of these costs and the likely impact of disallowing such costs on the operation of DCC's activities.
- 3.68 **Having considered these factors, we have decided to direct £1.458m of the total incurred costs is disallowed for RY24/25.**

## Q14 Forecast Costs

**Proposal at consultation:** *Disallow £11.114m in RY25/26, £19.050m in RY26/27 across Corporate Management, Commercial, Design and Assurance, Programme (Service Delivery), Security, Operations, Future Connectivity and DSMS/FSM.*

**Decision:** *Allow partial costs for Corporate Management, all other consultation positions remain unchanged.*

## Respondents' views

- 3.69 One respondent who agreed with our proposal, stated that the forecast disallowances would not affect the charging statement and the charges customers pay. Instead, they noted that the disallowances would lead to increased scrutiny from Ofgem in these areas in the next price control.
- 3.70 One respondent raised concerns about the proposed forecast disallowances for entire core teams in cost centres such as Security, Commercial, Design and Assurance, Service Delivery, Operations, and Corporate Management. The respondent felt this demonstrated a gap in understanding between Ofgem and DCC. They recommended that once this gap has been addressed, the Consumer

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Challenge Group and the SEC Finance Sub-Committee should be approached for their input.

- 3.71 Another respondent also raised concerns about the scale of the disallowances for critical teams. They noted that although Ofgem referenced not having received satisfactory evidence from DCC, the consultation did not provide sufficient information for them to agree or disagree with each proposed consultation position. The respondent was concerned that applying disallowances to core operational teams could lead to sub-optimal resourcing decisions. In particular, they highlighted potential impacts on areas such as Security Architecture and Assurance, Testing and Engineering, the 3G Sunsetting programme, and Future Connectivity programmes.

### Reason for our decision

- 3.72 We note DCC's concerns regarding the unacceptable costs for core DCC teams and the potential impacts this may have. However, it is important to clarify that the proposed forecasted disallowances, deemed to be unacceptable costs, for RY25/26 and RY26/27 do not prevent DCC from incurring costs for these teams. Rather, they mean that DCC will not have a baseline, or will have a reduced baseline, for the relevant cost centres in the next price control. As a result, we will scrutinise the forecasted costs submitted this year against the incurred costs reported in next year's submission more closely. Where sufficient evidence is provided to support the incurred costs, we will allow them. It is for DCC to ensure that its forecasts are supported by sufficient evidence. While we recognise that forecasts cannot be determined with absolute certainty, we expect DCC to provide a clear rationale, for example, explaining the basis for the forecasted FTE requirement and outlining where forecasted costs are expected to be incurred.
- 3.73 Given that DCC has not provided further evidence to justify the forecasts for certain cost centres, our decision is to revise the consultation position to allow partial forecast costs for RY25/26 and RY26/27. Accordingly, **the total unacceptable forecast costs are £21.171m (£6.828m for RY25/26 and £14.343m for RY26/27).**

**Decision DCC Price Control: Regulatory Year 24/25**

## 4. Performance Incentives

This section covers DCC's submission of its performance under the Operational Performance Regime (OPR), which includes system performance, contract management, and customer engagement incentives. Regarding the system performance incentive, in our consultation we proposed to award DCC the full margin of £8.593m.

For the contract management incentive, we proposed to reduce the score awarded by the auditor from 2.29 out of 3 to 2.19 out of 3.

For the customer engagement incentive, we received submissions from both DCC and SEC Panel on DCC's performance during RY24/25. After assessing both submissions, we awarded a score of 2.55 of out 3 to DCC.

While our consultation position remains unchanged, the amount of BM awarded and deducted for each incentive has changed due to a correction to the BM figure used in the calculations. As a result, the system performance award changes from £7.993m to £8.593m. For contract management the reduction increases from £0.899m to £0.966m, and the customer engagement reduction increases from £0.300m to £0.322m. The total Baseline Margin Operational Performance adjustment has therefore increased from - £1.199m to £1.289m. The total amount of BM retained by DCC increases from £12.122m to £13.033m.

**Questions posed at consultation**

- Q15. What are your views on our proposed position on DCC's System Performance?
- Q16. What are your views on our proposed position on DCC's Contract Management?
- Q17. What are your views on our proposed position on DCC's Customer Engagement?

### Background

- 4.1 All DCC's BM (including adjustments) is at risk against one of DCC's performance regimes.<sup>26</sup>
- 4.2 This is the seventh year in which DCC's performance is being assessed by the OPR.
- 4.3 In RY24/25 there were no projects to be assessed under the BMPPA regime.
- 4.4 The total BM at risk for RY24/25, under the OPR, is £14.322m. In accordance with the OPR Guidance, 60% of this margin is associated with system performance, 15% is associated with customer engagement, and 25% with contract management.

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<sup>26</sup> See Part C of LC36 of the Smart Meter Communication Licence

## Decision DCC Price Control: Regulatory Year 24/25

### Q15) System Performance

**Proposal at consultation:** Award DCC full system performance margin of £7.993m .

**Decision:** Our consultation proposal remains unchanged; however, we are making a correction to the disallowance figure.

