

Decision

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

Publication date:	25 September 2026
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This document sets out Ofgem's decisions on DCC's Required Revenue for the first ex-ante Price Control Period, covering November 2026 to March 2028. It follows our earlier consultation on the proposed framework and allowances, which drew input from DCC, its customers, industry bodies and other stakeholders.

In developing this decision, we have carefully considered the business plan and supporting evidence submitted by DCC, alongside stakeholder responses to the consultation. We have assessed the efficiency of DCC's proposed costs, the appropriateness of its forecasts, and whether they align with the objectives of the new ex-ante price control framework.

This decision document explains our final determinations on DCC's required revenue, including any adjustments to proposed costs and the treatment of key building blocks.

It also sets out our reasoning, reflecting both our assessment of the evidence and the views expressed through consultation.

Alongside this document, we have published the relevant licence determinations, directions and notices required to implement our decisions. Together, these establish DCC's Required Revenue for the period and provide clarity and transparency to stakeholders on how the new price control will operate in practice.

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Executive summary

The Data Communications Company (DCC)¹ provides the communications, data, security and management services that support smart metering across Great Britain. As a monopoly provider, it must be properly funded to deliver these services but also held to account for how it uses consumers' money.

This decision determines DCC's Required Revenue at £1,163.0m for the first *ex-ante* Price Control Period, from 2 November 2026 to 31 March 2028. This comprises £334.9m for the five-month period to 31 March 2027 and £828.1m for the Regulatory Year (RY) 2027/28.

DCC initially requested £1,161.5m. We consulted on an allowance of £1,091.4m because we considered that some costs, particularly change costs and volume-driven costs, had not been sufficiently justified. DCC subsequently provided further evidence and increased its request to £1,189.5m, mainly due to updated forecasts of industry demand and additional costs that had been too uncertain to include in its original submission.

Our final determination is £26.5m below DCC's updated request and £71.6m above our consultation proposal. It is broadly in line with DCC's original submission, but the composition and scope have changed. Compared with that submission, we have reduced fixed costs by around £35.1m. This is offset by an increase of around £36.7m in variable, demand-driven and Pass-Through Costs, based on more recent industry forecasts and the inclusion of new industry pass-through costs.

The main changes from our consultation position are:

- We have accepted updated volume-driven cost forecasts where these reflect more recent evidence on industry demand. This includes costs associated with the mandatory replacement of 2G/3G communications hubs
- We have updated allowances for major technology and service changes, including the continued operation of the Data Service Provider (DSP) 1 and the transition to DSP 2. Where scope or costs remain uncertain, relevant funding will be ringfenced
- We have reduced or excluded some change costs and external and IT costs where DCC did not provide sufficient evidence that the expenditure was likely to be incurred economically and efficiently
- We have included our view of efficient costs likely to be incurred by DCC1 after the Transfer Date as Pass-Through Costs within DCC2's Required Revenue, subject to a cap of £3.093m

¹ Before 2 November 2026, this means Smart DCC Ltd, a wholly owned subsidiary of Capita Plc, as "DCC1". After 2 November 2026, this means DCC2 Ltd, a wholly owned subsidiary of Smart Energy Code Company (SECCo) Ltd, as "DCC2". Unless further specified, the term DCC, as used in this document, should therefore be understood as referring to the regulatory entity to which it relates in a given context.

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- We have not provided upfront funding for activities where the need remains insufficiently certain. DCC may use the relevant reopener where the Licence test is met

Further detail on these decisions is set out in Chapters 2, 3 and 4.

The determination is based on our best estimate of the costs DCC is likely to incur economically and efficiently based on the available evidence. We have set the Required Revenue to allow DCC to fund these forecast costs. Our determination of the Required Revenue is not a target for expenditure. DCC remains responsible for delivering the Mandatory Business in an efficient and economic manner, testing whether expenditure is needed and represents value for money when it makes decisions and commits costs, particularly where forecasts, scope or procurement outcomes remain uncertain.

We have ringfenced funding for specified Service Families, Volume-Driven Costs, Pass-Through Costs, contingency provisions, the Innovation Fund and individual change programmes. This restricts DCC's ability to move funding between unrelated activities. Ringfencing does not remove DCC's responsibility to challenge costs before they are incurred.

We have also approved Drivers that allow specified costs to adjust where the underlying assumptions change. These Automatic Adjustments can operate upwards or downwards. DCC remains responsible for managing the contracts and activities to which they relate to ensure that overall costs remain under control and will be required to explain material movements through its reporting. We expect DCC to proactively monitor the approved Drivers and take reasonable steps within its control to mitigate the potential impact of any significant or unexpected increases on aggregate costs.

Where DCC faces an emerging cost pressure, we expect it first to avoid or mitigate the additional cost. It should then consider whether the pressure can be managed through efficiencies, permitted budget flexibility or approved contingency. If further funding is required, DCC must use the relevant reopener and should not assume that additional expenditure will be recoverable. Urgent action may sometimes be necessary to protect security, resilience or continuity of service, but DCC will need to explain why the expenditure was necessary and how it secured value for money.

Broader context of DCC2 regulatory regime

This Price Control is only one part of how we will hold DCC2 to account. During the first PC period, DCC2 will be expected to:

- Develop a procurement and commercial strategy that applies lessons from DCC1 and strengthens its challenge of supplier costs
- Report regularly on expenditure, delivery, emerging cost pressures, supplier recoveries and material service and resilience risks
- Deliver the outcomes set out in Appendix 2
- Establish operational performance measures and a customer satisfaction survey

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- Prepare a Business Strategy and Technology Roadmap
- Review inherited contracts to identify where substantial savings can be made

DCC2's remuneration arrangements will assess performance across system performance, customer satisfaction, Business Plan quality and Business Plan delivery. This framework should prevent apparent short-term savings being rewarded where they result from non-delivery, unjustified delay or greater risk to service quality or resilience.

DCC2's next Business Plan is due by 31 July 2027. We expect it to provide stronger forecasts (in particular, demonstrate more robust methodology for forecasting costs of change), clearer links between expenditure and outcomes, meaningful choices for customers and a defined target operating model. It should also show how DCC2 has and will further challenge inherited costs rather than treating DCC1's arrangements as fixed. We will issue updated guidance to DCC2 on the expected contents of this Business Plan in due course.

Overall, this decision gives DCC2 the funding needed to maintain critical smart metering services and complete the transition from DCC1. It also sets clear expectations for how DCC2 should use that funding. The test of the new framework will not simply be whether DCC2 remains within the allowance, but whether it manages suppliers effectively, delivers the required outcomes and secures good value for customers and consumers.

Table 1: Summary of our determination of Required Revenue, all in [£m]*

	First RY (5 months)	RY27/28 (12 months)	Total
External Costs	261.940	660.223	922.163
Internal Costs	53.474	118.278	171.752
Pass-Through Costs	19.475	49.646	69.121
Value-Added Services Contribution	0.000	0.000	0.000
Total Required Revenue	334.888	828.147	1163.035

**Figures may not add up exactly due to rounding*

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1. Introduction

Context

- 1.1 This document concludes our consultation on the determination of DCC's Required Revenue for the first Price Control period, which runs from November 2026 to March 2028. The consultation was published on 19 May 2026 and closed on 14 July 2026.
- 1.2 The term DCC refers to the holder of the Smart Meter Communication Licence carrying on the Authorised Business.
- 1.3 Smart DCC Ltd (DCC1) has held the Smart Meter Communication Licence since 2013. DCC1's licence is due to expire in September 2027. Ahead of that date, Ofgem carried out the DCC Review to revise the regulatory framework and appoint a holder of the new Smart Meter Communication Licence.
- 1.4 Between 2021 and 2025, Ofgem developed a new regulatory regime for DCC. This included decisions to move to a not-for-profit model, introduce majority independent governance, and establish an upfront *ex-ante* form of cost control. On 14 April 2026, Ofgem granted the new Smart Meter Communication Licence to DCC 2 Ltd, a wholly owned subsidiary of Smart Energy Code Company Ltd.
- 1.5 The responsibility for delivering the Authorised Business under the Smart Meter Communication Licence transfers from Smart DCC Ltd to DCC 2 Ltd on the Transfer Date, which Ofgem has designated as 2 November 2026. This decision relates to the period after the Transfer Date and 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, granted by Ofgem to DCC2 Ltd on 14 April 2026
 - "Previous Licensee" and "DCC1" means Smart DCC Ltd, a wholly owned subsidiary of Capita Plc.
 - "Previous Licence" means the (first) Smart Meter Communication Licence, granted by the Secretary of State to Smart DCC Ltd on 22 September 2013
- 1.6 All capitalised terms throughout this document are as defined in the Licence.
- 1.7 We use "the Authority" and "Ofgem" interchangeably, and "DESNZ" and the "Secretary of State (SoS)" interchangeably.

Decision Determination of DCC's Required Revenue: November 2026 to March 2028**Our decision-making process**

1.8 We consulted on four main proposals:

- To determine the total forecast costs, *ie* "Required Revenue" (Licence Condition 24.2) for the period from Transfer Date 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, including Volume-Driven Costs, Pass-Through Costs and indexation in External Service Provider contracts
- To designate efficient DCC1's post-Transfer Date costs, incurred in complying with the residual licence obligations, as Pass-Through Costs within DCC2's Required Revenue (Licence Condition 24.17(f)) and set a cap on them – a reciprocal arrangement to the one in place for DCC2's set-up costs²

1.9 Our assessment is based on the Business Plan and Price Control Information prepared and submitted by DCC1 on behalf of DCC2 under Conditions 34A and 34B of the Previous Licence. Together, these set out DCC's proposed Required Revenue for the first Price Control Period, along with qualitative and quantitative evidence and supporting justifications.

1.10 DCC's submission was prepared in accordance with the Business Plan Guidance and the Regulatory Instructions and Guidance.³ The Business Plan Guidance sets out the required content and presentation of the Business Plan, as well as the principles and assessment criteria that the Authority is likely to apply when determining whether costs are economic and efficient. The Regulatory Instructions and Guidance comprise the templates and instructions for submitting Price Control Information.

1.11 Under the Licence, only costs that are likely to be incurred economically and efficiently may be included in the calculation of Required Revenue. The burden is on DCC to justify its proposed costs as likely to be incurred and economic and efficient.

1.12 We published our consultation on DCC's Required Revenue for the first Price Control Period in May 2026. The consultation set out our preliminary views on

² Ofgem (2025), Financing arrangements for DCC1 and DCC2 during Business Handover.

www.ofgem.gov.uk/consultation/financing-arrangements-dcc1-and-dcc2-during-business-handover

³ Ofgem (2025), Business Plan Guidance. Available at: www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance; Regulatory Instructions and Guidance (Successor Licensee). www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee

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DCC's forecast costs, areas of efficiency challenge, proposed ringfencing arrangements, Drivers, and treatment of DCC1 post-Transfer Date costs.

- 1.13 We received eight responses to the consultation. We have considered all responses received, including additional evidence and representations provided by DCC and other stakeholders. Where consultation responses or further evidence demonstrated that costs were sufficiently likely to be incurred and economic and efficient, we have revised our position accordingly. Where evidence remained insufficient, we have maintained or amended our adjustments as appropriate.
- 1.14 This decision document summarises the key points raised through consultation and explains the reasons for our final decisions. If a point raised by a respondent is not included in our summary, this does not mean that it was not considered in reaching our decision.

Table 1.1: Decision-making process

Stage	Date(s)	Activity
1	29 August 2025	DCC submitted its draft Business Plan to the Customer Challenge Group (CCG)
2	23 December 2025	DCC submitted its final Business Plan to Ofgem
3	29 January 2026	The CCG submitted its written report (summarising its assessment of DCC's final Business Plan) to Ofgem
4	19 May 2026	Ofgem's consultation published
5	14 July 2026	Consultation closed
6	25 September 2026	Decision published
7	2 November 2026	Transfer Date: start of the first Price Control Period. Decisions take effect

Decision Determination of DCC's Required Revenue: November 2026 to March 2028**Holding DCC to account**

- 1.15 The Price Control is only one part of the wider regulatory and incentive regime. Determining Required Revenue establishes a source of funding that is consistent with forecasts of efficient and economic costs derived from evidence available at the time of this decision. The Required Revenue is not a spending target, nor does it create an entitlement for DCC to spend the full allowance where an activity is no longer required, can be delivered at lower cost, or is no longer supported by the evidence when the expenditure is committed.
- 1.16 A key principle of our regulatory framework is that we will hold DCC responsible for ensuring that expenditure is necessary, economic and efficient when decisions are taken and costs are committed. This is particularly important where our determination relies on uncertain or indicative forecasts, or where scope, demand or procurement outcomes remain subject to change.
- 1.17 To support the transition from DCC1 to DCC2 and secure good outcomes for consumers, we are putting in place a wider Value for Money (VfM) framework. A transitional framework will apply during the first Price Control before a more enduring framework is expected to apply from 1 April 2028. The framework has three 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
- 1.18 These pillars are intended to embed value for money in DCC2's day-to-day decisions, rather than assessing it only when a Business Plan is submitted or after expenditure has occurred. Setting the Required Revenue is therefore the starting point for regulation during the period, not the final test of whether expenditure represents value for money.

Table 1.2 Overview of the transitional value for money framework

Pillar	Principal mechanisms	Regulatory purpose
Strategic and operational expectations	Business Strategy and Technology Roadmap; procurement and commercial strategy; outcomes in Appendix 2; inherited-contract review	Establish how DCC2 should operate, challenge legacy arrangements and plan for enduring value

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Pillar	Principal mechanisms	Regulatory purpose
Monitoring and transparency	Quarterly reporting; End-of-Year Report; Customer Challenge Group scrutiny; operational KPIs; customer satisfaction survey; targeted assurance	Identify cost, delivery, service and resilience risks early and provide evidence of performance
Incentives and accountability	Remuneration Policy; Business Plan Quality assessment; Business Plan Delivery assessment; future price-control decisions	Link management incentives and future funding decisions to sustainable performance and value for money

Our expectations of DCC2

1.19 We expect DCC to operate as a lean, expert and commercially capable organisation. It should retain sufficient internal capability to define requirements, challenge suppliers, manage contracts and assure delivery, without unnecessarily duplicating functions already provided through its supply chain. DCC should use the transition to simplify its operating model, reduce unnecessary complexity and focus its resources on measurable outcomes for customers and consumers.

