

# Consultation

## Determination of DCC's Required Revenue: November 2026 to March 2028

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We are consulting on our proposals for DCC's Required Revenue in the first *ex-ante* Price Control Period from November 2026 to March 2028. We welcome responses from a wide range of parties, including DCC and its customers (energy suppliers, networks, innovators and other users), industry bodies, consumer organisations and any other persons with interest in smart metering.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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## **Consultation** Determination of DCC’s Required Revenue: November 2026 to March 2028

### Foreword

This consultation on the determination of DCC’s Required Revenue in the period November 2026 to March 2028 marks the transition from an “*ex-post*” form of price control to a forward-looking “*ex-ante*” framework and represents an opportunity for a reset in thinking about DCC cost control. The objective of this transition to an “*ex-ante*” regime is to improve cost predictability, transparency and value for money for consumers by placing focus on planning, prioritisation and transparency before costs are incurred.

As set out in earlier consultations on the design of the new *ex-ante* regulation,<sup>1</sup> the framework is intended to:

- Provide clearer upfront signals on what costs are likely to be supported
- Strengthen incentives to define scope, assess options and manage delivery risk early
- Reduce reliance on retrospective challenge once costs have already been incurred

We recognise that this first *ex-ante* period starts from a legacy baseline. DCC enters this period with in-flight change programmes, established long-term contractual commitments and operational demands of Licence transition. In these circumstances, some costs are to an extent unavoidable in the short term.

Our approach in this determination takes this into account. Where costs are contractually committed or required to maintain secure and reliable services, we have sought to provide stability and certainty by proposing to allow them; this is however subject to expectations around delivery and value for money, including costs associated with managing transition and dual running while new capabilities are brought into service.

#### **Cost controllability and expectations**

In our assessment, we have distinguished between:

- Costs that are largely outside DCC’s control in the short term, such as existing contractual obligations, regulated security requirements and unavoidable periods of dual running
- Costs that are influenceable through delivery choices, governance arrangements and phasing decisions

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<sup>1</sup> Ofgem (2024), DCC Review Phase 2: Determination of Allowed Revenue.  
[www.ofgem.gov.uk/consultation/dcc-review-phase-2-determination-allowed-revenue](http://www.ofgem.gov.uk/consultation/dcc-review-phase-2-determination-allowed-revenue)

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- Costs that are discretionary in nature, where scope, timing or necessity can be shaped through clearer prioritisation and justification

This distinction underpins our proposals in this consultation and helps explain why some costs are proposed to be allowed in full in this first *ex-ante* period, while others are subject to tighter scrutiny.

As the *ex-ante* framework settles in, and as key transition programmes progress towards steady-state operation, we expect future Business Plans to demonstrate:

- Increasing maturity and clarity of cost forecasts
- A clearer separation between BAU, in-flight delivery and discretionary change
- Reduced reliance on broad or uncommitted change allowances as systems stabilise and legacy platforms are exited
- Clearer articulation of how upfront investment is expected to feed into longer-term efficiencies and consumer benefits

This consultation reflects the direction of travel that the framework is intended to support. It is intended to provide certainty where appropriate, and a shared understanding of how costs will be assessed as the system moves beyond transition and into steadier operation.

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## Executive Summary

The Data Communications Company (DCC) is the central communications body licensed to provide the communications, data systems, security, and management services required to support the smart metering implementation programme. DCC plays a critical role in enabling the effective rollout and ongoing operation of smart metering across the GB energy market. As DCC operates as a monopoly service provider, it is essential that robust cost controls and appropriate incentives are in place to ensure that services are delivered efficiently and to a high standard for customers, including energy suppliers and network companies.

Through the Price Control framework, Ofgem seeks to ensure that DCC continues to be able to make the required investments to maintain a resilient and high-quality service, while also protecting consumers by ensuring that costs are economic and efficient. This consultation sets out Ofgem’s draft determinations on DCC’s revenues in the first “*ex-ante*” Price Control Period.

More broadly, we are proposing to put in place a transitional value for money (VfM) framework for the first Price Control Period (November 2026 to March 2028). This will act as the foundation for a more enduring VfM framework that we intend to apply from the second Price Control Period starting in April 2028. Key features will include: upfront initiatives aimed at defining clear strategic and operational expectations for DCC, regulatory tools, to track performance and ensure adequate transparency, and regulatory incentives to drive strong performance and good outcomes in terms of service quality and cost efficiency – further details of these are set out in Chapter 1 (“Holding DCC to account”).

**DCC submitted a total Required Revenue (ReqR) of £1,161.5m over the 17-month period from November 2026 to March 2028.** Overall, we found DCC’s submission to be satisfactory to explain most, but not all, of the proposed ReqR. In particular, the submission lacked details and evidence around Internal Costs and forecasts for change projects. DCC also resubmitted its view of the change pipeline projects in view of updated assumptions. We had to ask a number of clarification questions to be able to formulate our positions, to which DCC responded in full.

Following our analysis of DCC’s submission, further evidence and consideration of the Customer Challenge Group (CCG) report, pursuant to Condition 24 Part A, **we propose to set the ReqR for the first Price Control Period at £1,091.4m**, split between **£321.0m in the First Regulatory Year** (5 months) and **£770.4m in RY27/28** (12 months). This is a **downward adjustment of c.£70.1m** compared to DCC’s submission. The areas we are minded to reduce the proposed ReqR include: SMETS1 ANSO, re-procurement of ECoS and Switching contracts, Future System Management, Licence Renewal activity, and External Services. Our proposals are in chapter 3, 4 and

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**5. Our proposal represents our current best estimate of likely economic and efficient costs based on the evidence made available to us.** We expect DCC to act in accordance with its obligations under the Licence, so that costs, when they are incurred, are incurred in an economic and efficient manner.

**We propose to ringfence portions of the ReqR to set budgets for defined areas of External Costs (“Service Families”), specified Volume-Driven Costs, Pass-Through Costs, innovation fund and individual change projects/programmes** pursuant to Part B of Licence Condition 24. Consistent with our conclusions on the design of the *ex-ante* framework,<sup>2</sup> this will ensure that DCC can continue to deliver its Mandatory Business, provide a degree of flexibility within each defined area, whilst mitigating the risk of overspend and undue cross-subsidy. By ringfencing individual change projects and programmes within the Service Families, we intend to allow DCC to progress with work where the need is known but costs are uncertain. The summary of the ringfenced costs is in Appendix 1.

**We further propose to direct that drivers of Volume-Driven Costs, Pass-Through Costs and costs arising from contractual indexation are approved as Drivers for the purposes of Automatic Adjustment uncertainty mechanism** under Licence Condition 24 Part C. Although DCC is responsible for the underlying contractual arrangements, we recognise that the impact of certain drivers is outside DCC’s control. The effect of this proposal would be that an automatic adjustment of DCC’s revenue up or down in response to the effect of the Drivers, if the ReqR deviates from the approved forecast. The details of our proposal are laid out in chapter 4.

This Price Control is taking place during the Handover Period from DCC1 to DCC2. We previously recognised that the outgoing licensee (Smart DCC Ltd) will have to incur costs to meet its residual mandatory activities after the business transfer to the new Licensee (DCC2 Ltd).<sup>3</sup> As such, **we propose to direct, pursuant to Licence Condition 24.17(f) that efficient DCC1 costs, incurred post-Transfer Date, are recognised as Pass-Through Costs within DCC’s Required Revenue.** This arrangement mirrors the arrangement in place for DCC2’s handover costs incurred pre-Transfer Date.

This consultation sets out Ofgem’s preliminary views on DCC’s forecast costs, areas of efficiency challenge, and aspects of the submission where further evidence is required. The figures presented in this document, including DCC’s total forecast costs, Internal, External and Pass-Through Cost breakdowns, and any proposed adjustments, are indicative and subject to consultation.

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

<sup>3</sup> Ofgem (2025), Financing arrangements for DCC1 and DCC2 during Business Handover. [www.ofgem.gov.uk/consultation/financing-arrangements-dcc1-and-dcc2-during-business-handover](http://www.ofgem.gov.uk/consultation/financing-arrangements-dcc1-and-dcc2-during-business-handover)

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We are consulting on these positions to seek views from all interested parties and to provide DCC with the opportunity to submit further information and justification where appropriate. Where robust and convincing representation is provided through consultation responses, we may revise our views at the decision stage. Any costs that are ultimately judged not to be likely to occur or be economic and efficient may be excluded from the calculation of the Required Revenue or addressed through alternative regulatory mechanisms under the Licence.

Overall, this consultation reflects Ofgem's intention to implement a proportionate, forward-looking, and collaborative Price Control regime that supports DCC in delivering its critical role efficiently, while providing appropriate protection for consumers and clear incentives for sustained cost discipline and service quality.

We welcome your views and will consider them when we make our decision. Please send responses to Jakub Komarek at [DCCregulation@ofgem.gov.uk](mailto:DCCregulation@ofgem.gov.uk) by 14 July 2026. We intend to publish our decision by 30 September 2026.

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### 1. Introduction

This section sets out the purpose of our consultation, a summary of the questions asked in this consultation and the process for the consultation.

#### Context of DCC Review & note on terminology

- 1.1 The term “DCC” in its general sense refers to the holder of the Smart Meter Communication Licence (SMCL), who carries on the Authorised Business. For the purposes of this consultation, in the context of the current transition from one licensee to another, this means:
- Smart DCC Ltd, or “DCC1”, pre-Transfer Date
  - DCC2 Ltd, or “DCC2”, post-Transfer Date
- 1.2 Smart DCC Ltd (DCC1) has been the holder of the SMCL since 2013. DCC1’s licence is due to expire in September 2027. Ahead of this date, Ofgem has carried out a programme of work (“DCC Review”) to:
- Review and revise the regulatory regime to be put in place under a new SMCL
  - Select and appoint a holder of this new SMCL
- 1.3 From 2021 to 2025, Ofgem developed a new regulatory regime for DCC, which included a series of decisions to move to a not-for-profit model with majority independent governance and an upfront (“ex-ante”) form of cost control. This new regime is being implemented via a new SMCL. In 2025, Ofgem ran a competitive tender to select the holder of the new SMCL. On 14 April 2026, Ofgem granted the new SMCL to DCC2 Ltd, a wholly owned subsidiary of the Smart Energy Code Company (SECCo) Ltd.
- 1.4 The responsibility for delivering Authorised Business under the SMCL will switch from DCC1 to DCC2 on Transfer Date, which has been designated by Ofgem to occur on 2 November 2026. **This consultation relates to a period post-Transfer Date and DCC2.** This document is therefore drafted from the perspective of the new Licensee; therefore the following terms should be interpreted as follows:
- “Licensee” and “DCC2” mean DCC2 Ltd, a wholly owned subsidiary of the Smart Energy Code Company Ltd (SECCo)
  - “Licence” means the (new) Smart Meter Communication Licence, awarded by Ofgem to DCC2 Ltd on 14 April 2026
  - “Previous Licensee” and “DCC1” means Smart DCC Ltd, a wholly owned subsidiary of Capita Plc.

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- “Previous Licence” means the (first) Smart Meter Communication Licence, awarded by the Secretary of State to Smart DCC Ltd on 22 September 2013

1.5 All capitalised terms throughout this document are as defined in the Licence.

1.6 Furthermore, we also use the terms “the Authority” and “Ofgem”, and DESNZ and the Secretary of State (SoS), interchangeably.

## Process for determining DCC’s Required Revenue

1.7 The purpose of this consultation is to determine DCC2’s Required Revenue in the first Price Control Period. We are consulting on four main proposals:

- **To determine the total forecast, ie “Required Revenue” (Licence Condition 24.2) for the period from Transfer Date<sup>4</sup> to 31 March 2028**
- **To ringfence portions of the Required Revenue for specific purposes (Licence Condition 24.5)**
- **To approve drivers for Automatic Adjustments (Licence Condition 24.8) – for costs outside DCC’s direct control, incl. Volume-Driven Costs, Pass-Through Costs and indexation in External Service Provider contracts**
- **To designate DCC1’s post-Transfer Date costs as Pass-Through Costs within DCC2’s Required Revenue (Licence Condition 24.17(f)) and set a cap on them** – reciprocal arrangement to the one in place for DCC2’s set-up costs

1.8 Our assessment is based on the Business Plan and Price Control Information, prepared and submitted by DCC1 (under Conditions 34A and 34B of the Previous Licence) on behalf of DCC2. Together, these set out DCC1’s proposed Required Revenue for the first Price Control Period, along with qualitative and quantitative evidence and justifications. DCC1’s submission has been prepared in accordance with our published guidance:

- The *Business Plan Guidance* sets out the mandatory content and presentation of the Business Plan, as well as the principles, methods of assessment, and types of criteria that the Authority is likely to apply to determine whether costs would be economically and efficiently incurred. The BPG is maintained under Conditions 22 Part C<sup>5</sup> and 24 Part E

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<sup>4</sup> Designated by Ofgem under Condition 43 of the Previous Licence to occur on 2 November 2026

<sup>5</sup> The first BPG was issued under Condition 34A Part C of the Previous Licence. See Ofgem (2025), Business Plan Guidance. [www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance](https://www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance)

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- The *Regulatory Instructions and Guidance (RIGs)* comprise templates in an MS Excel format to be used for the submission of the SL Price Control Information, and an accompanying guidance document setting out instructions on how to fill in the data templates. The RIGs are maintained under Condition 23 Part B<sup>6</sup>
- 1.9 Only costs which are both **likely to be incurred** and incurred **economically and efficiently** can be included in the calculation of the Required Revenue. The Licence and the guidance documents put the burden on DCC to justify its proposed costs as likely to be incurred and as economic and efficient.
- 1.10 Given this cost control is set on a forward-looking basis, we understand that it may be challenging for DCC to accurately predict all costs for the full period. For areas of uncertainty, in line with our guidance, DCC should set out the portion of costs which are certain, which are uncertain, propose a revenue and provide detailed assumptions and evidence that justify the proposal.
- 1.11 In advance of submitting the final Business Plan to Ofgem, DCC1 was required to Consult with a newly created Customer Challenge Group (CCG). DCC1 submitted a draft Business Plan to the CCG in September 2025, who scrutinised it throughout autumn 2025 and provided feedback to DCC ahead of the final submission deadline in December 2025.
- 1.12 The CCG is a sub-committee under the Smart Energy Code (SEC), and is made up of representatives from suppliers, networks, SEC and consumers. The CCG operates under the Terms of Reference issued by Ofgem.<sup>7</sup>
- 1.13 DCC submitted its final Business Plan in December 2025.<sup>8</sup> The CCG submitted its report to Ofgem in February 2026.<sup>9</sup>
- 1.14 The CCG report concluded that DCC’s final Business Plan was “sufficient to maintain essential operations” but was unable to assure overall value for money. The CCG acknowledged that the final Business Plan represented a material improvement over the draft Business Plan. It welcomed the direction of travel under DCC’s new leadership, highlighting strengthened contract and risk

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<sup>6</sup> The first RIGs were issued under Condition 34B Part B of the Previous Licence.

See Ofgem (2025), Regulatory Instructions and Guidance (Successor Licensee).

[www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee](http://www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee)

<sup>7</sup> Ofgem (2025), Terms of Reference for Customer Challenge Group.

[www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance](http://www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance)

<sup>8</sup> The published version of DCC’s final Business Plan is available at:

[dcc-business-plan-final-1-nov-2026-31-mar-2028-redacted-v2.pdf](http://dcc-business-plan-final-1-nov-2026-31-mar-2028-redacted-v2.pdf)

<sup>9</sup> The published version of the CCG report is available at:

<https://smartenergycodecompany.co.uk/customer-challenge-group/>

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management and Internal Cost efficiencies. However, it also set out a number of concerns, including:

- Lack of a clear organisational Target Operating Model
- An absence of clear measures of success, making it difficult to assess the performance or value for money
- Over-emphasis on activity outside of DCC's core deliverables
- Lack of robust, repeatable processes and policies in place for customer engagement as part of its business-as-usual activities
- Lack of evidence that DCC is managing its contracts as efficiently as it can; eg no clear feedback loop between procurement and contract/service management functions within the organisation

1.15 The CCG report recommended that Ofgem focus on assurance that:

- External Costs (80% of total spend) are being managed by competent and capable functions within the DCC; and
- Internal Costs are based on an appropriate structure, which is benchmarked not only in terms of remuneration, but also in terms of team size and shape, spans, and numbers of senior personnel

1.16 We have drawn on the CCG report in our assessment of DCC's submission, including by asking further targeted questions in areas highlighted by the CCG.

## **DCC's cost structure**

1.17 DCC's cost submission is built around three types of costs:

- External Costs = costs incurred through contracts with External Service Providers delivering Fundamental Service Capability (FSC),<sup>10</sup> ie the key communications and data services underpinning the smart meter network
- Internal Costs = costs incurred by DCC for own operations, including staff costs, corporate costs and External Services
- Pass-Through Costs = industry costs outside DCC's control

1.18 External Costs are reported via Service Families (SF). SFs group together contracts delivering a common functionality or a programme. Each SF contains at least one FSC contract and operates with a ringfenced budget which includes the

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<sup>10</sup> For details of FSC and list of FSC contracts, see Schedule 1 of the Licence

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costs of the FSC contracts and related non-resource External Services.<sup>11</sup> Separate from the individual SFs and their budgets sit “volume-driven” External Costs. Although DCC has control over the underlying contractual arrangements, the “Volume-driven” costs themselves are impacted by factors outside DCC’s direct control – for example, network demand or comms hub orders.

- 1.19 Internal Costs are reported via Internal Functions, divided between “Service Delivery Overheads” and “Corporate Overheads”, and further split by General Ledger codes. Resource and resource-related Internal Costs are fungible, with the exception of a small, ringfenced innovation fund for Permitted Business.
- 1.20 DCC must operate within its approved Required Revenue, including any ringfenced budgets. However, there are two main uncertainty mechanisms for adjustment of the Required Revenue if circumstances change:
- Automatic Adjustments<sup>12</sup> require DCC to amend its revenue (up or down) if costs deviate from an approved forecast – this mechanism is applied to Volume-Driven Costs, Pass-Through Costs and contractual indexation
  - Reopeners (annual or emergency)<sup>13</sup> allow DCC to apply for a change to its revenue, which Ofgem may approve based on DCC’s application
- 1.21 Figure 1.1 below provides a visualisation of DCC’s cost structure. Note that although each SF constitutes its own ringfenced budget, individual SFs contain specific projects with their own ringfenced budgets – subject to our proposals in this consultation.

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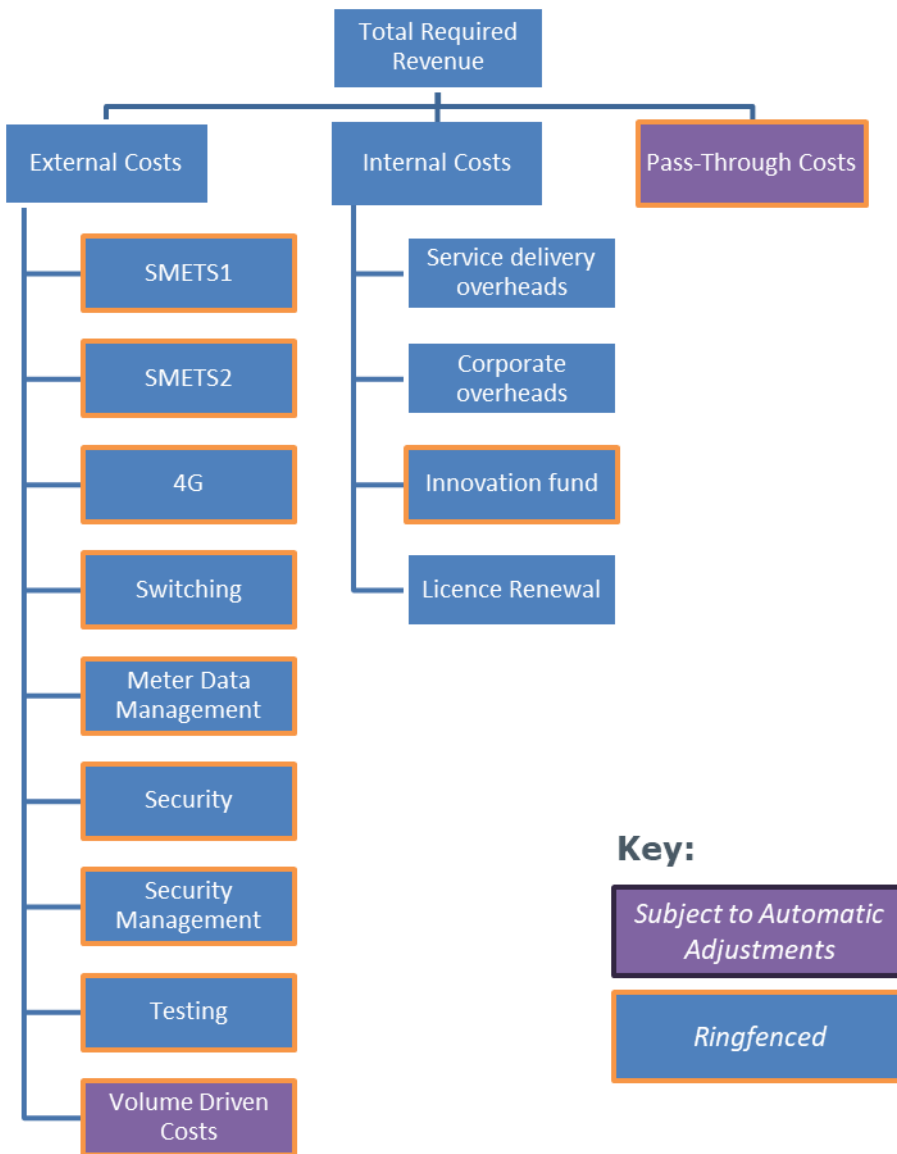
<sup>11</sup> Non-resource External Services include support services, primarily of technical nature, procured from External Service Providers, but which do not meet the definition of Fundamental Service Capability.

<sup>12</sup> Under LC 24 Part C

<sup>13</sup> Under LC 24 Part D

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**Figure 1.1 Structure of the Required Revenue**



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## Overview of this document

1.22 The content of each subsequent chapter of this document is summarised below, along with the questions to which we are seeking your response.

### Chapter 2: DCC's summary of the first Price Control Period

1.23 This section of the document summarises DCC's view of the first *ex-ante* period, including the focus of what DCC wants to achieve, its proposed costs and a summary of challenges DCC identified with transitioning to the *ex-ante* framework.

### Chapter 3: External Costs

1.24 External Costs (incurred via DCC's FSC contracts) make up roughly 80% of DCC's proposed Required Revenue for November 2026 to March 2028 and are forecast to increase from £518.6m incurred in RY24/25 to £653.3m by RY27/28. Chapter 3 sets out proposal on DCC's External Costs per SF (except Volume-Driven Costs).

#### Consultation questions

- Q1. What are your views on the proposed Required Revenue for the SMETS1 Service Family? Do you agree with our proposal to exclude from it ANSO run costs after November 2026?
- Q2. What are your views on the proposed Required Revenue for the SMETS2 LRR/2G/3G Service Family? Do you agree with our proposal to approve but ringfence a portion of the revenue for an extension of the CSP-N contract?
- Q3. What are your views on the proposed Required Revenue for the SMETS2 (4G) Service Family? Do you agree with our proposal to approve but individually ringfence 4G & Beyond and Device Manager re-procurement costs?
- Q4. What are your views on the proposed Required Revenue for the CRS (Switching) Service Family? Do you agree that amendments to the Required Revenue in RY27/28 should be subject to the Automatic Adjustment Uncertainty Mechanism based on the RECCo budget?
- Q5. What are your views on the proposed Required Revenue for the Meter Data Management Service Family? Do you agree with our proposal regarding the ringfencing of the DSP programme contingency and funding for Enterprise System and Service Integrator?
- Q6. What are your views on the proposed Required Revenue for the Privacy & Security Service Family? Do you agree with our proposal to amend the Required Revenue for ECoS re-procurement in line with the Strategic Outline Case preferred options and ringfence it? Do you agree with our proposal to ringfence a portion of the Required Revenue for the Post Quantum Cryptography project?

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- Q7. What are your views on the proposed Required Revenue for the Service Management Service Family? Do you agree with our proposal to amend the Required Revenue for Future System Management in line with the Final Business Case submitted for the FSM procurement? Do you agree with our proposal to approve, but individually ringfence the costs of the change programmes within this Service Family?
- Q8. What are your views on the proposed Required Revenue for the Testing Services Service Family?
- Q9. What are your views on our ringfencing proposals set out within Appendix 1?

**Chapter 4: Costs subject to Automatic Adjustments**

- 1.25 Costs subject to Automatic Adjustment apply where costs are pre-defined, uncertain and outside of DCC's control, where changes can be reflected through a pre-defined and transparent driver. The purpose of this is to allow the Required Revenue to be adjusted automatically, to improve outcomes relative to fixed allowances and/or re-openers.

**Consultation questions:**

- Q10. What are your views on the proposed Required Revenue for Volume-Driven Costs? Do you agree with our proposal to adjust the ReqR for SMETS1 network charges on the basis of a more recent forecast?
- Q11. Do you agree with our approach to Automatic Adjustment and the costs subject to this uncertainty mechanism?

**Chapter 5: Internal Costs**

- 1.26 Internal Costs primarily consist of DCC's overheads, including payroll, accommodation, and IT services. Internal costs account for roughly 15% of DCC's proposed Required Revenue for November 2026 to March 2028. DCC forecasted that Internal Costs will reduce from £129.7m in RY24/25 to £118.9m in RY27/28. This chapter sets out our proposal on DCC's Internal Costs, including Licence Renewal costs.

**Consultation questions:**

- Q12. What are your views on the proposed Required Revenue for Service Delivery and Corporate Overhead functions?
- Q13. Do you agree with our proposal to reduce the proposed Required Revenue for External and IT Services by £1.325m?
- Q14. What are your views on DCC's approach to benchmarking of staff remuneration for both contractors and permanent staff? What are your views on (i) the appropriateness of using CPI as the basis for indexation for benchmarking,

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including alternatives such as CPIH or wage indices, and (ii) whether a 3% uplift appropriately reflects expected inflation?

Q15. What are your views on the proposed Required Revenue for Innovation Fund?

Q16. What are your views on our proposals to adjust the Required Revenue for Licence Renewal?

## Holding DCC to account

1.27 We are keen to ensure that the transition to an *ex-ante* Price Control framework delivers improved outcomes for the industry and consumers, both in terms of long-term cost efficiencies and service quality. To enable this, we are proposing to put in place a transitional Value for Money (VfM) framework for the first *ex-ante* price control period (November 2026 to March 2028). This transitional VfM framework will act as the foundation for a more enduring VfM framework that we intend to apply from the second Price Control Period starting 1 April 2028 onwards.

1.28 Our proposed transitional VfM framework is based on the following strategic pillars:

- Upfront initiatives aimed at defining clear strategic and operational expectations for DCC
- Regulatory tools to track performance and ensure adequate transparency
- Regulatory incentives to drive strong performance and good outcomes in terms of service quality and cost efficiency

1.29 We provide further information on each of these elements below.

### Pillar 1: Upfront initiatives

1.30 The first element of our proposed transitional VFM framework involves a number of upfront initiatives that we expect DCC to proactively undertake and deliver during the first Price Control Period. These initiatives are aimed at defining clear strategic and operational expectations for DCC's performance and ensuring that there is a shared understanding of these expectations between all relevant parties, including Ofgem, DCC, the CCG, customers, suppliers and other stakeholders. Setting clear expectations would also support the regulatory incentives (both financial and reputational) to be applied in a robust and transparent manner.