#### Respondents' views

- 4.5 DCC supported our proposal. All four other respondents to this question were all DCC Users. They acknowledged that DCC had achieved all of its Target Performance Levels across all OPR System Performance metrics in RY24/25 (and that this entails a full margin award) but noted that this differed from their own experiences of using the DCC network.
- 4.6 Two respondents claimed that DCC has had sufficient time and now has the resources to remediate comms hub connectivity issues in the North region which had been raised by suppliers in recent years.<sup>27</sup>
- 4.7 Two respondents mentioned the transition to the Successor Licensee provides an opportunity to revisit the current performance assessment regime to create new measures which more accurately capture system performance.

#### Reasons for our decision

- 4.8 Having reviewed all our responses, we are proceeding with our consultation proposal to award DCC all margin associated with System Performance for RY24/25. This amounts to £8.593m.

### Q16) Contract Management

**Proposal at consultation:** Reduce the score awarded by the auditor from 2.29 out of 3 to 2.19 out of 3. This corresponds to a reduction of £0.899m of DCC's margin out of a possible £3.330m

**Decision:** Our consultation proposal remains unchanged; however, we are making a correction to the disallowance figure.

#### Context

- 4.9 RY21/22 was the first year in which DCC's contract management performance was financially incentivised under the revised OPR. DCC's performance is assessed by an independent auditor using the National Audit Office (NAO) Framework, in line with the scope and terms of reference set out in the OPR Guidance. RY24/25 marks the fourth year of the audit.

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<sup>27</sup> See the System Performance section of our RY23/24 and RY24/25 DCC Price Control consultations for further context on these issues.

## Decision DCC Price Control: Regulatory Year 24/25

4.10 An independent auditor assessed DCC's performance in contract management and procurement, in accordance with the OPR Guidance<sup>28</sup>. The auditor produced the final report on the findings and awarded a score of 2.29 out of a possible 3 to DCC, using the scoring framework set out in the Guidance. The auditor also provided a set of recommendations for improvement.

### Respondents' views

4.11 Of the seven responses we received to our consultation, three respondents agreed with our consultation position. Three respondents did not have a view, and one explicitly disagreed with our position.

4.12 The respondent who disagreed with our position expressed concerns about the proposed reductions in DCC's contract management score. They also raised concerns regarding the contract management process and noted that they did not understand why Ofgem would pay for an independent auditor if Ofgem then adjusts the scores based on findings from a few specific contracts. The respondent further added that they believe Ofgem's disallowances on material contracts do not provide DCC employees with an incentive to reduce costs, particularly if the regulatory response is to disallow costs for not achieving results earlier, despite multiple savings having already been delivered.

4.13 DCC welcomes Ofgem's proposal to award a score of 2.19 out of 3 and is pleased that both Ofgem and the auditors recognise the improvements it has made.

### Reason for decision

4.14 We acknowledge the respondent's concerns regarding our proposal to reduce some of the scores awarded by the auditor, as well as the justification provided for each of the reductions. We also note their concerns about the contract management process. However, as we have previously clarified in the RY22/23 and RY23/24 price control decision documents, the auditor assesses DCC's performance based on the evidence presented to them at the time of the audit. Given that the audit period covers only three months, the auditor's review is limited to a small sample of DCC's documentation, and their judgement is based on that sample. By contrast, Ofgem has the ability to review documentation covering the entire reporting year. As part of the contract management process, Ofgem is required to assess DCC's performance and determine the final scores, taking into account stakeholder views and any additional evidence available to us.

4.15 **Having carefully considered the representations provided in paragraphs 2.47 to 2.49, we have made the decision to reduce the scores for supporting question 6.1 from 3 to 2 and 6.3 from 2 to 1. The final score awarded to DCC is**

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<sup>28</sup> [Link](#)

**Decision DCC Price Control: Regulatory Year 24/25**

**2.19 out of 3. This equates to a margin reduction of £0.966m out of possible £3.581m.**

**Table 4.1: Summary of scores awarded against each supporting question in the NAO Framework Domain**

**Domain 1: Commercial strategy**

**Key question = Is there an overarching commercial strategy, with a clear rationale for the approach being taken?**

Supporting questions	Score
1.1 Is there a clear and consistently held view of what the contract is producing, the type of commercial relationship desired, the basic contract structure, and how it will be managed?	2
1.2 Has there been an assessment of strategic drivers, including policy drivers, and the internal and external environment?	3
1.3 Has the commercial strategy been based upon the assessment of strategic drivers and the internal and external environment?	3

**Domain 2: Capability & governance**

**Key question = Does DCC have the capability needed to manage the contract and is it developing capability for the future?**