1.20 In managing consumer-funded revenue, we expect DCC to:

- Ensure that all expenditure is linked to clear needs, which could include statutory or licence obligations, services that its customers require, and deliverables and outcomes set through the price control process
- Ensure that value for money is at the heart of all its activities, through robust procurement practices, contract management and review, cost benefit analysis, options appraisals, prioritisation and customer engagement
- Take all reasonable steps to deliver the Mandatory Business within the Required Revenue determined by Ofgem through budgetary flexibility and efficiency savings; the emergency reopener should only be used in exceptional circumstances
- Continually challenge itself, its service providers and other suppliers to deliver service improvements and efficiencies. This should be done both at initial procurement and contract renewals using the full range of contractual levers available. Suppliers must be held to account where performance falls short of expectations

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- Develop a strong market intelligence and testing capability so that it understands the cost and capabilities of different providers in the market and can bring credible external evidence to bear in negotiations with suppliers
- Ensure that the pursuit of cost savings does not lead to service quality deterioration, or degradation of asset capability and reduced resilience to shocks or external threats. It must also ensure that it can distinguish between genuine efficiencies and inefficient deferral, delays or cancellations
- Be transparent about how it spends its revenues through quarterly reporting to the CCG and Ofgem, giving early warning about cost pressures, explaining its performance on service delivery and cost management through its End-of-Year (EoY) reporting
- Improve the accuracy of its cost forecasts through robust forecasting of future demand and cost pressures. It should enhance its benchmarking capabilities and the evidence base for Internal Costs so that ongoing efficiency improvements are delivered year-on-year

Procurement and commercial management

- 1.21 DCC's approach to procurement and commercial management will be an important and early test of whether the new arrangements deliver better value for money. We expect DCC2 to develop and maintain a procurement and commercial strategy as a priority following the Transfer Date.⁴ The strategy should reflect lessons learned from DCC1's procurement and contract-management experience and explain how DCC2 will achieve value for money by promoting effective competition, reducing unnecessary dependency on incumbent suppliers and unfavourable contract terms, and preserve future commercial and technical options.
- 1.22 The strategy should cover DCC's approach to competitive procurement, direct awards, contract extensions and material contract changes. It should explain how DCC will benchmark and challenge supplier costs and establish clear governance for material commercial commitments.
- 1.23 Where commercial negotiations remain live, the inclusion of forecast expenditure in Required Revenue should not be represented to suppliers as a guaranteed budget or as Ofgem's endorsement of their commercial position. DCC should continue to seek the best achievable outcome for customers, maintain credible commercial alternatives where practicable and ensure that savings against forecast allowances benefit customers.

⁴ Under LC 10.27 DCC2 is required to submit its Procurement Strategy to Ofgem within 12 months of the Licence Commencement Date, *ie* by 14 April 2027 (unless Ofgem has specified another date in Writing).

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- 1.24 We will use DCC's quarterly and annual reporting, our engagement with the CCG and, where appropriate, targeted audits to monitor the implementation of the procurement and commercial strategy and DCC's performance in relation to material procurement decisions, contract performance, supplier recoveries and savings delivered.

Outcomes, performance and resilience

- 1.25 Appendix 2 sets out more detail on the expected outcomes from individual Service Families and programmes. Across the Price Control Period, we expect DCC to deliver the following overarching outcomes:

- Safe, secure and resilient services
- Reliable operational performance
- Successful delivery of major technology and service transitions
- Improved customer experience and responsiveness
- Measurable efficiencies and savings
- Strong procurement and commercial performance
- Transparent, accurate and credible forecasting

- 1.26 We will consider progress against these outcomes when assessing DCC's performance during and at the end of the Price Control Period. They will also inform the application of the remuneration framework, our assessment of the second Business Plan and our approach to the second Price Control Period.

- 1.27 For these purposes, DCC should distinguish genuine efficiencies from expenditure that has been delayed, reprofiled or not delivered, reductions in agreed scope and supplier recoveries. DCC should explain the basis of claimed savings and the resulting net benefit to customers.

- 1.28 DCC must manage its activities consistently with its Licence obligations relating to service delivery, security and resilience. Pressure to reduce costs must not result in unacceptable risks to service continuity, cyber security, physical security, asset health or long-term system resilience. We expect DCC's reporting and assurance arrangements to provide appropriate visibility of material operational, security, asset and critical-supplier risks. We may seek additional information or assurance where appropriate.

Respondents' views

- 1.29 Many respondents to our consultation commented directly or indirectly on the VfM framework. Respondents highlighted that:

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- The Business Strategy and Technology Roadmap (BSTR) should consider alternatives to the existing business model and opportunities to reduce costs through innovation and new technologies (eg reducing reliance on physical comms hubs).
 - Performance monitoring and evaluating tools should be in place no later than 6 months from the Transfer Date and customers, whether suppliers, networks or other users, should be appropriately consulted on meaningful Key Performance Indicators (KPIs)
 - Further clarity was needed on the application of remuneration incentives to Senior Managers
 - Stronger action was needed to address rising costs, challenge DCC's wider business model and ensure that the *ex-ante* framework delivers genuine efficiencies
- 1.30 Some respondents drew particular attention to the proposed extension of the Long-Range Radio contract, DCC payroll costs and the need to challenge inherited expenditure.
- 1.31 We agree that the effectiveness of the new regime will depend not only on the level at which Required Revenue is set, but on DCC's ability to challenge its inherited cost base, manage suppliers effectively, realise sustainable efficiencies and account transparently for its performance. The measures set out in this chapter are intended to provide that wider regulatory framework.

Operational performance and customer scrutiny

- 1.32 In relation to Operational Performance, we consider it proportionate initially to allow DCC to select its own KPIs, in consultation with industry, as required by LC 21 Part A. DCC2 will also design and operate its customer satisfaction survey in accordance with LC 21 Part B.
- 1.33 The KPIs should provide a meaningful view of operational performance and customer outcomes. We will keep the measures under review, including whether they provide appropriate visibility of service quality, resilience and efficiency. We may issue Operational Performance Reporting guidance during RY27/28 to apply from 1 April 2028.
- 1.34 DCC has commenced engagement with industry on the content and form of the Business Strategy and Technology Roadmap. We have separately provided feedback on its initial scope and expect engagement to continue through autumn and winter 2026, with a compliant roadmap submitted to Ofgem by July 2027.
- 1.35 The roadmap should consider alternatives to continuing the existing operating and technology model. It should identify opportunities to simplify DCC's architecture,

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reduce reliance on legacy technology, avoid duplication of industry capability and lower whole-life costs, while protecting security and service continuity.

Reporting, monitoring and supervision

1.36 DCC's quarterly reporting under LC 25 Part B will commence in January 2027, with the first report due by 28 January 2027. We expect DCC and the CCG to work together to develop reporting that provides customers with meaningful information on delivery against the Business Plan.

1.37 We also expect DCC to submit EoY Reports in accordance with Part B of Condition 25, the first which will be due by 31 July 2027. Following our review of these reports, we may assess DCC's performance against agreed expectations and may publish the outcome. The EoY Report must be prepared in accordance with any guidance provided by Ofgem. We have already embedded minimal requirements within our first version of the Business Plan Guidance.⁵ We may issue further guidance on the format and content of these EoY Reports. This may include further expectations on DCC to:

- Reconcile expenditure at the aggregate level and its actual Recovered Revenue against *ex-ante* cost forecasts and Required Revenue at Service Family, Internal Cost and Pass-through cost level, traceable back to the RIGs submissions. Where there are material variances between the different figures, these should be appropriately explained
- Account separately expenditure and delivery for each ringfenced amount, confirming that expenditure was incurred in accordance with the restrictions applied, and that any underspends are clearly identified and earmarked for return to customers in the following year
- Explain how budgetary flexibility, contingency and cash surpluses were managed, demonstrating clearly that all available routes of funding were exhausted before any requests for additional funding were made
- Provide evidence that opportunities for efficiency savings and better value for money were pursued and achieved during the year

Business Plan quality and the inherited cost base

1.38 We expect to publish our assessment of the quality of DCC's second Business Plan in autumn 2027, following our analysis of DCC's submission due by 31 July 2027. We expect to consult on the evaluation framework through updated Business Plan Guidance.

⁵ Ofgem (2025), Business Plan Guidance, see esp. paragraphs 5.49-5.50. Accessible at: www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance

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- 1.39 Business Plan quality is one of the four pillars of the remuneration framework. The second Business Plan should demonstrate stronger forecasting, meaningful consumer choice and a clear relationship between expenditure, outputs and outcomes. It should be based on a defined target operating model and should demonstrate how DCC2 has challenged inherited assumptions rather than treating DCC1's cost base as fixed.
- 1.40 We intend to issue a direction under LC 5.11 requiring DCC to review inherited contracts with the aim of identifying where, how and when substantial savings can be realised.

Remuneration and incentives

- 1.41 Following consultation, we published our Remuneration Policy Guidance under LC 20 Part C.⁶ DCC will be required to submit a draft Remuneration Policy prepared in accordance with this guidance for Ofgem's approval. The Remuneration Policy, to apply from 1 April 2027, will link discretionary remuneration for Senior Managers to DCC2's performance across four pillars:
- System Performance
 - Customer Satisfaction
 - Business Plan Quality
 - Business Plan Delivery
- 1.42 Together, these pillars are intended to provide a balanced assessment of how effectively DCC serves customers, operating its systems and translates its plans into value-for-money delivery.
- 1.43 Performance should be assessed across the pillars as a whole so that remuneration arrangements do not reward apparent short-term savings where these arise from non-delivery, unjustified delay, deferred expenditure or increase risk to service quality or resilience. They will provide the basis for assessing both DCC's organisational performance and the individual performance of its Senior Managers.

Managing changes to the Required Revenue

- 1.44 DCC must manage its costs effectively throughout the Price Control Period. However, Required Revenue is based on forecasts and therefore is subject to uncertainty. Efficient and economic costs may in some circumstances be higher or lower than forecast.

⁶ Ofgem (2026), Data Communications Company (DCC) Remuneration Policy Guidance. www.ofgem.gov.uk/consultation/draft-data-communications-company-dcc-remuneration-policy-guidance

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- 1.45 Where DCC identifies an emerging cost pressure, it should first seek to avoid or mitigate it. DCC should then consider whether the pressure can be managed through justified efficiencies, permitted budget flexibility or approved contingency, without breaching a ringfence or compromising required outputs, service quality, security or resilience.
- 1.46 DCC has access to the following mechanisms, subject to the requirements of the licence:
- Budgetary flexibility, including the ability to reallocate internal resource costs across programmes and External Costs within programmes, provided these are not ringfenced for specific purposes
 - Utilise Uncertainty Mechanisms, including:
 - Automatic adjustments to account for Pass-through, volume sensitive costs and contracted indexation impacts agreed at the business planning stage
 - An emergency reopener to account for external shocks
- 1.47 DCC must report at least quarterly to the CCG and Ofgem on delivery against approved budgets, including potential or emerging material overspends, their causes and proposed mitigations. Early engagement does not constitute approval of additional funding.
- 1.48 Where DCC cannot accommodate cost variations through existing flexibility, it may submit an emergency reopener where the Licence test is met. The application must explain:
- Why costs differ from the approved forecasts
 - Why it could not reasonably have been avoided or mitigated
 - How DCC has considered permitted budgetary flexibility and contingency
 - Why the proposed expenditure is necessary, economic and efficiency
 - The consequences of not incurring the expenditure
- 1.49 DCC should not make material discretionary commitments in anticipation that a reopener will be approved and should not assume that expenditure above Required Revenue will subsequently be recoverable.
- 1.50 There may be circumstances in which urgent expenditure is necessary to protect safety, security, resilience or continuity of mandatory services. In those circumstances, DCC should act appropriately to protect the service, notify Ofgem promptly and provide evidence of the necessity and proportionality of the expenditure, the mitigation undertaken and the value for money achieved.

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- 1.51 We recognise that there may be instances where DCC may defer expenditure into a following Regulatory Year on account of delays to programme implementation. However, deferred expenditure should not be treated as underspend or reallocated to overspending programmes without good justification. DCC should report material reprofiling as part of its quarterly and EoY reporting and explain the associated delivery consequences and future funding requirement.

Automatic adjustments

- 1.52 Automatic Adjustments allow specified elements of Required Revenue to move upwards or downwards in response to approved Drivers. They do not provide unrestricted funding and do not remove DCC's responsibility to manage the underlying contracts and operational arrangements economically and efficiently.
- 1.53 DCC should report the cumulative impact of Automatic Adjustments, explain the underlying movement in the approved Drivers and reconcile forecast and outturn values. Where a movement becomes material, Ofgem may seek enhanced evidence or assurance that it reflects the approved Driver rather than a commercial or operational matter within DCC's control.
- 1.54 DCC remains responsible for managing the contracts and activities to which they relate. We expect DCC to proactively monitor the approved Drivers and take reasonable steps within its control to mitigate the potential impact of any significant or unexpected increases on aggregate costs.

Preparing for the second Price Control Period

- 1.55 The first PC Period will last only 17 months. This shorter initial period is intended to support the conclusion of the Business Handover and implementation of regulatory changes, including the new *ex-ante* framework. DCC's Business Plan and Price Control Information are due by 31 July 2027. The second period is expected to run from 1 April 2028 to 31 March 2031.
- 1.56 Respondents identified several lessons from the first Business Plan process, including the need for:
- Earlier engagement between DCC, customers and the CCG before submission to Ofgem
 - Genuine consumer choice over options and trade-offs before proposals are fixed
 - Clearer links between proposed expenditure, outputs and outcomes
 - Improved forecasting methods
 - A clearly defined target operating model (TOM) aligned with delivery priorities

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- 1.57 We agree with these points. We support early engagement with industry and the CCG on the second Business Plan. We have consulted on updated Regulatory Instructions and Guidance (RIGs), used by DCC to submit its quantitative (cost) Price Control Information,⁷ and expect to consult updated Business Plan Guidance by October 2026.
- 1.58 Optionality and customer choice is one of the key features of the *ex-ante* regime.⁸ We expect DCC to demonstrate how it has worked with industry to develop its second Business Plan and how customers have influenced the options and trade-offs presented.
- 1.59 The accuracy of DCC's forecasting will be tested through the first Price Control Period. However, the second Business Plan should also use more forecasting methodologies and provide stronger evidence for proposed change costs (both change programmes and in-life change) and Internal Costs (in particular, staffing tied to a clearly defined TOM).
- 1.60 Subject to consultation on the updated Business Plan Guidance, these areas may form part of the Business Plan Quality assessment under the Remuneration Policy.
- 1.61 Taken together, the arrangements set out in this chapter are intended to hold DCC2 accountable not only for remaining within its overall funding envelope, but for the quality of its decisions, the outcomes it delivers, the resilience of the services it operates and the value it secures from consumer money.