1.31 **Business Strategy and Technology Roadmap (BSTR):** Under Part C of Licence Condition 5, we have introduced an obligation for the DCC to develop a BSTR by 31 July 2027. The BSTR will set out the high-level direction of DCC's regulated

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business activities and include, amongst other things, the outcomes that DCC seeks to achieve, the key activities, products and services that it will deliver and the type of technology that will be used in supporting that delivery. The BSTR should cover at least two Price Control periods, and take account of input from Ofgem, DESNZ and the wider industry.

- 1.32 **Refreshed Procurement Strategy:** As part of Part D of Licence Condition 10, we have introduced an obligation on DCC to develop a Procurement Strategy within 12 months of the Licence award. This Procurement Strategy must reflect the contents of the BSTR and any Public Interest Statement issued by the Secretary of State. In developing this Procurement Strategy, we expect DCC to review and take account of any lessons learnt from the experiences of the first Licence period (2013 to 2026) and put in place suitable procurement and contract management arrangements so that existing and new contracts achieve good outcomes and value for money. We expect DCC to proactively review this strategy at least once every year and make changes where necessary to ensure compliance and continuous improvement.
- 1.33 **Key Performance Indicators under the Operational Performance Regime (OPR):** As part of Part A of Licence Condition 21, we have introduced a requirement for DCC to report Key Performance Indicators (KPIs) in accordance with any OPR guidance provided by Ofgem. In developing these KPIs, DCC must consult with SEC and REC parties so that the dimensions of service performance being tracked by the KPIs reflect what its customers expect.
- 1.34 **Licence obligations and deliverables funded through the Price Control:** We will set our general expectations for DCC's regulated business through provisions in the Licence. Through our periodic Price Control reviews, we may also ringfence expenditure on some initiatives funded through the Price Control for specific purposes and set stretch targets to incentivise DCC's management to go further in finding efficiencies.

## Pillar 2: Monitoring and evaluation tools

- 1.35 We intend to use a number of regulatory tools to support our efforts to monitor and evaluate DCC's performance. These tools will provide transparency about DCC's performance and support our efforts to encourage and incentivise DCC's performance.
- 1.36 **Procurement and contract management audits:** In accordance with Part C of Licence Condition 21, we intend to appoint an independent and competent third party to carry out regular audits of DCC's performance in relation to procurement and contract management. We expect these audits to provide an assessment of whether DCC's procurement and contract management approach is consistent

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with its procurement strategy and represents good value for money. Where any gaps or areas for improvement are identified, we expect DCC to take necessary action to address those issues in a timely manner.

- 1.37 **Annual assessment of performance against KPIs:** In accordance with its obligations under Part A of Licence Condition 21, we expect DCC to monitor and report on its performance against its KPIs through a System Performance Report.
- 1.38 **Annual assessment of delivery against funded initiatives:** At the end of each Regulatory Year, we will review DCC's performance in delivering the projects or initiatives for which funding was provided through Price Control allowances.
- 1.39 **Customer satisfaction survey:** Part B of Licence Condition 21 requires DCC to undertake a customer satisfaction survey, which must be designed in accordance with a guidance issued by Ofgem. The first survey must be undertaken during the first *ex-ante* Price Control period and the results published on DCC's website.
- 1.40 **Business Plan quality assessment:** We will assess the quality of DCC's Business Plan to be submitted ahead of our Price Control reviews against the requirements set out in the Licence and our Business Plan Guidance. Our assessment will take account of the views of the Customer Challenge Group (CCG). The first Business Plan to be assessed under this framework will be the one relating to the second Price Control period commencing in April 2028 (with the final Business Plan for this period due to be submitted by 31 July 2027).

### Pillar 3: Regulatory incentives

- 1.41 We intend to use a combination of financial and reputational incentives to encourage DCC to deliver a high-quality service to its customers while achieving good value for money.
- 1.42 **Senior management remuneration:** The *ex-ante* regulatory framework does not include an allowance for profits and DCC2 is being operated as a not-for-profit entity. This means that there is no scope for traditional financial incentives to be applied to DCC2's equity owners. Instead, we will rely on financial incentives applied to DCC2's senior management to drive service quality improvements and cost efficiencies. DCC is required under its Licence to develop and implement a remuneration policy for its senior management that is linked to its performance. We intend to provide guidance on the contents of this remuneration policy.
- 1.43 **Annual performance and VFM reporting:** At the end of each Regulatory Year, we may publish a report setting out our assessment of DCC's performance, drawing on its performance against KPIs, the customer satisfaction survey results, cost management and performance against approved *ex ante* allowances, delivery of initiatives funded through the price control and any other relevant matters. We

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expect this report to act as a strong reputational incentive on DCC’s owners, its board and senior management.

**Enduring accountability framework**

1.44 We will work with the new DCC2 board and senior management in the coming months to develop an enduring regulatory framework for accountability that will build upon this transitional VfM framework. We intend to consult on our proposed approach in due course.

**Related publications**

<b>Document</b>	<b>Publication date</b>	<b>Link</b>
New Smart Meter Communication Licence	May 2026	<a href="http://www.ofgem.gov.uk/consultation/draft-new-smart-meter-communication-licence">www.ofgem.gov.uk/consultation/draft-new-smart-meter-communication-licence</a>
Regulatory Instructions and Guidance (Successor Licensee)	July 2025	<a href="http://www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee">www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee</a>
Terms of Reference for Customer Challenge Group and Business Plan Guidance	July 2025	<a href="http://www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance">www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance</a>
Modifications to the Smart Meter Communication Licence (ex-ante transition and licence closure)	July 2025	<a href="http://www.ofgem.gov.uk/decision/modifications-smart-meter-communication-licence-transition-ex-ante-cost-control-and-other-changes-required-licence-closure-decision">www.ofgem.gov.uk/decision/modifications-smart-meter-communication-licence-transition-ex-ante-cost-control-and-other-changes-required-licence-closure-decision</a>
Financing arrangements for DCC1 and DCC2 during Business Handover	October 2025	<a href="http://www.ofgem.gov.uk/consultation/financing-arrangements-dcc1-and-dcc2-during-business-handover">www.ofgem.gov.uk/consultation/financing-arrangements-dcc1-and-dcc2-during-business-handover</a>
DCC Review Phase 2: Determination of Allowed Revenue - conclusions	May 2025	<a href="http://www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions">www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions</a>

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## Timeline & next steps

- **Stage 1** Consultation open: **19 May 2026**
- **Stage 2** Consultation closes (awaiting decision). Deadline for responses: **14 July 2026**
- **Stage 3** Responses reviewed and published: **August 2026**
- **Stage 4** Consultation outcome (decision): **September 2026**

## How to respond

We want to hear from anyone interested in this consultation. Please send your response to the person or team named on the front page of this document.

We have asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

We will publish non-confidential responses on our website.

## Your response, data, and confidentiality

You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information. For example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations, or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will contact you to discuss which parts of the information in your response should be kept confidential and which can be published. We might ask for reasons why.

If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the United Kingdom's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 3.

If you wish to respond confidentially, we will keep your response confidential, but we will publish the number, but not the names, of confidential responses we receive. We

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will not link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

### **How to track the progress of a consultation**

- Find the web page for the call for input you would like to receive updates on.
- Click 'Get emails about this page', enter your email address and click 'Submit'.
- You will receive an email to notify you when it has changed status.
- A consultation has three stages: 'Open', 'Closed (awaiting decision)', and 'Closed (with decision)'.

### **Send us your feedback**

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

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

Please send your feedback to [stakeholders@ofgem.gov.uk](mailto:stakeholders@ofgem.gov.uk).

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## 2. DCC's summary of the first Price Control Period

This section provides a high-level summary of DCC's Business Plan. It is intended to give consultees an overview of DCC's stated priorities alongside a high-level view and description of costs between April 2024 and March 2028.

### DCC's summary

- 2.1 The first Price Control Period represents a transition in DCC's regulatory and operational framework. Moving from an *ex-post* to an *ex-ante* requires DCC to set out in advance its planned activities, costs and delivery commitments. This is intended to provide greater transparency and clarity to customers and stakeholders on how DCC will meet its Licence obligations.
- 2.2 DCC set out that its overarching focus during the period is to maintain stable operation of the smart metering network while progressing a transition towards a more flexible, efficient and future-proof system. DCC sought to emphasise focus on delivering value for money, including via improving internal efficiency and managing external contracts more effectively, with a stated intention to improve cost transparency and reduce reliance on external consultants. Overall, DCC characterised the first Price Control Period as a transitional phase, with DCC balancing operational service with structural and technological change.
- 2.3 Table 2.1 presents a high-level view of DCC's proposed Required Revenue (ReqR) for the Price Control Period in comparison to previous Regulatory Years (RYs). The table shows the broad split of the ReqR across External, Internal, and Pass-Through Costs. Between RYs 24/25 and 27/28, DCC forecast a 26.0% increase in External Costs, an 8.3% decrease in Internal Costs and a 62.6% increase in Pass-Through costs.
- 2.4 Years 24/25 and 25/26<sup>14</sup> are presented under the existing *ex-post* regime. Year 26/27 represents a transition year, with costs split between the residual *ex-post* framework (until Transfer Date in November 2026) and the new *ex-ante* framework (post-Transfer date, from November 2026). From year 27/28, the model shifts fully to an *ex-ante* price control. The accompanying smaller table shows the split between in costs pre- and post-November 2026.

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<sup>14</sup> When referring to Years 24/25 and Years 25/26, this refers to the period 1 April to 31 March for both periods.

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**Table 2.1 DCC's proposed Required Revenue, including comparison to previous RYs**

£m	24/25 (ex-post)	25/26 (ex-post)	26/27 (split between ex-post and ex-ante)	27/28 (ex-ante)
External	518.552	583.320	628.902	653.318
Internal	129.662	120.186	127.695	118.925
Pass-Through	29.528	33.659	41.426	48.002
<b>Total</b>	<b>677.743</b>	<b>737.164</b>	<b>798.023</b>	<b>820.245</b>



£m	26/27 (ex-post)	26/27 (ex-ante)
External	359.714	269.188
Internal	73.635	54.059
Pass-Through	23.400	18.026
<b>Total</b>	<b>456.750</b>	<b>341.273</b>

## DCC-identified challenges

2.5 DCC also identified several challenges associated with the transition to the *ex-ante* Price Control regime, particularly:

- **Forecasting uncertainty and the evolving scope of activities:** The Business Plan notes that some cost forecasts inherently carry risk, and that there may be costs incurred for activities not included in the Business Plan where requirements are not sufficiently certain at the time of submission.
- **Delivering programmes with low-cost maturity and evolving requirements:** Certain change activities and projects are at an early stage of development, where the scope and potential costs are not fully defined.
- **External Cost drivers and factors outside its direct control,** including the impact of inflation, Pass-Through Costs, and volume-sensitive activities, which can introduce variability into its cost base. These factors make it harder to accurately forecast expenditure and necessitate the use of adjustment mechanisms to ensure allowances remain aligned with realised costs.

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### 3. External Costs

A core part of DCC's role is to manage contracts with External Service Providers responsible for delivering the communication & data service and the smart metering infrastructure. DCC is expected to follow its Licence obligations and best practice in contract procurement and management to derive value from these contracts, effectively manage change, and deliver value for money to its customers and consumers. External Costs make up approximately 80% of DCC's proposed Required Revenue during the Price Control Period (November 2026 to March 2028).

Whilst DCC's submission and evidence provided sufficient justifications for the majority of its External Costs, subject to further evidence, we propose to set the ReqR for External Costs at £858.051m, a reduction of £64.455m from DCC's proposal. Our proposed adjustments relate to: SMETS1 ANSO run costs, re-procurement of ECoS Application and Switching Service Providers, un-scoped work within the Future System Management, and forecasts of the SMETS1 Overage charges (this last item is discussed in a dedicated chapter 4).

#### **Consultation questions**

- Q1. What are your views on the proposed Required Revenue for the SMETS1 Service Family? Do you agree with our proposal to exclude from it ANSO run costs after November 2026?
- Q2. What are your views on the proposed Required Revenue for the SMETS2 LRR/2G/3G Service Family? Do you agree with our proposal to approve but ringfence a portion of the revenue for an extension of the CSP-N contract?
- Q3. What are your views on the proposed Required Revenue for the SMETS2 (4G) Service Family? Do you agree with our proposal to approve but individually ringfence 4G & Beyond and Device Manager re-procurement costs?
- Q4. What are your views on the proposed Required Revenue for the CRS (Switching) Service Family? Do you agree that amendments to the Required Revenue in RY27/28 should be subject to the Automatic Adjustment Uncertainty Mechanism based on the RECCo budget?
- Q5. What are your views on the proposed Required Revenue for the Meter Data Management Service Family? Do you agree with our proposal regarding the ringfencing of the DSP programme contingency and funding for Enterprise System and Service Integrator?
- Q6. What are your views on the proposed Required Revenue for the Privacy & Security Service Family? Do you agree with our proposal to amend the Required Revenue for ECoS re-procurement in line with the Strategic Outline Case preferred options and ringfence it? Do you agree with our proposal to ringfence a portion of the Required Revenue for the Post Quantum Cryptography project?

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- Q7. What are your views on the proposed Required Revenue for the Service Management Service Family? Do you agree with our proposal to amend the Required Revenue for Future System Management in line with the Final Business Case submitted for the FSM procurement? Do you agree with our proposal to approve, but individually ringfence the costs of the change programmes within this Service Family?
- Q8. What are your views on the proposed Required Revenue for the Testing Services Service Family?
- Q9. What are your views on our ringfencing proposals set out within Appendix 1?

## What are External Costs?

- 3.1 External Costs<sup>15</sup> form the majority of DCC's proposed Required Revenue (80% of total costs for November 2026 to March 2028). These costs are incurred to deliver Fundamental Service Capability procured from External Service Providers. DCC's key role is to effectively manage these providers under its contracts in order to derive value for money and quality service for its customers.
- 3.2 Table 3.1 below shows how External Costs are forecast by DCC to change from Regulatory Year 2024/2025 to Regulatory Year 2027/2028. It is worth noting that we have **not** assessed RY25/26 yet, as this is part of the *ex-post* Price Control framework.<sup>16</sup>

**Table 3.1: External Cost forecasts from RY24/25 to RY27/28, in [£m]**

RY	24/25	25/26	26/27	27/28
<b>Total External Costs</b>	518.6	583.3	628.9	653.3

- 3.3 External Costs are reported via Service Families (SF). The SF constitute large programmes, grouping together External Service Provider contracts which deliver a common functionality or service.<sup>17</sup> They consist of individual budgets but have related costs within other areas of the Business Plan, eg Internal Costs or variable/volume-driven costs within. Each SF contains at least once Fundamental Service Provider (FSC) Contract, together with non-resource External Services.
- 3.4 The Service Families introduced are:
- SMETS1

<sup>15</sup> External Costs have the meaning given to the term in LC 35 with reference to ECt

<sup>16</sup> Ofgem will make a decision on the costs incurred in RY25/26 by March 2027

<sup>17</sup> Ofgem (2025), Regulatory Instructions and Guidance (Successor Licensee).

[www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee](http://www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee)

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- SMETS2
- 4G and Connectivity
- Centralised Registration Service (Switching)
- Meter Data Management
- Privacy and Security
- Service Management
- Testing Services

3.5 Service Families SMETS1, SMETS2, 4G and Connectivity and Centralised Registration Service make up the types of smart metering services provided by DCC to its users and are known as the 'Smart Energy' SF Group. The remaining Service Families (Meter Data Management, Privacy & Security, Service Management and Testing Services) make up the main types of enabling services supporting the delivery of the Smart Energy SFs and are known as the 'Enabling Services & Testing' SF Group.

3.6 Table 3.2 below summarises DCC's proposed budget for each of the Service Families encompassed within External Costs for the first Price Control Period.

**Table 3.2: DCC's proposed budgeted ReqR by Service Family for November 2026 to March 2028, in [£m]**

<b>Service Family</b>	<b>First RY (5 months)</b>	<b>RY27/28 (12 months)</b>	<b>Total</b>
SMETS1	19.072	26.149	<b>45.221</b>
SMETS2	51.418	119.026	<b>170.444</b>
4G and Connectivity	16.433	45.794	<b>62.227</b>
Centralised Registration Service (Switching)	8.334	13.363	<b>21.697</b>
Meter Data Management	44.629	105.828	<b>150.457</b>
Privacy and Security	14.860	55.629	<b>70.488</b>
Service Management	7.777	9.452	<b>17.228</b>
Testing Services	1.278	3.436	<b>4.714</b>

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- 3.7 Each SF operates with a ringfenced budget, to prevent any double counting and maintain a clear budgetary boundary. The budget within each SF consists broadly of the following types of costs, reported per each contract:
- **Set-up costs** – the costs of design and build of new solutions
  - **Operational costs** – the ongoing fixed charges paid to ESPs per existing contracts for delivering contracted services. DCC has included an inflation assumption into the operational costs – any deviation from this assumption would be subject to Automatic Adjustment (see chapter 4 for more details)
  - **Costs of change** – the costs of changes, delivered via Project Requests and Change Requests, either mandated via code modifications or led by the Licensee
  - **Testing costs** – the costs of various requisite testing activities, eg to support deployment of change or compatibility of devices and systems
- 3.8 Additionally, DCC has reported within individual SFs specific change programmes and projects, where External Costs cannot yet be ascribed to a specific Service Provider.
- 3.9 We have assessed each SF individually; our proposals are centred on setting the Required Revenue for each SF as a ringfenced budget.

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### A. SMETS1 Service Family

#### Background

3.10 The purpose of the SMETS1 programme is to integrate c.13m first generation (SMETS1) smart meters into the DCC service to ensure their interoperability.<sup>18</sup> The enrolment and adoption of the SMETS1 meters happened in three releases – Initial (IOC), Middle (MOC) and Final (FOC) Operating Capability. DCC has completed all SMETS1 meter migrations, with the final transfer in the Middle Operating Capacity (MOC) cohort occurring in September 2025. Each cohort has been supported by a combination of External Service Providers. Table 3.3 below provides an overview of the Fundamental Service Capability providers which constitute the SMETS1 SF.

**Table 3.3 SMETS1 Fundamental Service Capability Service Providers**

Cohort	Reference	Role	Provider	RY of contract <sup>19</sup>
IOC	S1SP_1	IT application and hosting provider	CGI IE	18/19
IOC + FOC	S1_CSP1	2G network communication provider	Vodafone	19/20
MOC	SPSP_2	IT application provider & roaming access to 2G mobile networks	Secure	18/19
MOC	S1_CSP2	2G network communication provider	Telefonica/VMO2	19/20
FOC	S1SP_3a	IT application support	Trilliant	18/19
FOC	S1SP_3b	Hosting provider (ANSO)	DXC	18/19
FOC	S1SP_3c	Hosting provider (ANSO) (replacing DXC)	CGI	24/25

3.11 DCC has structured its contracts across the cohorts to ensure service continuity through to 2033 to align to an expected termination of 2G mobile network in GB.

<sup>18</sup> Before being enrolled into DCC's central system, SMETS1 meters were at risk of losing their smart functionality when consumers switched energy supplier

<sup>19</sup> Refers to the RY in which DCC procured and first reported each contract

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3.12 **DCC has proposed total Required Revenue for the first Price Control Period of £147.3m**, comprising £49.5m for November 2026 to March 2027, and £97.8m for April 2027 to March 2028.

3.13 Of the total £147.3m, **DCC allocated £45.2m to fixed costs** (meaning costs over which DCC has control) **constituting the SMETS1 Service Family budget**. The remaining £102.1m have been reported under, and attributed to, variable SMETS1 costs (£101.1m) and Internal Costs (£1.0m), which are assessed separately (see chapter 4 for variable costs and section 5 for Internal Costs)

3.14 Table 3.4 below provides the breakdown of the proposed Required Revenue for fixed costs by Regulatory Year.

**Table 3.4 Breakdown of SMETS1 costs per RY**

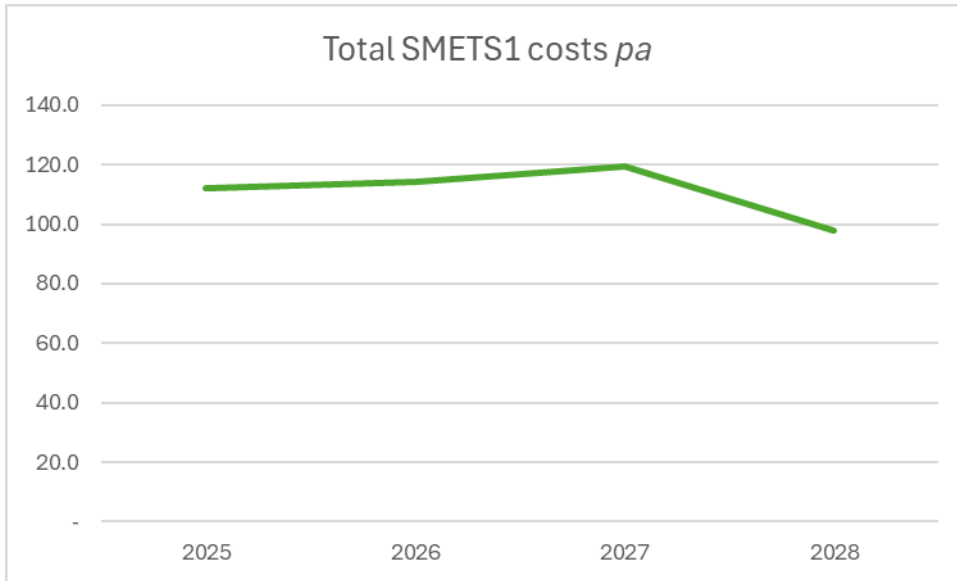
Type of cost	First RY (5 months)	RY 27/28 (12 months)	Total over the ex-ante period
Set-up costs	2.436	-	<b>2.436</b>
Operational costs	14.636	22.098	<b>36.735</b>
Costs of change	1.635	3.128	<b>4.763</b>
Testing	0.365	0.923	<b>1.288</b>
<b>TOTAL SF budget</b>	<b>19.072</b>	<b>26.149</b>	<b>45.221</b>
SMETS1 related costs (variable & Internal Costs outside budget)	30.439	71.689	<b>102.128</b>
<b>TOTAL SMETS1 costs</b>	<b>49.511</b>	<b>97.838</b>	<b>147.349</b>

3.15 The total costs, including related variable and Internal costs for comparison, are generally commensurate with the costs incurred in RY24/25 and RY25/26. DCC expects a decrease in RY27/28, including in the costs directly attributed to the SF budget (£26.1m compared to previous year's c.£45.2m).<sup>20</sup> This is mainly on account of a go-live in November 2026 of a new, cheaper Application Network and Security Operations (ANSO) hosting contract, procured in RY24/25. Figure 3.1 provides a comparison between RYs.

<sup>20</sup> Costs in RY26/27 include £26.2m which DCC1 expects to incur in the first 7 months of the year prior to the Transfer Date. These costs will be scrutinised by Ofgem under the RY25/26 ex-post Price Control.

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**Figure 3.1 Comparison of total SMETS1 costs per RY**



**Figure 3.1 Input table; figures in [£m]**

RY	2025	2026	2027	2028
Total SMETS1 costs	112.1	114.3	119.4	97.8

**DCC’s general justification**

3.16 DCC explained that it will focus on maintaining service continuity and preparing for SMETS1 end of life, comprising three main change programmes:

- Transition to a new ANSO service provider to deliver a new cloud-based service platform by CGI, with full service expected in November 2026
- Mitigation of Overage charges by technical changes aimed at reducing SMS volumes. Delivery is expected in Q1 2027
- SMETS1/2 Swap Out and Decommissioning Strategy

3.17 To justify its proposed Required Revenue, DCC provided a set of assumptions and additional evidence on request in response to our clarification questions.

3.18 DCC sought to justify **£36.7m of operational costs** with reference to fixed charges in existing contracts. DCC’s evidence shows that these include ongoing monthly charges (subject to annual indexation), as well as agreed some one-off expenditures related to third party services, subscriptions or uplifts. The single largest item contributing to the SMETS1 SF operational costs is the outgoing DXC contract for ANSO service. DCC explained that although it expects the recently procured replacement contract to go live from November 2026, with its substantial savings realised from 2027, it has provisioned for operational costs of

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the old contract up until its absolute expiry in July 2027 in the event of any unforeseen delays. DCC further explained that any early exit of the old contract before July 2027 may be subject to the payment of termination charges per a contractual schedule.

3.19 DCC explained that the proposed **£4.8m of costs of change** cover contract change requirements for maintenance and technical refresh activities. DCC noted that SMETS1 in-life change is driven by operational needs and continuity of service, which means that individual changes cannot be identified in advance; however, DCC provided an analysis of historic data to provide a basis for the forecast. Activities in RY25/26 showed a mix of maintenance, enhancements, upgrades and technical refreshes totalling c.£3.1m. DCC further explained that its forecast is slightly higher than a pro-rata calculation because change activity typically phases towards the latter part of the year (*ie* the First Regulatory Year which is due to commence in November). DCC also identified some known upcoming changes, for example two technical changes required to be delivered by March 2027 to mitigate Overage charges.

3.20 DCC explained **£2.4m of set-up costs** by:

- The design and build of the new ANSO solution, for which DCC provided a comparison of the forecast costs to its Final Business Case
- A provision for decommissioning effort of the old ANSO solution. DCC argued that this activity can only happen once the switch-over to the new provider has occurred, and therefore could not be delivered before the commencement of the first Price Control Period

### Our assessment and proposals

3.21 We have carefully considered DCC’s justifications and are minded to determine the Required Revenue for this Service Family as **£12.275m in the First RY** and **£19.172m in RY27/28**, totalling **£31.447m over the first Price Control Period**. Table 3.5 below provides the detail of our proposal.

**Table 3.5 Proposed Required Revenue for SMETS1 SF, in [£m]**

	DCC proposal	Ofgem proposed allowance	Difference
<b>First RY (5 months)</b>	19.072	12.275	-6.797
<b>RY27/28 (12 months)</b>	26.149	19.172	-6.977

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	DCC proposal	Ofgem proposed allowance	Difference
<b>Total over the ex-ante period</b>	<b>45.221</b>	<b>31.447</b>	<b>-13.774</b>

3.22 We agree that the delivery of SMETS1 service remains a mandatory activity and accept that DCC will continue to incur **operational and testing costs** for existing FSC contracts over the first Price Control Period (with the exception of the outgoing ANSO contract as discussed in further detail below).

3.23 Similarly, we accept that a degree of change is likely and, on balance, are minded to **accept the £4.8m of costs of change** which DCC has provisioned for contractual changes over the period. Although historic comparison and analysis can provide a benchmark for the costs DCC is likely to incur, we expect DCC to bear down on these costs via effective contract management. Firstly, as meter migrations have now concluded, we would expect a steady state before decommissioning without further investment into defect fixes and uplifts on the scale DCC made in the past. Secondly, we have previously extensively commented<sup>21</sup> on poor performance of several SMETS1 Service Providers (SPs) and repeatedly determined a portion of costs incurred by DCC on these contracts to be Unacceptable under the Previous Licence. We therefore expect strong contract management and budgetary discipline from DCC to hold its SPs to account, including ensuring that no costs of defects attributable to the SPs or costs arising from SP’s poor performance is passed onto consumers.