Supporting questions	Score
2.1 Does DCC have the necessary capability, skills and systems?	2
2.2 Does DCC understand its future needs and is it working towards meeting them?	1
2.3 Has DCC deployed its capability in a balanced way across the lifecycle and is commercial capability effectively integrated with the business?	2

**Domain 3: Market management & sourcing**

**Key question = Has sourcing supported the commercial strategy and followed recognised good practice to optimise VFM?**

Supporting questions	Score
3.1 Has market management driven long-term value for money?	2
3.2 Was there a defensible process that resulted in the selection of a capable supplier?	2

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Supporting questions	Score
3.3 Was there optimum use of competitive pressure?	3

**Domain 4: Contract Approach**

**Key question = Does the balance of risk and reward encourage service improvement, minimise perverse incentives, and promote good relationships?**

Supporting questions	Score
4.1 Is there an appropriate allocation of risk between DCC and the supplier?	3
4.2 Are there incentives to encourage the supplier to act in the interest of DCC?	3
4.3 Are suitable mechanisms established to drive the desired relationship?	2

**Domain 5: Contract management**

**Key question = Is the service being managed well, with costs and benefits being realised as expected?**

Supporting questions	Score
5.1 Do DCC and the supplier have comprehensive knowledge of service performance?	2
5.2 Are the suppliers delivering in accordance with the contracts, and are they actively managed by DCC to meet or exceed requirements (including delivering accurate, timely Impact Assessments)?	2
5.3 Is DCC meeting its obligations?	2

**Domain 6: Contract lifecycle**

**Key question = Will the service continue to demonstrate VfM through its lifecycle?**

Supporting questions	Score
6.1. Does the contract continue to support DCC's strategic intent?	2
6.2 Are VfM mechanisms used to ensure the contract continues to deliver VfM over its life?	2
6.3 Is change controlled and well managed and does the contract remain current?	1

**Decision DCC Price Control: Regulatory Year 24/25****Domain 7: Transition & termination****Key question = Is DCC ready for the end of the contract?**

Supporting questions	Score
7.1 Has market management been undertaken to support new contracts?	2
7.2 Has the end of the contract been managed effectively to allow rebid or handover?	3
7.3 Are insights from the operation of the contract brought to bear in developing the new contract?	2
<b>Total Weighted Score</b>	<b>2.19</b>

**Q17) Customer Engagement**

**Proposal at consultation:** Based on the submissions of both DCC and SEC Panel, we recommend an overall score of 2.55 out of 3. This corresponds to a reduction of £0.300m of DCC's margin out of a possible £1.998m.

**Decision:** Remains unchanged from the consultation proposal; however, we are making a correction to the disallowance figure.

**Context**

4.16 This is the fourth year in which DCC's customer engagement will be financially incentivised under the revised OPR. DCC's performance in this area has been assessed based on qualitative submissions received from both DCC and SEC panel. The assessment covers three sections: timing and frequency of engagement, quality of information provided by DCC, and accountability of customer views.

4.17 The three sections under customer engagement each have one assessment question with relative weightings. The individual weighting for each assessment question is calculated as one third of its section weighting, with the overall score calculated using a weighted average of the scores specified for each question. For full details on the scoring methodology please refer to our guidance.<sup>29</sup>

4.18 To inform the scoring, we received submissions from both DCC and SEC Panel on DCC's performance during RY24/25 against the criteria set out in the March 2024 OPR Guidance document. We considered both the submissions and evidence provided to assess DCC's customer engagement performance in RY24/25.

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<sup>29</sup> [Link](#) to Ofgem's guidance

**Decision DCC Price Control: Regulatory Year 24/25****Respondents' views**

- 4.19 One respondent, who agreed with the SEC Panel's scoring, finds the current scoring methodology to be restrictive and can reward DCC for average performance. The respondent proposes that the scoring methodology should be changed to a 1 (poor) to 5 (excellent) scale, as this would allow for a more granular assessment of DCC's performance.
- 4.20 Another respondent, who strongly disagreed with our proposal, expressed disappointment that the SEC Panel's score had not been used. They stated that they consider the SEC Panel's score to be fair and provides a balanced view across DCC's main customers and that they see no rationale for increasing the score.
- 4.21 One respondent viewed DCC's customer engagement as inconsistently delivered across different areas. They considered the engagement to be strong on some topics but lacking on others, particularly noting difficulty tracking progress and decisions on elements of the future technology roadmap. They described engagement on LRR as being mixed, with constructive commercial discussions but weaker operational management. They also highlighted poor engagement on VWAN, observing that the project's joint leadership by DESNZ and DCC left industry without clear or timely information. The respondent suggested that DCC should take a more central delivery role to enable clearer, collective decision-making rather than relying on multiple bilateral discussions. The respondent further raised ongoing concerns about the impact of staff turnover on the quality and continuity of engagement, noting that knowledge of long-standing issues can be lost. They expressed hope that upcoming governance changes, including the creation of the SEC Finance Sub-Committee, expanded TABASC responsibilities, and improved interaction at OPSG, would strengthen future engagement.
- 4.22 DCC welcomes Ofgem's proposal to score DCC 2.55 out of 3. DCC also acknowledges the feedback from Ofgem and the SEC Panel and is committed to ensuring a consistent approach in its customer engagement across all its programmes and forums.