⁷ Ofgem (2026), Draft Regulatory Instructions and Guidance: Data Communications Company (DCC) 2026. www.ofgem.gov.uk/consultation/draft-regulatory-instructions-and-guidance-data-communications-company-dcc-2026

⁸ Ofgem (2025), DCC Review Phase 2: Determination of Allowed Revenue – conclusions, see esp. chapter 5 (Customer Engagement). www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions

Decision Determination of DCC's Required Revenue: November 2026 to March 2028**Related Publications**

Document	Publication Date	Link
Remuneration Policy Guidance	September 2026	www.ofgem.gov.uk/consultation/draft-data-communications-company-dcc-remuneration-policy-guidance
DCC Price Control: November 2026 to March 2028 (Consultation)	May 2026	www.ofgem.gov.uk/consultation/dcc-price-control-november-2026-march-2028
New Smart Meter Communication Licence	May 2026	www.ofgem.gov.uk/consultation/draft-new-smart-meter-communication-licence
Regulatory Instructions and Guidance (Successor Licensee)	July 2025	www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee
Terms of Reference for Customer Challenge Group and Business Plan Guidance	July 2025	www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance
Modifications to the Smart Meter Communication Licence (ex-ante transition and licence closure)	July 2025	www.ofgem.gov.uk/decision/modifications-smart-meter-communication-licence-transition-ex-ante-cost-control-and-other-changes-required-licence-closure-decision
Financing arrangements for DCC1 and DCC2 during Business Handover	October 2025	www.ofgem.gov.uk/consultation/financing-arrangements-dcc1-and-dcc2-during-business-handover
DCC Review Phase 2: Determination of Allowed Revenue - conclusions	May 2025	www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions

Decision Determination of DCC's Required Revenue: November 2026 to March 2028**General feedback**

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

- 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 DCCregulation@ofgem.gov.uk

2. External Costs (Service Families)

External Costs form the majority of DCC's Required Revenue (ReqR). They comprise costs incurred through the procurement of Fundamental Service Capability. Fixed External Costs are reported via ringfenced Service Families, combining contracts which deliver common capabilities, whereas variable External Costs are reported separately. We consulted on calculating the ReqR for Service Families at £511.641m, a £30.835m reduction from DCC's original submission. The proposed areas of reductions included: outgoing SMETS1 ANSO contract, Enduring Change of Supplier (ECoS) reprocurement, Switching and Future System Management (FSM) change costs.

Following the consultation process we have concluded our calculation of the ReqR for the Service Families as follows: £150.496m in the First Regulatory Year and £365.594m, totalling £516.090m over the first price Control Period. We have made further adjustments where we received further evidence. Downward adjustments included: the removal of contingency for SMETS1 ANSO, and reductions in the ringfenced amounts for 4G & Beyond project and ECoS reprocurement on account of more updated assumptions. Elsewhere we have provided limited upwards adjustments (including SMETS2, DSP1, FSM) where DCC provided a better view of likely costs based on new evidence.

We have decided to maintain our proposals to ringfence the ReqR calculated for each Service Family, specified change projects and contingency provisions (in addition to Pass-Through Costs, Innovation Fund and volume-driven costs with and without designated Drivers, each discussed in the following chapters).

Questions posed at consultation

- 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 and 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?

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

- Q6. What are your views on the proposed Required Revenue for the Privacy and 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?
- 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?

Background

- 2.1 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. Each SF contains at least one Fundamental Service Provider (FSC) Contract, together with non-resource External Services (ESNR).⁹ We assessed each SF individually; our decisions are centred on deciding on the Required Revenue (ReqR) for each SF as a ringfenced budget.
- 2.2 Please note that our calculation of the overall External Costs term of the ReqR formula at the consultation stage was affected by a minor error in the reporting templates. This error caused costs reported as ESNR, allocated to SF budgets, to be summed up as External Costs (ECt), whereas ESNR are classified as Internal Costs (ICt) and should be part of the ICt term of the Required Revenue formula.¹⁰ We have consulted on fixing this issue in the reporting templates to avoid this error in future.¹¹ We have manually recalculated these costs for the purposes of this decision – it means that the total Internal Costs will increase £7.529m whereas the total External Costs will decrease by the same amount; however, this will have no impact on the ringfenced budgets or the overall ReqR.

⁹ 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.

¹⁰ Ofgem (2025). Regulatory Instructions and Guidance (Successor Licensee), see Appendix 1 – General Ledger (GL Codes). www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee

¹¹ Ofgem (2026), Draft Regulatory Instructions and Guidance: Data Communications Company (DCC) 2026. www.ofgem.gov.uk/consultation/draft-regulatory-instructions-and-guidance-data-communications-company-dcc-2026

Decision Determination of DCC's Required Revenue: November 2026 to March 2028**A. SMETS1 Service Family**

Proposal at consultation: set the ReqR at £12.275m in the First RY and £19.172m in RY27/28, totalling £31.447m over the first Price Control Period; reject DCC's proposal for the provision of run costs for the outgoing ANSO contract after November 2026.

Decision: set the ReqR at £10.576m in the First RY and £19.172m in RY27/28, totalling £29.748m; remove all non-decommissioning costs for the outgoing ANSO contract from the calculation of the ReqR.

Background

- 2.3 The purpose of the SMETS1 programme is to integrate c.13m first generation (SMETS1) smart meters into the DCC service to ensure their interoperability. 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.
- 2.4 The SMETS1 SF comprises fixed costs of the underpinning contracts, but a larger proportion of SMETS1 costs are incurred via user demand-driven network charges.¹² We consulted on revising the proposed ReqR for fixed SMETS1 costs downwards by £13.774m; specifically, we proposed to reduce the requested allowance for post-November 2026 outgoing DXC ANSO contract charges on the grounds that DCC is due to exit this contract by November 2026 and therefore no operational charges beyond that month should be incurred. We were however minded to allow decommissioning costs, set-up and operational costs of the new CGI ANSO contract and a provision for change.

Overview of responses (other than DCC)

- 2.5 Two respondents commented specifically on the issue of SMETS1 (SF ReqR:
- One respondent supported our proposal to reduce the proposed ReqR and the exclusion of the costs of the outgoing DXC ANSO contract post November 2026. They were of the view that customers should not bear the cost of a contingency arrangements which has not been clearly justified. They stressed that the new CGI ANSO solution must go live by November 2026 with minimal disruption and considered a one-month contingency to be appropriate. They also stated their dissatisfaction with the delays in the re-procurement process and poor performance by SMETS1 Service Providers (SPs).

¹² These costs are reported and ringfenced together with other Volume-Driven Costs (see Chapter 3 for further details)

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

- Another emphasised the importance of service continuity during transition from the old to the new ANSO contract and warned against unintended consequences if sufficient funding is not provided. However, they also stressed that DCC should be taking risk mitigation actions and not rely solely on additional funds being available.
- 2.6 One respondent stated that DCC and industry should break the recurring cycle of technology refreshes, especially those requiring visits to consumer homes. They observed that SMETS1 costs, despite being a legacy technology, still comprise a major portion of the DCC's External Costs which should reduce over the first and second *ex-ante* Price Control Periods.

DCC's response

- 2.7 DCC agreed with our proposals apart from the funding for DXC ANSO. DCC requested funding equivalent to three-months of run costs as a contingency in case of delays to the go-live date and further provision for breakage costs. DCC confirmed that the CGI ANSO programme is on track for a go-live date in October 2026 "with a high degree of confidence in the delivery plan". DCC also confirmed that a three-month notice of contract termination was served to DXC on 1 August 2026.
- 2.8 However, DCC explained that should any slippage to the delivery plan occur, a delay was likely to be at least 3 months on account of high change activity in November related to SEC modification release. DCC acknowledged that any additional contingency should be ringfenced and only used to meet the cost of delay to the ANSO programme. In relation to the breakage costs, DCC reiterated that these costs are payable in line with contractual commitments agreed as part of the contract extension.

Reasons for our decision

- 2.9 We have considered further information made available to us through the consultation process about the ANSO implementation. We note that the programme remains on track for a go-live in October 2026 and that DCC has already served a notice of termination with the contractual end-date falling on 1 November 2026, that is before the commencement of the first Price Control Period on 2 November 2026.
- 2.10 We do not dispute that the implementation of any new programme carries the risk of delays. However, in this instance we have not seen evidence of any specific risks which could lead to delays, or steps DCC has taken to identify or mitigate such risks. As the delivery confidence remains high and DCC has already taken steps to terminate the DXC contract from 1 November, we do not consider the risk of delays to be likely and the need for contingency funding to be substantiated. If unexpected delays occur and DCC will incur unavoidable additional costs, DCC will be able to submit an emergency reopener under LC 24 Part D to request an

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

amendment to its Required Revenue. We have considered whether the timing of an emergency reopener carries a risk of service disruption. We consider this risk to be low as contingency exists within the SMETS1 SF's ReqR to temporarily fund unavoidable, business-critical operational costs beyond 2 November pending Ofgem's decision.

- 2.11 To determine whether any provision should be provided for breakage costs, we have reviewed relevant schedules of the DXC contract and considered the conditions of both DCC1 and DCC2 licences. Given that both the date on which DCC1 served the notice of contract termination (1 August 2026) and the termination date (1 November 2026) fall within the Final Regulatory Year under the DCC1 licence, we consider that the breakage costs will be incurred by DCC1 and, as such, must be included in the calculation of DCC1's Allowed Revenue (and will be subject to DCC1 *ex-post* Price Control) and not DCC2's Required Revenue.
- 2.12 The breakage costs fall within a broader category of costs which will be *incurred* by DCC1 pre-Transfer Date but *paid* by DCC2 post-Transfer Date; for example, where a Service Provider issues an invoice in November (to DCC2 post-TD) for work delivered in October (for DCC1 pre-TD). Condition 25 of the DCC2 licence foresees this in calculating DCC2's Recovered Revenue (the maximum amount DCC2 will be able to recover from service users). Specifically, the Recovered Revenue formula includes a balancing term "A" which comprises, among other things, "any amount paid by the Licensee in Regulatory Year *t* to meet a cost of the Previous Licensee pursuant to an agreement made under Condition 43 of the Previous Licence, expressed as a negative value".
- 2.13 This means that:
- DCC1 will incur the breakage costs (along with all costs incurred before 2 November 2026) and must report such costs as incurred in the relevant Regulatory Year in line with the RIGs
 - Where liabilities to the relevant Service Providers in respect of costs incurred by DCC1 are transferred to DCC2 on Transfer Date, DCC2 will make the necessary payments. However, costs incurred by DCC1 will not be included in the calculation of DCC2's Required Revenue
 - Ofgem will assess all costs incurred by DCC1 (including breakage costs) pre-TD under final DCC1 *ex-post* Price Control
 - Any costs incurred by DCC1 found by Ofgem to be Unacceptable and determined to be disallowed will be part of a final settlement between DCC1 and DCC2 alongside any other entitlements or liabilities following Ofgem's final *ex-post* PC decision
- 2.14 We have not received further material evidence to revise our proposals in other areas of the SMETS1 SF which we have decided to proceed with as consulted on.

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

- 2.15 Having carefully considered DCC's submission and justification, and further evidence and representations received through the consultation process, we determine the Required Revenue for this Service Family as £10.576m in the First RY and £19.172m in RY27/28, totalling £29.748m over the first Price Control Period. Table 2.1 below provides the detail of our decision.
- 2.16 We acknowledge concerns about the enduring SMETS1 costs as a legacy technology. We expect cost reductions under the new CGI ANSO contract and the exit of the DXC ANSO contract and strong budgetary discipline from DCC in respect of set-up costs incurred during the transition and any subsequent costs of change. We share concerns that the legacy SMETS1 solution continues to incur high annual costs, in particular via user demand-driven network and overage charges, forecasted to be c.£112m over the first PC Period (compared to c.£30m of the fixed costs constituting the SMETS1 SF budget). Overage charges should be a key area of focus for both DCC and industry. In addition to delivering necessary mitigating technical changes (as set out further in Appendix 2 alongside other expected outcomes), we expect DCC and users to work together to implement these changes and go further in actions to reduce collective exposure to the overage charges.

Table 2.1: Required Revenue for SMETS1 SF, in [£m]

	Consultation proposal	Decision	Difference
First RY (5 months)	12.275	10.576	-1.699
RY27/28 (12 months)	19.172	19.172	-
Total ReqR	31.447	29.748	-1.699

Decision Determination of DCC's Required Revenue: November 2026 to March 2028**B. SMETS2 (LRR/2G/3G) Service Family**

Proposal at consultation: set the ReqR at £51.418m in the First RY and £119.026m in RY27/28, totalling £170.444m over the first Price Control Period

Decision: set the ReqR at £49.959m in the First RY and £122.388m in RY27/28, totalling £172.347m over the first Price Control Period; accept a minor adjustment proposed by DCC in respect of the Long Range Radio (LRR) Committed Term project.

Background

- 2.17 The SMETS2 (LRR/2G/3G) Service Family is made up of three 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. Together they provide the communication services for smart metering across GB, allowing communications hubs to connect to DCC systems and to users.
- 2.18 We consulted on a setting the ReqR for the SMETS2 (LRR/2G/3G) Service Family at £170.444m. This was split by £51.418m in the first RY (the 5 months from November 2026 to March 2027), and £119.025m in RY 2027/2028.
- 2.19 Alongside our proposals for the ReqR, we proposed to exercise our powers under Licence Condition 24 Part B and ringfence the proposed expenditure for the Long-Range Radio Committed Term (LRRCT) project for the extension of the existing contract in CSP-N into the 2030s to ensure service continuity.

Overview of responses (other than DCC)

- 2.20 We received two responses specifically to the SMETS2 SF proposals, and both specifically relating to the LRRCT project:
- One respondent acknowledged the LRR solution will need to be extended to provide continuity of service in the North but expressed concerns about the quality of service received by users¹³ and reiterated DCC should manage costs effectively while improving performance. They did not agree or disagree with our proposals
 - Another respondent disagreed with our proposal for the costs associated with the LRRCT project, highlighting DCC's historic inability to challenge SPs to constrain costs. They specifically stressed that the LRRCT project drives almost all of the cost increase during the business plan period within SMETS2, despite the project being at an early stage and without concrete cost basis. They did not feel it appropriate to fund the project whilst costs were unable to be substantiated by DCC

¹³ As evidenced for example in DCC Annual Service Report (RY24/25). Accessible at: www.smartdcc.co.uk/media/rmrlhxqq/dcc-service-review-2025.pdf

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

- 2.21 DCC broadly agreed with our proposals for the costs associated with the SF and accepted our proposed ringfencing of costs associated with the LRRCT project. It did however provide an updated cost profile forecast for the LRRCT project.
- 2.22 DCC's response acknowledged our concerns with the maturity and scale of costs provided in the business plan regarding the CSP-N contract extension. DCC explained that the programme was at an early stage when the Business Plan was submitted and that significant commercial engagement with the SP had happened since. DCC provided a draft Final Business Case (FBC) for the LRRCT project, based on the latest negotiations with the SP. DCC argued that it secured additional reductions in the overall costs but requested some adjustments to the ReqR in the first PC period.
- 2.23 DCC generally agreed with the outcomes of this SF but wished to reframe our proposal on DCC holding the CSP-N provider to account to refer to the supplier delivering in line with its contractual obligations, including service level agreements and key performance indicators to ensure expectation on performance are clear, measurable and enforceable.