## ANSO

3.24 **We are minded to reject DCC’s proposal for the provision of run costs for the outgoing DXC ANSO contract after November 2026. We have not seen evidence that provision for operational costs beyond November 2026 is necessary or efficient.** DCC has confirmed that it remains on track to transition to the new CGI solution with a go-live by 1 November 2026. Although we understand that DCC has provisioned for this expenditure as a backstop in case of delays, we have not seen any evidence that a delay is likely to occur. We are nonetheless **minded to approve operational costs for the month of November**, which will provide 30 days as a contingency. We invite DCC to provide further update on the implementation progress through its consultation response.

<sup>21</sup> See: Ofgem (2025), DCC Price Control decision RY23/24, 2.26-2.47. [www.ofgem.gov.uk/decision/dcc-price-control-decision-regulatory-year-2023-2024](http://www.ofgem.gov.uk/decision/dcc-price-control-decision-regulatory-year-2023-2024). Ofgem (2024), DCC Price Control decision RY22/23, 2.37-2.51. [www.ofgem.gov.uk/decision/dcc-price-control-decision-regulatory-year-2022-2023](http://www.ofgem.gov.uk/decision/dcc-price-control-decision-regulatory-year-2022-2023).

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- 3.25 Furthermore, we do not currently view the extension of the DXC contract beyond November 2026, on the basis of which such contracts would be incurred, as justified; and, therefore, do not consider any arising costs as economic and efficient.
- 3.26 We scrutinised and commented on DCC1's procurement of the new ANSO contract in detail in our RY24/25 *ex-post* Price Control decision<sup>22</sup> where we laid out our concerns about DCC1's handling of the DXC contract, including its unilateral extension of it, and the re-procurement timeline of the new CGI solution. In seeking to justify its handling of the DXC contract, DCC1 argued that, by working towards November 2026, it has not exceeded the term of the original DXC contract. This is because the original contract ran from 2021 to 2023 and DCC had the option of 3x 1-year extensions. If DCC had utilised those, then it would have taken the contract to an absolute expiry of November 2026. DCC instead extended to contract twice: first in 2022 to July 2025 and then again from July 2025 to July 2027. DCC argued that so long as it remains on track to exit the contract in November 2026 it does not matter what extensions DCC1 actually agreed with DXC to reach to that date.
- 3.27 We intend to set out our view of the post-July 2025 contractual position as part of our assessment of costs incurred in RYs 25/26 and 26/27 (until Transfer Date) which are subject to the remaining *ex-post* Price Controls for DCC1. For the purposes of assessing costs post-Transfer Date under this consultation, we note DCC1 continues to work towards exiting the DXC contract in November 2026 and accordingly we do not currently view any further costs incurred on the continuation of the DXC contract after November 2026 as economic and efficient. DCC1 has been aware of the original absolute contractual end-date in November 2026 and it has been its responsibility to ensure that a compliant, re-procured solution is in place in time for the contract expiry without the need for further extensions beyond then.
- 3.28 We are not persuaded that DCC1 acted economically and efficiently in agreeing an extension with DXC until July 2027 and are concerned that DCC may be liable for breakage costs if it exits the DXC contract before July 2027. We have not seen evidence that such costs would have been incurred if DCC1 had acted under its original contract and re-procured the contract in time. We currently do not view any breakage costs payable to DXC as economic and efficient.

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<sup>22</sup> Ofgem (2026), DCC Price Control: Regulatory Year 24/25, paragraphs 2.53-2.81. [www.ofgem.gov.uk/consultation/data-communications-company-dcc-price-control-consultation-regulatory-year-2024-2025](https://www.ofgem.gov.uk/consultation/data-communications-company-dcc-price-control-consultation-regulatory-year-2024-2025)

## **Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

3.29 We are, however, minded to **accept the proposed set-up costs**:

- Having sought further information from DCC, we are satisfied that the set-up costs of the new ANSO solution are aligned to the Final Business Case and are both mandatory and efficient. We understand that they comprise Design, Build and Test element, which was independently benchmarked and found to be below market rate, and a systems integration element. We expect strong budgetary discipline from DCC in respect of these costs to not exceed the FBC.
- On balance, we are minded to accept that decommissioning costs included in the set-up costs are necessary and that the activity can only happen after the Transfer Date.

### Outcomes we expect DCC to deliver

- 3.30 Exit from the current DXC ANSO contract and full transition to the new CGI ANSO provider no later than November 2026 without disruption in service and expedited delivery of the benefits of the new solution
- 3.31 Successful delivery of technical changes to SRVs 4.3<sup>23</sup> and 4.10<sup>24</sup> by November 2026 and March 2027, respectively, to mitigate the impact of Overages
- 3.32 Steady state operations of SMETS1 service with focus on improvement in the performance of SMETS1 SPs to ensure stability and reliability
- 3.33 SPs are held to account for under-performance, minimising expenditure on change
- 3.34 Continuation of the swap-out and decommissioning strategy in line with plans agreed with industry and the Secretary of State

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<sup>23</sup> Smart Energy Code (2026), Scheduling Services for SMETS1 Devices (SRV 4.3).

<https://smartenergycodecompany.co.uk/modifications/scheduling-services-for-smets1-devices-srv-4-3/>

<sup>24</sup> Smart Energy Code (2025), Caching SRV 4.10 for SMETS1 Devices.

<https://smartenergycodecompany.co.uk/modifications/caching-srv-4-10-for-smets1-devices/>

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## B. SMETS2 (LRR/2G/3G) Service Family

### Background

3.35 The SMETS2 (LRR/2G/3G) SF is made up of 3 Communications Service Providers (CSPs): CSP North (CSP-N), which uses a long-range radio (LRR) network provided by Arqiva, CSP Central (CSP-C) and CSP South (CSP-S) which use 2G/3G networks provided by VMO2.

**Table 3.6: SMETS2 Fundamental Service Capability Service Providers**

Reference	Role	Provider	RY of contract
CSP-N	Long-range radio Communication Service Provider (North)	Arqiva	13/14
CSP-C	2G/3G Communication Service Provider (Central)	VMO2	13/14
CSP-S	2G/3G Communication Service Provider (South)	VMO2	13/14

3.36 **DCC has proposed total Required Revenue for the first Price Control Period of £371.8m**, comprising £112.2m between November 2026 and March 2027, and £259.7m between April 2027 and March 2028.

3.37 Of the total £371.8m, **DCC ascribed £170.4m to fixed costs constituting the SMETS2 SF budget**. The remaining £201.4m have been reported under, and attributed to, variable SMETS2 costs and Internal Costs (assessed separately).

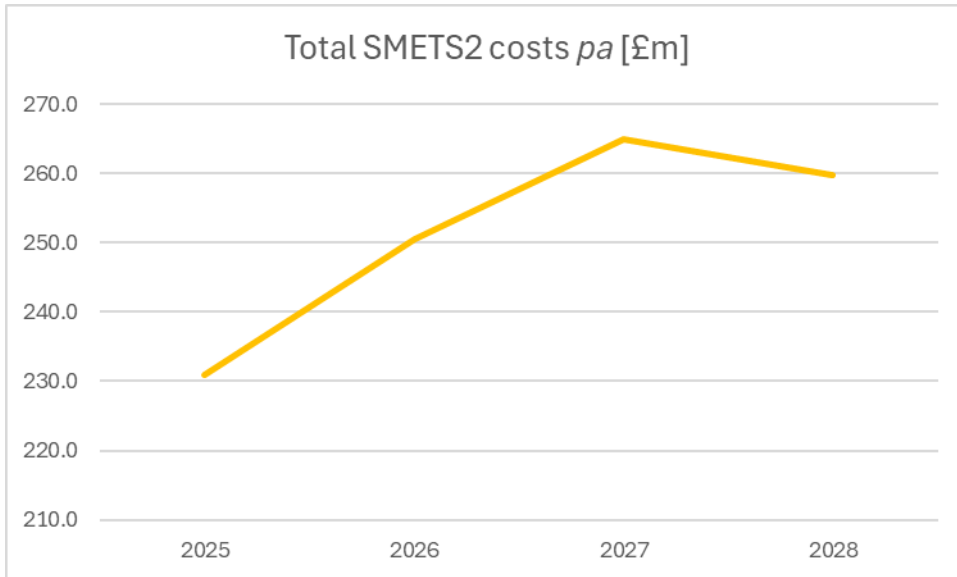
**Table 3.7 Breakdown of SMETS2 costs per RY**

Type of cost	First RY (5 months)	RY 27/28 (12 months)	Total over the ex-ante period
Operational costs	36.703	85.025	<b>121.726</b>
Costs of change	12.405	28.559	<b>40.965</b>
Testing	3.154	7.342	<b>10.496</b>
<b>TOTAL SF budget</b>	<b>51.418</b>	<b>119.026</b>	<b>170.444</b>
SMETS2 related costs (variable & Internal Costs outside budget)	60.735	140.650	<b>201.385</b>
<b>TOTAL SMETS2 costs</b>	<b>112.153</b>	<b>259.676</b>	<b>371.829</b>

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3.38 The total costs (including related costs outside budget for comparison) are expected to increase in comparison to previous years but peak in RY26/27 with a decrease in RY27/28. The increase in RY26/27 is mainly affected by the cost of LRR CHs. Their reduction in RY27/28 is offset by the costs DCC proposed for CSP-N contract extension.

**Figure 3.2 Comparison of total SMETS2 costs per RY**



**Figure 3.2 Input table; figures in [£m]**

RY	2025	2026	2027	2028
Total SMETS2 costs	231.0	250.6	265.0	259.7

**DCC’s justification**

3.39 DCC sought to justify **the £121.7m of operational costs** by a breakdown of charges of the existing CSP-N, CSP-C and CSP-S contracts. DCC’s evidence shows that the majority of the operational costs relate to contracts with the relevant providers, with the exception of Interoperability Test Event costs, where DCC has made small provisions in the Price Control Period. Within the operational charges, there are minor provisions for various firmware updates and IT support costs.

3.40 DCC sought to justify the **£41.0m allocated to the cost of change** through further evidence. A substantial portion of this cost of change is related to LRR Committed Term (LRRCT). The second largest cost of change allocated to VMO2 (CSP-C and CSP-S) for SEC release management and the Great Britain Companion Specification (GBCS), for which DCC provided cost evidence based on Statement of Work costs and Rough Order of Magnitude costings. The remaining costs are

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allocated to wider potential in-period changes that have not been assigned to specific delivery but estimated as likely based on analysis of historic expenditure.

- 3.41 DCC sought to justify the **£10.5m allocated to testing costs** through further evidence. For all providers, DCC provided evidence of monthly charges for the majority of the necessary testing services and Defect Management costs. DCC also has included small provisions for Interoperability Test Events, as per the requirements in the SEC H14.49,<sup>25</sup> for all providers, which is not currently contracted but has been calculated based on historic run rates.

**Long Range Radio Committed Term**

- 3.42 The increase in costs in SMETS2 over the Price Control Period is driven almost entirely by the LRRCT, which aims to extend the Long-Range Radio network beyond December 2028, when the current contract is due to expire. DCC currently forecast the extension of this contract (including all tech refreshes necessary) costing a substantial percentage (40%) of all CSP-N costs, in addition to a substantial provision for updated operational costs once the contract has been extended.
- 3.43 DCC sought to justify the proposed cost of extending the CSP-N contract on the grounds that it is necessary for maintaining core service provision. DCC explained that the LRR contract in CSP-N is a unique legacy contract and DCC must procure the LRR services from the incumbent, unless a suitable alternative provider emerges.
- 3.44 DCC explained that it is currently in negotiations with the External Service Provider and confirmed that the project is at the pre business case stage, with low certainty around costs. Nevertheless, DCC sought to justify the costs as economic and efficient through further evidence, explaining in particular the basis their assumptions around in-scope activities, which are likely to include:
- Technology refresh of headend hardware and software, ensuring continued performance and stability
  - Replacement of legacy base stations, where necessary, for high impact sites across the LRR network as they reach end of life
  - Operational and implementation support costs, provided by the SP for the cost of continued service.

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<sup>25</sup> SEC, Section H, available at: <https://smartenergycodecompany.co.uk/documents/sec/consolidated-sec>

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3.45 DCC further outlined how it has sought to drive value for money; for example, by negotiating a level of savings by upfront funding of certain activities.

### Our view and proposal

- 3.46 We agree that the delivery of the SMETS2 service remains a mandatory activity and accept that DCC will continue to incur **operational and testing costs** for existing contracts over the first Price Control Period. We also consider it prudent to allow some provision for likely costs of change and, on balance, consider DCC's evidence adequate to demonstrate likelihood. However, we expect DCC to bear down on ongoing change costs by strong challenge to its ESPs.
- 3.47 In relation to the LRRCT project, although we understand the need for DCC to maintain the smart metering communication through an extension with the Service Provider, we have concerns about potential increases in operational costs and the additional investment required for a tech refresh. We are also concerned about Arqiva's performance which to date has not been satisfactory as evidenced by DCC's Annual Service Reports.<sup>26</sup>
- 3.48 Having considered DCC's evidence and justifications, we accept that there will be a level of necessary spend for DCC on LRRCT, given infrastructure update needed to provide service continuity into the 2030s. However, we are concerned about the scale of the costs and the efficiency of the investment. On balance we are minded to accept DCC's proposal to allow for the extension of the contract to progress, however we expect DCC to continue to challenge Arqiva to drive value for money, beyond the cost savings already negotiated. We are **minded to exercise our power under Licence Condition 24 Part B and ringfence the proposed expenditure for the LRRCT project** for the purposes of implementing only necessary changes subject to a compliant Full Business Case, with any underspend from this allowance to be returned to customers.
- 3.49 Overall, we **propose to set the ReqR for the SMETS2 SF at £170.444m** per table 3.8 below.

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<sup>26</sup> DCC (2025), Annual Service Report 2024/25. [www.smartdcc.co.uk/media/rmrlhxqq/dcc-service-review-2025.pdf](http://www.smartdcc.co.uk/media/rmrlhxqq/dcc-service-review-2025.pdf)

**Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028**Table 3.8: Proposed Required Revenue for SMETS2 (LRR/2G/3G) SF, in [£m]**

	<b>DCC proposal</b>	<b>Ofgem proposed allowance</b>	<b>Difference</b>
First RY (5 months)	51.418	51.418	-
RY27/28 (12 months)	119.026	119.026	-
<b>Total over the ex-ante period</b>	<b>170.444</b>	<b>170.444</b>	-

## Outcomes we expect DCC to deliver

3.50 Deliver a value for money solution for continued LRR coverage in CSP-N, including:

- Challenging Arqiva on set-up and operational costs of the LRRCT project and committing to the extension once the best possible value for money position has been reached through effective contract management, subject to a Full Business Case
- Once committed to the LRRCT project, achieving all milestones included in the Full Business Case (in line with information submitted by DCC in response to our clarification questions) during the Price Control Period
- Holding Arqiva to account to increase service performance to meet industry requirements

3.51 Secure the continuation of the VMO2 contract for 2G/3G coverage in CSP-C and CSP-S, minimising cost increases and protecting performance standards

3.52 Agree a unified plan with industry for 2G and LRR swap-out and support a controlled migration away from legacy WAN technologies onto 4G

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## C. 4G Service Family

### Background

3.53 The 4G Service Family is currently made up of four costed elements: the 4G WAN contract with Vodafone, the 4G Device Manager contract with Accenture, the 4G Comms Hubs contract with Toshiba, and the 4G Device Manager (DM) Re-procurement change programme.

**Table 3.9: 4G Fundamental Service Capability Service Providers**

Reference	Role	Provider	RY of contract
4G WAN	Provide Wider Area Network and communications services, supporting messages to and from 4G comms hubs	Vodafone	22/23
4G Device Manager	Support the installation, configuration and monitoring of comms hubs, including deploying firmware upgrades	Accenture	22/23
4G Comms Hubs	Comms Hubs assets provider	Toshiba	22/23

3.54 **DCC has proposed total Required Revenue for the first Price Control Period of £134.4m**, comprising £29.8m between November 2026 and March 2027, and £104.6m between April 2027 and March 2028.

3.55 Of the total £134.4m, **DCC ascribed £62.2m to fixed costs constituting the 4G SF budget**. The remaining £72.2m have been reported under, and attributed to, variable 4G costs and Internal Costs, which are assessed separately.

3.56 The budgeted fixed costs of 4G WAN, 4G DM and 4G Comms Hubs contracts are forecast to be broadly stable during the Price Control Period, with increases compared to previous years driven by the DM re-procurement exercise. DCC has explained it will focus on the following priorities:

- 4G scaling to increase network availability, reduce volume of noncommunicating meters and deliver improvements in successful customer requests
- Develop the internet-based vWAN services to provide a smart metering service to properties that fall outside the traditional WAN coverage area
- Reprocure the DM contract ahead of the breakpoint in the current contract

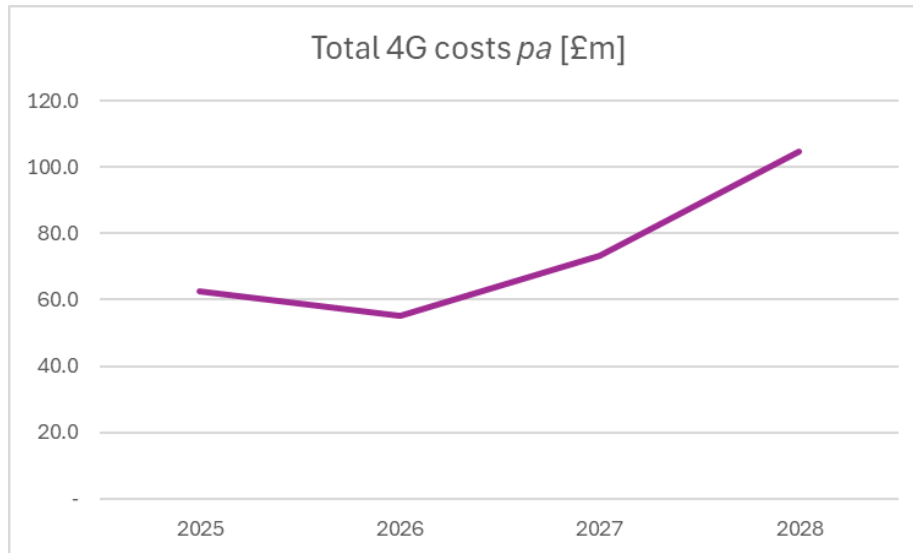
**Consultation** Determination of DCC’s Required Revenue: November 2026 to March 2028

**Table 3.10: Breakdown of 4G costs per RY, in [£m]**

Type of cost	First RY (5 months)	RY 27/28 (12 months)	Total over the ex-ante period
Set-up costs	-	3.333	3.333
Operational costs (incl. Testing)	10.376	28.410	38.786
Costs of change	6.058	14.050	20.108
<b>TOTAL SF budget</b>	<b>16.433</b>	<b>45.794</b>	<b>62.227</b>
4G related costs (variable & Internal Costs outside budget)	13.365	58.850	72.215
<b>TOTAL 4G costs</b>	<b>29.798</b>	<b>104.643</b>	<b>134.441</b>

3.57 The total 4G costs (including related volume-driven and Internal Costs) are increasing year-on-year from £62.5m in RY24/25 to £104.6m in RY27/28. This is mainly on account of Volume-Driven Costs of 4G Comms Hubs (increasing as the 4G rollout progresses), 4G Hosting and 4G WAN, which are discussed separately in chapter 4.

**Figure 3.3 Comparison of total 4G costs per RY**



**Figure 3.3 Input table; figures in [£m]**

RY	2025	2026	2027	2028
Total 4G costs	62.5	55.1	73.4	104.6

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### DCC's general justifications

3.58 DCC sought to justify the **£38.8m of operational costs** by providing information on each of the contracts for the 4G contracted providers, showing that that the large majority of the operational costs for all providers are fixed operational costs subject to indexation, with the exception of the 4G Comms Hub contract costs which include an element of variable costs. DCC provided evidence of the monthly charges for ongoing run costs for the provision of the 4G service. DCC also provided evidence that the operational run costs include provisions for firmware updates, ongoing operational support and IT support for the relevant contracts within the 4G contracts.

3.59 DCC sought to justify the **£20.1m allocated to the cost of change** via:

- 4G and Beyond project, which DCC sees as necessary to future-proof connectivity for smart meters. DCC provided estimated timelines and expected activity during the Price Control Period
- 4G maintenance and scaling, including adding 4G roaming capabilities and implementing defect releases, which DCC stated is necessary to improve coverage and availability of 4G comms hubs, as well as reducing the number of non-communicating meters
- GB Companion Specification (GBCS) v.4.5 and v.4.6 firmware upgrades, required to continue to meet the minimum standards for comms hubs and ensuring they interact with the network correctly
- The Future Connectivity North project (managing connectivity and communications capacity in the North) and a small amount provisioned for unconfirmed changes across the WAN and DM capabilities

3.60 We discuss the two main change programmes in turn below.

### 4G and Beyond

#### **DCC's justification**

3.61 DCC has proposed to include in its Business Plan £8.3m for a change pipeline (pre-business case) project '4G and Beyond', split between the three current 4G contracted providers. DCC explained that the project is needed to future-proof connectivity for smart meters beyond the expected 4G sunset, expected in 2044. DCC highlighted that due to a minimum 15-year asset life requirement,<sup>27</sup> DCC will

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<sup>27</sup> used in the original business assumption of the Smart Metering Implementation Programme (SMIP)

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need to be installing comms hubs able to communicate beyond the 2044 4G sunset by 2029.

- 3.62 DCC used “T-shirt sizing” and historic evidence to estimate the likely costs of the project. DCC describes this process as reflecting the typical characteristics of projects of a similar scale, based on previous programmes and earlier iterations of the services. DCC looked at various factors to calculate an estimated cost; the scale of change, the degree of solution rebuild (whether there is an existing platform or software that can be used as a base), the number and complexity of components impacted, the delivery duration, and whether a change in the provider of the service is required. DCC then provided a range of options based on likelihood, ease and level of change, and cost of the project. Using this approach, DCC estimated the programme will incur £8.3m in the first Price Control Period, based on the costs previously incurred to develop the 4G Comms Hub and Network programme (CH&N) in 2025.
- 3.63 DCC confirmed that it has begun industry engagement and undertook an exploratory RFI. This confirmed that network providers are unlikely to extend 4G networks, indicating DCC will need to procure comms hubs with the ability to use 5G or other networks. DCC expects a competitive procurement throughout 2026, assuming a 12–14-month process and will require funds to move at pace.
- 3.64 DCC argued it has sought to ensure customers get value for money on this project and will use economic modelling to determine the optimum choices for the technology used. DCC has sought to provide assurance that the existing 4G Comms Hub contract will not be affected and that all Toshiba devices will achieve their minimum 15-year asset life; however, acknowledged that any assets installed beyond 2029 may have a reduced asset life should mobile network operators be unwilling to offer an extension.
- 3.65 DCC has also confirmed that the proposed £8.3m required revenue includes a level of 50% contingency due to high degree of uncertainty.

**Our view**

- 3.66 With the 4G sunsetting expected in 2044, we acknowledge the need for DCC to undertake this project at pace, in order to facilitate a 15-year asset life, and futureproof comms hubs installed from 2029. We acknowledge the difficulty in forecasting the exact costs for this project, given the early stage at which the project currently is. We are minded to agree to DCC’s proposed Required Revenue for 4G and Beyond (£8.3m). However, we are concerned about the level of uncertainty, underlined by the level of contingency that DCC is requesting, and **we propose to ringfence the revenue, pursuant to Licence Condition 24, Part B**, to ensure DCC can use the funds available solely on 4G and Beyond and

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encourage focus on this project. Furthermore, we expect the scope of the work to be agreed with industry and the Secretary of State prior to any committed expenditure.

### Device Manager re-procurement

#### **DCC's justification**

- 3.67 DCC is running a competitive re-procurement of the DM contract ahead of 2028, aligned with Ofgem's expectation set out in the RY22/23 Price Control decision, which found the DM contract had been procured directly and deemed not fully economic and efficient.<sup>28</sup> Through previous Price Control engagements, DCC has sought to reassure Ofgem that the Device Manager solution can easily be 'lifted and shifted' from one platform to another, without the need for new design, build and test (DBT).
- 3.68 The total cost of the DM re-procurement exercise proposed by DCC is based on a cost estimate of the DBT and transition costs from moving the existing Device Manager solution to a new platform.
- 3.69 DCC confirmed that the DM re-procurement project is going to be delayed, and only 23% of the total cost is estimated to be incurred during the first Price Control period. DCC confirmed the re-procurement will be at the lower end of its cost estimate, if the software is procured on the same platform, with some minor enhancements.

#### **Our view**

- 3.70 We agree that DCC should run a full competitive re-procurement and therefore consider it prudent to include in the budget some provision for transitional activities, should the outcome result in a change of supplier. However, we are concerned about the lack of detail in the cost estimates provided by DCC, including in response to our clarification questions. We also note that the CCG in its report to Ofgem,<sup>29</sup> expressed concern about DCC's procurement strategy and disaggregated supply chain model that is supposed to introduce competition and drive costs down.
- 3.71 We are also strongly concerned that the assumed set-up costs DCC is proposing appears to contradict previous assurances that the DM solution can be 'lifted and

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<sup>28</sup> Ofgem (2024), DCC Price Control decision: RY22/23. [www.ofgem.gov.uk/decision/dcc-price-control-decision-regulatory-year-2022-2023](http://www.ofgem.gov.uk/decision/dcc-price-control-decision-regulatory-year-2022-2023)

<sup>29</sup> CCG report to Ofgem on DCC Business Plan 2026-2028 can be accessed here: <https://smartenergycodecompany.co.uk/customer-challenge-group/>

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shifted’ from the existing platform to another, something which DCC has not been able to fully explain during the clarification process.

- 3.72 On balance, we are minded to accept £3.3m as an estimate for the re-procurement and shift to a different supplier. However, any future proposed costs for this re-procurement in following Price Control periods would be subject to close scrutiny.
- 3.73 We expect DCC to develop its Full Business Case within the Price Control Period, and reduce the level of contingency included in the plan. No expenditure should be contractually committed before the full scope is agreed with industry and subject to the FBC. Similarly to the LRRCT, **we propose to ringfence this cost under Licence Condition 24, Part B** to ensure DCC uses the funds available solely to meet External Costs incurred under a **new** DM contract, once reprocured, and encourage focus on this project.