**Reason for our decision**

- 4.23 Following careful consideration of stakeholders' representations, we have decided to maintain our consultation position. This decision takes account of the respondent's concerns regarding the scoring being restrictive and the need for it to be amended to allow for greater granularity. We also considered stakeholders' concerns regarding the increase of scores. However, as part of the customer engagement process, both DCC and the SEC Panel are required to submit their assessment of DCC's customer engagement against the criteria set out in the OPR Guidance document. Ofgem then reviews these submissions and determines the final scores. DCC, as part of its submission, provided substantial

**Decision DCC Price Control: Regulatory Year 24/25**

evidence to support its assessment. It is therefore for Ofgem to ensure that we provide a fair assessment of DCC's customer engagement performance based on the evidence submitted. We encourage DCC customers to engage with the SEC Panel and share their views on DCC's customer engagement.

- 4.24 DCC are advised to note the areas listed for improvements, including the need for greater consistency with the quality of customer engagement and ensuring customers understand how their views have informed its decision-making.
- 4.25 **The final score awarded to DCC is 2.55 out 3. This equates to a margin reduction of £0.322m out of possible £2.148m.**

**Decision DCC Price Control: Regulatory Year 24/25****5. Baseline Margin and External Contract Gain Share****Section summary**

This section summarises DCC's application for adjustments to its Baseline Margin (BM) and External Contract Gain Share (ECGS).

DCC applied for a BM adjustment (BMA) of £11.422m for RY26/27. In our consultation, we proposed accepting £8.573m of this application and rejecting any BM applied for under the 'Licence Renewal' and 'Increase in Customer Service Expectations' grounds. We also proposed to disallow any BM related to Internal Costs. Additionally, we also proposed to adjust downwards the BM term for RY27/28 from £6.382m to zero and adjust upwards the BM term for RY26/27 by the same amount due to the Transfer Date now taking place before RY27/28. After considering all consultation responses, our consultation position remains unchanged, though the amount of DCC's application we accept changes to £8.601m due to changes in our Internal Cost disallowances as part of this decision document.

DCC applied for an adjustment to its ECGS of £4.937m for RY26/27. This adjustment related to savings DCC achieved by the re-negotiation of financing arrangements for comms hubs and the operation of its in-house Test Lab service. We proposed to accept DCC's application in full. After considering all responses, our position remains unchanged.

**Questions posed at consultation**

Q18. What are your views on our assessment of DCC's application to adjust its Baseline Margin?

Q19. What are your views on our assessment of DCC's application to adjust its ECGS?

**Q18) Baseline Margin**

**Proposal at consultation:** Accept £8.573m of DCC's £11.422m BMA application. Reject all BM applied for under the 'Licence Renewal' (£1.024m) and 'Increase in Customer Service Expectations' (£0.275m) grounds, as well as any BM relating to Internal Costs we proposed to disallow (£1.550m). Move all BM for RY27/28 (£6.382m) into the RY26/27 BM term due to the Transfer Date taking place before RY27/28.

**Decision:** Our consultation proposal remains unchanged. Amount of BM rejected due to Internal Cost disallowances reduces from £1.550m to £1.521m. Final BM adjustment: £8.601m.

## Decision DCC Price Control: Regulatory Year 24/25

### Context

- 5.1 DCC applied for a Relevant Adjustment to its Baseline Margin of £11.422m for work performed (or forecasted) in RY24/25, RY25/26, and RY26/27. It submitted its application across 13 grounds, all of which had been raised in prior applications.<sup>30</sup>

### Respondents' views

- 5.2 One respondent, a supplier, supported our proposal to reject the portion of DCC's BMA application made under the 'Increase in Customer Service Expectations' ground, stating that the costs incurred in the work outlined within this ground (DCC revising its charging methodology) related to a SEC Modification and not a new element of work. They also stated DCC should be regularly reviewing its charging methodology as stated in its Licence and SEC requirements.
- 5.3 DCC acknowledged that our proposal was to accept the majority of their BMA application but disagreed with our proposal to reject all margin raised under the aforementioned grounds.
- 5.4 Regarding the 'Licence Renewal' ground, DCC disagreed with our view that it had missed the application window for margin under this ground, stating that costs were only first sufficiently certain and material in RY23/24 (the first RY in which DCC applied for margin under this ground) and so it was only appropriate for it to first raise the ground in that year. It also stated that, had it applied for margin under this ground in any RYs prior to RY23/24, it would have been double-counting its BMA application, as the Licence Renewal workstream and internal resourcing had not been separated from its BAU ex-post price control team into its own cost centre at that point in time; therefore, RY23/24 was the earliest window in which it could raise this ground.
- 5.5 Regarding the 'Increase in Customer Service Expectations' ground, DCC argued that prior approved cost forecasts (including the original LABP forecast) had not appropriately anticipated the growth in number and complexity of its user base, particularly those of the 'Other Users' for whom DCC has had to revise its charging methodology (and the costs incurred in doing so are raised under this ground).
- 5.6 No other respondents offered views for or against our proposals.