Reasons for our decision

- 2.24 We have decided to maintain our consultation position for CSP-C and CSP-S contracts, whilst making an adjustment to the CSP-N forecast to reflect the updated cost estimates from DCC regarding the LRRCT project. This acknowledges the cost of operating and maintaining continuity for smart meters across GB, and ensures future connectivity for all regions, whilst encouraging DCC to work with industry and seek a solution to move away from legacy technology.
- 2.25 Having reviewed the draft FBC provided by DCC and following engagement with both DCC and DESNZ, we have decided to calculate the ReqR on the basis of the assumptions presented in DCC's business case. However, we share concerns regarding the CSP-N SP performance, noting its 'Improvement required' rating in DCC's latest Annual Service report¹⁴ (although we acknowledge this is an improvement on their 'unsatisfactory' rating from 24/25). We expect DCC to continue working with the SP to improve performance to meet contractual targets and KPIs. More broadly, DCC should work with industry to select appropriate system performance KPIs, which will be used to monitor DCC's system performance and will be linked to senior management remuneration through the remuneration policy under Licence Condition 20.

¹⁴ Smart DCC (2026), Annual Service Report, RY25/26. Accessible at: www.smartdcc.co.uk/media/jyjbnljr/annual-service-report-2025-2026.pdf

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

- 2.26 Beyond the first PC Period, we have some concerns regarding the economy and efficiency of the enduring costs of the LRRCT project, as DCC was unable to provide full transparency around operational costs. We acknowledge that DCC has been negotiating with the SP to improve cost position from early stages. We expect DCC to continue this process to ensure the best possible value for money, including by reducing the enduring costs through all of the options that exist within the draft FBC. Ongoing operational costs must be transparent and provide value for money for customers.
- 2.27 We have also decided to accept DCC's proposal for an inclusion of a provision for financing, which DCC explained will be required due to the impact of the capex technology refresh costs. We recognise that DCC may need to finance some of this activity, as the investment may have an impact on cash flow. DCC requested this to be recognised as outside of its control and subject to automatic adjustments. As DCC is yet to procure the financing vehicle, we deem the costs to be within DCC's control and not have any independent variables. As such we include these costs within the SMETS2 SF as a fixed cost. DCC should not treat this as a spending target; the financing costs will be ringfenced and we expect DCC to competitively procure a financing vehicle that provides value for money.
- 2.28 Having carefully considered DCC's submission and justification, and further evidence and representations received through the consultation process, we determine the Required Revenue for this Service Family as £49.959m in the First RY and £122.388m in RY27/28, totalling £172.347m over the first Price Control Period. Table 2.2 below provides the detail of our decision. Our further expectations on DCC in relation to this SF are set out in Appendix 2.
- 2.29 We also maintain our position to exercise our powers under Licence Condition 24 Part B to ringfence the expenditure for the LRRCT project, which encompasses the capex expenditure and associated financing costs DCC's proposed for up front technology refresh.

Table 2.2: Required Revenue for SMETS2 SF, in [£m]

	Consultation proposal	Decision	Difference
First RY (5 months)	51.418	49.959	-1.459
RY27/28 (12 months)	119.026	122.388	+3.362
Total ReqR	170.444	172.347	+1.903

Decision Determination of DCC's Required Revenue: November 2026 to March 2028**C. 4G Service Family**

Proposal at consultation: set the ReqR at £16.433m in the First RY and £45.794m in RY27/28, totalling £62.227m over the first Price Control Period

Decision: set the ReqR at £16.433m in the First RY and £39.877m in RY27/28, totalling £56.310m over the first Price Control Period: reduce ReqR for Device Manager (DM) re-procurement and 4G & Beyond to match updated assumptions.

Background

- 2.30 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.
- 2.31 We consulted on a ReqR for the 4G SF of £62.227m. This was split into £16.433m in the First RY and £45.794m in RY27/28. We also proposed to exercise our powers under Licence Condition 24 Part B and ringfence the proposed expenditure for the DM re-procurement activity and for the 4G & Beyond project.

Overview of responses (other than DCC)

- 2.32 We received one response directly in relation to the 4G SF ReqR. The respondent highlighted two areas of concern within the service family: the DM re-procurement and the 4G & Beyond project.
- On the DM re-procurement, the respondent objected to our proposal to include any funding, citing previous assurances from DCC that the solution could be lifted and shifted between platforms without the need for any additional design, build and testing (DBT) activity
 - On 4G & Beyond, the respondent acknowledged the need for this project in advance of the expected 2044 sunseting but had concerns around the robustness of the estimated costs and the level of contingency included

DCC's response

- 2.33 DCC supported our proposals for the 4G SF ReqR and accepted our proposed ringfencing of costs associated with the DM re-procurement and 4G & Beyond.
- 2.34 In relation to the two change programmes, DCC acknowledged our concerns around the level of uncertainty associated with DM re-procurement and 4G & Beyond. DCC explained that it used industry standard approaches to early-stage cost forecasting; on request, DCC provided an update to its assumptions for each project via an Outline Business Case (OBC) for 4G & Beyond and a Strategic Outline Case (SOC) for the DM re-procurement. DCC explained that it did not expect material External Costs to be incurred until FBC approval has been

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

achieved for either programme, ensuring any downstream expenditure is supported by clearly defined scope, validated delivery approach and clear costs.

Reasons for our decision

- 2.35 We have decided to maintain our consultation position for the three existing 4G cost areas related to the delivery of the 4G SF, acknowledging the continuity and expansion of the 4G network within the nation. However, we have decided to reduce the ReqR for the two change projects: DM re-procurement and 4G & Beyond. As outlined in our consultation, we have maintained our position to align the costs for programmes with the latest available evidence; as such we have considered the evidence within the SOC and OBC for 4G & Beyond and DM re-procurement respectively and have decided to reduce the allowance. We maintain our proposals to ringfence the expenditure associated with both projects due to a certainty of need but a lack of full view of the scope which remains subject to the business case process.

4G & Beyond

- 2.36 The objective of the 4G & Beyond project is to ensure that any Comms Hubs installed from 2029 will operate throughout their 15-year asset life and maintain service continuity beyond 2044, when the 4G service is expected to be sunset.
- 2.37 DCC's initial Business Plan included a provision based on pre-business case assumptions and cost forecasts, acknowledging that the solution needs to be available widely in 2029. We consulted on including this provision given the need for funding the project but proposed to ringfence the funds due to an uncertainty on the scope.
- 2.38 The OBC provided a clearer idea of DCC's available options and an update of the costs DCC is likely to incur. DCC engaged several vendors, conducted a two-stage RFI, held briefings and obtained a rough cost estimate from all these vendors for a potential solution. DCC considered whether potential savings from a competitive procurement could offset the increased cost associated with the longer time required for a competitive process to conclude. DCC also explored a tactical solution (a change to the existing 4G CH) and a hybrid option between competitive procurement and a change request.
- 2.39 Having analysed the OBC provided by DCC, we have decided to reduce the ReqR associated with 4G & Beyond, aligned to the OBC estimates and including updated delivery costs, third party support and contingency.
- 2.40 Whilst on this occasion we have agreed to align the ReqR with the OBC assumptions to allow DCC to proceed with the project at pace, this decision should not be understood as an approval of any one option as the final outcome. We maintain our consultation position to use our powers under Licence Condition 24 Part B to ringfence this spending, with all expenditure subject to a FBC and a non-objection from the Secretary of State.

Decision Determination of DCC's Required Revenue: November 2026 to March 2028**Device Manager re-procurement**

- 2.41 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.¹⁵ Through previous Price Control engagements, DCC has sought to reassure Ofgem that the DM solution can easily be 'lifted and shifted' from one platform to another, without the need for new DBT.
- 2.42 DCC's initial business plan included an assumption on a monthly expenditure from December 2027, assuming the solution would be ported to a new platform.
- 2.43 We consulted on including this provision in the ReqR to allow DCC to proceed with the re-procurement activity at the earliest opportunity but proposed to ringfence the funds due to uncertainty on scope, with expenditure subject to a FBC and a non-objection from the Secretary of State before the end of the first Price Control Period. We nonetheless highlighted our concern about the overall DBT costs (falling mostly within the second Price Control Period post-April 2028), despite DCC's assurances to Ofgem and customers that the solution could be ported without re-platforming.
- 2.44 The updated SOC provided an updated view of the timelines, however not an updated view of costs. The updated SOC timeline assumes a contract signature date by end-January 2028 with DBT activity commencing from February 2028, two months later than the original assumptions presented by DCC to have funds available to meet External Costs from December 2027.
- 2.45 Having considered this updated timeline provided in the SOC, we have decided to reduce the ReqR by 50% in RY27/28. This will allow DCC to meet its expected monthly DBT expenditure starting from February 2028 instead of December 2027 as we do not consider it justified for DCC to incur External Costs before a contract has been signed. We also understand that DCC has now carried out a market engagement and the confidence in the solution portability has increased. We therefore expect reduced overall DBT costs aligned to DCC's lower cost assumption (no re-platforming) and, consequently, consider the provision within the first PC period to be sufficient for initial DBT activity to proceed.
- 2.46 Having carefully considered DCC's submission and justification, and further evidence and representations received through the consultation process, we determine the Required Revenue for this Service Family as £16.433m in the First RY and £39.877m in RY27/28, totalling £56.310m over the first Price Control Period. Table 2.3 below provides the detail of our decision. Our further expectations on DCC in relation to this SF are set out in Appendix 2.

¹⁵ Ofgem (2024), DCC Price Control decision: regulatory year 2022 to 2023, see paragraphs 2.56-2.72. www.ofgem.gov.uk/decision/dcc-price-control-decision-regulatory-year-2022-2023

Decision Determination of DCC's Required Revenue: November 2026 to March 2028**Table 2.3: Required Revenue for 4G SF, in [£m]**

	Consultation proposal	Decision	Difference
First RY (5 months)	16.433	16.433	-
RY27/28 (12 months)	45.794	39.877	-5.917
Total ReqR	62.227	56.310	-5.917

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

D. Centralised Registration Service (Switching) Service Family

Proposal at consultation: set the ReqR at £3.834m in the First RY and £8.863m in RY27/28, totalling £12.697m over the first Price Control Period by excluding £9m for re-procurement activity; designate RECCo budget setting process as a Driver to allow Automatic Adjustments to the CRS SF ReqR.

Decision: maintain consultation proposals, setting the ReqR at £3.834m in the First RY and £8.863m in RY27/28, totalling £12.697m over the first Price Control Period.

Background

- 2.47 The Switching SF enables fast, secure, and reliable switching between energy suppliers, supporting consumer choice and market competition.
- 2.48 The Switching service includes Switching Operator function and Central Switching Service (CSS), which in turn comprises three core services:
- Registration Service
 - Address Management Service
 - Reporting Service
- 2.49 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.
- 2.50 DCC manages four service providers contracts that provides the CSS (Landmark, Capgemini, Net company, and Entrust) and initially considered either a single re-procurement exercise (£9m) or a contract extension. DCC received approval for the contract extension subject to a full business case, RECCo approval, and endorsement from DCC1 Board. We therefore proposed to revise the proposed ReqR for switching services costs downwards from £21.697m to £12.697m, excluding the requested £9m for Switching re-procurement because we considered it prudent to set the ReqR at the level that allows DCC to extend the contracts until July 2029.
- 2.51 The REC 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 Retail Energy Code Company (RECCo) in twelve equal monthly instalments. If a revision to the budget is required intra-year, the same agreement process is repeated. We proposed to designate the RECCo budget process as a Driver under LC 24 Part C to allow an automatic adjustment (AA) to the CRS SF ReqR in RY27/28.

Decision Determination of DCC's Required Revenue: November 2026 to March 2028**Overview of responses (other than DCC)**

- 2.52 We received one response to our consultation proposals. This respondent supported our proposed reduction of the switching budget, adjusting the ReqR in line with the RECCo budget, and agreed the AA mechanism is appropriate for managing CRS budget uncertainty.

DCC's response

- 2.53 DCC supported our proposed ReqR for the CRS SF, including the proposed use of the AA mechanism to reflect updates to the RECCo budget in RY27/28. DCC stated that any deviations between the proposed RECCo budget and the CRS business plan funding needs to be addressed through the AA mechanism to ensure the ReqR is aligned.
- 2.54 DCC reconfirmed its preferred approach, supported by a detailed FBC, to extend the existing CSS service provider contracts to a common end date in mid-2029 rather than proceed with immediate re-procurement. DCC stated that the £9m switching re-procurement funding previously included in the business plan is not required in the immediate term, with the associated activity and costs expected to arise in the second PC Period. The decision to extend the current contracts reduces near term cost volatility and delivery risk, while preserving flexibility for a future, fully competitive re-procurement aligned with clearer market conditions and requirements from 2029.
- 2.55 DCC supported our proposed outcomes for the CRS SF but argued that improvements to address matching should be delivered "where they are practical and proportionate to implement". DCC said that due to the complexity of address data and external data source dependencies, any changes should be targeted and linked to demonstrable improvements in switching outcomes for consumers.

Reasons for our decision**Setting the Required Revenue**

- 2.56 We have decided to maintain our consultation position on CSS contracts costs and exclude switching re-procurement costs, following DCC's support for our proposals. This will allow DCC to proceed on the basis of the agreed way forward, minimising additional spend.
- 2.57 Having carefully considered DCC's submission and justification, and further evidence and representations received through the consultation process, we determine the Required Revenue for this Service Family as £3.834m in the First RY and £8.863m in RY27/28, totalling £12.697m over the first Price Control Period. Table 2.4 below provides the detail of our decision. Our further expectations on DCC in relation to this SF are set out in Appendix 2, where we have reflected DCC's feedback.

Decision Determination of DCC's Required Revenue: November 2026 to March 2028**Table 2.4: Required Revenue for CRS SF, in [£m]**

	Consultation proposal	Decision	Difference
First RY (5 months)	3.834	3.834	-
RY27/28 (12 months)	8.863	8.863	-
Total ReqR	12.697	12.697	-

Treatment of the Switching budget for RY27/28

- 2.58 DCC has included forecast Switching costs within its ReqR for RY27/28. However, the final Switching budget for RY27/28 remains subject to approval by the RECCo Board. As the level of expenditure ultimately approved by RECCo may differ from DCC's current forecast, there is uncertainty regarding the amount of Switching costs that should be recovered through DCC's ReqR.
- 2.59 After reviewing the available options, we have decided that Switching costs for RY27/28 will be subject to the AA mechanism. Under this approach, DCC will be required to adjust its ReqR, either upwards or downwards, to reflect the final Switching budget approved by the RECCo Board.
- 2.60 To implement this decision, we have decided to exercise our power under Condition 24, Part C of the DCC Licence. This enables the Authority to specify the operation of uncertainty mechanisms and approve relevant cost Drivers for those mechanisms.
- 2.61 We have concluded that the Switching budget approved by the RECCo Board for RY27/28, in accordance with Section 9 of the RECCo, should be approved as the relevant Driver in this instance. DCC will therefore be required to adjust its Switching ReqR to reflect the final RECCo-approved budget for RY27/28.
- 2.62 We consider this approach to be proportionate and efficient. Given the potential for material differences between DCC's forecast expenditure and the budget ultimately approved by RECCo, application of the AA mechanism will ensure that DCC recovers no more and no less than the level of expenditure independently approved through RECCo governance processes. The mechanism also avoids the need for DCC to submit a separate reopener application to the Authority, reducing administrative burden and regulatory duplication processes.