### Our proposal

- 3.74 We agree that the delivery and scaling of the SMETS2 4G service remains a mandatory activity and accept that DCC will continue to incur operational costs for existing contracts over the first Price Control Period. We also accept that there will need to be a level of change costs within the SMETS2 4G service family, as the 4G comms hub rollout scales and increases in size. We also consider that on balance, DCC’s evidence sufficiently shows that the proposed costs are likely to be incurred. However, we expect DCC to minimise ongoing change costs by strong challenge to its SPs.
- 3.75 **We propose to set the Required Revenue for the 4G service family at £62.227m.**

**Table 3.11: Proposed Required Revenue for 4G SF, in [£m]**

	<b>DCC proposal</b>	<b>Ofgem proposed allowance</b>	<b>Difference</b>
First RY (5 months)	16.433	16.433	-
RY27/28 (12 months)	45.794	45.794	-
<b>Total over the ex-ante period</b>	<b>62.227</b>	<b>62.227</b>	<b>-</b>

### Outcomes we expect DCC to deliver

- 3.76 Complete the Full Business Case within the current timelines (end of 2027) for the Device Manager re-procurement.

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- 3.77 Fully assess options with regard to 4G and Beyond during the Price Control Period, deliver a Full Business Case on a timeline requested by the Secretary of State; deliver activities necessary to rollout solutions by 2029 to ensure a continued minimum 15-year comms hub lifespan.
- 3.78 Continue to provide and scale the 4G network to futureproof the network, in preparation for movements away from 2G/3G networks. Hold Vodafone to account under the contract to deliver 4G WAN coverage per contract terms.
- 3.79 Hold all SPs to account for any underperformance and under-delivery during the Price Control Period, minimise cost of change

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## D. Centralised Registration Service (Switching) Service Family

### Background

3.80 The Switching Service Family enables fast, secure, and reliable switching between energy suppliers, supporting consumer choice and market competition.

3.81 The Switching service includes:

- Switching Operator function
- Central Switching Service (CSS), which in turn comprises three core services:
  - Registration Service
  - Address Management Service
  - Reporting Service

3.82 These services are governed under the Centralised Registration Service (CRS) framework and regulated through the Retail Energy Code (REC). DCC is responsible for managing the CSS including running, maintaining, and continuously improving the service and ensuring next Working Day Switching is reliable, fast, and secure. It manages four Service Provider contracts set out in table 3.12 below.

**Table 3.12: Switching Service Providers**

Ref	Role	Provider	RY of contract
AMSRS	Designs and operates the Central Address Service (CAS), ensuring accurate address matching using Ordnance Survey’s Address Base Premium (OS ABP) and Aligned Assets. Maintains the address database with updates from industry systems.	Landmark Information Group	RY26/27- RY28/29  Runs to July 2027. Can be extended to July 2029.
SMT	Supplies the Service Management Tools for the SMS, which manages the Switching process through the Service Management System and Self-Service Portal. These tools support incident logging, query resolution, and collaboration for market participants.	Capgemini	RY26/27- RY28/29  Runs to July 2027. Can be extended to July 2029.
CSI	Systems Integration partner, ensuring compliant switch flows with REC systems	Netcompany	RY26/27- RY29/30

### Consultation Determination of DCC's Required Revenue: November 2026 to March 2028

Ref	Role	Provider	RY of contract
N/A (non-FSC)	Manages Public Key Infrastructure (PKI) services and digital security certificate authentication for Switching	Entrust	To be re-procured after RY26/27  Runs to February 2026. Can be extended to February 2027

- 3.83 The Retail Energy Code board is responsible for approving DCC's budget. It sets out the operational level process for agreeing the annual budget with DCC. Any agreed budget would have to be within the limits of the *ex-ante* submission. It is also agreed that the budget value can be charged to RECCo in twelve equal monthly instalments. If a revision to the budget is required intra-year, the same agreement process is repeated.
- 3.84 At the year-end, DCC is required to reconcile actual costs incurred against the budget (which is also the value of charges to RECCo), and if there is an underspend, that is returned to RECCo as a reduction against future charges.
- 3.85 DCC has indicated a preference to retain the targets under the Switching Incentive Regime with the removal of the financial incentivisation mechanism. The Switching Incentive Regime targets include taking account of customer views, cost transparency, providing high-quality support, timely, and high-quality information. We support, in principle, the retention of these targets as part of a broader service performance framework. The removal of financial incentives does not diminish the importance of these metrics.

#### DCC's cost submission

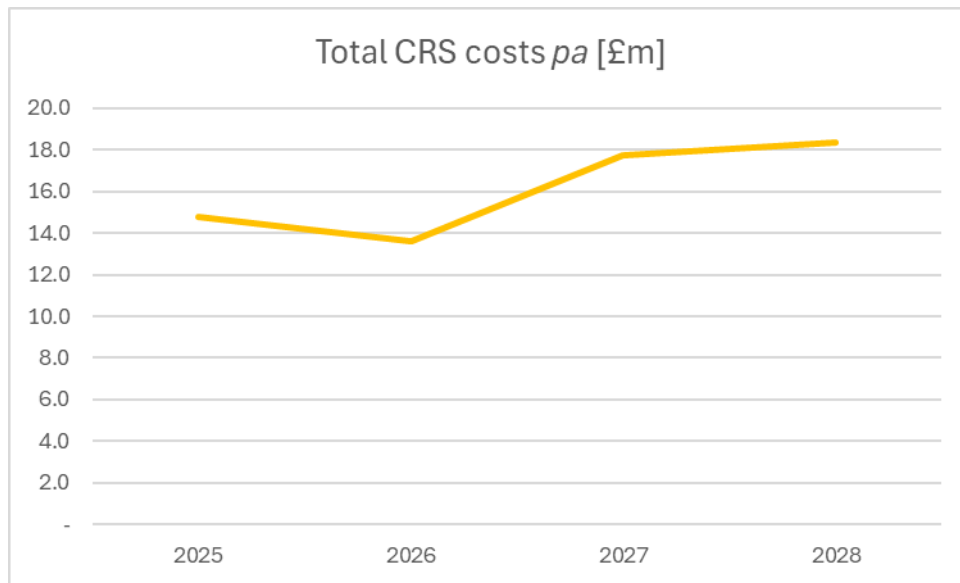
- 3.86 DCC has proposed total Required Revenue for the first Price Control Period of £28.7m, comprising £10.4m between November 2026 and March 2027, and £18.3m between April 2027 and March 2028. Of the £28.7m, **DCC allocated £21.7m to fixed costs constituting the Switching SF budget**. The remaining £7m have been reported under, and attributed to, variable costs and Internal Costs.
- 3.87 Table 3.13 below provides a breakdown of DCC's proposed Required Revenue. Figure 3.4 then shows an overall comparison across a number of Regulatory Years. The increase in Regulatory Years 26/27 and 27/28 is driven primarily by an inclusion of costs for a potential re-procurement of the Switching contracts, as described in further detail below.

**Consultation** Determination of DCC’s Required Revenue: November 2026 to March 2028

**Table 3.13 Breakdown of DCC’s proposed Switching costs per RY, in [£m]<sup>30</sup>**

Type of cost	First RY (5 months)	RY 27/28 (12 months)	Total over the ex-ante period
Set-up costs	4.500	4.500	<b>9.000</b>
Operational costs, incl. non-resource External Services and testing	3.333	7.863	<b>11.196</b>
Costs of change	0.500	1.000	<b>1.500</b>
<b>TOTAL SF budget</b>	<b>8.333</b>	<b>13.363</b>	<b>21.696</b>
Related costs (outside budget)	2.041	4.957	<b>6.998</b>
<b>TOTAL costs</b>	<b>10.375</b>	<b>18.320</b>	<b>28.695</b>

**Figure 3.4: Comparison of total Switching costs per RY**



**Figure 3.4 Input table; figures in [£m]**

RY	2025	2026	2027	2028
Total Switching costs	14.8	13.6	17.8	18.3

<sup>30</sup> Figures are not exact, as they are subject to estimation and rounding errors

## Consultation Determination of DCC's Required Revenue: November 2026 to March 2028

### DCC's general justification

3.88 To justify its proposed Required Revenue, DCC provided a set of assumptions and additional evidence on request in response to our clarification questions; DCC explained each cost area as follows:

- **Business as Usual (BAU)** costs cover operational expenses across four service providers delivering CSS capabilities. These include application and cloud hosting, systems integration, service management, service desk, and security for CRS and address management.
  - **BAU Fixed Costs** constitute operational expenses, subject only to inflation or contract changes, and are expected to remain stable from RY24/25 due to efficiencies in switching processes.
  - **BAU Variable Costs** fluctuate with activity volume and are expected to rise in RY26/27 and RY27/28 as switching volumes increase with the rollout of Market-wide Half Hourly Settlement.
- **Change costs** include projects already approved, anticipated future projects within the Price Control Period, and contract amendments required to meet new needs. These costs fund enhancements to the Switching service, which may arise as REC Modifications or other contract changes to improve CSS. It also includes a re-procurement cost of £9m, discussed further below.
- **External Service Non-Resource costs** include limited spending on consulting and specialist external advice. They also cover fixed charges for an annual subscription to managed Public Key Infrastructure (PKI) services and digital security certificate authentication for switching.

### Switching Procurement Activity based on DCC submission

3.89 As set out in table 3.12 above, all four CSS contracts reach either their extended term or initial term end in 2027. DCC has therefore considered two options: an extension or a re-procurement.

3.90 DCC presented results of a benchmarking exercise, which indicated that the current contracts offer good value for money compared to expected re-procurement prices. Benchmarking shows the current service costs across the three FSC contracts are approximately 6% lower than current market rates. DCC further stated that the current contractors consistently achieve a 100% switching success rate, which will help maintain service stability during the DCC licence transition. These factors favoured an extension option.

3.91 The alternative option for the three largest contracts was to re-procure them ahead of their end-dates and DCC has estimated and included into its Business

### Consultation Determination of DCC's Required Revenue: November 2026 to March 2028

Plan £9m for this exercise. DCC explained that this would involve a short extension to the Entrust contract to align contract end dates, so a single re-procurement exercise could be taken forward for all the contract requirements. It could also necessitate significant design, build, test activity depending on the outcome of the re-procurement exercise.

3.92 DCC explained that, although the decision to extend or reprocure will be evidenced in the final business case and is subject to RECCo's approval, DCC has requested allowances upfront in order to enable re-procurement and for any subsequent design, build, and test phase to proceed.

### Our view

3.93 We understand that since the Business Plan submission, the RECCo Board has reviewed DCC's business case expressed support for the extension option. DCC has prepared a separate business case for the contract extension with more detailed cost justification.

3.94 We acknowledge that the final decision remains with DCC board. However, based on the available evidence, we consider that the contract extension of the three Fundamental Service Capability contracts plus the re-procurement of the Entrust contract appears to be the more likely option for DCC and therefore a more appropriate baseline to set the Required Revenue. However, we are open to receiving further evidence via the consultation process.

3.95 We have reviewed the evidence and justifications and propose a reduction to the Required Revenue requested by DCC from £21.7m to £12. This amount excludes the requested £9m for Switching re-procurement. Based on the information we have to date, we consider it prudent to set the Required Revenue at the level that allows DCC to extend the contracts and reprocure the Entrust Contract.

**Table 3.14: Proposed Required Revenue for CSR SF**

	<b>DCC proposal</b>	<b>Ofgem proposed allowance</b>	<b>Difference</b>
First RY (5 months)	8.334	3.834	-4.500
RY27/28 (12 months)	13.363	8.863	-4.500
<b>Total over the ex-ante period</b>	<b>21.697</b>	<b>12.697</b>	<b>-9.000</b>

## **Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

### Treatment of the Switching budget for RY27/28

- 3.96 DCC has forecasted Switching costs within its Required Revenue. However, the final Switching budget for RY27/28 will be subject to approval by the RECCo Board. This introduces uncertainty as to whether the approved RECCo budget will align with DCC's current forecast. We therefore seek views on the appropriate regulatory treatment of the Switching budget for RY27/28.
- 3.97 We propose that Switching costs for RY27/28 be made subject to the Automatic Adjustment Uncertainty Mechanism,<sup>31</sup> such that DCC is required to adjust its Required Revenue (up or down) to reflect the budget as approved by RECCo. Given that DCC's current forecast may differ materially from the final RECCo decision, the Automatic Adjustment Uncertainty Mechanism provides a structured mechanism to correct for over- or under-recovery without the need for DCC to submit a separate reopener application to Ofgem and process duplication. This would ensure that revenue recovery is aligned with the final, independently approved level of expenditure minimising administrative burden.
- 3.98 We propose to exercise the Authority's power of direction under **Condition 24 Part C**<sup>32</sup> of the DCC Licence which allows the Authority to specify the operation of uncertainty mechanisms, and the designation and treatment of relevant cost drivers.
- 3.99 To operationalise the Automatic Adjustment Uncertainty Mechanism, it will be necessary to designate an appropriate **Driver**. We propose that the **RECCo approved-budget for RY27/28, in accordance with Section 9 of the RE, be used as a Driver for Automatic Adjustment of the Switching ReqR** (see table 4.3 in chapter 4).
- 3.100 We welcome stakeholder views on this proposal, including the suitability of the Automatic Adjustment Uncertainty Mechanism, the proposed designation of the Driver, and any implications for implementation.

### Outcomes we expect DCC to deliver

- 3.101 In relation to the CRS improvement plan, we expect DCC to continuously deliver service improvements and enhanced customer experience in accordance with

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<sup>31</sup> Automatic adjustment is an adjustment mechanism that allows the allowed revenue to be adjusted automatically without Ofgem's discretion in cases where costs are pre-defined and subject to uncertainty and outside DCC's control.

<sup>32</sup> Licence Condition 24, Part C

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KPIs agreed with industry (this may include continuation of the measures currently used under the Switching Incentive Regimes).<sup>33</sup>

3.102 Regarding address management, although DCC plans to publish an updated Annual Address Quality Plan each year, we expect improved switch accuracy, reliability, and a better consumer experience.

3.103 In addition, we expect the proposed extension of the switching contract (or re-procurement as the case may be) to support service continuity and result in improved contractual arrangements.

3.104 Finally, we expect the switching service to provide value for money through the efficient implementation of CRS and CSS, ensuring cost-effective delivery and operation for all stakeholders.

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<sup>33</sup> Ofgem (2023), Switching Incentive Regime Guidance. [www.ofgem.gov.uk/decision/dcc-switching-incentive-regime-direction-and-guidance](https://www.ofgem.gov.uk/decision/dcc-switching-incentive-regime-direction-and-guidance)

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## E. Meter Data Management Service Family

3.105 The Meter Data Management (MDM) SF comprise both the current (DSP1) and future (DSP2) Data Service Providers. These enabling services provide secure and reliable data communications between smart meters and DCC customers. DCC is delivering a new modular and disaggregated DSP 2.0 solution. Table 3.15 below provides a breakdown of the FSC SP contracts in the MDM family.

**Table 3.15: MDM Fundamental Service Capability Service Providers**

Reference	Role	Provider	RY of contract
DSP1	Data Service Provider – integrated solution	CGI	RY13/14
DSP_SI	DSP2 System Integration	CGI	RY24/25
DSP_MF	DSP2 Mainframe/core platform	IBM	RY24/25
DSP_NW	DSP2 Network – “DCC Connect”	Vodafone	RY24/25
DSP_DUIS <sup>34</sup>	DCC User Interface Specification for DSP2	NetCompany	RY24/25

3.106 **DCC has proposed total Required Revenue for the first Price Control Period of £164.9m**, comprising £49.3m between November 2026 and March 2027, and £115.6m between April 2027 and March 2028.

3.107 Of the total £164.9m, **DCC ascribed £150.4m to fixed costs constituting the MDM SF budget**. The remaining £14.4m have been reported under, and attributed to related variable DSP costs and Internal Costs, which are assessed separately.

3.108 The costs in the Price Control Period are driven by ongoing operation of DSP1 and the design, build and test (DBT) of DSP2, which DCC expects to complete in 2028. In addition, DCC is looking to procure Enterprise System and Service Integrator (ESSI) with Full Business Case planned for September 2027. We discuss the costs of both DSP1 and DSP2, as well as the ESSI in turn below.

<sup>34</sup> Not incurring any costs over the first Price Control Period

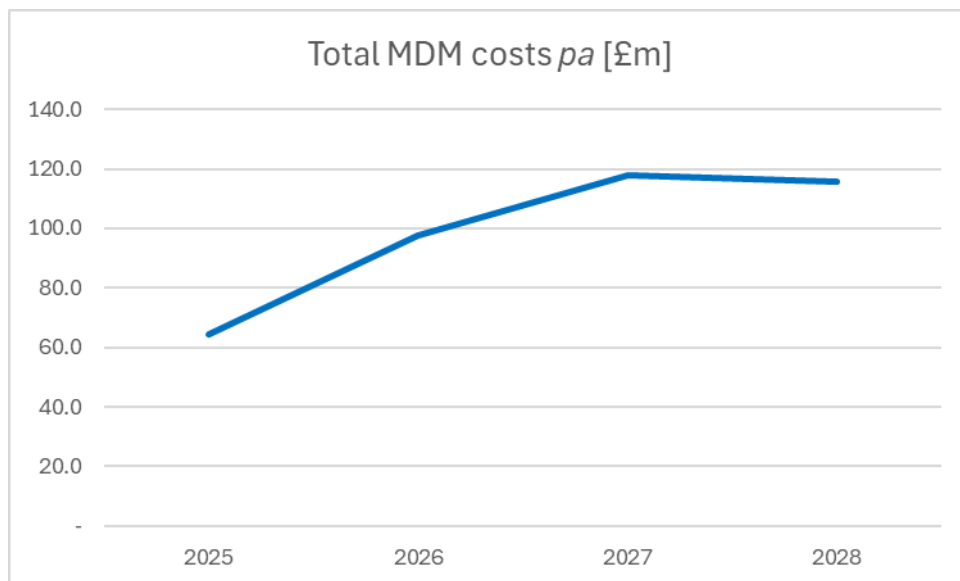
**Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

**Table 3.16 Breakdown of MDM costs per RY**

Type of cost	First RY (5 months)	RY 27/28 (12 months)	Total over the ex-ante period
Set-up costs	24.976	56.108	<b>81.084</b>
Operational costs	9.027	29.813	<b>38.841</b>
Costs of change	6.086	8.714	<b>14.800</b>
Testing	3.788	9.101	<b>12.889</b>
External Services	0.752	2.092	<b>2.844</b>
<b>TOTAL SF budget</b>	<b>44.629</b>	<b>105.828</b>	<b>150.457</b>
MDM related costs (variable & Internal Costs outside budget)	4.660	9.772	<b>14.432</b>
<b>TOTAL MDM costs</b>	<b>49.289</b>	<b>115.600</b>	<b>164.889</b>

3.109 The total costs (including related costs for comparison) are increasing compared to previous years. This is primarily on account of the upfront expenditure provisioned for DSP2 DBT in parallel with the maintenance of the outgoing solution. As described further below, the costs forecasted for the Price Control Period include a substantial risk provision as a contingency for the DSP programme, which further elevates the costs compared to previous years.

**Figure 3.5 Comparison of total MDM costs per RY**



**Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

**Figure 3.5 Input table; figures in [£m]**

<b>RY</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>
<b>Total MDM costs</b>	64.6	97.7	118.0	115.6

**DSP1: Legacy service and transition costs**

**Context**

3.110 DSP1 relates to the operation and maintenance of the incumbent Data Service Provider platform. It remains a critical component of the smart metering system and must continue to operate securely and reliably until DSP2 is live and device migration is complete.

3.111 During the first Price Control period, DSP1 services will continue to support high and growing message volumes while operating in parallel with DSP2 development and early transition activity. DSP1 costs therefore reflect a period of extended transition and dual running.

3.112 DSP1 costs comprise fixed and volume-driven BAU costs under the existing contract, together with limited in-life change necessary to maintain security and performance.

**DCC's justification**

3.113 DCC has justified DSP1 costs on the basis that:

- DSP1 services are operationally and regulatorily essential and cannot be materially scaled back prior to DSP2 cutover and migration completion
- The underlying infrastructure is ageing, with components approaching end of life, requiring targeted maintenance and refresh to maintain security, resilience and performance
- Demand continues to grow, driven by increased message volumes, regulatory change and industry programmes (eg MHHS)
- Risks associated with DSP1 are managed primarily through contractual change mechanisms, capacity management and operational governance rather than through a dedicated programme-level contingency

3.114 DCC has also highlighted constraints on minimising DSP1 investment, to avoid nugatory expenditure while ensuring compliance with operational performance obligations.

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### **Our view**

3.115 We consider DSP1 costs to be largely unavoidable in the short term, reflecting the requirement to maintain service continuity and system integrity during a complex transition period. Evidence provided by DCC demonstrates that opportunities to materially reduce DSP1 costs ahead of migration are limited.

3.116 We are therefore  **minded to allow DSP1 costs as forecast**, but expect that DCC will:

- Continue to limit DSP1 investment to what is necessary for service continuity, security and regulatory compliance
- Actively manage contractual and Volume-Driven Costs
- Progress exit and decommissioning of DSP1 at pace once migration milestones allow

## DSP2 Programme delivery

### **Context**

3.117 DSP2 is a major transformation programme intended to replace the legacy DSP1 service with a modular, disaggregated and more scalable data service architecture. Contracts for DSP2 were awarded in March 2025, and the DSP2 Full Business Case (FBC) received non-objection from DESNZ.

3.118 The first Price Control Period covers the bulk of DSP2 design, build and test activity, ahead of planned go-live in February 2028 and subsequent device migration.

3.119 Based on the Business Plan, DSP2-related costs within the first Price Control Period are forecast at approximately £94.1m, of which:

- Around £81.1m relates to DSP2 design, build, test, transition and migration activities
- Around £10.5m reflects DSP2 operational costs incurred during the period, with the balance relating to external non-resource services and ancillary change.

3.120 These costs include programme-level contingency within the DSP2 FBC envelope.

### **DCC's justification**

3.121 DCC has justified DSP2 costs on the basis that:

### **Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

- DSP2 is required to address fundamental limitations of DSP1, including resilience, scalability, cost transparency and flexibility
- Costs align with approved Full Business Cases and reflect competitively procured contracts with improved commercial terms
- The programme includes an explicit contingency provision approved through formal governance to manage genuine delivery risks associated with design finalisation, migration sequencing and dual running
- Strong programme governance is in place, including oversight through the DSP Programme Governance Board

3.122 DCC has further emphasised that DSP2 is expected to deliver material long-term benefits, including reduced operational costs post-migration.

#### **Our view**

3.123 We consider DSP2 costs to be sufficiently evidenced and appropriately governed, reflecting approved scope set out in the Full Business Cases. We are on that basis **minded to allow DSP2 costs, including the approved programme-level contingency, in line with the DSP2 Full Business Case**. This is however subject to ongoing expectations around delivery discipline, transparency and value for money.

#### DSP risk provision

3.124 In addition to forecast DSP1 and DSP2 costs, DCC has included a DSP risk provision within the ReqR. This provision is presented as a portfolio-level allowance intended to capture downside risk associated with operating and transitioning DSP services during the first Price Control period.

3.125 DCC has explained that the risk provision is not allocated to a single programme or contract and sits outside:

- approved DSP2 FBC scope, including programme-level contingency; and
- contractual DSP1 business-as-usual and in-life change costs forecast elsewhere in the Business Plan.

3.126 DCC has indicated that the provision reflects a range of identified but not yet crystallised risks, including extended DSP1 operation, demand and capacity uncertainty, migration and integration complexity, and contractual exposure associated with DSP1 extensions.

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**Our view on the risk provision**

3.127 Taking DSP1 and DSP2 together and recognising the scale and complexity of the DSP transition, we are minded to approve the requested DSP allowance overall for this first Price Control Period. However, in relation to the risk provision, we consider that, as presented, it remains:

- unallocated to defined activities;
- probabilistic in nature; and
- not assessable for value for money on an *ex-ante* basis.

3.128 Notwithstanding that we recognise the underlying risks and do not disagree with the possibility that additional costs may arise, we consider it appropriate that any use of this provision is subject to strengthened transparency, governance and control. **We propose on that basis that the risk provision is ringfenced, pursuant to Licence Condition 24 Part B**, as a distinct element of the DSP allowance. For the avoidance of doubt, ringfencing in this context means that:

- The provision may only be used to meet costs that arise from specific DSP2 implementation risks, aligned to the FBC assumptions and an agreed Joint Industry Plan
- The costs may only be incurred under the Fundamental Service Capability contracts within the scope of the MDM SF and the contingency must not be used to offset baseline DSP1 or DSP2 delivery costs
- Any underspend will be returned to consumers or addressed through future price control decisions

3.129 We also request DCC shares with us the underlying quantitative risk analysis supporting the risk provision, including key assumptions on likelihood, cost impact, interdependencies and mitigations.

3.130 In addition, we expect DCC to report to us on the management and use of the risk provision through quarterly reporting. This should include:

- Evidence that demonstrates how any amounts drawn down relate to clearly defined and crystallised risks
- Confirmation that proposed expenditure has been reviewed and approved through the relevant programme governance arrangements
- A clear articulation of how spending has mitigated risk and consumer benefit.

3.131 Finally, we also note that, as part of wider future policy development, we will explore whether and how the use of risk provisions across the portfolio can be

## **Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

linked more explicitly to DCC's remuneration policy and incentive framework. Doing so, will help incentivise and reinforce delivery discipline, which ultimately aligns with consumer outcomes.

## Enterprise System and Service Integrator

### **Context**

3.132 As part of its Business Plan, DCC has proposed forecast expenditure relating to the Enterprise System and Service Integrator (ESSI). DCC has described the ESSI as a procurement programme to consolidate integration services across DCC. It is expected to improve speed and quality of change delivery; reduce technical assurance overhead; and strengthen accountability across the integration landscape.

3.133 A Final Business Case (FBC) for the ESSI is scheduled for September 2027, and the procurement is expected to take place following approval of the FBC, with service transition commencing in early 2028. DCC has included costs within the first ex-ante Price Control Period to support early-stage activity, ahead of procurement and service transition.

### **Our view**

3.134 In assessing these costs, we note that key decisions on scope, delivery model and costs are yet to be taken through the SOC and FBC processes; and that the procurement and service transition are expected to take place beyond the first Price Control Period.

3.135 In line with our broader approach to the *ex-ante* framework, we recognise that there is a risk that expenditure may extend beyond clearly defined for where an activity is required but for where the associated scope and cost are not yet fully determined.

3.136 **Consistent with our treatment of other change programmes at an early stage of development, we are minded to ringfence ESSI costs under Licence Condition 24 Part B.** Ringfencing ESSI costs will ensure that:

- Expenditure during the Price Control Period is limited to contracted activities
- Funding is not used beyond the scope established through the SOC and FBC processes

3.137 This approach allows DCC to progress early-stage activity. Simultaneously, it also maintains appropriate control over expenditure pending the development of a fully defined and approved programme. We welcome views from consultees on this proposed approach.

**Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028**Table 3.17: Proposed Required Revenue for Meter Data Management SF, in [£m]**

	<b>DCC proposal</b>	<b>Ofgem proposed allowance</b>	<b>Difference</b>
<b>First RY (5 months)</b>	44.629	44.629	-
<b>RY27/28 (12 months)</b>	105.828	105.828	-
<b>Total over the ex-ante period</b>	<b>150.457</b>	<b>150.457</b>	-

## Outcomes we expect DCC to deliver

3.138 Considering DSP1's role as the incumbent provider delivering live services, we expect DCC to deliver the following outcomes:

- **Stability and continuity of service**, with minimal disruption to existing operations
- **BAU service delivery within a controlled and predictable cost envelope**, avoiding incremental or cumulative scope expansion
- **Reduced reliance on reactive or late-stage change requests**, indicating improved upfront planning and specification
- **Consistent adherence to agreed service levels**, with issues resolved through structured service management rather than additional scope

3.139 Given DSP2's role in transition and early live delivery, we expect DCC to deliver the following outcomes:

- **Controlled and timely transition of services**, in line with the sequencing, milestones and dependencies set out in the Business Plan and approved Joint Industry Plan
- **Tight discipline over mobilisation and transition scope**, preventing unnecessary enhancements or redesign beyond what is required for safe service transfer
- **Cost discipline during mobilisation**, with expenditure demonstrably linked to approved transition activities
- Progressive **reduction in transition risk** over time, evidenced by diminishing reliance on parallel running, contingency measures or short-term fixes
- A **clear pathway to steady-state BAU delivery**, such that DSP2 delivery is not prolonged or open-ended

**Consultation** Determination of DCC’s Required Revenue: November 2026 to March 2028

## F. Privacy and Security Service Family

### Background

3.140 The Privacy and Security (P&S) Service Family comprises three main services:

- Enduring Change of Supplier (ECoS) – ensures secure access and privacy controls during supplier switches
- Dual Control Organisation (DCO) – mitigates risks of mass meter attacks on SMETS1 devices through anomaly detection and cryptographic safeguards
- Trusted Service Provider (TSP) – underpins DCC’s Public Key Infrastructure (PKI), which is a core component of the security architecture supporting the smart metering network. It enables the cryptographic services and digital certificates used across the system

3.141 Table 3.18 below provides an overview of the Fundamental Service Capability providers which constitute the P&S Service Family. In addition to these, DCC itself provides a cyber security function in-house led by the Chief Information Security Officer covering governance, monitoring and incident response.

**Table 3.18 P&S Fundamental Service Capability Service Providers**

Reference	Role	Provider	RY of contract
S1_DCOa	Hosting & Service Management	Capgemini	24/25
S1_DCOb	Application Support & Maintenance	Critical Software	24/25
ECoS 1	Hosting and Managed Service	Accenture	21/22
ECoS 2	Application Build/IT Solution	Critical Software	21/22
PKI-E	Trusted Service Provider	BT	24/25
ECoS 3	Application New procurement	<i>To be procured</i>	Expected 27/28
PQC	Post Quantum Cryptography	<i>Multiple</i>	

3.142 **DCC has proposed total Required Revenue for the first Price Control Period of £79.2m**, comprising £17.3m between November 2026 and March 2027, and £61.8m between April 2027 and March 2028.

**Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

3.143 Of the total £147.3m, **DCC ascribed £70.5m to fixed costs constituting the P&S Service Family budget.** The remaining £8.7m have been reported under, and attributed to, Internal Costs.

**Table 3.19 Breakdown of P&S costs per RY, in [£m]**

Type of cost	First RY (5 months)	RY 27/28 (12 months)	Total over the ex- ante period
Set-up costs	-	15.467	15.467
Operational costs	11.355	27.759	39.114
Costs of change	2.618	10.497	13.115
Testing	0.021	0.050	0.071
External Services	0.866	1.856	2.722
<b>TOTAL SF budget</b>	<b>14.860</b>	<b>55.629</b>	<b>70.488</b>
Internal Costs (outside budget)	2.467	6.204	8.670
<b>TOTAL P&amp;S costs</b>	<b>17.326</b>	<b>61.832</b>	<b>79.159</b>

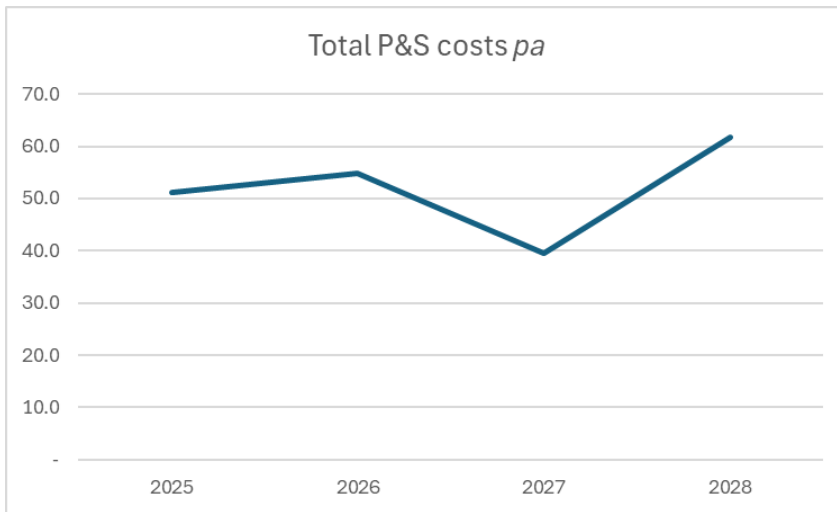
3.144 DCC explained that it will focus on maintaining security resilience, preparing for future threats, and ensuring continuity of service. Total costs, including related Internal Costs for comparison, are expected to increase substantially from RY26/27 to RY27/28 as seen in figure 3.6 below. Although operational costs remain steady, the increase is driven by the following change activities:

- DCO Technology Refresh in RY27/28 to support long-term stability
- ECoS re-procurement to secure continuity after the expiry of the current contracts in June 2028
- Post Quantum Readiness to address new threats arising from quantum computing and update encryption standards

3.145 The individual programmes and our assessment thereof are discussed below in detail.

**Consultation** Determination of DCC’s Required Revenue: November 2026 to March 2028

**Figure 3.6 Comparison of total P&S costs per RY**



**Figure 3.6 Input table; figures in [£m]**

RY	2025	2026	2027	2028
<b>Total P&amp;S costs</b>	51.1	54.9	39.5	61.8

**DCO**

**DCC’s justification**

3.146 DCC reprocured the DCO service for the period December 2024 – March 2029, with go-live in autumn 2025. Capgemini and Critical Software were re-awarded the service they provided pre-RY24/25 but a move to a more modern cloud hosting reduced the monthly operational charges by c.£350k per month. DCC justified the proposed operational costs of the DCO on the basis of the charges agreed under these re-procured contracts.

3.147 DCC further sought to justify a significant provision for a technology refresh in RY27/28. We questioned DCC why this expenditure was necessary and economic in the context of recent re-procurement of the DCO solution which already included an upfront investment of £14.2m. DCC explained that this expenditure will cover the replacement of Hardware Security Modules which will reach their end of life in 2027. The forecast was based on the number of HSMs needing to be replaced and the contractual replacement unit price per HSM. In addition, DCC proposed a small provision for contractual changes which may be required during the Price Control Period.

## **Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

### **Our view**

3.148 On balance, we are minded to accept the proposed Required Revenue for the DCO service as necessary. However, we are concerned about the economy of the ongoing requirements for investment, which erodes the benefits in lower operational costs achieved through the upgraded hosting service. We expect DCC to bear down on any costs of change and drive value for money via strong contract management.

## ECoS

### **DCC's justification**

3.149 DCC justified the operational costs with reference to the fixed operational charges within its contracts.

3.150 DCC further proposed an allowance for a re-procurement of the ECoS contracts by June 2028 when the ECoS 1 contract is due to expire. DCC explained that it is working towards a Full Business Case in August 2027 and its estimate is based on a mid-scenario, which assumes a new SP and a period of dual running and DBT phase, potential technical changes in environments and includes additional contingency. The External Cost forecast is split between the first Price Control Period (expenditure starting from September 2027) and the second Price Control Period (from April 2028). DCC provided a copy of a Strategic Outline Case prepared in Q1 2026 to support its case. The Strategic Outline Case laid out a broad range of options with a shortlist of preferred options to be carried forward to the Outline Business Case.

### **Our view**

3.151 We are minded to accept the proposed operational costs as we are satisfied that they reflect current contractual requirements.

3.152 However, we are not minded to approve the proposed re-procurement costs in full. Our Business Plan Guidance states that "where contracts are underway, forecasts should reflect the most up to date view available to the Licensee."<sup>35</sup> We acknowledge that the Business Plan and Price Control submission predated the Strategic Outline Case; however, we consider it prudent to update assumptions and follow the most up to date view from the Strategic Outline Case. We note that the estimated change spend for the options, which DCC has shortlisted and is taking to the next stage of the business case process, is c.45% lower than the

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<sup>35</sup> Ofgem (2025), Business Plan Guidance, paragraph 3.15(b). [www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance](https://www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance)

## **Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

previously assumed scenario. **We propose to set the Required Revenue at the level of the Strategic Outline Case shortlisted options as these options represent the most likely level of expenditure based on the available information.** However, to allow DCC to move at pace in implementation, we also **propose to include all of this funding into the first Price Control period** (instead of splitting it between the first and second Price Control Periods). **We further propose to exercise our power under Licence Condition 24 Part B and ringfence this portion of the Required Revenue** solely for the purpose of making payments to a new Service Provider for DBT activities following a compliant re-procurement on the basis of a Full Business Case, which has received a non-objection by the Secretary of State under Licence Condition 10. Any underspend will be returned to consumers, or reallocated to the next Price Control Period to complete DBT ahead of go-live. For the avoidance of doubt, our proposal does not endorse any specific option and should DCC progress to OBC, we welcome further input to update cost assumptions.

### PKI-E

#### DCC's justification

3.153 DCC is progressing a refresh of the TSP platform to optimise costs while continuing to meet operational performance requirements. The new platform will be updated to meet emerging Post-Quantum Cryptography requirements and will support re-use for additional PKI certification authorities, including vWAN and Future System Management (FSM).

3.154 The TSP service is provided by BT, which is responsible for the deployment, operation and maintenance of the service, including management of the Smart Metering Key Infrastructure. Oversight of the certificate estate is provided by DCC's Cybersecurity function, in conjunction with the SMKI Policy Management Authority.

3.155 DCC sought to justify the forecasts on the basis of fixed BAU costs in line with the BT contract entered into in March 2025.

#### **Our view**

3.156 Having assessed DCC's submission, we propose to allow the forecasted costs PKI-E for RY26/27 and RY27/28.

**Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028  
Post Quantum Cryptography (PQC)

**DCC's justification**

- 3.157 To comply with NCSC's<sup>36</sup> guidance and protect against emerging quantum threats, DCC proposes to upgrade network security across communication hubs, the TSP platform and user interfaces. DCC explained that the activity must start in RY26/27 to meet migration requirements and ensure that a transition to quantum-safe algorithms can happen before the threat capability materialises in the 2030s.
- 3.158 DCC included a substantial provision for the PQC project over the first Price Control Period into its Business Plan. DCC explained that it has already commenced work on a proof-of-concept for the implementation of PQC standards on 4G Comms Hubs and that the outcome will determine the scale and complexity of the firmware development which will follow it. Nevertheless, DCC has provided a cost breakdown for the "full end-to-end scope from Proof of Concept validation, through experimental development and testing, to production deployment of PQC capability on the CH" to cover activities throughout the Price Control Period. This includes: 4G major release, evaluation for long-range radio (LRR) CHs, a LRR major release, TSP upgrade, crypto inventory and system interfaces.

**Our view**

- 3.159 We accept that work on PQC will have to proceed; however, we are concerned about the risk of nugatory spend given the high uncertainty about the scope and complexity.
- 3.160 To allow this work to progress, we are minded to accept the proposed Required Revenue; however, **we also propose to direct that this amount be ringfenced, pursuant to Licence Condition 24, Part B, for the sole purpose of meeting External Costs of PQC activities agreed with the SEC Security Sub-Committee.** To minimise the risk of nugatory spend, we expect DCC not to proceed without prior consultation with the Security Sub-Committee and/or the Secretary of State. We would welcome the SSC's views on DCC's proposal and the scope of the work the committee envisages will be required to be delivered by March 2028.

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<sup>36</sup> National Cyber Security Centre

**Consultation** Determination of DCC’s Required Revenue: November 2026 to March 2028

Our proposal

3.161 **We propose to set the Required Revenue for the P&S SF at £69.222m, split between £14.860m in the First Regulatory Year and £54.362m in RY27/28, as per table 3.20 below.**

**Table 3.20: Proposed Required Revenue for Privacy and Security SF, in [£m]**

	<b>DCC proposal</b>	<b>Ofgem proposed allowance</b>	<b>Difference</b>
First RY (5 months)	14.860	14.860	-
RY27/28 (12 months)	55.629	54.362	-1.267
<b>Total over the ex-ante period</b>	<b>70.488</b>	<b>69.222</b>	<b>-1.267</b>

Outcomes we expect DCC to deliver

3.162 Maintain a stable and secure DCO service for SMETS1; manage change to minimise additional costs needed to invest into recently re-procured contracts

3.163 Progress ECoS re-procurement exercise, deliver a good quality FBC by September 2027, with comprehensive industry input, to receive a non-objection from the Secretary of State, and have a compliant, value for money solution in place no later than June 2028. New contract(s) should drive long-term value for money leveraging competition and technology

3.164 Deliver a fully functional PQC PoC for 4G CHs; implement the new solution with a CH software release within the expected NCSC timeframe; carry out evaluation and deliver a major release for LRR CHs, upgrade the TSP, crypto inventory and system interfaces in agreement with the SEC SSC and DESNZ; while observing strict budget discipline and avoiding nugatory spend.

**Consultation** Determination of DCC’s Required Revenue: November 2026 to March 2028

## G. Service Management Service Family

### Background

3.165 The Service Management (SM) SF comprises data reporting, logistics and system monitoring functions as well as several projects focused on enabling better data across industry. **The only Fundamental Service Capability contract allocated to this SF is the Future Service Management (FSM) contract with Capgemini;** however, there are also a number of associated resource and non-resource External Services.

3.166 **DCC has proposed total Required Revenue for the first Price Control Period of £34.9m**, comprising £12.7m between November 2026 and March 2027, and £22.2m between April 2027 and March 2028.

3.167 Of the total £34.9m, **DCC ascribed £17.2m to fixed costs constituting the SM SF budget.** The remaining £17.7m have been reported under, and attributed to, resource Internal Costs.

**Table 3.21 Breakdown of SM costs per RY**

Type of cost	First RY (5 months)	RY 27/28 (12 months)	Total over the ex-ante period
Operational costs (incl. non-resource External Services)	1.075	2.277	3.352
Costs of change	6.702	7.175	13.877
<b>TOTAL SF budget</b>	<b>7.777</b>	<b>9.452</b>	<b>17.228</b>
Internal Costs (outside budget) – these include resource-based External Services	4.956	12.755	17.711
<b>TOTAL SM costs</b>	<b>12.732</b>	<b>22.207</b>	<b>34.939</b>

3.168 DCC explained that it will focus on the delivery of mandatory activities and improvements, such as: Comms Hubs returns capability, amendments to incident processing and data to support GSOP and respond to “no WAN” incidents. However, over £6m of the proposed £17.2m has been allocated to three major change programmes:

- Energy Data Best Practice – to comply with Condition 11 Part B of the Licence, mandating alignment to Ofgem-issued Data Best Practice Guidance

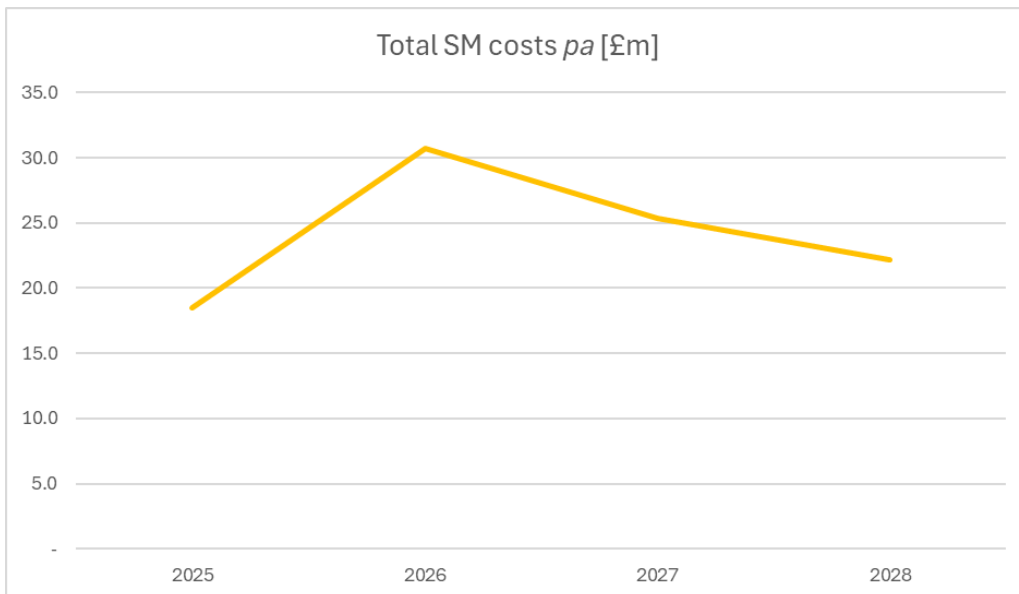
**Consultation** Determination of DCC’s Required Revenue: November 2026 to March 2028

- Consumer Consent Solution – to support RECCo as a CCS Data Provider
- Guaranteed Standards of Practice (GSOP) enhancements – to enhance service management and triage capabilities to enable improved response to industry

3.169 DCC further explained that no costs have been allocated for Smart Meter Energy Data Repository (SMEDR) pending DESNZ’s decision on the matter but a small provision was included for a DCC diagnostics role to better resolve non-communicating incidents and provide improved reporting – this would require DCC to become a user of own network.

3.170 Figure 3.7 below provides a comparison against SM costs in previous years. Despite the inclusion of the abovementioned change programmes, total costs are expected to decrease compared to RY25/26 which included set-up costs of the FSM and high non-resource External Services expenditure. Those incurred costs will be reviewed by Ofgem under the *ex-post* review of RY25/26. Our assessment of the forecast costs for FSM and each change programme is below.

**Figure 3.7 Comparison of total SM costs per RY**



**Figure 3.7 Input table; figures in [£m]**

RY	2025	2026	2027	2028
<b>Total SM costs</b>	18.5	30.8	25.3	22.2

**Consultation** Determination of DCC’s Required Revenue: November 2026 to March 2028  
FSM

**Context**

3.171 The Future Service Management (FSM) programme is designed to deliver a core enabling capability within DCC’s Service Management Service Family. It supports incident, problem and change management across DCC services. The FSM platform (ServiceNow) is intended to replace legacy tools and to support operational delivery during a period of increased complexity, including implementation of Guaranteed Service Operational Performance (GSOP), delivery of service improvements, and transition to DCC2.

3.172 In its Business Plan submission, DCC requests a total allowance of £10.9m for FSM over RY26/27 and RY27/28. This comprises provision for licensee-led project and programme (change) costs and run costs.

3.173 The licensee-led project and programme costs are proposed to fund eight “medium” FSM releases, additional operational capability enhancements, and non-routine maintenance activity. These costs are not linked to specific committed scope and are presented as a flexible provision to address emerging requirements during the first Price Control Period.

**DCC’s justification**

3.174 DCC sought to justify the requested allowance on the following basis:

- **Original scope limitations:** DCC stated that the approved FSM Full Business Case (FBC) covered only core ServiceNow upgrades and routine maintenance. It argued that additional capability development, ecosystem-wide regression testing, and integration changes were deliberately excluded at the time due to uncertainty and therefore now require funding through the Business Plan.
- **Regulatory and customer-driven change:** DCC indicated that FSM will need to support delivery of SEC Modifications, regulatory clarifications, and customer-driven operational improvements, and that the precise scope, timing and cost of these changes could not be defined sufficiently at FBC stage.
- **Operational maturity post go-live:** DCC argued that FSM is replacing a legacy toolset and that post-go-live enhancement is necessary to embed operational maturity, stabilise processes and ensure the solution evolves in line with operational needs.

3.175 DCC presented the £7.7m requested funding as intentionally non-committed, to allow for flexibility in responding to these drivers as and when they arise.

## **Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

### **Our assessment**

3.176 Our assessment is that the £7.7m requested for licence-led FSM project and programme costs represents post-FBC scope expansion rather than funding for activities previously approved through formal governance. During the clarification phase, DCC confirmed that these in-life change costs were not included in the FSM FBC.

3.177 This distinction is important in the context of the ex-ante framework. The Business Plan Guidance is clear that:

- Funding should be based on approved scope, or on the most recent approved stage of a business case where development is ongoing; and
- It is for the Licensee to demonstrate that forecast costs are sufficiently likely to be incurred, economic and efficient, and supported by relevant evidence.

3.178 In this case, the evidence provided by DCC did not sufficiently meet that standard. In particular:

- There is no clear mapping between proposed FSM releases and specific SEC Modifications or firm regulatory obligations.
- The assumed cost of releases (circa £1.1m each) is not supported by a robust breakdown, benchmarking, or options analysis.
- DCC was unable to point to any customer engagement it carried out to help determine the need for these changes

3.179 It is unclear to what extent the proposed activity overlaps with upgrade releases and maintenance already funded via FSM run costs under the approved FBC (prorated at circa £4.1m over the relevant period).

3.180 This view is also consistent with the CCG's wider feedback across the Business Plan, which highlighted concerns about the maturity and transparency of cost proposals where funding is sought on a non-committed or programme-level basis. More particularly, the CCG emphasised the need for:

- Clearer articulation of the underlying drivers for change, including the distinction between regulatory-driven requirements and discretionary enhancement
- Stronger linkage between proposed activity, cost and customer benefit
- Discipline in the first *ex-ante* period to avoid consumers funding broad contingency allowances where scope is not yet sufficiently defined

## **Consultation** Determination of DCC’s Required Revenue: November 2026 to March 2028

- 3.181 In summary, this approach recognises the likelihood of future FSM change but expects additional funding to be justified through clearer evidence and governance, rather than being approved wholesale upfront.
- 3.182 We are of the view that approving the full £7.7m upfront, without clearer scope definition or evidential support, risks setting a precedent that post-FBC discretionary scope expansion can be funded upfront. This would be inconsistent with both the Business Plan Guidance and the principles underpinning the *ex-ante* regime, and risks weakening incentives on DCC to prioritise, evidence and sequence change activity effectively.
- 3.183 Having reviewed all evidence, **we are minded to allow FSM costs of £4.1m, consistent with the approved FSM Full Business Case.** This reflects £1.198m in RY26/27, prorated from the Transfer Date in November 2026 through to the end of March 2027; and £2.903m in RY27/28, covering the full regulatory year.
- 3.184 We are however not minded to approve the £7.7m project and programme allowance upfront, given the current lack of evidential maturity and the absence of clear linkage to approved scope, firm regulatory obligations or defined customer outcomes.
- 3.185 Were we, as part of the consultation phase, to receive further satisfactory evidence that demonstrates that these costs are likely to be incurred, and will be economic and efficient, then we would be open to increasing the FSM allowance accordingly.

## Change programmes

### **Context**

- 3.186 The Data Best Practice and Centralised Consumer Consent programmes respond to Ofgem’s requirements:
- Under Condition 11 Part B, DCC must “use its best endeavours to act in accordance with the Data Best Practice Guidance” and “publish a Digitalisation Strategy and Digitalisation Action Plan at intervals specified in a Ofgem’s DSAP Guidance<sup>37</sup>
  - The Consumer Consent Solution (CCS) is being delivered by RECCo; however, DCC is expected to have a role to support the solution as an Energy Data Holder<sup>38</sup>

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<sup>37</sup> Ofgem (2025), Data Best Practice guidance. [www.ofgem.gov.uk/guidance/data-best-practice-guidance](https://www.ofgem.gov.uk/guidance/data-best-practice-guidance)

<sup>38</sup> Ofgem (2025), Consumer Consent decision. [www.ofgem.gov.uk/decision/consumer-consent-decision](https://www.ofgem.gov.uk/decision/consumer-consent-decision)

**Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

3.187 In addition, the Guaranteed Standards of Performance (GSOP) has introduced automatic compensations for energy consumers if certain standards are not met.<sup>39</sup> Proposals under GSOP 4, pending Ofgem's decision, include non-operational smart meter issues relating to the smart meter network (operated by DCC).

**DCC's justification**

3.188 **DBP:** DCC explained that the cost forecast assumes moderate investment in data principles alignment, automated triage processes and a contained platform build. DCC further explained that since the Business Plan submission, it has gathered requirements for the development of a data store solution, built an indicative cost model and engaged several DNOs to understand how they have approached compliance. DCC's current plan is to issue an RFI and procure a platform solution by end-2026.

3.189 **CCS:** DCC explained that the scope of work will include systems integration, operational, and subsequent in-life change requests to support new data uses and users. This will be needed to integrate with RECCo's solution to validate consumer consent before granting data access and to manage accession to the trust framework. DCC identified RECCo's design as the main dependency and noted that the organisations have been working together on alignment on technical details.

3.190 **GSOP:** DCC explained that the proposed changes would require amendments to incident tooling and potential workflow and automations to support volume increases. DCC explained that its cost estimates are based on previous tooling changes and a service desk uplift modelled on a forecast increase in the flow of incidents. Nevertheless, DCC identified Ofgem's decision as a key dependency and highlighted that these costs remain uncommitted. Related to the GSOP requirements, DCC stated that it is seeking to become a user of own network to improve fault diagnostics and reporting. By sending messages over the network, DCC expects to be able to offer better insight on issues affecting performance, enabling energy suppliers to identify non-communicating devices and remediate issues. DCC based its estimate for the diagnostics role on a forecast for a non-resource External Service.

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<sup>39</sup> Ofgem (2025), Statutory consultation on smart meter guaranteed standards of performance. [www.ofgem.gov.uk/consultation/statutory-consultation-smart-meter-guaranteed-standards-performance](https://www.ofgem.gov.uk/consultation/statutory-consultation-smart-meter-guaranteed-standards-performance)

## Consultation Determination of DCC's Required Revenue: November 2026 to March 2028

### Our assessment

- 3.191 **DBP:** We have considered DCC's proposed scope and plans as well as the network expenditure to comply with the DBP obligations. On balance, we are minded to accept the proposed funding to meet the outcomes set out below; however, we are minded to ringfence this funding under LC24 Part B, specifically for the purposes of delivering this initiative and outcomes to reduce the risk of undue cross-subsidy of other projects, with any underspend returned to customers.
- 3.192 **CCS:** We recognise that prior to the final publication of the CCS design consultation and decision, there remains a degree of uncertainty in final costs, and that DCC had to make a number of assumptions which will only be confirmed following RECCo's publication. On balance, we consider it more likely than not that costs will have to be incurred. We are minded to accept the proposed Required Revenue for the CCS; however, to ensure economic expenditure, we further propose to ringfence this funding under LC 24 Part B, specifically to deliver changes subject to RECCo's published CCS design and an alignment between DCC and RECCo on DCC's status as an Energy Data Holder.
- 3.193 **GSOP:** We expect to take final decisions on the progress and substance of GSOP 4 in the latter half of 2026.<sup>40</sup> To ensure funding is available, if required following our decision, we are minded to accept the proposed Required Revenue but ringfence it under LC24 Part B solely for the purposes of implementing changes necessary to comply with Ofgem's decision on GSOP4. We would observe that the intended diagnostics role may not be currently possible without regulatory changes. Any access to the ringfence funding and for the activity to proceed would depend on such changes taking place first.