### Reasons for our decision

- 5.7 Following careful consideration of stakeholders' representations and evidence provided by DCC, we are proceeding with our consultation proposal.
- 5.8 This is on the basis that we disagree with DCC's argument that it could only have first raised the 'Licence Renewal' ground in RY23/24. DCC's argument that it

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<sup>30</sup> See table 6.1 of our consultation for a breakdown of the grounds.

**Decision DCC Price Control: Regulatory Year 24/25**

would have double-counted its application if it applied for margin under this ground prior to it becoming a separate workstream with its own internal resource is a symptom of a historic issue with its BMA application model which, prior to this RY, could not accommodate split FTE hours for the same internal resource submitted under different grounds (which it would have had to do to apply for a BMA under the 'Licence Renewal' ground if its staff working on Licence renewal were also working on BAU activities). This is simply a limitation of DCC's model at the time which DCC could have chosen to rectify sooner in order to facilitate an application under this ground at the earliest opportunity.

- 5.9 We maintain our other arguments against DCC's application under this ground from our consultation. Namely, that we do not consider some of the work raised under this ground to be of relevance to it (work on the transition to the *ex-ante* price control); that some of the work was already envisaged in the LABP (the development and review of the Business Handover Plan); and that some of the work has been created by DCC's own actions, such as having to trace Capita dependencies within the DCC network in order to inform bidders of the Successor Licensee of their extent, as any Capita dependency within the DCC network will have arisen from a decision by DCC.
- 5.10 Regarding the 'Increase in Customer Service Expectations' ground, we maintain our views outlined at consultation that the activities for which DCC has applied for a BM adjustment are ones which DCC would be performing without the recent growth in Other Users, such as revising its charging methodology, carrying out customer engagement activities and making improvements to its website; and that Other Users are not a wholly new category of DCC User given they were already a recognised role in the SEC.
- 5.11 Having regard to the reasons set out above, we are proceeding to reject all of DCC's BMA application raised under the 'Licence Renewal' and 'Increase in Customer Service Expectations' grounds. This amounts to a rejection of £1.299m of DCC's application.
- 5.12 We also reject the portion of DCC's application associated with Internal Costs which we have determined to be Unacceptable Costs. At the consultation stage, this amounted to £1.550m of DCC's application. Due to changes in our Internal Cost determinations, this now amounts to £1.521m of DCC's application.
- 5.13 We accept the rest of DCC's application. We are also proceeding to move all BM that was originally put at risk for the RY27/28 (£6.382m), into the RY26/27 BM term due to the Transfer Date taking place before RY27/28. We therefore direct a Baseline Margin Adjustment of £14.983m for the Baseline Margin term for RY26/27.

**Decision DCC Price Control: Regulatory Year 24/25****Q19) External Contract Gain Share**

***Proposal at consultation:*** Award full ECGS application (£4.937m).

***Decision:*** Our consultation proposal remains unchanged.

**Respondents' views**

5.14 Aside from DCC (who supported our proposal), we received no views for or against our proposals specifically. However, one respondent reiterated their concern from prior consultations that DCC seem over-reliant on interest rate or financing savings for their ECGS application which could lead to it not appropriately exploring or realising savings in other areas.

**Reasons for our decision**

5.15 Having reviewed all responses, we are proceeding with our consultation proposal to **award DCC its full ECGS application of £4.937m.**

## Decision DCC Price Control: Regulatory Year 24/25

### 6. Switching

#### Section summary

This section covers our assessment of DCC's costs associated with the Switching Programme in RY24/25 and the forecasts to the end of the Licence period. It also sets out our view on DCC's submission of its performance under the SIR, which includes System Performance and Customer Engagement Incentives.

We have decided to revise our consultation proposals on switching costs. We have temporarily excluded the DCC's RY26/27 forecast costs of £14.597m (£3.354m of Internal Costs and £11.243m of External Costs) from Allowed Revenue because we cannot confirm these costs are economic or efficient until RECCo's approval. We are also allowing the RY25/26 forecasts, as they have now been approved by RECCo.

Under the SIR, we maintain our consultation position to reduce DCC's entire margin associated with operational performance (£0.182m) for RY24/25 and award a score of 2.25 out of 3 for the customer engagement performance (£0.011m margin, corresponding to a margin reduction of DCC's £0.193m.

#### Questions posed at consultation

Q20. What are your views on our proposed position on DCC's costs associated with Switching?

Q21. What are your views on our assessment of DCC's performance under the Switching Incentive Regime?