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

E. Meter Data Management Service Family

Proposal at consultation: set the ReqR at £44.629m in the First RY and £105.828m in RY27/28, totalling £150.457m over the first Price Control Period

Decision: adjust the Required Revenue upwards to £48.407m in the First RY and £112.245m in RY27/28, totalling £160.652m over the first Price Control Period: accept proposed amendment in respect of DSP1 extension

Background

2.63 The Meter Data Management (MDM) SF comprises 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 solution.

2.64 At consultation, we proposed to allow DCC's requested MDM funding of £150.457m overall. This reflected our view that:

- DSP1 costs were largely unavoidable in order to maintain continuity of service
- DSP2 costs, including contingency allowances, were supported by approved FBC and established programme governance
- The transition from DSP1 to DSP2 represents a critical programme for the continued operation of the DCC service

2.65 We have however identified two areas requiring additional control and scrutiny. First, DCC had included a separate risk. While we recognised the importance of contingency within a programme of this scale and complexity, we considered the provision to be inherently probabilistic in nature and requested further evidence on the underlying methodology and assumptions.

2.66 Secondly, we proposed to ringfence both the DSP risk provision and ESSI costs, reflecting the relative immaturity of scope, ongoing programme development and the need for continued governance and transparency.

Overview of responses (other than DCC)

2.67 Respondents generally recognised that a programme of the scale and complexity of DSP2 would require some form of contingency provision.

2.68 Several respondents requested greater transparency regarding:

- The assumptions underpinning the risk provision
- The methodology used to derive contingency values
- The governance arrangements that would apply to contingency expenditure

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

- 2.69 Respondents also broadly supported strong controls and oversight over DSP programme expenditure, particularly where costs relate to future risks or evolving programme scope.
- 2.70 One respondent raised specific concerns regarding our proposed treatment of ESSI costs. The respondent argued that, unlike DSP1 and DSP2 costs, ESSI expenditure was not separately quantified and therefore the proposed ringfence could not be meaningfully assessed. The respondent also questioned whether the proposed ringfence applied only to early-stage ESSI expenditure or to future programme costs that may arise following approval of the FBC.

DCC's response

- 2.71 DCC maintained its request for the full allowance, arguing that both DSP1 and DSP2 costs are necessary to maintain continuity of service and deliver the DSP transition programme.
- 2.72 DCC provided additional evidence in respect of the risk provision, explaining that it is derived from the approved DSP Data Services and DSP System Integration FBCs. DCC noted that the amount of contingency included in the Business Plan was £10m lower than the amount of contingency identified within the underlying programme business cases.
- 2.73 DCC also provided further information on the key programme risks underpinning the provision, including:
- Extended dual running
 - Blueprinting impacts
 - Migration and design risks
 - Migration and development risks
 - Ecosystem and systems integrator coordination risks
- 2.74 DCC also maintained its request for the full ESSI allowance and provided further information on the programme. DCC explained that ESSI forms part of its future operating model and is intended to consolidate integration services across DCC. DCC confirmed that the programme remains at an early stage of development and that key decisions relating to scope, delivery arrangements and procurement will continue to be developed through the SOC and FBC processes.
- 2.75 In addition, DCC submitted a revised DSP1 forecast relating to the extension of DSP1 services to December 2028, consistent with the integrated DSP migration plan and LC13B Milestone 45.

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

2.76 DCC stated that:

- Operation of DSP1 through December 2028 was already assumed within the Business Plan
- The revised forecast does not represent an expansion of scope or service levels
- Cost increase principally reflects the latest negotiated commercial position

2.77 DCC also broadly supported the proposed outcomes for the MDM Service Family and considered that they align with the objectives of maintaining service continuity, delivering the DSP2 transition programme and achieving a secure transfer of operational capability from DSP1 to DSP2. DCC further emphasised the importance of maintaining service resilience throughout the transition period and delivering the programme in accordance with agreed milestones.

Reasons for our decision

2.78 Our assessment remains that DSP1 costs are generally unavoidable until the DSP2 solution go-live, and that DSP funding should be allowed overall, reflecting the criticality of maintaining service continuity and delivering the transition to DSP2.

2.79 Following consultation, we consider that DCC has satisfactorily addressed our concerns regarding the risk provision. DCC has provided a clearer explanation of the quantitative risk analysis underpinning the provision and demonstrated its relationship to the FBCs.

2.80 While contingency allowances remain inherently uncertain, we recognise that a programme of this scale and complexity requires appropriate provision for delivery risk. We therefore continue to consider the risk provision justified. However, given the probabilistic nature of the analysis, we consider ongoing scrutiny through ringfencing and reporting requirements to remain appropriate.

2.81 We have also considered the additional information provided by DCC regarding ESSI. DCC described the ESSI as needed to consolidate integration services across DCC's service providers and support the future DCC operating model. Key elements of scope, delivery arrangements and costs remain subject to further development through the SOC and FBC processes. We continue to consider it appropriate to ringfence ESSI costs. Ringfencing will help ensure that expenditure remains limited to defined programme activities and that funding is not used beyond the scope ultimately established through the business case and procurement processes.

2.82 We acknowledge respondent's concerns regarding the absence of a separately disclosed ESSI allowance within this determination. We have not published a specific ESSI cost allowance because the underlying cost information remains

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

commercially sensitive. We have, however, reviewed DCC's underlying cost assumptions and tested them against the currently defined programme scope, including the proposed preparatory activities, programme timetable and the development of the SOC and FBC. We note that procurement is not expected to commence until after FBC approval and that service transition is currently expected to begin in 2028.

- 2.83 We are satisfied that the expenditure proposed within the first PC Period relates to early-stage programme development and preparatory activities, including development of the future integration model, rather than implementation of the full ESSI service. On that basis, we consider the expenditure sufficiently defined to justify inclusion within ReqR.
- 2.84 We have also considered DCC's revised DSP1 forecast. We recognise that the revised December 2028 transfer date is now embedded within the integrated DSP programme plan and reflected in LC13B Milestone 45. We also note that the Business Plan already assumed DSP1 services would continue through this period and that the revised forecast primarily reflects updated commercial assumptions rather than a change in scope or service levels.
- 2.85 However, a significant proportion of the consequences of the revised transfer date fall beyond the first PC Period, and the final cost position remains subject to ongoing negotiations and governance approvals. We therefore consider it appropriate to allow the requested funding while maintaining additional controls.
- 2.86 Nevertheless, we expect DCC to continue pursuing opportunities for cost avoidance and to minimise additional investment in the DSP1 estate wherever reasonably practicable. DCC should carefully consider whether further expenditure on legacy infrastructure is necessary to maintain service continuity and support the transition to DSP2.
- 2.87 We also remain concerned about the potential impact of programme delays. Extended operation of DSP1 increases costs borne by consumers and may result in additional investment in legacy systems. We therefore expect DCC to deliver the DSP2 transition in line with agreed milestones and timelines and to demonstrate robust management of schedule, scope and delivery risks throughout the programme.
- 2.88 Accordingly, we have decided to:
- Allow the revised DSP funding request associated with the DSP1 extension
 - Continue to ringfence the DSP2 risk provision
 - Continue to ringfence ESSI costs pending further development of scope and business cases

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

- 2.89 We consider that ringfencing remains appropriate given the uncertainty associated with future risk events, the evolving scope of ESSI activities and the fact that the final DSP1 extension costs have not yet been fully concluded. Ringfencing will help ensure that funding is used only for its intended purpose, provide transparency over actual expenditure and protect consumers from funding costs that do not ultimately materialise.
- 2.90 In summary, having carefully considered DCC's submission and justification, and further evidence and representations received through the consultation process, we determine the Required Revenue for this Service Family as £48.407m in the First RY and £112.245m in RY27/28, totalling £160.652m over the first Price Control Period. Table 2.5 below provides the detail of our decision. Our further expectations on DCC in relation to this SF are set out in Appendix 2.

Table 2.5: Required Revenue for MDM SF, in [£m]

	Consultation proposal	Decision	Difference
First RY (5 months)	44.629	48.407	+3.778
RY27/28 (12 months)	105.828	112.245	+6.417
Total ReqR	150.457	160.652	+10.195

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

F. Privacy and Security Service Family

Proposal at consultation: set the ReqR at £14.860m in the First RY and £54.362m in RY27/28, totalling £69.222m over the first Price Control Period; reduce the proposed ReqR for Enduring Change of Supplier (ECoS) re-procurement

Decision: set the ReqR at £14.860m in the first RY and £53.462m in RY 27/28, totalling £68.322m over the first Price Control Period, reducing the allowance by reprofiling ECoS expenditure between the first and second Price Control Periods

Background

2.91 The Privacy and Security (P&S) SF 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

2.92 It also includes two change programmes:

- ECoS reprocurement – to replace expiring contracts for Application build/IT Solution and Application Support and Maintenance
- Post Quantum Cryptography (PQC) – to address new threats arising from quantum computing and update encryption standards

2.93 We proposed to accept DCC's proposed ReqR with a downward adjustment to the proposed expenditure for the ECoS reprocurement to match the assumptions set out in DCC's Strategic Outline Case (SOC). We also proposed to ringfence the ECoS reprocurement and PQC ReqR.

Overview of responses (other than DCC)

- 2.94 One respondent commented specifically on the proposals for this SF. They generally supported our proposals but questioned costs required for DCO technology refresh in RY27/28. They observed that it was coming soon after a re-procurement and asked for further assurance that this spend is non-discretionary.
- 2.95 They expressed concern about the risk of nugatory spend on PQC and agreed with our proposal to ringfence any expenditure.
- 2.96 They also requested clarification on the total ReqR for this SF (the SF budget vs related, non-budgeted, costs) noting potential inconsistency in the consultation.

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

- 2.97 DCC supported our proposal to use the SOC assumptions to adjust the ReqR for ECoS reprocurement. However, DCC proposed to reprofile the revenue to reflect the expected delivery timeline and the latest evidence from programme development and supplier engagement. This reprofiling would shift a portion of the funding into the second PC Period (post-April 2028), reducing the ReqR by a commensurate amount. DCC confirmed that market feedback to date has increased confidence that a "lower-cost delivery approach is achievable and that the proposed funding envelope represents a realistic and evidence-based reflection of expected costs, while retaining appropriate flexibility to manage delivery risk."
- 2.98 DCC acknowledged our concerns about further investment into the DCO service. It explained that the technology refresh was crucial to mitigate end-of-support risks and ensure that the solution would remain fit for purpose for the remainder of the SMETS1 lifecycle. DCC reiterated that the forecast expenditure was based on a like-for-like replacement of components but committed to further assess opportunities for cost reductions ahead of any contractual commitment for the refresh.
- 2.99 DCC agreed with our proposal to ringfence funding for ECoS re-procurement and PQC projects.
- 2.100 Finally, DCC agreed with the expected outcomes, noting only that the delivery of PCQ should focus on establishing readiness as opposed to specifying detailed implementation steps or timelines given early programme stage.

Reasons for our decision

- 2.101 **ECoS:** Our consultation position was intended to allow DCC to progress the re-procurement more quickly; however, we accept DCC's counterproposal to re-profile the DBT expenditure in line with the current programme assumptions and timeline. We have therefore decided to reduce the ReqR by £0.900m in RY27/28. We welcome DCC's assurance that lower-cost solution can be achieved and note that all expenditure is subject to the outcome of the full procurement and a non-objection from the Secretary of State to DCC's FBC. Any ReqR falling within the second PC Period will be subject to a separate PC process.
- 2.102 **DCO:** We accept DCC's explanation that the tech refresh expenditure is driven by end-of-life support, and is therefore non-discretionary, and have decided to include a provision for it in the RY27/28 ReqR. However, we share the concern that high set-up costs followed up by further investment into the technology risk eroding the benefits achieved via the contractual reprocurement. As an economic operator, we expect DCC to seek cost savings through the process. This is an area in which we would expect DCC to provide an update to Ofgem and the CCG through its quarterly reporting under LC25.

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

2.103 We note support on other proposals, including the ringfencing of ECoS and PCQ ReqR, which we have decided to implement as consulted on. We recognise DCC's focus in the PCQ programme on establishing baseline requirements in the first place; however, as funding has been provided to DCC, it remains our expectation that DCC will deliver tangible outcomes during the PC Period. Our consultation position, identifying some of these outcomes, reflected the information provided by DCC in justifying its proposed ReqR but, ultimately, the precise outcomes will be decided in agreement with the SEC Security Sub-Committee and DESNZ. This has been reflected in our decision on the purpose for which ringfenced PQC funding can be used (Appendix 1) and our view of the broader expectations (Appendix 2).

2.104 Having carefully considered DCC's submission and justification, and further evidence and representations received through the consultation process, we determine the Required Revenue for this Service Family as £14.860m in the First RY and £53.462m in RY27/28, totalling £68.322m over the first Price Control Period. Table 2.6 below provides the detail of our decision. Our expectations on DCC in relation to this SF are set out in Appendix 2.

2.105 Further to one respondent's feedback noted above, we have reviewed the total budgeted and non-budgeted ReqR for this SF and can confirm the following:

- Budgeted ReqR is £68.3m as per table 2.6 below
- Related (non-budgeted) ReqR is £8.7m (this comprises Internal Operating Costs assigned to this SF, which are "fungible", meaning DCC can reallocate them if required)
- The total combined ReqR is therefore £77.0m

2.106 We acknowledge that paragraph 3.143 of the consultation document contained an error and the figure £147.3m should instead have read £79.2m (as a sum of proposed budgeted £70.5m and non-budgeted £8.7m).¹⁶

¹⁶ The difference between the £79.2m and the £77.0m (delta £2.2m) represents the total reductions to the ECoS re-procurement allowance between DCC's original submission and our final decision.

Decision Determination of DCC's Required Revenue: November 2026 to March 2028**Table 2.6: Required Revenue for P&S SF, in [£m]**

	Consultation proposal	Decision	Difference
First RY (5 months)	14.860	14.860	-
RY27/28 (12 months)	54.362	53.462	-0.900
Total ReqR	69.222	68.322	-0.900

Decision Determination of DCC's Required Revenue: November 2026 to March 2028**G. Service Management Service Family**

Proposal at consultation: set the ReqR at £4.691m in the First RY and £5.743m in RY27/28, totalling £10.434m over the first Price Control Period; reduce the proposed ReqR for Future System Management

Decision: set the ReqR at £5.149m in the First RY and £6.151m in RY27/28, totalling £11.300m over the first Price Control Period: partially adjust ReqR for FSM (provision for well-evidenced costs of change) and GSOP (re-profiling of expenditure due to shifting timelines)

Background

2.107 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 and change programmes, specifically: Energy Data Best Practice (DBP); Consumer Consent Solution (CCS); Guaranteed Standards of Practice (GSOP); and, subject to ongoing analysis, a future Smart Meter Energy Data Repository (SMEDR).

2.108 We proposed to reduce the proposed ReqR by c.£6.8m allocated to FSM costs of change, on account of a lack of evidential maturity and the absence of clear linkage to approved scope, firm regulatory obligations or defined customer outcomes. Evidence submitted at Business Plan stage did not demonstrate clear linkage to regulatory drivers; robust cost justification; customer-led need or a distinction from FSM run costs funded through the FBC.