**Table 3.22: Proposed Required Revenue for Service Management SF, in [£m]**

	DCC proposal	Ofgem proposed allowance	Difference
<b>First RY (5 months)</b>	7.777	4.691	-3.085
<b>RY27/28 (12 months)</b>	9.452	5.743	-3.709
<b>Total over the ex-ante period</b>	<b>17.228</b>	<b>10.434</b>	<b>-6.794</b>

<sup>40</sup> Ofgem (2026), Supplier Guaranteed Standards of Performance: Final Decision on smart meter Guaranteed Standards, paragraph 2.14. [www.ofgem.gov.uk/consultation/statutory-consultation-smart-meter-guaranteed-standards-performance](http://www.ofgem.gov.uk/consultation/statutory-consultation-smart-meter-guaranteed-standards-performance)

## **Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

### Outcomes we expect DCC to deliver

3.194 Based on the Business Plan submission, the FSM (Service Management) programme is intended to strengthen DCC's operational oversight and control. We therefore expect DCC to deliver the following outcomes:

- **Effective service management capability**, including robust incident, problem and change management processes that support the stable operation of DCC services
- **Improved visibility and control of service performance**, enabling DCC to identify issues early and take timely corrective action
- **Consistent and accurate service reporting**, supporting internal decision-making and transparent reporting to customers and the Authority
- **Timely and efficient resolution of operational issues**, reducing avoidable disruption and repeat incidents
- **Delivery of FSM activity to agreed timescales and within approved budgets**, in line with the scope and cost assumptions set out in DCC's Business Plan
- **Sustained compliance with licence and SEC obligations**, supported by mature, embedded service management processes

3.195 **DBP:** DCC changing from Data Processor to Joint Controller; delivery required SEC changes, a robust triage function, data quality and cleansing work, the beginnings of full metadata coverage to the Dublin Core standard, review and alignment with either CCL or OGL for data licensing, and the setup up of a data catalogue to be populated. We also expect this to be prepared for publication as a Digitalisation Strategy (DSAPs).

3.196 **CCS:** DCC to deliver agreed upon technical interoperability that will allow DCC to accept and verify CCS tokens and furnish access to the specified SM data; DCC to reach an agreement between with RECCo as to what system data will be part of the CCS system in the 'fast follower' development phase following RY26/27.

3.197 **GSOP:** Facilitating the implementation of GSOP in line with Ofgem's decision; ensuring Service Providers are fully held accountable for non-operating meters under DCC's contracts.

**Consultation** Determination of DCC’s Required Revenue: November 2026 to March 2028

**H. Testing Services Service Family**

**Background**

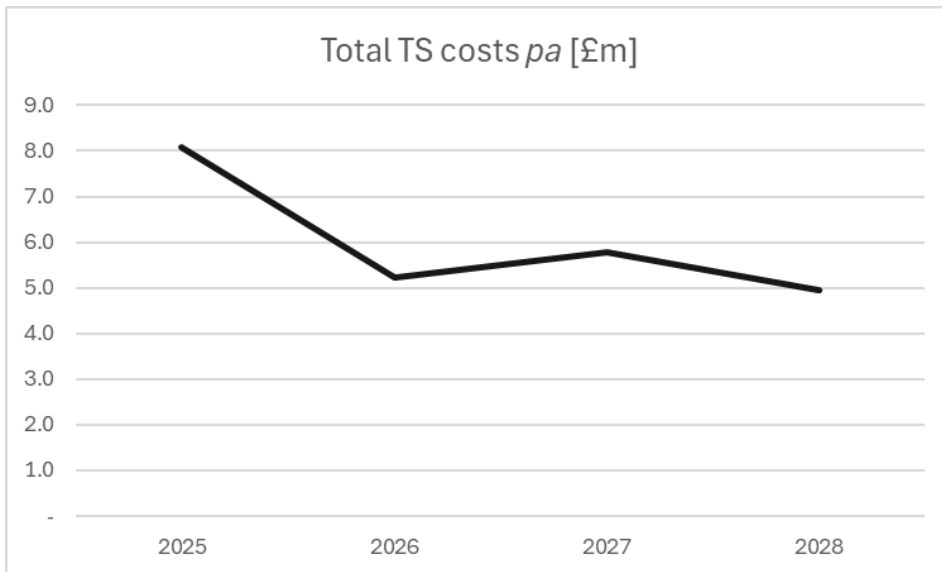
3.198 Testing Services are delivered through a combination of internal DCC capability and an External Service Provider contract. The Testing Services (TS) SF comprise one FSC contract with HCL for DCC Test Labs Operator services,<sup>41</sup> and non-resource External Service for hardware to support test lab operations.

3.199 **DCC has proposed total Required Revenue for the first Price Control Period of £6.8m**, comprising £1.8m between November 2026 and March 2027, and £5.0m between April 2027 and March 2028.

3.200 Of the total £6.8m, **DCC ascribed £4.7m to fixed costs constituting the SM SF budget (FSC + non-resource External Services)**. The remaining £2.1m have been reported under, and attributed to, related Internal Costs.

3.201 Figure 3.8 below provides a comparison against TS costs in previous years. Costs are expected to decrease slightly, mainly on account of removal of set-up costs from future years.

**Figure 3.8 Comparison of total TS costs per RY**



**Figure 3.8 Input table; figures in [£m]**

RY	2025	2026	2027	2028
<b>Total TS costs</b>	8.1	5.2	5.8	5.0

<sup>41</sup> Also known as TAF (Test Automation Framework) SP

## Consultation Determination of DCC's Required Revenue: November 2026 to March 2028

### DCC's justification

- 3.202 DCC sought to justify the necessity for these costs to occur with reference to its obligations under SEC Section H14. DCC explained that the services include user onboarding, system testing, device testing, and user system testing, the operation of the DCC Test Lab, provision of test environments, and support for mandated testing processes. DCC also clarified that the TS SF does not include costs of integration testing (whether system or user) associated with projects and programmes, which are included within the respective programme budgets.
- 3.203 DCC sought to demonstrate economy and efficiency by showing that the costs are in line with its contractual requirements with no further change or set-up costs required. DCC also confirmed that there are no planned change programmes which will impact DCC's ability to meet its SEC Section H14 obligations, and that all costs are fixed per contract.

### Our view

- 3.204 We have previously expressed concerns about the SP performance and the resulting delays to, and additional costs of, the TAF programme.<sup>42</sup> We sought assurances from DCC that the programme will be back on track by the Transfer Date and will not cause delay to the implementation of DSP2 (see Meter Data Management SF). We are pleased that DCC has not included any further set-up or change costs which previously arose from programme issues.
- 3.205 We have also sought alignment of forecasts to the Award Recommendation Report, which DCC presented to us at the start of the TAF programme to justify its procurement of HCL. DCC provided an explanation by a further cost breakdown and comparison.
- 3.206 Having considered DCC's justification and additional evidence, on balance, **we are minded to set the Required Revenue for the TS SF at £4.714m as laid out in table 3.23 below, aligned with DCC's proposal.** We are satisfied that the testing costs are being incurred based on regulatory requirements and in line with acceptable contractual arrangements.

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<sup>42</sup> See: Ofgem (2026), DCC Price Control: Regulatory Year 24/25, paragraphs 2.121-2.137. [www.ofgem.gov.uk/consultation/data-communications-company-dcc-price-control-consultation-regulatory-year-2024-2025](http://www.ofgem.gov.uk/consultation/data-communications-company-dcc-price-control-consultation-regulatory-year-2024-2025)

**Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028**Table 3.23: Proposed Required Revenue for Testing Services SF, in [£m]**

	<b>DCC proposal</b>	<b>Ofgem proposed allowance</b>	<b>Difference</b>
<b>First RY (5 months)</b>	1.278	1.278	-
<b>RY27/28 (12 months)</b>	3.436	3.436	-
<b>Total over the ex-ante period</b>	<b>4.714</b>	<b>4.714</b>	-

## Outcomes we expect DCC to deliver

3.207 We expect DCC to fulfil its commitments set out in its Business Plan, including:

- Ensuring the User Integration Testing (UIT) environment remains available during core operating hours, with a target 95% availability
- Providing necessary resources and tools to fully support User Testing Services with 90% of requests met within 30 minutes
- Sharing details of testing issues and defects via monthly reporting shared with the Testing Design and Execution Group (TDEG)

3.208 Automated test solution to be fully available by November 2026 to support pre-System Integration testing for DSP2 and CTA3 test phase

**Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

## 4. Costs subject to Automatic Adjustments

This section includes two proposals. First, we assess DCC's proposed Required Revenue (ReqR) for Volume-Driven Costs. Volume-Driven Costs are External Costs which DCC has identified as being driven by factors outside its control. They primarily relate to communications hubs, financing arrangements, and other costs that vary automatically with external charges or inflation indices. We are minded to accept DCC's forecasts for these costs, with the exception of SMETS1 Overage charges, which we propose to adjust to align to the forecast we accepted as part of DCC's Undertaking in our RY24/25 *ex-post* Price Control decision.

Secondly, pursuant to LC 24 Part C, we propose to designate specific Drivers of Volume-Driven Costs, Pass-Through Costs, and costs arising from contractual indexation; recognising that the effect of these Drivers is not within DCC's control, to allow ReqR affected by these factors to be adjusted automatically. We also propose to ringfence Volume-Driven and Pass-Through Costs subject to Automatic Adjustments, so that adjustments apply only to the approved Drivers and do not give rise to cross-subsidy with other areas of ReqR.

### Consultation questions

- Q10. What are your views on the proposed Required Revenue for Volume-Driven Costs? Do you agree with our proposal to adjust the ReqR for SMETS1 network charges on the basis of a more recent forecast?
- Q11. Do you agree with our approach to Automatic Adjustment and the costs subject to this uncertainty mechanism?

## Background

- 4.1 Under Licence Condition 24, Part C, aspects of the ReqR may be adjusted automatically, where a change in cost is the effect of a pre-defined Driver pre-approved by Ofgem.
- 4.2 Ofgem's role is to approve DCC's forecasts and associated Drivers. The Required Revenue then adjusts automatically in line with movements in the approved Drivers (for example, changes in the number of meters installed or movements in inflation indices).

## **Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

- 4.3 Consistent with Licence, Ofgem's policy conclusions on the *ex-ante* framework and the Business Plan Guidance,<sup>43</sup> we propose to apply the Automatic Adjustment mechanism to three key cost areas:
1. **Volume-Driven Costs**, which vary systematically with externally driven changes in operational activity, assets volume or system usage. Volume-Driven Costs are submitted in line with the RIGs.<sup>44</sup>
  2. **Pass-Through Costs**, which are incurred on behalf on customers and recovered as costs, with limited or no scope for control by the Licensee. PTC are defined in the Licence.<sup>45</sup>
  3. **Contractual indexation**, where costs adjust automatically in line with pre-defined contractual inflation indices. DCC included an inflation projection within its operational charges and provided a contractual indexation clause for each relevant contract in line with the Business Plan Guidance.<sup>46</sup>

### **Volume-driven enabling services and testing costs**

- 4.4 Volume-Driven Costs are a subset of External Costs that arise directly from changes in observable operational activity or demand.<sup>47</sup> In accordance with the Business Plan Guidance, for a cost to be considered volume-driven, it should meet the following criteria:
- Have a regulatory requirement to incur these costs
  - Be driven by a singular, clear identifiable volume driver (for example, service requests, messages and SIM usage)
  - Exhibit a direct causal relationship between changes in volume and change in cost
  - Where appropriate, these costs should be calculated through a transparent and auditable formula of *unit rate*  $\times$  *observed volume* where both the unit rate and the estimate volume driver are clearly defined, externally evidenced and pre-conditioned
- 4.5 Volume-Driven Costs consist of variable business-as-usual costs that can be classified into three distinct categories:

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<sup>43</sup> Ofgem (2025), Business Plan Guidance. [www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance](http://www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance)

<sup>44</sup> Ofgem (2025), Regulatory Instructions and Guidance (Successor Licensee). [www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee](http://www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee)

<sup>45</sup> LC 24, Part F

<sup>46</sup> Business Plan Guidance, 3.25

<sup>47</sup> Business Plan Guidance, paragraphs 5.17-5.19

**Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

- Defined capacity (where a contract variation is required to exceed the contracted capacity)
- Purchased capacity (where excess capacity is subject to pre-specified charging arrangement)
- Predefined unit costs capacity (capacity set with a specific unit-rate)

## Cost breakdown of Volume-Driven Costs

- 4.6 DCC has proposed a total of **£380.029m of Volume-Driven External Costs** across the Price Control Period, comprising **£105.338m in the First RY** and **£274.642m in RY27/28**. This represents around **40% of total External Costs** over the first Price Control Period.
- 4.7 Within this, **communications hub related costs account for approximately 66%** of total Volume-Driven Costs, reflecting their central role in service delivery. The majority of these costs relate to the SMETS1 and SMETS2 LRR / 2G / 3G programmes, which together account for around 78% of volume-driven BAU costs. Costs associated with SMETS2-4G, predominantly relate to the financing of 4G communications hubs, account for a smaller share, at approximately 15% of the total.
- 4.8 Table 4.1 shows the breakdown of the proposed Volume-Driven Costs.

**Table 4.1: Cost breakdown of Volume-Driven Costs**

<b>Proposed area of volume-driven cost</b>	<b>% of total</b>
Comms Hub Costs	66.42
SMETS1 Volume-Driven Costs	26.6
SMETS2 (4G) Volume-Driven Costs	3.02
Volume-Driven Enabling Services & Testing Costs	1.68
Financing costs (excl. CH financing )	1.39
Switching Volume-Driven Costs	0.89
Catalogue Services	0.37
SMETS2 (LRR/2G/3G) Volume-Driven Costs	0.03

- 4.9 For the purposes of the RIG submissions, costs identified as Volume-Driven can be grouped into the following categories:

## **Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

- Communications hub-related costs, including monthly asset charges, maintenance costs and associated catalogue services
  - Non-communications-hub, programme related financing costs, reported separately as volume-driven financing costs volume-driven financing costs.
  - SIM and network charge, including Overages, which are related to SMETS1 service, applied on a per-unit or usage basis under individual contracts (for example, S1\_CSP1 and S1SP\_2)
  - Other activity-based External Costs, including testing services, switching services, and enabling services, where costs vary with changes in demand or system activity.
- 4.10 Communications hub costs primarily reflect the volume of comms hubs ordered by energy suppliers. DCC has put in place financing arrangements to smooth the profile of customer charges over time, meaning that costs charged in any given Regulatory Year are determined not only by current-year procurement, but also by the cumulative stock of financed comms hubs and the timing of drawdowns.
- 4.11 This results in a multi-year cost profile that reflects both historic and new comms hubs orders. Legacy SMETS LRR/2G/3G comms hubs are subject to an accelerated financing profile with costs fully accrued by 2028 leading to a higher charge in the earlier part of the Price Control period. The reason for the accelerated financing profile for these comms hubs is due to their shorter economic life-span due to 2G/3G network being turned off and requiring recovery earlier to avoid stranded asset risk and inter-generational cost transfer.

### DCC's justification

- 4.12 DCC's justification for the proposed Volume-Driven Costs is grounded in its obligations to deliver smart meter communication services and supporting infrastructure. DCC has explained that these costs are subject to exiting contractual terms, but vary systematically with changes in demand, system scale, or supplier activity, which are outside its direct control.
- 4.13 Financing costs arise from the volume and timing of asset procurement and associated drawdowns. DCC has provided evidence on its defined capacity contract arrangements, including contractual capacity limits and the risks associated with exceeding those limits, and has clarified that certain forecasts (such as SMETS1 Overage costs) were based on the information available at the time of submission.
- 4.14 DCC further explained that communications hub asset maintenance costs scale with the number of active hubs, while financing costs scale with the cumulative

## **Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

volume of hubs procured and financed, reflecting the underlying asset base and associated financing and accrual profiles. In support of this, DCC provided observable volume metrics, unit-rate information, and updated volume forecasts, together with explanations of the key sources of volatility affecting costs, including exchange rates, inflation, and supplier ordering behaviour.

### Cost assessment

- 4.15 In assessing the proposed Volume-Driven Costs, we have considered whether the evidence provided is sufficient to demonstrate that costs are likely to occur, are economic and efficient and how they vary in relation to volume-driven activities, in line with the Business Plan Guidance.<sup>48</sup>
- 4.16 Based on the material submitted, we consider that DCC has provided sufficient information to support our assessment of Volume-Driven Costs. The evidence enabled us to understand the proposed volume drivers, the mechanisms through which activity changes affect costs, and the basis on which those costs are forecast and incurred through contractual arrangements. This has informed our view and that the costs are likely to be incurred in order to meet DCC's licence obligations, are broadly economic and efficient (LC 24 Part A), and are suitable for consideration under Automatic Adjustment.
- 4.17 As part of our assessment, we also identified areas where the submission and clarity of evidence could be improved, including in relation to unit cost transparency, articulation of volume drivers, and alignment between the Business Plan and the RIGs. We will separately provide direct feedback to DCC on these observations.

### Our view

- 4.18 Having considered the evidence submitted by DCC, **we are minded to set the Required Revenue for Volume-Driven Costs at £346.410m for the first Price Control Period**, as set out in table 4.2 below.
- 4.19 For the majority of DCC's proposals, we are satisfied that the proposed costs are likely to be incurred to deliver mandatory smart metering communications services and supporting infrastructure.
- 4.20 We have also considered whether the proposed costs are likely to be incurred economically and efficiently. Although the volumes driving these costs are determined by supplier behaviour and external factors, such as demand, DCC remains responsible for ensuring that the underlying contractual arrangements

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<sup>48</sup> Business Plan Guidance, paragraphs 5.17-5.19

## Consultation Determination of DCC’s Required Revenue: November 2026 to March 2028

provide value for money. On balance, we consider this test to be met, noting that the forecasts are underpinned by actual contractual arrangements, demand-led volume assumptions, and supporting evidence on how costs respond to changes in activity and system scale. We have also taken into account evidence of improvements in DCC’s contractual arrangements, including changes to SMETS1 overage terms examined as part of the RY24/25 *ex-post* price control.<sup>49</sup>

4.21 One area, where our proposal differs from DCC’s submission, relates to the forecast of SMETS1 Overage charges. DCC’s Business Plan forecast was based on information available at Q3 2025 and did not reflect subsequent contractual renegotiation with the service provider. We consider it prudent to rely on the most up-to-date forecast, consistent with the evidence provided in support of the Undertaking accepted as part of the RY24/25 *ex-post* decision,<sup>50</sup> to ensure that the ReqR reflects the best available evidence at the time of a determination. The effect of this adjustment is a reduction in DCC’s proposed ReqR by **£33.619m**. We expect DCC to further mitigate Overage costs throughout the period, at minimum by a timely implementation of technical changes to SRVs 4.3 and 4.10 in line with its Undertaking. We expect DCC to actively look for further ways to mitigate or avoid the Overage charges as we are concerned about the long-term underlying efficiency of these costs.

**Table 4.2: Proposed ReqR for Volume-Driven Costs [£m]<sup>51</sup>**

	DCC proposal	Ofgem proposed allowance	Difference
<b>First RY (5 months)</b>	105.388	101.429	-3.959
<b>RY27/28 (12 months)</b>	274.641	244.980	-29.661
<b>Total over the ex-ante period</b>	<b>380.029</b>	<b>346.409</b>	<b>-33.620</b>

<sup>49</sup> Ofgem (2026), DCC Price Control: Regulatory Year 24/25 – decision. [www.ofgem.gov.uk/consultation/data-communications-company-dcc-price-control-consultation-regulatory-year-2024-2025](https://www.ofgem.gov.uk/consultation/data-communications-company-dcc-price-control-consultation-regulatory-year-2024-2025)

<sup>50</sup> Ibid, paragraphs 2.41-2.44

<sup>51</sup> Figures are approximate and may not add up due to rounding

**Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

## **Automatic Adjustments proposal**

- 4.22 We have considered whether the proposed Drivers associated with Volume-Driven Costs should be approved for the purposes of Automatic Adjustment under LC 24, Part C. In doing so, we have assessed whether the effect of the drivers on ReqR is not within DCC's control.
- 4.23 We found that communications hub asset and maintenance costs scale with the number of comms hubs ordered, installed, and remaining active on the network; financing costs scale with the cumulative volume of hubs procured and the associated capital drawdowns; switching, SMETS1, and SMETS2 costs vary with transaction volumes and service activity; and DSP programme costs reflect changes in data processing demand and system usage.
- 4.24 We are satisfied that the costs proposed for Automatic Adjustment vary systematically in response to these externally driven factors, including changes in asset volumes, network usage, transaction activity, and the number of meters and devices connected to the system, and that these Drivers are outside DCC's direct control and give rise to material uncertainty over the Price Control Period.
- 4.25 On this basis, and consistent with Licence Condition 24, Part C, we are minded to approve Drivers associated with Volume-Driven costs, Pass-Through Costs, and contractual indexation, set out in table 4.3 below.
- 4.26 The effect of our proposal is that where a Driver has an effect which causes DCC to incur less or require to incur more ReqR than previously determined by Ofgem, then the ReqR, specifically the terms PTC(t) and EC(t) of the ReQ formula (and the associated term ECc(t), calculated in accordance with the RIGs,<sup>52</sup> for the purposes of the Recovered Revenue formula under LC 25 Part A) will be deemed to have increased or decreased accordingly. DCC will reflect these adjustments in its Service Charges (subject to LC27) and report the impact of these Drivers through its end-of-year reporting in accordance with LC 25.11.
- 4.27 As the ReqR will be adjusted automatically in line with movements in the approved drivers, we propose to ringfence the Volume-Driven and Pass-Through Costs pursuant to LC 24 Part B, to ensure they apply only to the associated elements of ReqR and do not give rise to cross-subsidy with other cost categories. This proposal is further set out in Appendix 1.
- 4.28 We welcome respondents views on our proposed treatment of these costs and the proposed Drivers.

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<sup>52</sup> Ofgem (2025), Regulatory Instructions and Guidance (Successor Licensee), paragraph 4.11. [www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee](http://www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee)

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**Table 4.3 Overview of proposed Drivers for costs subject to Automatic Adjustment**

<b>Cost area</b>	<b>Proposed Driver for Automatic Adjustment</b>
Communications hub asset and maintenance costs	Number of Comms hubs ordered/ installed / active
Volume driven communications hub financing costs	Volume of comms hubs financed and cumulative financing balance
Non communications hub, programme related financing costs	Relevant programme volumes or activity levels underpinning financing drawdowns
Switching related volume driven costs	Number of switching transactions
SMETS1 Volume-Driven Costs	Number of SMETS1 meters / SIMs / messages
SMETS2 Volume-Driven Costs	Number of SMETS2 meters or messages related activity
DSP programme financing and services	DSP related activity volumes or connections
Catalogue services	Number of catalogue items / supported assets
Contractual indexation	Applicable Inflation index for relevant contracts
Pass Through Costs: Payments to SECCo	SECCo budget, pursuant to Section C8 of the Smart Energy Code
Pass Through Costs: Payments to AltHANCo	AltHANCo budget, pursuant to Section Z4 of the Smart Energy Code
Pass Through Costs: Payments to the Previous Licensee	Authority Direction, pursuant to Licence Condition 24.17(f)
Pass-Through Costs: Payments to Energy Suppliers as Reimbursement Amount for the purposes of the CH Replacement Reimbursement Service	Communications Hub Replacement Reimbursement Methodology (Schedule 5 of the Licence)
Required Revenue within the CRS (Switching) Service Family budget <sup>53</sup>	RECCo budget established in accordance with Section 9 of the Retail Energy Code (REC) <sup>54</sup>

<sup>53</sup> See Chapter 3, Part D (CRS SF), paragraphs 3.96-3.100

<sup>54</sup> REC Main Body & Schedules. Accessible at: <https://recportal.co.uk/rec-main-body-schedules>

**Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028**Further observations**

4.29 Through the clarifications process, we found several areas where further information was needed to assess the proposed costs, of which we have provided a high-level summary below. We will provide further details to DCC directly.

- **Unit cost transparency:** DCC did not include explicit £-per-unit rates for communications hub costs.
- **Cost classifications:** Several costs described by DCC as variable or volume-driven were presented without clear evidence that they were volume driven.
- **Alignment of the Business Plan with the RIGs:** There was a difference in categorisation between the Business Plan narrative and the detailed RIGs submission.
- **Transparency of contractual arrangement and risk management:** There was insufficient detail on how individual contractual obligations are being met by External Service Providers, including the risk of delivery and how they are managed. We note that was also highlighted in the CCG's report.

## **Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

### 5. Internal Costs

Internal Costs encompass the costs of delivering Authorised Business, excluding External and Pass-Through Costs. These primarily consist of overheads such as payroll, accommodation, and IT.

Internal Costs represent approximately 15% of the total proposed Required Revenue. DCC proposed Internal Costs of £173m. This includes Service-related and Corporate Overheads (£163.3m) and Licence renewal and Innovation fund (£9.7m) for the period November 2026 to April 2028.

In our view, DCC has provided sufficient supporting evidence and justification for most Internal Cost projections. However, we have concerns around insufficient justification for External and IT Services (£1.325m) and Licence renewal (£4.313m) which have resulted in a proposed reduction of Internal Costs by £5.638m.

DCC has outlined plans to transform its recruitment approach by reducing reliance on external hiring and increasing the use of internal recruitment. This strategy is expected to strengthen internal capability and deliver cost efficiencies over time. We welcome focus on driving internal efficiencies but expect DCC to be able to better explain its target operating model and resourcing methodology. We also note that DCC's initial submission did not fully comply with Business Plan Guidance in certain areas. DCC should address these issues and improve the accuracy and transparency of its forecasting in the next Price Control submission.

#### **Consultation questions**

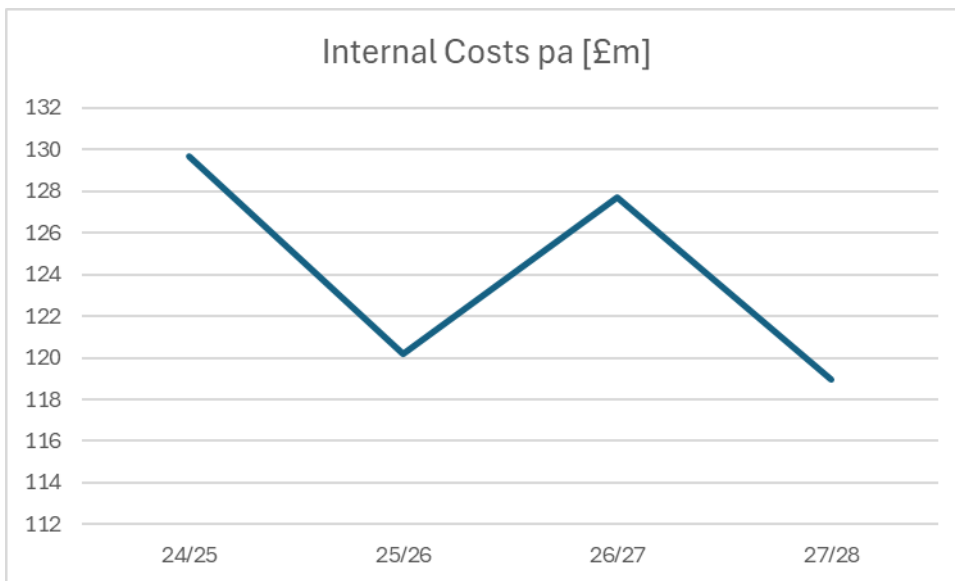
- Q12. What are your views on the proposed Required Revenue for Service Delivery and Corporate Overhead functions?
- Q13. Do you agree with our proposal to reduce the proposed Required Revenue for External and IT Services by £1.325m?
- Q14. What are your views on DCC's approach to benchmarking of staff remuneration for both contractors and permanent staff? What are your views on (i) the appropriateness of using CPI as the basis for indexation for benchmarking, including alternatives such as CPIH or wage indices, and (ii) whether a 3% uplift appropriately reflects expected inflation?
- Q15. What are your views on the proposed Required Revenue for Innovation Fund?
- Q16. What are your views on our proposals to adjust the Required Revenue for Licence Renewal?