#### Q20) Switching Costs

**Proposal at consultation:** *Disallow all forecast costs for RY25/26 to the end of the Licence period, which totals 15.286m (Internal costs of £3.482m and External Costs of £11.804m) due to RECCo budget setting process.*

*Disallow all forecast costs for RY26/27 to the end of the Licence period, which totals £14.597m (Internal costs of £3.354m and External Costs of £11.243m) due to RECCo budget setting process.*

**Decision:** *Revise consultation position and allow forecast costs for RY25/26. Revise the consultation proposal for RY26/27 and temporarily exclude from Allowed Revenue until approved by RECCo.*

#### Context

- 6.1 The Switching programme has been established to improve consumer experience of switching between energy suppliers. DCC plays a central role in delivering this programme.
- 6.2 The costs and performance of the Switching Programme are dealt with separately from the rest of DCC's Mandatory Business.

**Decision DCC Price Control: Regulatory Year 24/25**

6.3 For the Switching programme all costs must be justified.

**Respondents' views (other than DCC)**

6.4 We did not receive any consultation responses from other stakeholders.

**DCC's view**

6.5 DCC welcomed Ofgem's recognition of the RY24/25 incurred costs as economic and efficient. DCC stated that it would be sensible for Ofgem to revisit its proposed forecast unacceptable costs for RY25/26 as that budget has been agreed with REC Board. This approach would promote stakeholder certainty and reduce regulatory burden.

6.6 DCC disagreed with our consultation proposal that there is future cost uncertainty as DCC has the Licence obligation to deliver the switching service on behalf of industry and will therefore be expected to incur a similar cost profile for future years. DCC requested that Ofgem reconsiders its position to disallow the forecast costs for RY26/27 as this budget has been agreed with the REC Board.

**Reasons for our decision**

6.7 Since RECCO has approved the RY25/26 switching forecast cost, we have decided to revise our consultation proposal to allow the RY25/26 cost.

6.8 We have reviewed DCC's response and acknowledged that RECCo is responsible for approving the switching forecasts cost budget for DCC. Since the RY26/27 forecast costs have not yet been reviewed by RECCo, we cannot determine if they are economic or efficient. Therefore, we have decided to exclude this cost from Allowed Revenue until RECCo approval is obtained, at which point the exclusion will be reconsidered.

## Decision DCC Price Control: Regulatory Year 24/25

### Q21) Switching Performance

**Proposal at consultation:** *Disallow all DCC's margin associated with system performance for RY24/25 under the SIR and award a customer engagement score of 2.25 out of 3, corresponding to a reduction of DCC's margin of £0.186m.*

**Decision:** *Our consultation proposal customer engagement score of 2.25 out of 3 remains unchanged but corrected to a margin reduction of £0.193m based on the RIGs.*

#### Context

- 6.9 From 1 April 2023, DCC has its Switching baseline margin incentivised against the SIR. We published our decision to introduce the SIR in January 2023<sup>31</sup>.
- 6.10 The SIR places 80% of DCC's switching margin at risk against its operational performance and 20% against customer engagement in its roles as provider of the Central Switching Service (CSS), the Certificate Authority (CA) and the Switching Operator (SO) services.
- 6.11 During the RY DCC collects its entire allowed margin from RECCo, alongside its costs through the monthly CRS Provider invoicing process. DCC may incur Performance Charges as determined by its performance against its service levels under the REC CRS Provider Performance Charges framework. This process is governed entirely within the REC.
- 6.12 Following the end of the RY, DCC must submit information as specified by the RIGs, which reports the values of Performance Charges it bore as a result of missed service levels throughout the RY. As provided for in the Retail Energy Code (REC), DCC may also submit evidence to the Authority concerning any missed service levels it considers were not necessarily within its control.
- 6.13 Alongside this submission, Ofgem takes a submission from both the REC Code Manager and DCC with regard to DCC's customer engagement performance. Further details can be provided in the SIR Guidance<sup>32</sup>.
- 6.14 DCC receives a margin for the Switching Programme, which is subject to a separate performance regime. For RY24/25, this margin is £0.227m, with an 80/20 split between Operational Performance (£0.186m) and customer engagement performance (£0.045m).

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<sup>31</sup> Our January 2023 decision to establish the Switching Incentive Regime is accessible at: [decision-policy-and-statutory-consultation-establish-dcc-switching-incentive-regime](#)

<sup>32</sup> Switching Incentive Guidance: [DCC Switching Incentive Regime - Direction and guidance](#)

## Decision DCC Price Control: Regulatory Year 24/25

### Respondents' views (other than DCC)

6.15 Five respondents did not have a view on our consultation proposal.

### DCC's view

- 6.16 DCC disagreed with our consultation proposal to disallow all the operational performance element of DCC's margin under the Switching Incentive Regime (SIR). DCC reiterated its concerns that it was a poorly designed incentive regime and that includes unattainable measures unless significant investment is made, as well as measures that are not within DCC's full control.
- 6.17 DCC expressed that it was comfortable with our consultation proposal to award an overall score of 2.25 out of 3 for the switching customer engagement incentive component of the SIR. However, DCC believed that there were notable improvements that should be reflected in taking **account of customer views** and **providing timely and quality information questions** over the course of RY24/25. DCC suggested that these improvements warrant a revised score of 3 out of 3.