2.109 We proposed to allow DCC's forecast costs for individual change projects (DBP, CCS and GSOP), subject to ringfencing arrangements on account of an agreement on the need for these projects to progress but early-stage uncertainty on the definitive scope.

Overview of responses (other than DCC)

2.110 No respondents were opposed to our proposed reduction in the ReqR for FSM change costs or ringfenced funding for EDBP, CCS and GSOP projects.

2.111 One respondent supported our proposal to withhold a portion of FSM funding pending further development of cost estimates and supporting evidence from DCC.

2.112 A couple of respondents commented on SMEDR, requesting further information on its scope and funding. One respondent questioned whether DCC SMEDR would lead to duplication of costs across industry as other parties are scaling similar repositories.

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

2.113 DCC disagreed with our proposed reductions for FSM funding. DCC explained that although the FBC established a baseline scope for the live service, it did not account for necessary in-life change post-go live.

2.114 In response to the consultation, DCC did however materially expand the evidence supporting its proposal and reduced its forecast for FSM change costs. DCC provided:

- A roadmap identifying planned maintenance and capability releases
- Evidence of customer-requested enhancements
- Evidence of customer engagement through FSM Readiness Forums and SEC operations groups
- A revised release costing methodology
- A reduction in assumed release costs
- Further information on governance arrangements, impact assessments and approval processes
- A detailed breakdown of the requested funding by activity and scope maturity

2.115 DCC further confirmed that, of the new forecasted amount:

- c.36% relates to activities supported by defined scope and committed deliverables
- c.27% relates to known future requirements that have not yet been fully scoped or costed
- c.37% represents provision for future requirements that have not yet been identified.

2.116 DCC supported our proposal for the provision of ringfenced funding for change projects but asked for a small upwards adjustment to the ReqR for GSOP to account for a delay to implementation due to a deferral of Ofgem's decision. DCC explained this adjustment reflects a re-phasing of expenditure (with more work now due post-Transfer Date) and provided assurance that the overall cost envelope remained unchanged. DCC agreed that ringfencing is appropriate for these projects given the early stage of cost maturity, providing assurance that funds will be applied solely for the intended activities and enabling clear tracking of project performance.

2.117 DCC requested that additional funding is made available for SMEDR if a decision is taken that DCC SMEDR should progress. This is subject to an ongoing study by

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

DESNZ into the potential consumer benefit.¹⁷ DCC presented three options as potential solutions with a range of DBT costs during the first PC Period. DCC requested that funding be made available to allow any option to proceed but emphasised that expenditure would be subject to a bespoke DESNZ-assured governance process. DCC's proposal for a contingent funding was supported by DESNZ in a written response to our consultation. DESNZ considered that provisioning for this possible expenditure would support the Department's ongoing work to ensure that wider access to smart metering data is delivered in a way that supports consumer benefit, innovation and decarbonisation, while maintaining robust privacy and security arrangements.

2.118 DCC broadly agreed with the proposed outcomes for the SM SF but noted that sustained Licence and code compliance cannot be assured only using baseline FSM capability as compliance requirements evolve over time. DCC therefore sought to underline its request for an adjustment to the FSM ReqR to allow funding for in-life change. DCC also asked that Ofgem should clarify whether DCC should operate as a Joint or solo Data Controller to ensure deliverability of outcomes for DBP.

Reasons for our decision

FSM

2.119 Having considered consultation responses and the additional information provided by DCC, we have decided to include in the calculation of the ReqR for FSM:

- The proposed operational costs
- The proportion of additional change funding associated with defined scope and committed deliverables

2.120 We consider that DCC's additional evidence has partially addressed the concerns identified in our consultation. DCC provided greater transparency regarding the proposed activities, strengthened the rationale for future FSM releases and enhancements, and reduced the level of funding requested. However, the revised submission also demonstrates that the maturity of the proposed activities varies significantly.

2.121 While we recognise that additional FSM changes are likely to arise during the Price Control Period, we remain of the view that consumers should not fund activities upfront where the need, scope, costs and deliverables are not sufficiently defined. This is consistent with the principles of the *ex-ante* framework and our

¹⁷ DESNZ (2026), Scoping exercise outcome: open letter. Accessible at: <https://smartenergycodecompany.co.uk/documents/sec/scoping-exercise-on-provision-of-wider-smart-meter-data/>

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Business Plan Guidance, which require funding requests to be supported by a clear understanding of the activities to be delivered and the associated costs.

- 2.122 Accordingly, we have decided to include in our calculation of the ReqR only the proportion of requested funding (apportioned pro-rata between the First RY and RY27/28) associated with defined scope and committed deliverables.
- 2.123 We have excluded the remaining amount that had been requested, as the need and scope of the underlying activities are not yet sufficiently developed or evidenced to justify upfront funding. Should these requirements become more clearly defined, DCC will have the opportunity to provide further evidence through the appropriate governance and future Price Control processes.
- 2.124 This approach recognises improvements in the evidential base since consultation, while ensuring that consumers fund only those activities that are supported by clearly defined scope, deliverables and cost estimates.

Change programmes

- 2.125 We have decided to maintain our consultation position in respect of DBP and CCS. We also agree to re-profile the spending on GSOP as we recognise that the implementation timeline has shifted to the right; however, we expect any pre-TD expenditure to be reduced by a commensurate amount, and we will closely scrutinise it under the final DCC1 *ex-post* PC. We are satisfied that these projects are driven by clear regulatory requirements, but we maintain our position that the ReqR for each project should be ringfenced.
- 2.126 We have decided not to provide any funding for SMEDR at this stage. SMEDR does not currently fall within DCC's Authorised Business, and it is too early to form a view on whether it is likely to form part of DCC's Authorised Business; it therefore does not meet the requirements of LC 24. We recognise that SMEDR may become a part of DCC's Mandatory Business, subject to a positive outcome of the study undertaken by DESNZ and subsequent regulatory changes. The Licence (LC 24 Part D) allows DCC to submit an emergency re-opener to request an adjustment to the ReqR should the outcome be positive and there is an intention for regulatory changes to be brought forward to include SMEDR as part of the Mandatory Business. This is supported by our guidance on Uncertainty Mechanisms, which stipulates that the Licensee may submit an emergency reopener, among other things, for "new Mandatory Business designated by Ofgem of the Secretary of State where additional cost are unavoidable within the first PC Period."¹⁸ The emergency reopener will allow DCC to justify, and Ofgem to scrutinise and determine, the ReqR necessary to implement a concrete option at

¹⁸ Ofgem (2025), Business Plan Guidance, paragraph 6.63. Accessible at: www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance

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the right time. We encourage DCC to approach us early should it wish to submit an emergency reopener.

2.127 We note one respondent's question around the risk of a cost duplication should multiple data repositories exist within industry. It is Ofgem's understanding that any possible cost duplication would be factored into the study that DESNZ is currently undertaking. Ofgem will separately assess the economy and efficiency of any implementation costs, should funding be requested by DCC.

2.128 Having carefully considered DCC's submission and justification, and further evidence and representations received through the consultation process, we determine the Required Revenue for this Service Family as £5.149m in the First RY and £6.151m in RY27/28, totalling £11.300m over the first Price Control Period. Table 2.7 below provides the detail of our decision. Our further expectations on DCC in relation to this SF are set out in Appendix 2.

Table 2.7: Required Revenue for SM SF, in [£m]

	Consultation proposal	Decision	Difference
First RY (5 months)	4.691	5.149	+0.458
RY27/28 (12 months)	5.743	6.151	+0.408
Total ReqR	10.434	11.300	+0.866

Decision Determination of DCC's Required Revenue: November 2026 to March 2028**H. Testing Services Service Family**

Proposal at consultation: set the ReqR at £1.278m in the First RY and £3.436m in RY27/28, totalling £4.714m over the first Price Control Period.

Decision: maintain consultation proposals, setting the ReqR at £1.278m in the First RY and £3.436m in RY27/28, totalling £4.714m over the first Price Control Period.

Background

2.129 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, and non-resource External Service for hardware to support test lab operations.

2.130 We proposed to accept DCC's proposed ReqR for this SF after seeking assurances around DCC's forecasting, no inclusion of additional costs arising from implementation delays and alignment to the original business case.

DCC's response

2.131 DCC supported our proposal, noting that the ReqR appropriately reflects the level of activity required to support both ongoing service operation and the expected volume of change.

2.132 DCC agreed with our proposed outcomes for this SF, except for 90% of requests for User Testing Services being met within 30 minutes. DCC explained that testing support is typically scheduled in advance, up to days or weeks ahead, and a requirement to respond within 30 minutes therefore does not reflect actual demand. DCC instead proposed to reframe this outcome to focus on meeting agreed timelines aligned to planned activities.

2.133 We received no other comments from other respondents.

Reasons for our decision

2.134 We are satisfied that the activities within the Testing SF reflect DCC's regulatory requirements and that DCC's forecast represents costs likely to be incurred economically and efficiently.

2.135 Having carefully considered DCC's submission and justification, and further evidence and representations received through the consultation process, we determine the Required Revenue for this Service Family as £1.278m in the First RY and £3.436m in RY27/28, totalling £4.714m over the first Price Control Period. Table 2.8 below provides the detail of our decision. Our further expectations on DCC in relation to this SF are set out in Appendix 2.

Decision Determination of DCC's Required Revenue: November 2026 to March 2028**Table 2.8: Required Revenue for Testing SF, in [£m]**

	Consultation proposal	Decision	Difference
First RY (5 months)	1.278	1.278	-
RY27/28 (12 months)	3.436	3.436	-
Total ReqR	4.714	4.714	-

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Ringfencing

Background

2.136 We concluded in our design of the *ex-ante* framework that DCC should be afforded flexibility to manage its overall revenue but that this flexibility should be constrained to mitigate the risk of inefficient spend.¹⁹ For example, where DCC underspends because of inaccurate forecast for a project which at the time of the Business Plan submission was at an early stage, that underspend should be returned to customers and not automatically used to subsidise other areas of DCC's business. Condition 24 Part B of the Licence therefore allows Ofgem to ringfence a proportion of DCC's ReqR for a specific purpose, whereby the Licensee must not use the ringfenced amount for any other purpose. We proposed to exercise this power to ringfence ReqR determined for:

- Each Service Family (as set out in this chapter 2)
- Volume-Driven Costs subject to Automatic Adjustment (AA) uncertainty mechanism (chapter 3)
- Innovation Fund (chapter 4)
- Pass-Through Costs
- Specific early-stage change projects and programmes with an uncertain scope which should nonetheless proceed
- Bespoke programme contingency provision

Overview of responses (other than DCC)

2.137 Respondents generally agreed with our position but some voiced concerns about hindering DCC's ability to flexibly respond to challenges. They supported giving DCC more flexibility in re-allocating revenue to manage in-life change provided it was accompanied by a reporting requirement to industry to mitigate risks. Equally, however, they believed that reporting should be meaningful and provide genuine insights to customers.

2.138 One respondent highlighted that although ringfencing restricts the purpose for which revenue can be used, it does not guarantee economy and efficiency. They therefore asked for clarification about:

¹⁹ 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

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- Whether outturn costs in ringfenced areas will be subject to further assessment to determine their efficiency as they cautioned against the risk of creating an inadvertent “use it or lose it” incentive
- Whether all underspends will be automatically returned to customers
- How overspend would be treated and if additional expenditure would be recoverable

DCC's response

2.139 DCC supported our ringfencing proposals. DCC agreed that ringfencing of change projects is a proportionate mechanism for managing this uncertainty, while enabling necessary activities to progress. DCC also agreed that ringfencing was important in combination with the AA mechanism for volume-driven costs. DCC highlighted the importance of reporting on how individual ringfenced proportions of ReqR are spent to provide transparency for customers.

Reasons for our decision

2.140 Having considered all representations, we have decided to proceed with our ringfencing proposals as consulted on. We remain of the view that ringfencing provides necessary protections within the overall settlement while maintaining sufficient operational flexibility for DCC. The details of all areas of ringfenced ReqR along with the purposes for which the ReqR may be spent are set out in Appendix 1.

2.141 We recognise the concern raised by some respondents about the treatment of in-life change. In August 2026 we consulted on updates to the Regulatory Instructions and Guidance (RIGs) for the second Price Control Period.²⁰ One of our proposed updates to the RIGs structure is the creation of a bespoke reporting template for all change costs to provide more flexibility in how those costs are reported and treated. (The new template will allow allocation of change costs to individual SFs or a creation of a single ringfenced pot for change management.) We will form a view on future in-life change cost ringfencing as part of our assessment of DCC's second Price Control period submission. As noted in our consultation, any relaxation of change rules would be subject to:

- DCC demonstrating that it can responsibly manage the ringfenced ReqR and accurately forecast for change (which will become evident within the first RY)
- More robust forecasting methodologies in the second Business Plan

²⁰ Ofgem (2026), Draft Regulatory Instructions and Guidance: Data Communications Company (DCC) 2026. www.ofgem.gov.uk/consultation/draft-regulatory-instructions-and-guidance-data-communications-company-dcc-2026

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2.142 Until confidence in the above has increased, we consider it appropriate to maintain change costs ringfenced within individual SFs.

2.143 We also acknowledge the concerns raised by one respondent in relation to assuring outturn costs and dealing with underspends and overspends. Firstly, we agree that a determination of a ringfenced ReqR, whether for a SF or an individual project, should not be seen as the final view of cost efficiency. A range of factors (some within, others outwith DCC's control) may result in the incurred costs above or below the determined amount. Licence Condition 25 Part B imposes various reporting requirements on DCC, including:

- A quarterly report submitted to the Customer Challenge Group and Ofgem highlighting any risks of overspends
- An on-demand Cash Position report to Ofgem showing cashflow forecasts
- An annual End-of-Year (EoY) report submitted to Ofgem comparing the incurred costs with the ReqR determined for that RY and explaining any variations.

2.144 Although we do not expect to replicate a detailed *ex-post* review, these reports will allow for an additional assessment of the economy and efficiency of DCC's cost and cashflow management will be taken into account in Senior Manager remuneration under Pillar 4 (Business Plan Delivery) of our Remuneration Policy Guidance.²¹ This additional direct incentive is intended to ensure that ringfenced budgets are managed responsibly and mitigating the risk of perverse incentives, such as "use it or lose it" behaviour.

2.145 Secondly, for change projects in particular, our ringfencing specifies that expenditure can only be made to meet External Costs arising from the procurement of Relevant Service Capability²² subject to a non-objection from the Secretary of State under LC 10.8(c) and a Final Business Case. In practice, this means that the change project funding will only be spent after DCC has concluded a compliant procurement process and on the basis of mature assumptions.