## Consultation Determination of DCC's Required Revenue: November 2026 to March 2028

### What are Internal Costs?

- 5.1 Internal Costs are costs DCC incurs to deliver its Authorised Business (excluding External Costs and Pass-Through Costs). In total, Internal Costs over the Price Control Period amount to £173m. The largest area of expenditure is Payroll costs (over 70%), followed by IT services (12%), External Services (resource + non-resource) (7%), and Accommodation (5%).
- 5.2 As showed in Figure 5.1, DCC is forecasting a reduction in Internal Costs from c.£130m in RY24/25 to c.£119m in RY27/28; however, this includes a temporary increase in RY26/27 on account, in particularly, of Licence Renewal activities (discussed in more detail in section C of this chapter).<sup>55</sup> DCC claimed that if the Licence Renewal programme and new corporate system costs were omitted (because the former is one off cost and the latter is paid for by Capita under the current Licence) the actual difference would be greater.

**Figure 5.1: Comparison of total Internal Costs per RY, in [£m]**



**Figure 5.1: Input table, figures in [£m]**

RY	2025	2026	2027	2028
<b>Total Internal Costs</b>	129.7	120.2	127.7	118.9

<sup>55</sup> NB, RY26/27 is split between DCC1 (pre-November 2026) and DCC2 (post-November 2026) and all costs incurred until the Transfer Date (November 2026) will be subject to *ex-post* assessment under the Previous Licence.

## Consultation Determination of DCC's Required Revenue: November 2026 to March 2028

### 5.3 DCC reports Internal Costs in two ways:

- Via general ledger (GL) categories: Payroll, Non-Payroll, Recruitment, Accommodation, External Services (resource), External Services (non-resource), Internal Services, Service Management, Transition,<sup>56</sup> IT services,<sup>57</sup> and Office Sundry costs.<sup>58</sup> These provide a stable, transparent view of costs over time regardless of DCC's internal organisation
- By internal functions grouped into Service Delivery and Corporate Overheads (and Other Internal Costs), which provide better insight into how DCC is structured

5.4 Table 5.1 provides a split of Internal Costs by GL codes. Some figures are redacted in line with DCC published Business Plan;<sup>59</sup> specifically, the table does not specify exact Payroll and Service Management figures.

**Table 5.1: Internal Costs split by General Ledger code RY26/27 to RY27/28, in [£m]**

<b>Cost</b>	<b>26/27 (5 months)</b>	<b>27/28 (12 months)</b>	<b>Total (17 months)</b>
Payroll	[redacted]	[redacted]	<b>[redacted]</b>
Non-payroll	1.5	3.5	<b>5.1</b>
Recruitment	0.2	0.4	<b>0.6</b>
Accommodation	2.4	6.0	<b>8.4</b>
External Services (Resource)	3.8	3.2	<b>7.0</b>
External Services (Non-Resource)	1.9	3.4	<b>5.3</b>
Service Management	[redacted]	[redacted]	<b>[redacted]</b>
IT Services	6.4	15.0	<b>21.4</b>

<sup>56</sup> Transition: Previous General Ledger Code for the cost of setting up DCC and mobilising the business. There are no Transition costs in this Business Plan as any costs related to Licence Renewal are included in Other Costs.

<sup>57</sup> IT Services: This category is where all IT costs are reflected. This includes email authentication, billing, document management, data services, financial planning tools and networks, hosting, programme and architectures, desktop support, telephony and website.

<sup>58</sup> Office Sundry: Office costs that are small in amount and relatively rare in occurrence.

<sup>59</sup> DCC (2026), DCC Final Business Plan. See at: [dcc-business-plan-final-1-nov-2026-31-mar-2028-redacted-v2.pdf](#)

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<b>Cost</b>	<b>26/27 (5 months)</b>	<b>27/28 (12 months)</b>	<b>Total (17 months)</b>
Office Sundry	0.1	0.1	<b>0.2</b>
<b>Total</b>	<b>54.1</b>	<b>118.9</b>	<b>173.0</b>

- 5.5 Functionally, £97m (56%) of Internal Costs support service delivery overheads aligned to service family outputs. Corporate overheads<sup>60</sup> total £66m (38%), and the remaining £10m (6%) is assigned to the time-bound licence renewal programme and two other small projects.
- 5.6 DCC reported the average number of Full Time Equivalents (FTEs) for each financial year from RY24/25 to RY27/28. In RY24/25, the annual average FTE was 770.5, with 762 FTE employed at the end of the financial year. DCC has sought to demonstrate efficiencies by reducing overheads as a percentage of overall DCC costs between RY24/25 and RY27/28, driven by reductions in payroll costs.
- 5.7 DCC explained how it intends to operate within agreed resource levels within each business area, supported by active oversight to manage against it. For example, all leavers will be reviewed centrally, and any replacement will be carefully assessed against business need before being backfilled. DCC intends to maintain strong governance, supported by focus on internal mobility to optimise resources.
- 5.8 DCC claimed that it is shifting away from agency and contractor dependence. Additionally, it stated that it will restructure teams and move towards more direct internally sourced hiring, with a growing emphasis on internal mobility to deliver cost savings while ensuring that capability is retained and developed within the organisation.

## Payroll

- 5.9 These costs include salaries, day rates, overtime, bonuses, car allowances, healthcare, National Insurance, pensions and other allowances. It includes the costs of both permanent DCC staff and contractors.
- 5.10 Payroll costs are forecasted to decline by c.9% between RY24/25 and RY27/28. According to DCC, this will be driven by reductions in both permanent staffing and contractor costs. These reductions also absorb annual salary inflation and

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<sup>60</sup> Corporate overheads are the central costs of running the DCC as an organisation, which are not attributable to a specific service, including corporate management and other central support costs.

## **Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

increased costs associated with changes to employer National Insurance contributions.

- 5.11 Payroll costs are split between contractor and permanent staffing. The permanent FTE forecasts have been omitted because due to confidentiality (see DCC's published Business Plan for more details).<sup>61</sup>
- 5.12 **Contractor Costs:** Contractor numbers have reduced significantly in recent years from a high of 151 FTE at March 2023 to a forecast of 28 FTE by the end of March 2026. DCC expects to stabilise around this number across the Price Control Period, as there will always be a requirement for contractor resource to augment permanent capability where time-bound, specialised (niche) requirements must be met. Contractor FTE numbers are expected to represent just over 4% of FTE numbers in RY27/28.

### Non-payroll costs

- 5.13 These costs include the cost of travel, subsistence, mobile phone and training expenses.
- 5.14 The costs remain flat between RYs 24/25 and 27/28. A substantial element of these costs relates to travel and subsistence. DCC has claim that it continues to optimise its non-payroll costs through a focus on cost-effective travel and subsistence planning, while aiming to preserve the benefits of face-to-face collaboration and site visits.

### External Services (Resource)

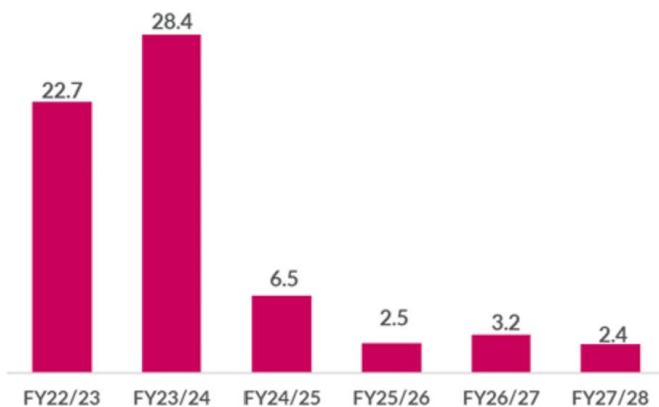
- 5.15 These costs include third-party resource services, such as legal or consultancy support. Since RY23/24, DCC appears to have made attempts at reducing its reliance on consultancy by in-sourcing capability through permanent and contractor recruitment. As such, consultancy expenditure is forecasted to reduce, from a high of £28m in RY23/24, to £2.4m in RY27/28 (-92%). This does not include Licence Renewal costs where consultancy support adds £10.3m between RY24/25 to RY27/28, of which £3.3m is proposed between November 2026 and March 2028.

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<sup>61</sup> DCC (2026), DCC Final Business Plan. See at: [dcc-business-plan-final-1-nov-2026-31-mar-2028-redacted-v2.pdf](#)

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**Figure 5.2: External Services (Resource) costs, RY22/23 to RY27/28, in [£m] – excluding Licence Renewal**



- 5.16 As part of its Business Plan submission, DCC reported that it will continue to require some external expertise, primarily to support legal, governance, regulatory, assurance, and commercial activities that are associated with the delivery of Authorised Business.
- 5.17 Similar categories of expenditure have been scrutinised and assessed under previous *ex-post* Price Controls, where Ofgem has consistently emphasised the importance of strong internal capability and value for money in the use of external consultancy support.

### Recruitment

- 5.18 These costs primarily relate to recruitment and extensive referencing checks for employees and are expected to fall significantly, partly on account of a declining attrition rate and reducing contractor requirements.
- 5.19 DCC is seeking to reduce recruitment costs considerably (83% reduction) across the Price Control Period from £2.4m in RY24/25 to £0.4m in RY27/28.

### Accommodation

- 5.20 DCC is implementing a property strategy aimed at consolidating its estate into two principal sites, thereby reducing its overall footprint and centralising business operations. The key elements of this strategy are as follows:
- The closure of Discovery House, Nottingham, in early 2025, with the lease due to expire in December 2025. Associated cost savings will be realised from 2026
  - The termination of the lease at Ibex House, London, and the relocation of DCC's London operations to Riverscape

## **Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028

- The extension of the lease at Brabazon House, Manchester, for a period of one to two years while longer-term relocation options are explored

5.21 DCC stated that accommodation costs remain relatively stable throughout the Price Control Period, with cost avoidance forming the basis for property portfolio decisions. For example, by relocating to a new office, DCC claims to have avoided fit-out expenses as, in the previous location, additional annual costs for external space were required, and remaining in the building would have resulted in a significant rent increase. The CCG expressed disappointment that the closures do not appear to deliver material savings.

### **Service Management**

5.22 These costs relate to the provision of a first line service desk for industry customers. This includes the Service Management System, Service Desk provision by EXL for Switching and SMETS2 which are reported separately via the Service Management SF. The service desk contract went through a re-procurement process.

### **IT Services**

5.23 Currently, part of DCC's IT infrastructure, hardware, software, services and enterprise applications (Finance and Billing, HR) are provided by DCC1's parent company and the cost is paid through Internal Services and profit mechanisms. DCC1 has been setting up its own IT infrastructure in preparation for the transition to DCC2.

5.24 DCC has commenced the process to identify DCC2's business requirements and separation from existing services and is expected to be completed by the Transfer Date. DCC forecasts that the ability to select more appropriate IT solutions for the size and needs of DCC2 along with consolidating solutions across the organisation will deliver savings compared to current costs, despite the potential loss of volume purchasing discounts. Although the IT General Ledger annual expenditure is forecasted to increase in RY27/28, DCC expects this to be offset by the removal of certain costs, specifically DCC1 overhead and margin, that are not reflected in an *ex-ante* cost comparison.

## **A. Service Delivery and Corporate Overheads**

5.25 DCC's internal functions are structured into two distinct categories namely Service delivery Overheads and Corporate Overheads. Their proposed costs are set out in table 5.2 below.

**Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028**Table 5.2 Overview of Total Overheads RY24/25 to RY27/28 (£m)**

<b>Overheads</b>	<b>First RY (5 months)</b>	<b>RY27/28 (12 months)</b>	<b>Total</b>
Service Delivery Overheads	28.0	69.2	97.1
Corporate Overheads	20.0	46.2	66.2
Total Overheads Costs	48.0	115.3	163.3
Total as % of DCC Total Costs (excluding other costs and pass through costs)	14%	15%	15%

5.26 **Service Delivery Overheads** comprise DCC's internal capabilities that directly support the delivery of services to DCC's customers, known as service delivery overheads. Service Delivery Overheads account for £97m (8%) of the total DCC costs during the 1.5 years of the Price Control Period. The £97m comprises of £28m in (RY26/27) and £69.2m in (RY27/28).

5.27 **Corporate Overheads** include the provision of standard capabilities in any similar-sized, regulated organisation such as Finance, HR, IT, Regulation, and Procurement. Corporate Overheads account for £66m (6%) of the total costs during the Price Control Period.

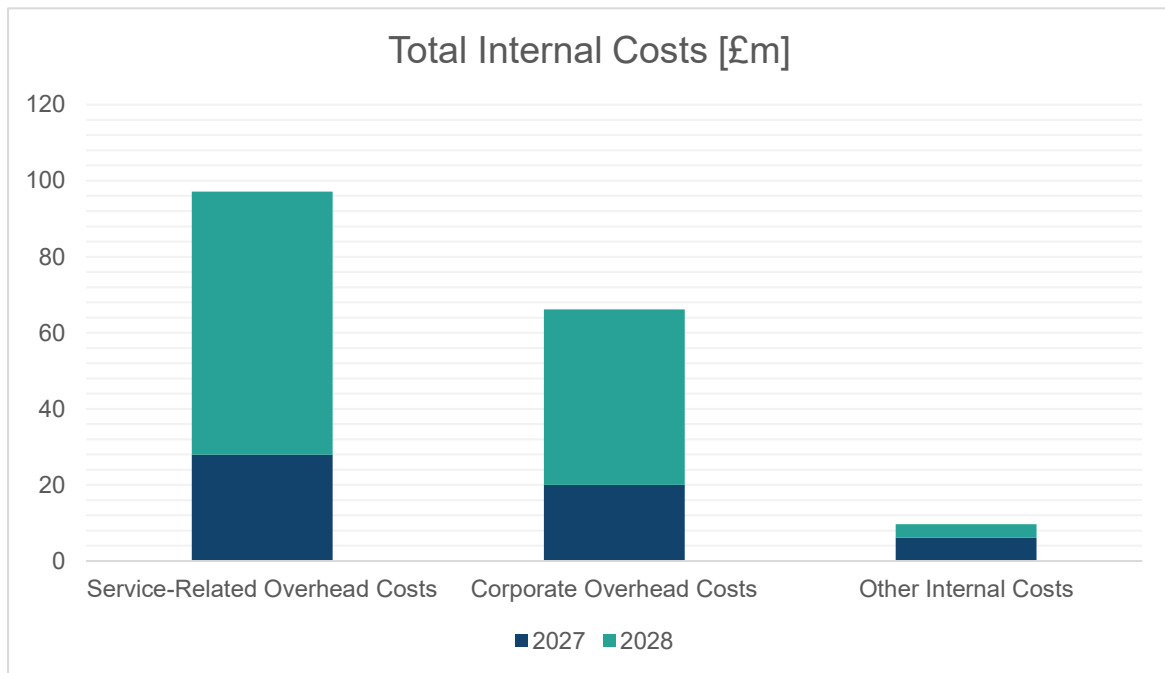
5.28 Further details on the structure of the DCC's functions organised within the Service delivery and Corporate Overhead areas can be found in DCC's published Business Plan.<sup>62</sup>

5.29 Figure 5.3 shows the split of the proposed Internal Costs between the overhead categories and Other Internal Costs (which include a small innovation fund and Licence Renewal costs). They each comprise a mixture of costs reported via GL codes set out above.

<sup>62</sup> DCC (2026), DCC Final Business Plan, chapter 7: How We Organise to Deliver. See at: [dcc-business-plan-final-1-nov-2026-31-mar-2028-redacted-v2.pdf](#)

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Figure 5.3: Total Internal Costs and distribution, in [£m]



### DCC's justification

- 5.30 As part of its submission, DCC provided evidence of individual internal functions (previously referred to as “cost centres”) and breakdown of the FTE for the Service Delivery Overheads and the Corporate Overheads.
- 5.31 DCC sought to justify its resourcing forecasting methodology by stating that it applies an established, repeatable forecasting methodology governed through the Enterprise PMO. This combines top-down modelling with bottom-up functional inputs and is governed through the Enterprise Change Committee (ECC), Resource Forum and monthly Functional Resource Reviews. This ensures that forecasts are comprehensive, consistent, evidence based and aligned to BAU and Change activity.

### Our view

- 5.32 DCC's initial submission lacked the adequate supporting evidence on both the methodology and the cost benefit analysis underpinning the proposed cost assumed for both Service Delivery and Corporate Overheads. We requested further information in line with the Business Plan Guidance.
- 5.33 Based on our review of the further information received, we consider that DCC has adequately justified most of its proposed costs assumptions. We note that that overall proposed Internal Costs are lower than in previous years and welcome efforts to find internal efficiencies. Nevertheless, **we have concerns about specific proposals in the area of External and IT Services.**

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- 5.34 We identified several legal project lines in DCC's Business Plan submission, for which forecast costs appear materially above benchmark. (DCC benchmarks its staff pay through a benchmarking exercise that compares base salaries to equivalent roles in the wider employment market.) The total proposed expenditure for these future activities amounts to £0.416m in RY26/27 and £1.446m in RY27/28.
- 5.35 We have previously found these costs to not be fully inefficient and have not seen any reasons to change our position due to the absence of clear evidence of a material change in scope or capability.
- 5.36 Consistent with our approach in previous years (see for example our RY24/25 *ex-post* Price Control consultation), we have benchmarked the costs of these activities by estimating the efficient cost of delivery on the assumption that:
- activities of this nature are delivered primarily in-house; and
  - external advisers are used only where specialist expertise is demonstrably required.
- 5.37 Applying a benchmark factor (consistent with previous years' assessments, specifically for legal services), **we propose to partially reduce the proposed ReqR to £0.204m in RY26/27 and £0.709m in RY27/28**. This position is consistent with earlier price control decisions and reinforces expectations around in-house delivery of BAU activities. We welcome views on this approach.
- 5.38 **DCC also proposed forecast Internal IT Costs associated with an eProcurement tool of £0.029m in RY26/27 and £0.383m in RY27/28**. In previous Price Control consultations and decisions, Ofgem has disallowed all costs associated with the Business Accuracy Programme (BAP), including costs linked to the implementation of new commercial and finance systems. These disallowances were made on the basis that DCC did not provide sufficiently robust evidence of how BAP benefits would be tracked, realised and returned to customers; nor was the full scope and total cost of BAP presented to customers transparently.
- 5.39 Consistent with our previous assessments, we consider that activities of this nature represent the implementation of standard corporate systems; and improvements to DCC's internal management capability, which we would ordinarily expect to form part of business-as-usual (BAU) operations. The delivery of effective procurement systems and commercial controls is a core requirement for DCC as a monopoly service provider and should not be contingent on a separate, time-limited programme for cost recovery.

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5.40 **Consistent with our previous decisions in respect of the Business Accuracy Programme, we are minded not to include these proposed costs in the calculation of the Required Revenue.**

**Table 5.3: Proposed Required Revenue for Internal Costs (excluding Licence renewal and Innovation Fund), in [£m]<sup>63</sup>**

	<b>DCC proposal</b>	<b>Ofgem proposed allowance</b>	<b>Difference</b>
First RY (5 months)	47.955	47.722	-0.233
RY27/28 (12 months)	115.317	114.225	-1.092
<b>Total over the ex-ante period</b>	<b>163.273</b>	<b>161.948</b>	<b>-1.325</b>

### Outcomes we expect DCC to deliver

- 5.41 We expect DCC to maintain focus on internal efficiencies, including continually reducing reliance on external consultants and contracts. DCC should be able to demonstrate a clear, skills-based, delivery-focused structure with a streamlined organisational hierarchy.
- 5.42 We expect the next *ex-ante* Price Control submission to contain a detailed submission of Internal Costs in line with the Business Plan Guidance.<sup>64</sup> This will allow for better assessment of the proposed costs.
- 5.43 We recognise that DCC’s forecasts included an element of contingency or prudence. However, we expect DCC to improve, and to be better able to explain, its forecasting methodology, in particular for resourcing.

## B. Benchmarking

### Context

- 5.44 We expect DCC to recruit staff at economic and efficient remuneration levels.<sup>65</sup> DCC benchmarks its staff pay by comparing base salaries to equivalent roles in the wider employment market. It uses one salary database for permanent staff; and data from three different providers for contractors.

<sup>63</sup> Figures are approximate and may not add up exactly due to rounding

<sup>64</sup> Ofgem (2025), Business Plan Guidance, see esp. paragraphs 3.17 to 3.20.

[www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance](http://www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance)

<sup>65</sup> Ibid, 3.13(a), 3.19(a)

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5.45 When recruiting permanent candidates, DCC's default strategy is to offer remuneration packages that are in-line with market rates. For benchmarking purposes, the "market salary rate" would be defined as the median salary, *ie* 50th percentile (50P) of a distribution of salaries for comparable roles. DCC excludes non-base salary benefits from its main permanent staff benchmarking methodology.

### DCC's justification

5.46 For both permanent and contractor candidates, DCC state that it benchmarks at three distinct stages during the recruitment process:

- Before the role is launched
- Before DCC chooses to interview a candidate; and
- Prior to agreeing a remuneration package with a candidate.

5.47 DCC provided further detail on its recruitment processes. DCC explained that any proposal to offer above the salary range must be referred to senior management with an accompanying business case, on an "as needs" basis.

5.48 DCC also explained that in addition to using benchmarks in the recruitment process, it also uses them to inform its own internal policy on pay and permanent staff. DCC have also forecasted a 10% reduction of payroll costs between RY24/25 and RY27/28.

### Aggregate benchmark

5.49 The aggregate benchmark represents the total calculated allowance for permanent and contractor payroll costs in the Regulatory Year. This is compared against actual total payroll expenditure for the year, with the resulting net variance used for assessment.

5.50 **The forecasted net variance for RY26/27 is £6.9m** below the aggregate benchmark.

### Our view

5.51 For the *ex-ante* Price Control, we have applied an aggregate benchmarking approach to payroll costs. This is because the control is forward looking and intended to set an efficient overall cost envelope, and before all individual staffing decisions have been made by DCC. Aggregate benchmarking provides assurance that forecast payroll is proportionate to the size and nature of the planned workforce, while preserving managerial flexibility and avoiding false precision at role level.

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- 5.52 The benchmarking approach uses the RY24/25 benchmark as a baseline, with a 3% annual uplift applied to reflect expected inflation. This is based on CPI assumptions, which in turn rely on ONS forecasts (currently around 3.3%).<sup>66</sup> While this is above the Bank of England's long-run 2% target, we consider it a **reasonable and pragmatic basis** for this assessment.
- 5.53 We recognise that CPI may not fully align with DCC's underlying cost drivers, particularly wage growth. However, it provides a transparent and widely recognised **reference point** for benchmarking.<sup>67</sup> Notwithstanding that, we welcome stakeholder views on (i) the appropriateness of using CPI as the basis for indexation, including alternatives such as CPIH or wage indices, and (ii) whether a 3% uplift appropriately reflects expected inflation. We may revisit both the index and rate in future price controls.
- 5.54 In contrast, a marginal benchmarking approach is more appropriate for ex-post cost assessments; in comparison to aggregate benchmarking, marginal benchmarking assesses the cost and justification of individual roles or resource decisions against market benchmarks, rather than evaluating the overall cost envelope in aggregate. Importantly, it allows us to assess whether roles paid above benchmark are supported by robust business justification, appropriate governance and genuine market or delivery needs.
- 5.55 Our minded-to position is that remunerating roles up to the median of the benchmark represents an economic and efficient approach. Allowing up to 10% above the median provides sufficient flexibility in most cases. Where DCC expects to exceed this level (eg through contractor rates), it should have clear evidence to justify the position, including the specific basis and circumstances under which this is necessary.
- 5.56 Accordingly, for the next Price Control Period, we will expect DCC to clearly identify any roles remunerated above the benchmark (*ie* above the median +10%); we will expect DCC to provide justification for why higher rates were considered necessary for these roles as well as evidence of appropriate internal business case approval. Where no satisfactory justification is provided, we may be minded to exclude these roles from the contribution of the aggregate benchmark to DCC's Internal Cost allowance.
- 5.57 As the net variance is £6.9m below the aggregate benchmark for RY26/27, **we are not proposing any amendments against DCC's payroll allowance.** We

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<sup>66</sup> [Consumer price inflation, UK - Office for National Statistics](#)

<sup>67</sup> "CPI is the measure of inflation we target" [Inflation and the 2% target | Bank of England](#)

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nevertheless encourage DCC to continue to ensure its payroll costs are economic and efficient.

## C. Other Internal Costs

5.58 Other Internal Costs refer to a small subsection of Internal Costs, separate to the Corporate and Service Delivery Overhead costs assessed earlier in this consultation. They relate to specific ringfenced funding for Innovation projects and Licence Renewal costs (associated with the handover of Authorised Business from DCC1 to DCC2). DCC’s proposed ReqR for Other Internal Costs is £9.7m for the first price Control Period as shown in table 5.4 below.

**Table 5.4: DCC’s proposal for Other Internal Costs**

Area	Proposed ReqR in the First RY (5 months)	Proposed ReqR in RY27/28 (12 months)	Total ReqR for November 2026 - March 2028
Licence Renewal	5.954	3.283	9.237
Innovation Fund: Fuel Poverty	0.025	0.050	0.075
Innovation Fund: Energy Efficiency	0.125	0.275	0.400
<b>Total</b>	<b>6.104</b>	<b>3.608</b>	<b>9.712</b>

### Innovation Fund

5.59 The Innovation fund is a ringfenced fund for activities which aim to deliver public good benefits. DCC has proposed a total budget of £475,000 for the first Price Control Period.

#### DCC’s justification

5.60 DCC sought to justify the breakdown of the proposed budget for the Innovation Fund against the Business Plan Guidance.<sup>68</sup>

5.61 DCC has broken down the proposed budget in 2 broad areas: Reducing Fuel Poverty and Energy Efficiency. DCC proposed to spend £75,000 on reducing fuel

<sup>68</sup> Ofgem (2025), Business Plan Guidance, paragraphs 3.30-3.35. [www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance](http://www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance)

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poverty and £400,000 on Energy Efficiency, with the proposed costs covering specialist skills and capabilities that are currently available in-house.