### Reasons for our decision

- 6.18 RECCo reported 0% service levels achieved (as DCC must have achieved 100%), therefore we made the decision to have all the performance margin deducted.
- 6.19 To inform the scoring for the customer engagement incentive, we received submission from both DCC and REC on DCC's performance during RY24/25 against the criteria set out in the SIR Guidance. We considered both the submissions and evidence provided to assess DCC's customer engagement performance in RY24/25.
- 6.20 While we note DCC improvements in taking account of customer views and providing timely and quality information questions. Feedback from REC parties acknowledged DCC ongoing engagement with stakeholders through consultations and forums. However, limited participation particularly in the Switching Operator Forum has affected the quality of input received. Stakeholder views on DCC's communication are mixed. While some reported positive experiences with responsiveness and transparency, others identified gaps in clarity and engagement. Customers have suggested more regular updates and earlier notice of consultation topics to support more informed feedback.
- 6.21 We have reviewed DCC's response and considered feedback from REC and customers on DCC performance. We will maintain our consultation position, awarding 2.25 out of 3 for customer engagement. This results in a margin reduction of £0.011m, corrected from £0.004m in the consultation based on the RIGs, and a margin reduction of £0.182m for system performance. The total margin reduction is £0.193m.

**Decision DCC Price Control: Regulatory Year 24/25****Appendix 1. Determination of Allowed Revenue****Table A1: Allowed Revenue for each remaining RY of the Licence term (£m 24/25)**

	<b>RY24/25</b>	<b>RY25/26</b>	<b>RY26/27</b>
<b>Allowed Revenues</b>			
Current year Allowed Revenue (excludes any performance adjustments)	721.079	891.854	919.117
Previous year Allowed Revenue	648.643	639.371	528.300
LABP Allowed Revenue	314.873	133.176	0.000
<b>Total Disallowances</b>	<b>11.245</b>	<b>26.193</b>	<b>53.874</b>
<b>External Cost Disallowances</b>	0.000	0.000	0.000
SMETS1 Overage charges	0.000	0.000	0.000
DCO delayed benefits	3.188	2.210	0.000
S1_DCOa project costs	0.000	2.094	1.447
S1_DCOb project costs	0.000	1.713	0.981
S1_DCOc project costs	0.668	0.900	0.000
TAF	0.484	0.000	0.000
DSP leadership funding	0.916	0.893	4.046
SMETS1 FOC	0.208	0.000	0.000
ANSO delayed benefits	0.000	11.240	17.286
DSP SMETS1 team	0.024	0.000	0.000
Cloud hosting for Device Manager	0.000	0.000	0.000
Switching External Costs	0.000	0.000	11.243
<b>Subtotal - External Costs Disallowances including Switching Disallowances</b>	<b>5.488</b>	<b>19.050</b>	<b>35.003</b>

**Decision DCC Price Control: Regulatory Year 24/25**

	<b>RY24/25</b>	<b>RY25/26</b>	<b>RY26/27</b>
<b>Subtotal - External Costs Disallowances excluding Switching Disallowances</b>	<b>5.488</b>	<b>19.050</b>	<b>23.760</b>
<b>Internal Cost Disallowances</b>	0.000	0.000	0.000
PR - Operations - Lack of justification	0.601	3.440	5.387
PR - DSMS/FSM - Lack of justification	1.260	0.781	0.000
PR - Corporate Management - Forecast costs	0.000	1.459	1.869
PR - Commercial - Forecast costs	0.000	0.513	0.554
PR - Design and Assurance - Forecast costs	0.000	0.000	1.352
PR - Programme (Service Delivery) - Forecast costs	0.000	0.000	3.469
PR - Security - Forecast costs	0.000	0.000	1.044
PR - Future Connectivity - Forecast costs	0.000	0.635	0.668
ES - Commercial - Business Accuracy Programme (BAP) Costs	0.447	0.000	0.000
ES - Finance - Business Accuracy Programme (BAP) Costs	0.888	0.000	0.000
ES - Network Evolution - Outsourcing of BAU activities	0.732	0.000	0.000
ES - Design and Assurance - Outsourcing of BAU activities	0.206	0.000	0.000
ES - Operations - Outsourcing of BAU activities	0.074	0.000	0.000
ES - Finance - Outsourcing of BAU activities	0.026	0.000	0.000
ES - Corporate Management - Outsourcing of BAU activities	0.650	0.068	0.534
ES - Commercial - Outsourcing of BAU activities	0.013	0.000	0.000
ES - Commercial - Business Accuracy Programme (BAP)	0.124	0.000	0.000
Contractor Costs (Benchmarking)	0.450	0.000	0.000
Shared Service Charge	0.288	0.247	0.639