Fungibility principles

2.146 To help DCC interpret our direction and manage its ringfenced budgets in practice, below we set out some overarching principles relating to ringfencing and fungibility:

- DCC may not use ReqR, which has been ringfenced for a specific purpose, for other purposes. This means that re-allocation of ReqR between individual

²¹ Ofgem (2026), Remuneration Policy Guidance. www.ofgem.gov.uk/consultation/draft-data-communications-company-dcc-remuneration-policy-guidance

²² See especially LC 10 (Procurement of Relevant Service Capability)

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ringfenced areas, eg SFs, is not permitted even if the net overall effect is cost neutral. There are many factors which may lead to both underspend and overspend. There is an appreciable difference between underspends arising from inaccurate forecasting and genuine savings and between overspends resulting from legitimate changes in assumptions or new requirements and poor management. Variations from the ReqR therefore cannot be unreservedly treated as economic and efficient and be used to offset each other across ringfenced areas. As a principle, any underspends should be returned to customers; any overspends, which do not arise from the effect of a pre-approved Drivers and which cannot be met from contingency or from savings made within the same ringfenced area (or from non-ringfenced ReqR), should be addressed through a re-opener.

- DCC is not prohibited from using ReqR, which has not been ringfenced for a specific purpose, for other purposes than those initially identified within the Business Plan assumptions. For example, DCC can reallocate payroll costs within different Internal Functions.²³ However, all expenditure must be economic and efficient and explained through relevant reporting.
- Within a Price Control Period, DCC may defer expenditure from one RY to the following RY so long as the overall ReqR determined for the given SF or project is not breached. Any reprofiling must be explained through quarterly and EoY reporting.
- DCC is not prohibited from reprofiling ReqR within a RY or to use a headroom within a SF to progress unavoidable Licence or industry-mandated activity provided that it was not foreseen nor provisioned for at the time of the ReqR determination. This should only be necessary pending Ofgem's decision on an emergency reopener. However, as Ofgem cannot guarantee that every emergency reopener application will be approved in full, DCC should not pre-emptively spend any revenue for business-critical operations.

²³ Please note that under LC18.4(b), the Licensee must not, in carrying out the Mandatory Business, give a cross-subsidy to, or receive a cross-subsidy from, the Permitted Business.

3. Costs subject to Automatic Adjustments

DCC identified a subset of its proposed costs as variable in response to identifiable factors outside its direct control. We consulted on the ReqR for these “volume-driven costs” (£346.409m over the first PC Period) and designating those factors as Drivers under Licence Condition 24 Part C.

Through the consultation we received updated forecasts, revised Q1 2026 demand assumptions, updated SMETS1 charges modelling and a proposal for new 2G/3G CH Replacement Programme and Long-Range Radio Committed Term project financing costs. DCC also provided further information on the definition of Drivers for individual cost categories.

Having reviewed the updated evidence, we have revised our assessment of both the forecast costs and the proposed Drivers. We have decided to include £413.602m in the calculation of the ReqR for the first PC Period. This is an increase of c.£67.2m reflecting new information we received. We maintain our proposal to designate Drivers under LC 24 Part C but we have used the new information to refine the definition of the Drivers.

Questions posed at consultation

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?

A. Volume-driven costs (existing cost areas)

Proposal at consultation: Set the ReqR at £101.429m in the First RY and £244.980m in RY27/28, totalling £346.410m over the first Price Control Period

Decision: Set the ReqR at £113.695m in the First RY and £299.907m in RY27/28, totalling £413.602 over the first Price Control Period: amend the calculation of the ReqR in line with DCC's updated forecasts for Q1/2026

Background

3.1 “Volume-driven costs” are a subsection of External Costs, which DCC identified as variable in response to identifiable factors that are outside DCC's direct control. These factors may include changes in asset volumes, customer demand, transaction volumes, network utilisation, contractual charging mechanisms, financing requirements, or other operational factors.

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- 3.2 Licence Condition 24 Part C²⁴ allows Ofgem to approve these factors as “Drivers” and direct DCC to adjust the ReqR associated with these Drivers where the effect of an approved Driver causes actual costs to differ from forecast costs.
- 3.3 We consulted both on approving Drivers for costs identified as “volume-driven” and determining the ReqR as the initial forecast to be adjusted, if required, through these Drivers.
- 3.4 We proposed to accept DCC's proposal overall, except for the forecast ReqR for a contract for services to the Middle Operating Capability (MOC) cohort of SMETS1 meters (S1SP_2), which we proposed to align to a model submitted by DCC to Ofgem under RY24/25 *ex-post* Price Control.

Overview of responses (other than DCC)

- 3.5 Four respondents commented on our proposed ReqR for volume-driven costs. Respondents generally supported our approach to determining the ReqR for volume-driven costs and did not raise material concerns regarding the overall forecast methodology.
- 3.6 Several respondents supported our proposal to use more recent information when assessing the S1SP_2 related costs and endorsed our expectation that DCC should continue to identify opportunities to minimise overage charges and improve value for money for consumers.
- 3.7 Two respondents highlighted the importance of transparency in the development of volume-driven cost forecasts and the need for DCC to provide robust evidence supporting forecast assumptions, particularly where forecasts are updated following submission of the Business Plan.
- 3.8 More generally, respondents emphasised the importance of ensuring that forecast costs are supported by sufficient evidence and represent economic and efficient expenditure before being incorporated into the calculation of ReqR.

DCC's response

- 3.9 While DCC broadly supported our position to approve certain Drivers for volume-driven costs, it proposed a few revisions to the forecast costs and supporting Drivers following the publication of the consultation.
- 3.10 DCC's response focused on three key areas:
- A refreshed forecast based on updated demand assumptions and operational information from Q1/2026, including updated S1SP_2 overages and meter volume forecasts

²⁴ Condition 24.7 states that the Licensee may apply for prior approval of a factor that will or could affect the ReqR (a ‘Driver’).

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

- Additional costs associated with financing of the 2G/3G CH Replacement Programme and Long-Range Radio Committed Term (LRRCT) capital expenditure, which were not included within DCC's original submission. We discuss the 2G/3G CH Replacement Programme costs in section B of this chapter
- Revised Drivers for costs proposed to be subject to Automatic Adjustments - see section C of this chapter

3.11 Relative to Ofgem's consultation proposal for ReqR of £346.4m, DCC's updated forecast increased costs by £70.0m (c.20%) to £416.4m. The breakdown of the factors contributing to these changes is set out in Table 3.1 below.

Table 3.1 Breakdown of factors driving changes in DCC's forecast*

Driver of Change	Change (£m)	Contribution to the 20% increase
Updated Service Family demand forecast and financing assumptions	+18.2	26.0%
Communications hub volumes	-2.3	-3.3%
New 2G/3G CH Replacement Programme (financing costs)	+20.4	29.2%
S1SP_2 overages and other volume-driven cost updates	+33.6	48.1%
Total increase	+70.0	

*Figures may not add up exactly due to rounding

3.12 DCC disagreed with our proposed adjustment to the S1SP_2 overages costs. DCC explained that the contract comprises two variable elements. DCC clarified that the model submitted as part of RY24/25 *ex-post* PC undertaking, used by Ofgem in proposing its adjustment, did not include one of these variables. DCC therefore argued that Ofgem's consultation position did not reflect both variable elements of the contract and was therefore inaccurate.

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- 3.13 DCC provided evidence via the updated S1SP_2 forecasting model with its latest Q1 2026 demand forecast being incorporated. DCC explained how the new forecast related to the previous model.

Reasons for our decision

- 3.14 Under LC 24 Part A, Ofgem determines the ReqR by assessing, among other things, whether the proposed expenditure is likely to be incurred and whether it represents economic and efficient expenditure.
- 3.15 Having reviewed the updated information provided by DCC, including revised Q1 2026 demand forecasts, the S1SP_2 costs modelling, CH financing information and the 2G/3G CH Replacement Programme, we agree that the updated submission provides a more representative view of the costs likely to be incurred during the first PC Period than the position available at consultation. We are satisfied that DCC's updated forecast reflects the latest available information and provides a stronger basis for determining the ReqR.
- 3.16 In relation to the S1SP_2 contract in particular, we accept DCC's explanation of the relationship between the variable drivers, together with the updated Q1 2026 demand assumptions and supporting modelling. The additional evidence provided greater transparency regarding the interaction between meter volumes, SMS traffic, contractual charging arrangements and the resulting overage charges. We have decided to set the ReqR for the S1SP_2 charges in line with DCC's updated benefits model (accepted by Ofgem in support of DCC's Undertaking submitted during the RY24/25 *ex-post* Price Control); this sets the ReqR at £0.360m less than DCC's resubmission.
- 3.17 We note that respondents broadly supported our proposed treatment of volume-driven costs and did not object to the underlying forecast methodology. We also recognise the importance that respondents placed on transparency, evidence, and value for money. In reaching our decision, we have given weight to the updated evidence provided by DCC, including new forecasts that are supported by contractual arrangements, operational assumptions, and observable demand forecasts.

B. 2G/3G Comms Hub Replacement Programme

Overview

- 3.18 The 2G/3G CH Replacement Programme was established by DESNZ and DCC to support the replacement of approximately 11.25 million SMETS2 CHs currently operating on legacy 2G and 3G mobile networks ahead of the planned network shut down by 2033.
- 3.19 Under the arrangements established through the SEC modifications introduced by DESNZ in August 2025, Energy Suppliers receive a centrally determined reimbursement for eligible CH replacements in the Central and Southern regions. For RY26/27, the reimbursement value has been set at £105 per completed exchange.
- 3.20 Unlike previous CH programmes, DCC is required to procure external financing to fund reimbursement payments before they are recovered through charges. As a result, DCC has proposed a new category of financing costs covering the procurement and operation of the financing facility.
- 3.21 At the time of DCC's Business Plan submission, several key assumptions remained uncertain, including replacement volumes, reimbursement values, financing facility requirements; and the appropriate financing structure for the scheme. DCC therefore did not include a fully developed financing proposal, and any ReqR provision, within its original submission.
- 3.22 Following confirmation of the scheme design and completion of its financing procurement process, DCC submitted a request of £21.335m over the first PC Period to cover the costs of the financing and administration.
- 3.23 As part of this DCC requested payroll funding of £0.386m to support administration of the reimbursement scheme. DCC proposed two additional FTEs, commencing during RY26/27, to oversee supplier reimbursements, invoice validation, stakeholder engagement, forecasting, reporting and variance management. DCC stated that it had sought to minimise these costs by using existing finance systems and processes wherever possible.
- 3.24 DCC forecasts up to 660,000 reimbursable exchanges in RY26/27, including a 20% contingency allowance. On this basis, DCC expects to require financing of approximately £70m in RY26/27. For RY27/28, DCC forecasts approximately 1.5 million exchanges, requiring financing of approximately £160m.
- 3.25 DCC proposed a one-year £70m financing facility for RY26/27, arguing that supplier forecasts remain highly uncertain and do not currently support the procurement of a longer-term facility. DCC also proposed that most financing costs should be treated as variable costs subject to Automatic Adjustment, allowing recovery to vary in line with actual replacement volumes, reimbursement values and financing costs.

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

3.26 DCC explained that it undertook a competitive procurement process supported by a debt adviser. DCC stated that:

- Market engagement was undertaken with ten parties during development of the financing proposal
- Customer engagement was carried out through extra Quarterly Finance Forum sessions, the Finance Sub-Committee (FSC) and SEC Panel
- A competitive procurement process involving three lenders was subsequently undertaken
- The selected lender represented the lowest-cost compliant option available

3.27 DCC further explained that the facility was procured as a one-year facility because suppliers indicated that only first-year replacement forecasts could be provided with sufficient confidence. DCC considered that procuring a longer-term facility without reliable multi-year volume forecasts would not represent an efficient financing approach.

3.28 DCC also explained that financing costs comprise:

- Legal and advisory fees
- Commitment fees
- Arrangement fees
- Interest
- Capital repayments

3.29 DCC further confirmed that:

- Legal and advisory fees are largely fixed
- Commitment fees, interest costs and other financing charges are driven by volumes, drawdowns and market conditions
- Replacement volumes, reimbursement values and interest rates are the primary drivers of financing cost variability

3.30 In response to our further questions, DCC provided additional evidence, including analysis undertaken by the debt advisor comparing the selected facility with alternative financing options. Based on this evidence, DCC argued that the selected facility represents a competitive and cost-efficient financing solution when assessed against relevant market alternatives and the specific characteristics of the programme.

Decision Determination of DCC's Required Revenue: November 2026 to March 2028**Reasons for our decision**

- 3.31 We recognise that the financing arrangements arise from an externally driven programme and that DCC is required to implement the reimbursement mechanism established through DESNZ policy decisions and the SEC framework. Unlike most other costs considered in this determination, these costs are not discretionary investments by DCC but arise from a mandated reimbursement and financing scheme.
- 3.32 Based on the information and evidence received, we are satisfied that DCC:
- Undertook a competitive procurement process
 - Engaged with customers and relevant industry forums
 - Sought independent financial advice
 - Selected the lowest-cost option available through that process
- 3.33 We also acknowledge the additional evidence provided by DCC regarding financing costs. In particular, the analysis undertaken by the debt advisor demonstrates that, when assessed on an all-in borrowing cost basis, the selected facility compares favourably with BBB-rated corporate debt. We therefore consider that DCC has provided a reasonable basis to conclude that the pricing achieved is competitive.
- 3.34 We have also considered DCC's proposed payroll costs associated with administration of the reimbursement scheme. We recognise that operation of a large reimbursement programme is likely to create additional administrative and governance requirements. However, these activities represent internal operational functions and should therefore be assessed using the same benchmarking principles applied elsewhere across DCC's payroll costs. We have therefore assessed the proposed payroll costs using our Internal Cost benchmarking methodology; in particular, we considered the seniority of the roles required based on the evidence from DCC against existing job roles and titles within the Operations function. Through this benchmarking process we have decided to include £0.276m in the calculation of the Required Revenue for payroll, a reduction of £0.110m from the £0.386m requested by DCC.
- 3.35 In total, we have decided to set the Required Revenue at £21.225m for the 2G/3G CH Replacement programme, of which £20.439m are External Costs and £0.786m are Internal Costs.
- 3.36 We recognise that a significant proportion of the financing costs are driven by factors outside DCC's direct control:
- Legal and advisory costs, and the operational costs of administering the scheme; these are largely fixed costs that should be funded through Internal Costs

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- Arrangement and commitment fees are variable costs driven primarily by the use of financing, including the timing of facility drawdowns and the volume of eligible communications hub replacements
- Interest costs are variable costs driven by replacement volumes, reimbursement values, financing drawdowns and prevailing market interest rates
- Capital repayments are variable costs driven by replacement volumes and reimbursement values, which determine the amount of financing required

3.37 We therefore consider arrangement and commitment fees, interest costs and capital repayments appropriate for treatment through the Automatic Adjustment mechanism.