- 5.62 DCC proposed to use the funds available for fuel poverty on improving the identification of fuel-poor households through the smart meter network. The work is expected to include expanded control access to anonymised and aggregated smart meter system data, which will be used to grow and share insights, as well as undertaking analysis on enabling direct to meter credit. The aim of this is to enable targeted support and direct interventions. DCC also articulated that it has able to use available grants to fund these projects.
- 5.63 For energy efficiency, DCC aims to assess aspects of the smart meter network to determine how data can be used to enhance domestic energy efficiency retrofits. DCC outlined areas where the funding will be used, encompassing areas such as: Creation of synthetic data sets to demonstrate potential uses of the smart meter system data across policy areas, technology development to expand DCC boxed test tools for new applications including temperature and humidity sensor deployment, and finally ensuring the validity of smart meter data to underpin retrofit application for performance assurance, monitoring and compliance of installed energy efficiency measures.
- 5.64 The CCG report highlighted concerns that DCC was emphasising too much on the Ringfenced activity (Innovation fund), despite only forming a small part of DCC's costs, and that there was a lack of acknowledgement from DCC that this activity does not have strong stakeholder support, distracting from its core mandatory services.<sup>69</sup>

### **Our view**

- 5.65 Having considered DCC's proposal, on balance, we are satisfied that it meets the criteria set out in the Business Plan Guidance.<sup>70</sup> We are therefore  **minded to approve the proposed Required Revenue for the innovation fund.**
- 5.66 We are supportive of DCC's proposals to assist in the reduction of fuel poverty and improving energy efficiency. We have previously consented to DCC1's fuel poverty initiative<sup>71</sup> and note that, earlier this year, DCC1 requested for an extension, as the consent was due to expire on 31<sup>st</sup> March 2026. Having been

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<sup>69</sup> See: Smart Energy Code, Customer Challenge Group.

<https://smartenergycodecompany.co.uk/customer-challenge-group/>

<sup>70</sup> Ofgem (2025), Business Plan Guidance, paragraphs 3.30-3.35. [www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance](http://www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance)

<sup>71</sup> Ofgem (2024), Consent to permitted purpose activity - fuel poverty, MEDApps. [www.ofgem.gov.uk/decision/consent-granted-dcc-under-conditions-9-and-10-smart-meter-communication-licence-and-section-m43-smart-energy-code-april-2024](http://www.ofgem.gov.uk/decision/consent-granted-dcc-under-conditions-9-and-10-smart-meter-communication-licence-and-section-m43-smart-energy-code-april-2024)

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provided the relevant assurances, we agreed to consent to a 6-month extension. Under the new Licence, these initiatives are classed as ‘Permitted Business’ and are subject to Ofgem approval under Licence Condition 6. We therefore expect DCC2 to submit a Notice under LC 6 to continue the initiatives and access the funding. To ensure no cross-subsidy between Mandatory and Permitted Business,<sup>72</sup> **we further propose to ringfence the ReqR under Licence Condition 24, Part B, for the purposes of meeting the costs of Permitted Business authorised by the Authority under Licence Condition 6, Part B.**

- 5.67 We welcome that DCC has been able to use grants to fund these projects to offset the costs and encourage DCC to look for relevant grants.
- 5.68 We observe that the evidence provided by DCC to justify the spending for these projects has been extensive, and we would strongly encourage DCC to use the same philosophy for the evidence provided in other areas for future Business Plan submissions.

**Table 5.5: Proposed Required Revenue for Innovation Fund costs**

	DCC proposal	Ofgem proposed allowance	Difference
First RY (5 months)	0.150	0.150	-
RY27/28 (12 months)	0.325	0.325	-
<b>Total over the ex-ante period</b>	<b>0.475</b>	<b>0.475</b>	<b>-</b>

### Licence Renewal

- 5.69 The second, and more substantial, portion of the ‘other costs’ section of the Business Plan is dedicated to “Licence Renewal”. DCC proposed a ReqR of **£9.2m for November 2026 to March 2028** (£6m between November 26 - March 27 and £3.3m in RY27/28).
- 5.70 Licence Renewal costs are separated into 2 distinct categories. The first are costs that the Previous Licensee (DCC1) proposed to incur after the Transfer Date, which will be included as a Pass-Through Cost in the Licensee’s (DCC2) Required Revenue. The second category of costs related to Licence Renewal are costs that DCC1 proposed DCC2 will incur after the Transfer Date, included as Internal

<sup>72</sup> Licence Condition 18.4(b)

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Costs in DCC2’s Required Revenue. The breakdown of these proposed costs by licence holder is below.

**Table 5.6: DCC’s proposed ReqR for the first PC period**

Licence holder	DCC’s proposed ReqR for the first PC period
DCC1	£3.5m
DCC2	£5.7m
<b>Total</b>	<b>£9.2m</b>

**DCC’s justification**

Justification for DCC1 proposed costs

5.71 Within **DCC1’s** proposed costs after Transfer Date, DCC allocated:

- £641k to External Service Non-Resource costs for independent auditing and compliance, statutory end of year audits and a final audit prior to the closure of DCC1; and
- £2.9m to consultancy support for “DCC1’s final Price Controls”, “DCC2 transition and exit costs”, and “IT service recharges” to Capita (DCC1’s parent company who has provided a host of corporate services to DCC1).

5.72 DCC explained that the auditing services are based on existing contracts with auditing firms and based on Licence and other statutory requirements.

5.73 DCC sought to justify the “DCC2 transition and exit costs” and the “IT service recharges” as potential costs to Capita for closing IT support, allowing for a smooth transition from DCC1 to DCC2. DCC explained that as these costs are for services provided by its parent company, DCC allocated them to “DCC1’s post Transfer Date costs”.

5.74 DCC sought to justify its proposed consultancy support expenditure for “DCC1’s final Price Controls” with reference to the two remaining *ex-post* Price Controls due to be completed after the Transfer Date; specifically:

- Decision for RY25/26, due by March 2027

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- Price Control for the Final Regulatory (April 2026 to November 2026), with a submission due no later than 3 months after the Transfer date (*ie* currently falling on 2 February 2027)<sup>73</sup> and a decision expected by September 2027

5.75 DCC explained that it will need to be sufficiently resourced to meet the requirements of the these remaining Price Control processes. It should be noted that DCC has separately allocated £672k in the Strategy and Regulations section of Internal Costs for the delivery of Price Control, taking the total amount proposed for Price Control spend to £2m, split between consultants and FTEs.

Justification for DCC2 Proposed costs

5.76 For the **DCC2** proposed costs, of the £5.7m proposed Require Revenue:

- The vast majority relates to DCC2’s permanent staff and contractor costs for Licence Renewal-related activities after the Transfer Date
- The remaining costs relate to “DCC1 close-down consultancy support” and “DCC2 HR and Finance System Implementation”

5.77 DCC sought to justify the permanent and contracted staff payroll costs post-Transfer Date as necessary to complete any remaining transition activities, including the close-out of the Licence Renewal programme, including a level of hyper-care and support to DCC2 to ensure all services have continuity and are established.

5.78 DCC stated that there may be up to 40 FTE needed beyond the Transfer Date to meet all of the requirements of support to DCC2; however, this may be as low as 20 FTE should DCC2 be able to resource some of the capabilities themselves.

5.79 DCC sought to justify and explain the “DCC1 close-down consultancy support” as a budget being held in the event of further requests from the Joint Handover Steering Group<sup>74</sup> (JHSG) for further auditing and assurance activities. DCC confirmed that there is no specific activity provisioned for within this budget at this time and this is a provision in the event of work requested by the JHSG following the Transfer Date.

5.80 DCC sought to explain the provision for “DCC2 HR and Finance Systems Implementations as the second phase of upgrades to the core HR and finance systems which are scheduled between November 2026 and March 2027.

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<sup>73</sup> Condition 32.4 of the Previous Licence

<sup>74</sup> The JHSG is an independent advisory group, founded to enable a successful transition from DCC1 to DCC2

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**Our view**

5.81 We have carefully considered DCC’s justifications and evidence and are minded to determine the Required Revenue for “Licence Renewal” as **£4.248m in the first RY and £0.676m in RY27/28**, totalling **£4.924m over the first Price Control Period**. Table 5.7 below shows how this is split between costs relating to DCC1, which will be reclassified as Pass-Through Costs (in line with our previous decision on financing DCC1 and DCC2 during Business Handover),<sup>75</sup> and those relating to DCC2, which will remain classified as Internal Costs.

**Table 5.7: Cost split between DCC1 and DCC2**

Licence holder	Type of cost with DCC2’s ReqR	First RY (5 months)	RY27/28 (12 months)	Total
DCC1	Pass-Through	0.704	0.613	<b>1.317</b>
DCC2	Internal	3.544	0.063	<b>3.607</b>

5.82 Whilst overall, we understand that the Licence Renewal programme is a “moving” programme, and DCC does not have the full scope for all possible activities related to it, we have concerns around some of the costs included in the Business Plan.

5.83 Focusing on the **DCC1** proposed costs post-Transfer Date, we have several concerns over the justification and scope of

- DCC1’s final price controls
- DCC2 transition and exit costs
- IT service recharges

5.84 DCC1 has proposed to spend £2m on the final Price Control periods, split between consultancy spend (£1.325m) and full-time staff provided by DCC2 (£672k), this is a significant increase compared to previous regulatory years. In the latest Price Control determination for RY24/25, DCC incurred Price Control costs of c.£1.17m, £425k of which was determined not to be economic and efficient.

5.85 Even accounting for the fact that DCC will need to incur consultancy costs to assist the delivery of price control, as well as benchmarking the spend to account for inflation, the proposal is significantly higher than an expected price control spend. **We are therefore minded to reduce DCC’s proposed consultancy**

<sup>75</sup> Ofgem (2025), Financing arrangements for DCC1 and DCC2 during Business Handover. [www.ofgem.gov.uk/consultation/financing-arrangements-dcc1-and-dcc2-during-business-handover](http://www.ofgem.gov.uk/consultation/financing-arrangements-dcc1-and-dcc2-during-business-handover)

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**spend for DCC1 Price Control to £0.676m.** Based on the RY24/25 consultancy spend for Price Control, we have calculated a likely expenditure for the 10 months post-Transfer Date when DCC1 will require support for Price Control activities, to get a cost estimate for the ex-ante period. We benchmarked this rate (uprated for inflation), and applied a 50% contingency, including in recognition that DCC1 will be required to produce its final Price Control submission within 3 months of the transfer Date (as opposed to 4 months currently afforded after the end of each Regulatory Year) and rely on DCC2 assistance in certain areas. Whilst this position is a reduction to DCC’s proposal, we consider this to be sufficient and consistent with our previous decisions.

- 5.86 We have seen no evidence that the inclusion of “DCC2 Transition and Exit costs” in the Business Plan is necessary and therefore that the proposed costs are likely to occur. DCC provided supporting evidence from the relevant corporate services provider for DCC2 that confirms there is no need for any potential transition costs, and that the existing plan accounts for a significant period of testing before TD. There has also been no sufficient evidence that explains why this cost should be allocated to DCC1 instead of DCC2, given DCC2 will be the entity using and therefore paying for the corporate service transition. **We are therefore minded not to include this cost in the calculation of the Required Revenue.**
- 5.87 Similarly, we have seen no evidence that there will be any need for any IT services provided by Capita after TD, for the same reasons as above – the Service Provider’s plan for DCC2’s corporate services include sufficient testing before the TD. There has also been no sufficient evidence that explains why this is a cost for DCC1 over DCC2, given DCC2 will be the entity using and therefore paying for the IT service transition. **We are therefore minded not to include this cost in the calculation of the Required Revenue.**
- 5.88 For DCC2 allocated costs, we are minded to agree with DCC’s proposed costs for the HR and finance systems implementation, with DCC having provided sufficient evidence of the necessary work for upgrading HR and finance systems between November 2026 and March 2027; however, we have some concerns about the remaining two cost areas.
- 5.89 We have seen no evidence for the proposed inclusion of “DCC1 close-down consultancy support” (provision for any potential further requests by the JHSG), as there is no additional work expected to be required by the JHSG in relation to the closeout of DCC1. Given DCC has not been able to assign this proposed expenditure to any specific work or requirements and there is no evidence of any such further requests, we do not deem these costs as likely to occur, and **we are therefore minded not to include them in the calculation of the Required Revenue.**

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5.90 For permanent staff employed by DCC2 following TD, we have not seen sufficient evidence that there will be any necessary work related to Licence Handover in RY27/28. We understand that there may need to be a level of hyper care and transition following the TD, but no evidence has been provided to explain why these roles are necessary beyond March 2027, in RY27/28. **We are therefore minded to set the Required Revenue at £2.762m** for the Price Control Period, based on the proposed payroll for DCC2 staff costs for running Licence Renewal from November 2026.

**Proposed Required Revenue and classification of Licence Renewal costs**

5.91 Having outlined our views and having assessed DCC’s evidence, we are minded to determine the Required Revenue for “Licence Renewal” as **£4.248m in the first RY and £676k in RY27/28**, totalling **£4.924m over the first Price Control Period**. Tables 5.8 and 5.9 below provide the detail of our proposal for Licence Renewal Costs.

5.92 Under Licence Condition 24.17(f), we propose to designate the costs of **DCC1 post-transfer activities** in table 5.8 as Pass-Through Costs. The proposed amount will serve as a cap on costs which DCC1 will be allowed to be reimbursed for (for post-Transfer Date activities), with payments made by DCC2 to DCC1 subject to a separate agreement between both parties. The effect of this is that the DCC’s proposed £3.503m is removed from the calculation of Internal Costs in totality, adjusted per Ofgem’s proposal to £1.317m, and included in the calculation of Pass-Through Costs.

5.93 We understand that Business Handover is a moving programme, and as we approach the handover date, costs and the scope of projects within that will become clearer. We are open to revising the forecast based on any further information provided during the consultation period.

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**Table 5.8: Proposed Required Revenue for Licence Renewal DCC1 costs – reclassified as Pass-Through Costs**

<b>DCC1</b>	<b>DCC proposal</b>	<b>Ofgem proposed allowance</b>	<b>Difference</b>
First RY (5 months)	2.348	0.704	-1.644
RY27/28 (12 months)	1.155	0.613	-0.542
<b>Total over the ex-ante period</b>	<b>3.503</b>	<b>1.317</b>	<b>-2.186</b>

**Table 5.9: Proposed Required Revenue for Licence Renewal DCC2 costs – retained as Other Internal Costs**

<b>DCC2</b>	<b>DCC proposal</b>	<b>Ofgem proposed allowance</b>	<b>Difference</b>
First RY (5 months)	3.607	3.544	-0.063
RY27/28 (12 months)	2.128	0.063	-2.065
<b>Total over the ex-ante period</b>	<b>5.735</b>	<b>3.607</b>	<b>-2.128</b>

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## Appendix 1 Summary of ringfencing proposals

### Background

- A1.1. Transitioning from an *ex-post* framework to an *ex-ante* framework puts a greater focus on DCC’s ability to forecast costs accurately throughout all Service Families.
- A1.2. We recognise that DCC should be afforded a degree of flexibility within the ReqR to effectively manage its budget. This is to take account of the fact that there will be some areas where DCC underspend, and some where they overspend.
- A1.3. As set out in our *Determination of Allowed Revenue* conclusions,<sup>76</sup> DCC is afforded flexibility (“fungibility”) within individual Service Families comprising External Cost, and across resource-related Internal Costs.
- A1.4. As set out in the Licence, Ofgem may ringfence a proportion of DCC’s ReqR for a specific purpose, whereby the Licensee must not use the ringfenced amount for any other purpose.<sup>77</sup> We are proposing to use this power to further ringfence projects with an uncertain scope which should nonetheless proceed.

### Summary of ringfencing proposals

- A1.5. Under the power set out in Licence Condition 24, Part B, we propose to ringfence the budget for each Service family, Pass-Through Costs, Innovation fund costs and Volume-Driven Costs (except contractual indexation). This ensures that DCC will be able to continue providing its Mandatory Business, and provides some flexibility within each area, as funds are fungible within SF for External Costs (unless further ringfenced for specific change programmes, for which see appendix table 5 below).
- A1.6. We also propose to ringfence a portion of DCC’s ReqR under the same Licence Condition, specifically for areas where costs are uncertain, but are recognised by Ofgem that DCC must undertake during the Price Control Period.
- A1.7. By proposing to ringfence these budget-specific costs, we can increase the level of certainty to DCC’s customers that money set aside for these budgets is **not** fungible with any other area and must be used in the areas set out below only.

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<sup>76</sup> Ofgem (2025), DCC Review Phase 2: Determination of Allowed Revenue – conclusions, Chapter 3 Section B: Business Plan fungibility & managing underspend/overspend.

[www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions](https://www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions)

<sup>77</sup> Licence Condition 24, Part B: Ringfencing

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A1.8. Below are the budgets we propose to ringfence under Licence Condition 24, Part B, as well as the purpose and rationale for each budget.

**Appendix table 1: Proposed ringfencing for individual Service Families, [£m]**

<b>Ringfenced area</b>	<b>First RY (5 months)</b>	<b>RY27/28 (12 months)</b>	<b>Total</b>
SMETS1	12.275	19.172	<b>31.447</b>
SMETS2	51.418	119.026	<b>170.444</b>
4G and Connectivity	16.433	45.794	<b>62.227</b>
Centralised Registration Service (Switching)	3.834	8.863	<b>12.697</b>
Meter Data Management	44.629	105.828	<b>150.457</b>
Privacy and Security	14.860	54.362	<b>69.221</b>
Service Management	4.691	5.743	<b>10.434</b>
Testing Services	1.278	3.436	<b>4.714</b>

Purpose

A1.9. For each of the Service Family budgets, the Required Revenue is ringfenced for the purpose of meeting efficient costs of the Relevant Service Provider contracts within these Service Families, as reported in the RIGs.

**Appendix table 2: Proposed ringfencing for Pass-Through Costs, [£m]**

<b>Ringfenced area</b>	<b>First RY (5 months)</b>	<b>RY27/28 (12 months)</b>	<b>Total</b>
Pass-Through Costs	18.730	48.615	<b>67.345</b>

Purpose

A1.10. Pass-Through Costs are defined in Licence Condition 24 and restricted to the amounts paid by the Licensee to:

- The Authority under Condition 4 (Licensee's payments to the Authority)
- SECCo Ltd for purposes associated with the governance and administration of the SEC

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- AlthANCo Ltd for purposes associated with the Alt Han Arrangements
- RECCo Ltd for the purposes associated with the Centralised Registration Service
- To Energy Suppliers as Reimbursement Amount for the purposes of the Communications Hub Replacement Reimbursement Service
- Any other person in accordance with a direction given to the Licensee by the Authority.<sup>78</sup>

**Appendix table 3: Proposed ringfencing for Innovation fund, [£m]**

Ringfenced area	First RY (5 months)	RY27/28 (12 months)	Total
Innovation fund	0.150	0.325	<b>0.475</b>

Purpose

A1.11. The Innovation fund ReqR is ringfenced for the purpose of meeting the costs of Permitted Business authorised by the Authority in Writing under Licence Condition 6 Part B.

**Appendix table 4: Proposed ringfencing for Volume-Driven Costs**

Ringfenced area	First RY (5 months)	RY27/28 (12 months)	Total
Volume-Driven Costs	101.429	244.981	<b>346.409</b>

Purpose

A1.12. Volume-Driven Costs are ringfenced for the purpose of meeting the costs associated with Drivers approved by Ofgem under Condition 24 Part C (except Pass-Through Costs, contractual indexation and CRS ReqR).

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<sup>78</sup> Subject to our proposal in Chapter 5 (Licence Renewal), this includes efficient DCC1 costs incurred after the Transfer Date.

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**Appendix table 5: Proposed Ringfencing for change pipeline projects**

<b>Ringfenced budget</b>	<b>Proposed purpose for ringfencing</b>
Long Range Radio Committed Term	To meet efficient External Costs incurred under the CSP-N contract in the event of a compliant extension with the CSP-N service provider beyond 2028; specifically, to pay for contracted technology and headend refreshes, and legacy base station replacement, subject to a Full Business Case
Device Manager Re-procurement	To meet efficient External Costs of necessary design, build and test activities under a new, re-procured Device Manager contract to enable service transition to a new External Service Provider, subject to a Full Business Case; does not include expenditure under the existing DM contract with the incumbent ESP
4G and Beyond	To meet efficient External Costs necessary to deliver “4G & Beyond” project on the scope agreed with the Secretary of State via a Full Business Case, or to comply with a direction issued by the Secretary of State in respect of this project
DSP2 risk provision	To meet efficient External Costs incurred under Fundamental Service Capability contracts within the scope of the MDM Service Family that are specifically necessary for the implementation of the DSP2 programme in accordance with the Joint Industry Plan <sup>79</sup> and the assumptions set out within the Final Business Case for the DSP2 programme, with expenditure subject to approval in writing by the Programme Governance Board; <sup>80</sup> may not be used to offset baseline DSP1 or DSP2 delivery costs or to pay for fixed operational charges of any existing contract
Enterprise System and Service Integrator	To meet efficient, contractually committed External Costs (under Relevant Service provider contracts within the scope of the MDM Service Family), necessary to meet defined

<sup>79</sup> DCC (2025), Consultation on the revised delivery plan. [www.smartdcc.co.uk/media/bnhh4b3g/dsp-lc13b-consultation-on-the-revised-delivery-plan-v10.pdf](http://www.smartdcc.co.uk/media/bnhh4b3g/dsp-lc13b-consultation-on-the-revised-delivery-plan-v10.pdf)

<sup>80</sup> The Programme Governance Board is a board chaired by the DSP Delivery Director with the delegated authority to approve changes that draw on the agreed contingency change budget

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<b>Ringfenced budget</b>	<b>Proposed purpose for ringfencing</b>
	activities for the implementation of Enterprise System and Service Integrator; subject to a Full Business case
Enduring Change of Supplier (ECoS) re-procurement	To meet efficient External Costs of design, build and test activities committed under a re-procured ECoS contract (or contracts) to enable transition to a new Service Provider (or Providers) by June 2028; subject to a Full Business Case; does not include expenditure under the existing ECoS contracts with the incumbent SPs
Post Quantum Cryptography	<p>To meet efficient External Costs associated with the delivery of the Post Quantum Cryptography project on the scope approved in writing by the SEC Security Sub-Committee; including:</p> <ul style="list-style-type: none"> <li>• Deliver a fully functional PQC PoC for 4G CHs</li> <li>• Implement the new solution with a CH software release within the expected NCSC timeframe</li> <li>• Carry out evaluation and deliver a major release for LRR CHs</li> <li>• Upgrade the TSP, crypto inventory and system interfaces in agreement with the SEC SSC and DESNZ</li> </ul>
Energy Data Best Practice	<p>To meet efficient External Costs required for DCC to comply with Licence Conditions 11.9 and 11.10, including:</p> <ul style="list-style-type: none"> <li>• A change from Data Processor to Joint Controller</li> <li>• Implementation of required SEC changes</li> <li>• Set-up of a robust triage function</li> <li>• Data quality and cleansing work</li> <li>• Full metadata coverage to the Dublin Core standard</li> <li>• Review and alignment with either CCL or OGL for data licensing</li> <li>• Set-up of a data catalogue</li> </ul>
Consumer Consent	To meet efficient External Costs necessary for DCC to perform a role of Energy Data Holder in accordance with the final CSS design delivered by RECCo; specifically, deliver technical interoperability to allow DCC to accept and verify

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<b>Ringfenced budget</b>	<b>Proposed purpose for ringfencing</b>
	CCS tokens and furnish access to specified SM data in accordance with the CCS design requirements
Guaranteed Standards of Performance (GSOP) and DCC Diagnostics Role	<p>To meet efficient External Costs incurred pursuant to Relevant Service Capability External Service Provider contracts within the scope of the Service Management SF to comply with Ofgem's decision on SM GSOP.</p> <p>To meet costs of Relevant Service Capability necessary to comply with regulatory requirements on DCC Diagnostics Role, if made by the Secretary of State.</p>

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## Appendix 2 Required Revenue proposal

**Appendix table 2.1: Summary of Ofgem-proposed ReqR per cost category**

<b>Cost Category</b>	<b>First RY (5 months)</b>	<b>RY 27/28 (12 months)</b>	<b>Total (m)</b>
External Costs	250.847	607.204	<b>858.051</b>
Internal Costs	51.415	114.613	<b>166.029</b>
Pass-Through Costs	18.730	48.615	<b>67.345</b>
<b>Total</b>	<b>320.992</b>	<b>770.432</b>	<b>1091.424</b>

**Appendix table 2.2: Summary of Ofgem-proposed ReqR per Service Family budget**

<b>Service Family Budgets</b>	<b>First RY (5 months)</b>	<b>RY 27/28 (12 months)</b>	<b>Total (m)</b>
<b>Smart Energy Service Families</b>	<b>183.618</b>	<b>433.206</b>	<b>616.824</b>
SMETS1	12.275	19.172	<b>31.447</b>
SMETS2 (LRR/2G/3G)	51.418	119.026	<b>170.444</b>
SMETS2 (4G)	16.433	45.794	<b>62.227</b>
CRS (Switching)	3.834	8.863	<b>12.697</b>
Smart Energy Volume-Driven Costs	99.658	240.351	<b>340.009</b>
<b>Enabling Services &amp; Testing Service Families</b>	<b>67.229</b>	<b>173.998</b>	<b>241.227</b>
Meter Data Management	44.629	105.828	<b>150.457</b>
Privacy & Security	14.860	54.362	<b>69.221</b>
Service Management	4.692	5.743	<b>10.434</b>
Testing Services	1.278	3.436	<b>4.714</b>
Enabling Services & Testing Volume-Driven Costs	1.771	4.629	<b>6.400</b>
<b>Internal Costs Budget</b>	<b>51.415</b>	<b>114.613</b>	<b>166.029</b>
Total Overhead Costs	47.722	114.225	<b>161.948</b>
Other Costs	3.683	0.388	<b>4.081</b>
<b>Pass-through costs</b>	<b>18.730</b>	<b>48.615</b>	<b>67.345</b>

**Consultation** Determination of DCC's Required Revenue: November 2026 to March 2028**Appendix table 2.3: Areas of proposed reductions to submitted ReqR [£m]**

<b>Area</b>	<b>First RY (5 months)</b>	<b>RY 27/28 (12 months)</b>	<b>Total</b>
SMETS1	-6.797	-6.977	<b>-13.774</b>
CRS (Switching)	-4.500	-4.500	<b>-9.000</b>
Privacy & Security	-	-1.267	<b>-1.267</b>
Service Management	-3.085	-3.709	<b>-6.794</b>
Smart Energy Vol-driven Costs	-3.959	-29.661	<b>-33.620</b>
Overhead Costs	-0.233	-1.092	<b>-1.325</b>
Licence Renewal	-1.707	-2.607	<b>-4.314</b>
<b>TOTAL</b>	<b>-20.281</b>	<b>-49.813</b>	<b>-70.094</b>

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## Appendix 3 Privacy policy

### Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

#### 1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at [dpo@ofgem.gov.uk](mailto:dpo@ofgem.gov.uk)

#### 2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

#### 3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

#### 4. With whom we will be sharing your personal data

Information: Include here all organisations outside Ofgem who will be given all or some of the data. There is no need to include organisations that will only receive anonymised data. If different organisations see different set of data then make this clear. Be a specific as possible.

#### 5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for (be as clear as possible but allow room for changes to programmes or policy. It is acceptable to give a relative time e.g. 'six months after the project is closed')

#### 6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data

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- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3<sup>rd</sup> parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

**7. Your personal data will not be sent overseas** (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use “the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this”.

**8. Your personal data will not be used for any automated decision making.**

**9. Your personal data will be stored in a secure government IT system.** (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

**10. More information** For more information on how Ofgem processes your data, click on the link to our “[ofgem privacy promise](#)”.