**Decision DCC Price Control: Regulatory Year 24/25**

	<b>RY24/25</b>	<b>RY25/26</b>	<b>RY26/27</b>
Switching Internal Costs	0.000	0.000	3.354
<b>Subtotal - Internal Costs Disallowances including Switching Disallowances</b>	<b>5.757</b>	<b>7.143</b>	<b>18.870</b>
<b>Subtotal - Internal Cost Disallowances excluding Switching Disallowances</b>	<b>5.757</b>	<b>7.143</b>	<b>15.516</b>
<b>Performance Adjustments</b>	<b>-1.480</b>	<b>0.000</b>	<b>0.000</b>
OPR	-1.288	0.000	0.000
Switching Incentive Regime (SIR)	-0.193	0.000	0.000
SMETS1 BMPPA (residual correction from RY22/23)	0.002	0.000	0.000
<b>Baseline Margin Adjustment &amp; External Contract Gain Share</b>	<b>0.000</b>	<b>0.000</b>	<b>19.920</b>
Baseline Margin Adjustment (BMA)	0.000	0.000	14.983
External Contract Gain Share (ECGS)	0.000	0.000	4.937
<b>Decision Allowed Revenue (excl. BMA &amp; ECGS)</b>	<b>708.354</b>	<b>865.662</b>	<b>865.243</b>
<b>Decision Allowed Revenue (incl. BMA &amp; ECGS)</b>	<b>708.354</b>	<b>865.662</b>	<b>885.164</b>

**Table A2: Allowed Revenue across the entire Licence term (£m 24/25)**

	<b>Licence Term</b>
<b>Allowed Revenues</b>	
Current year Allowed Revenue (excludes any performance adjustments)	6852.892
Previous year Allowed Revenue	6137.156
LABP Allowed Revenue	2588.479
<b>Total Disallowances</b>	<b>91.312</b>
<b>External Cost Disallowances</b>	<b>0.000</b>

**Decision DCC Price Control: Regulatory Year 24/25**

	<b>Licence Term</b>
SMETS1 Overage charges	0.000
DCO delayed benefits	5.398
S1_DCOa project costs	3.541
S1_DCOb project costs	2.694
S1_DCOc project costs	1.568
TAF	0.484
DSP leadership funding	5.855
SMETS1 FOC	0.208
ANSO delayed benefits	28.526
DSP SMETS1 team	0.024
Cloud hosting for Device Manager	0.000
Switching External Costs	11.243
<b>Subtotal - External Costs Disallowances including Switching Disallowances</b>	<b>59.541</b>
<b>Subtotal - External Costs Disallowances excluding Switching Disallowances</b>	<b>48.298</b>
<b>Internal Cost Disallowances</b>	<b>0.000</b>
PR - Operations - Lack of justification	9.428
PR - DSMS/FSM - Lack of justification	2.041
PR - Corporate Management - Forecast costs	3.328
PR - Commercial - Forecast costs	1.067
PR - Design and Assurance - Forecast costs	1.352
PR - Programme (Service Delivery) - Forecast costs	3.469

**Decision DCC Price Control: Regulatory Year 24/25**

	<b>Licence Term</b>
PR - Security - Forecast costs	1.044
PR - Future Connectivity - Forecast costs	1.303
ES - Commercial - Business Accuracy Programme (BAP) Costs	0.447
ES - Finance - Business Accuracy Programme (BAP) Costs	0.888
ES - Network Evolution - Outsourcing of BAU activities	0.732
ES - Design and Assurance - Outsourcing of BAU activities	0.206
ES - Operations - Outsourcing of BAU activities	0.074
ES - Finance - Outsourcing of BAU activities	0.026
ES - Corporate Management - Outsourcing of BAU activities	1.252
ES - Commercial - Outsourcing of BAU activities	0.013
ES - Commercial - Business Accuracy Programme (BAP)	0.124
Contractor Costs (Benchmarking)	0.450
Shared Service Charge	1.174
Switching Internal Costs	3.354
<b>Subtotal - Internal Costs Disallowances including Switching Disallowances</b>	<b>31.770</b>
<b>Subtotal - Internal Cost Disallowances excluding Switching Disallowances</b>	<b>28.416</b>
<b>Performance Adjustments</b>	<b>-1.480</b>
OPR	-1.288
Switching Incentive Regime (SIR)	-0.193
SMETS1 BMPPA (residual correction from RY22/23)	0.002
<b>Baseline Margin Adjustment &amp; External Contract Gain Share</b>	<b>19.920</b>

**Decision DCC Price Control: Regulatory Year 24/25**

	<b>Licence Term</b>
Baseline Margin Adjustment (BMA)	14.983
External Contract Gain Share (ECGS)	4.937
<b>Decision Allowed Revenue (excl. BMA &amp; ECGS)</b>	6760.101
<b>Decision Allowed Revenue (incl. BMA &amp; ECGS)</b>	6780.021