3.38 We have therefore also decided that:

- Legal and advisory costs, together with the operational costs of administering the scheme, will remain fixed allowances within Required Revenue as Internal Costs
- Arrangement and commitment fees will be subject to the Automatic Adjustment mechanism
- Interest costs will be subject to the Automatic Adjustment mechanism
- Capital repayments will be subject to the Automatic Adjustment mechanism

3.39 Finally, we are not fully persuaded that DCC has demonstrated why a one-year financing facility represents the most economic and efficient financing structure available. We recognise DCC's explanation that uncertainty in supplier forecasts limited its ability to procure a longer-term facility. However, DCC has not fully explained:

- Why alternative financing structures could not accommodate forecast uncertainty
- Why a longer-term arrangement could not have been pursued
- How it intends to transition to a more efficient financing structure in future years.

3.40 We are also concerned that repeated reliance on short-term financing facilities could increase refinancing risk, procurement costs and overall financing costs borne by consumers.

3.41 We therefore expect DCC, ahead of future financing procurements, to:

- Work with suppliers and stakeholders to improve the accuracy and reliability of replacement forecasts

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

- Demonstrate the actions taken to reduce forecast uncertainty
- Assess whether longer-term or alternative financing structures are available
- Provide evidence that future financing arrangements represent the most economic and efficient option available to consumers.

3.42 In summary, we consider that this approach, overall, reflects:

- DCC's obligation to implement the scheme
- The mandated nature of the reimbursement arrangements;
- The fact that financing smooths the impact of reimbursement payments on customer charges over time rather than requiring immediate recovery of the full cost
- The volume-driven nature of a significant proportion of the financing costs
- The need to protect consumers while maintaining incentives on DCC to improve forecasting quality and ensure efficient financing arrangements in future years

Decision Determination of DCC's Required Revenue: November 2026 to March 2028**Our decision on Required Revenue for volume-driven costs**

3.43 Having carefully considered DCC's updated forecasts, supporting justification, and the representations received through the consultation process, we determine the Required Revenue for volume-driven costs at £113.695m in the First RY and £299.907m in RY27/28, resulting in a total allowance of £413.602m over the first Price Control Period. This includes:

- As set out in section A, updated forecasts for existing cost areas
- As set out in section B, the inclusion of a provision for 2G/3G CH Replacement Programme financing

3.44 However, it excludes DCC's proposed ReqR for LRRCT capex financing, as explained further in section C. These costs have instead been included into, and assessed as part of, the SMETS2 SF.

Table 3.2: Required Revenue for volume-driven costs, in [£m]

	Consultation proposal	Decision	Difference
First RY (5 months)	101.429	113.695	+12.266
RY27/28 (12 months)	244.980	299.907	+54.927
Total ReqR	346.409	413.602	+67.193

C. Drivers for Automatic Adjustments

Background

- 3.45 Automatic Adjustment is a type of uncertainty mechanism intended to apply to cost that vary in response to an identifiable Driver that is outside DCC's control. The purpose of the mechanism is to ensure that DCC's Required Revenue can be adjusted to reflect changes in those Drivers during the Price Control Period.
- 3.46 We proposed to designate Drivers for specific pre-agree cost areas under LC 24, Part C, specifically: identified volume-driven cost areas, all Pass-Through Costs, costs arising from contractual indexation within Fundamental Service Capability contracts, and CRS SF ReqR. The reason to designate these Drivers is to facilitate adjustments in areas of the ReqR where outturn costs vary, above or below, from the forecast determined at the outset of the PC Period, as a result of the effect of pre-approved Drivers outside DCC's direct control.

Overview of responses (other than DCC)

- 3.47 Four respondents provided comments on our proposed approach. One respondent generally agreed that the mechanism was appropriate where costs vary in response to external factors outside DCC's control.
- 3.48 Several respondents considered the proposed approach to be consistent with the requirements of Licence Condition 24 Part C and did not object to the proposed treatment of costs subject to Automatic Adjustment. They also highlighted the importance of ensuring the approved Drivers are supported by clear evidence, can be measured objectively, and accurately reflect the mechanism through which costs vary.

DCC's response

- 3.49 DCC provided further clarifications on the definition of proposed Drivers to better reflect the underlying contractual charging mechanisms and financing arrangements.
- 3.50 DCC's response also identified some areas, which although variable in nature, are effectively fixed for the duration of the first PC Period due to increased certainty. Table 3.3 sets out the full list of these costs, together with DCC's explanations and Ofgem's assessment.

Reasons for our decision

- 3.51 In accordance with LC24 Part C, we have considered whether the relevant cost categories continue to be driven by factors outside DCC's control and whether they remain appropriate for recovery through the Automatic Adjustment mechanism.

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- 3.52 In making our determination, we have considered whether the relevant costs exhibit the characteristics envisaged by the Licence for Automatic Adjustment treatment, namely that the costs are largely driven by factors outside DCC's control and that the precise effect of those factors cannot be foreseen. We have also considered whether there is a clear and demonstrable relationship between the proposed Driver and the associated cost, whether the Driver can be measured objectively, and whether the precise effect of the Driver on the amounts is outside DCC's control.
- 3.53 Having considered DCC's additional evidence we have decided to proceed with our proposal to designate Drivers for the following areas of ReqR:
- 4G Communications Hub Asset Charges
 - Catalogue Services
 - SMETS1 SIM/meter volume and overage charges
 - SRV Transaction Message Charges
 - 4G and Switching hosting costs
 - 4G WAN variable costs
 - DSP Programme Financing Charges
 - Variable financing costs associated with the 2G/3G Communications Hub Replacement Programme²⁵
 - Contractual indexation for FSC contracts
 - Pass-Through Costs, including payment to SECCo Ltd, AltHANCo and the Previous Licensee
 - Required Revenue within the CRS (Switching) Service Family
- 3.54 These costs vary in response to factors such as CH deployment, SMS traffic, customer demand, SIM/meter volumes, transaction volumes, cloud resource consumption, programme delivery milestones, supplier reimbursement activity and associated financing requirements. We therefore consider that designating Drivers for these costs remains appropriate and ensures that the mechanism operates as intended and remains targeted at costs that cannot be efficiently managed through a fixed *ex-ante* allowance.
- 3.55 We also maintain our consultation position to designate Drivers for Pass-Through Costs and contractual indexation. We remain satisfied that these costs vary in

²⁵ Excludes Legal and Advisory Fees reported as CFO ESNR costs and programme operating costs reported as Operations payroll costs, both of which are treated as fixed Internal Costs.

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response to identifiable external factors and therefore continue to satisfy the requirements of Licence Condition 24 Part C.

3.56 We have decided not to designate Drivers for the following costs:

- CSP North Comms Hub Costs
- CSP Central Comms Hub Costs
- CSP South Comms Hub Cost
- SMETS2 Financing (Arqiva)
- CH&N Programme Financing
- LRR CT financing

3.57 For the avoidance of doubt, we recognise that these costs may be “volume-driven” in nature. For example, the Comms Hub costs originally arose from CH deployment activity and associated financing arrangements. However, we do not consider them to be materially impacted by factors outside DCC's control within the first PC Period. For example, DCC has showed that the financing arrangements associated with LRR and 2G/3G CH are now fixed through to the end of the first PC Period and that the associated repayment profiles and maintenance charges no longer vary materially with future operational volumes. We therefore do not proceed with our consultation proposal to designate Drivers for these costs. Table 3.3 sets out our decision on each in further detail.

Table 3.3: Summary of Costs excluded from Automatic Adjustment

Cost Category	Rational for exclusion from Automatic adjustment
Communication hubs Asset Charge and maintenance for CSP-S, CSP-N, CSP-C	DCC confirmed that financing arrangements for LRR and 2G/3G CHs have ended and that all remaining financing costs are now fixed through to 2028. Customer orders for these technologies have either ceased or are expected to cease before the start of the first PC period, with any remaining orders paid in full and not subject to financing. As a result, the repayment profiles, interest costs, and associated asset charges are effectively “locked in” and no longer exhibit material volume-related uncertainty. We therefore do not consider these costs suitable for Automatic Adjustment and propose that they be treated as fixed costs for the remainder of the first PC Period.
SMETS2 Financing (Arqiva)	DCC confirmed that no further volume-related Drivers exist for this financing charge. The forecast represents the

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Cost Category	Rational for exclusion from Automatic adjustment
	final stages of the amortisation profile and is expected to conclude during the first PC Period.
CH&N Programme Financing	DCC explained that these financing costs are fixed, with only limited uncertainty relating to future refinancing activity near the end of the first PC Period. As refinancing decisions remain within DCC's control, this uncertainty does not provide a suitable basis for a pre-approved Driver.
LRR Financing; Finance Charges	The forecast relates to the LRR technology refresh programme and remains contingent on DESNZ non-objection and FBC approval. As both the expenditure and financing arrangements remain subject to future decisions, the costs cannot yet be considered to vary automatically with an approved Driver outside DCC's direct control. Instead, they have been included in the calculation of the fixed ReqR for the SMETS2 SF.

4. Internal Costs

Section summary

Internal Costs encompass the costs of delivering Authorised Business, excluding External and Pass-Through Costs. They include Service Delivery and Corporate Overheads (consisting primarily of payroll costs and supporting services), a ringfenced Innovation Fund (for Permitted Business) and Licence Renewal costs (associated with the transition from DCC1 to DCC2).

Service Delivery & Corporate Overheads: We consulted on a ReqR for Service Delivery & Corporate Overheads of £161.948m for the first Price Control Period. Following consultation, we have decided to:

- Maintain our consultation proposal to reduce the proposed ReqR for External and IT services but agree to a partial adjustment proposed by DCC (subject to our benchmarking model)
- Accept DCC's updated cost of replacement corporate services (resulting in a reduction by £1.754m) and acknowledge internal reallocation of certain costs to Licence Renewal function
- Include additional provision for costs associated with administering the 2G/3G CH Replacement programme
- Reduce forecast costs within Corporate Management cost centre

As a result, we have concluded that the ReqR for Service Delivery & Corporate Overheads will be calculated at £157.386m for the first PC Period. This is a reduction of £4.562m.

Innovation Fund: We maintain our consultation proposal to calculate the ReqR at £0.475m for the first PC Period.

Licence renewal: We considered separately DCC2 Internal Costs and DCC1 (Pass-Through) Costs. We maintain most of our consultation proposals but agree to a partial adjustments proposed by DCC1 and 2. We have decided to include in the calculation of ReqR for the first PC Period:

- £3.093m as Pass-Through Costs for DCC1 residual mandatory activities post-TD: this is an increase of c.£1.776m on account of an additional provision for DCC1 residual board and exit team, internal reallocation of some costs, a provision for external legal support and DCC1 overheads
- £6.362m as DCC2 (Internal) Costs of Licence Renewal: this is an increase of £2.755m, on account of business-critical TSA for licences, reallocation of corporate services costs and the inclusion of a ringfenced contingency provision

Questions posed at consultation

Q12. What are your views on the proposed Required Revenue for Service Delivery and Corporate Overhead functions?

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- 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?

A. Service Delivery and Corporate Overheads

Proposal at consultation: set the ReqR at £47.722m in the First RY and £114.225m in RY27/28, totalling £161.948m over the first Price Control Period; reduce the proposed ReqR by £0.233m in the First RY and £1.092m in RY27/28 on account of External and IT Services.

Decision: set the ReqR at £45.580m in the First RY and £111.806m in RY27/28, totalling £157.386m over the first Price Control Period; to adjust the ReqR by a net reduction of £4.562m following further evidence received in respect of Corporate Services, Corporate Management and External and IT Services.

Background

- 4.1 DCC's internal functions are structured into two distinct categories, namely Service Delivery Overheads and Corporate Overheads:
- Service Delivery Overheads comprise DCC's internal capabilities that directly support the delivery of services to DCC's customers
 - Corporate Overheads include the provision of standard capabilities in any similar-sized, regulated organisation such as Finance, HR, IT, Regulation, and Procurement.
- 4.2 These functions provide the essential capability required to support the delivery of DCC's services, including operational management, governance, finance, security, and corporate support.
- 4.3 DCC's initial submission did not provide sufficient supporting evidence for the methodology or the cost-benefit analysis underlying the proposed costs for all Service Delivery and Corporate Overheads in accordance with our Business Plan guidance, in particular in relation to staffing and payroll.²⁶ We also assessed a

²⁶ Ofgem (2025), Business Plan Guidance, see esp. paragraphs 3.17 to 3.20. Accessible at: www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance

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number of External and IT Services costs, including external legal support and corporate systems expenditure.

- 4.4 Following our assessment of additional evidence and consistent with previous Price Control decisions, we considered that:
- External support should supplement, rather than replace, internal capability
 - Expenditure should be supported by evidence that it is economic and efficient
 - Corporate systems forming part of normal business operations should ordinarily be funded through baseline overhead allowances
- 4.5 Consequently, we proposed to reduce DCC's ReqR for Service Delivery and Corporate Overheads by £1.325m.

Overview of responses (other than DCC)

- 4.6 Three respondents commented specifically on the issue of Service Delivery & Corporate Overheads.
- 4.7 One respondent acknowledged DCC's efforts to reduce overheads as a proportion of its overall costs. The respondent also noted DCC's commitment to reducing its reliance on contractors and agency staff and stated that DCC should be held accountable for delivering against this commitment.
- 4.8 The respondent also argued that, while Ofgem benchmarks legal costs against efficient in-house and external provision, a similar approach should be applied to other corporate overhead functions, including Finance, HR, IT, Regulation, and Procurement. In their view, these functions constitute standard capabilities found in comparable organisations and are therefore particularly suitable for external benchmarking. The respondent considered that internal governance assurances alone do not provide sufficient evidence of efficiency and suggested that all overhead functions should be subject to a consistent efficiency assessment.
- 4.9 The second respondent expressed concern about an overemphasis on benchmarking at the expense of a focus on capability. They noted a lack of a clear Target Operating Model and lack of clear evidence the DCC is managing its external service provider contracts (accounting for 80% of costs) as efficiently as it should, using appropriately competent and capable resources and with clear strategic oversight for Procurement / Service Management functions.
- 4.10 Lastly, the third respondent expressed concerns about DCC payroll costs, noting year-on-year growth since DCC's formation in 2014. They observed that, historically, this increase has been linked to the use of temporary staff and contractors instead of developing internal capabilities. The respondent acknowledged DCC's stated intention to reverse this trend in their submission,

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and this should be monitored across the period to ensure movement is seen in the right direction.

DCC's response

- 4.11 DCC broadly supported our proposed ReqR for Service Delivery and Corporate Overheads and stated that the proposed funding reflects the level of capability required to support both business-as-usual activities and the delivery of significant change programmes during the PC Period. However, DCC did not fully agree with our proposed reductions in external legal and IT services.
- 4.12 In response to the consultation, DCC revised its proposals for External and IT Services. In particular, DCC:
- Reduced its original external legal services request from £1.862m to £0.559m
 - Removed a substantial litigation cost provision following recent resolution of the dispute
 - Provided evidence that legal panel rates had been competitively procured and benchmarked against market comparators
 - Reduced its request for the e-procurement tool
- 4.13 DCC furthermore requested an additional £0.775m provision for external legal support associated with contract and supplier management activities. More specifically, DCC explained that the additional legal provision is intended to support specialist legal advice where demand exceeds available in-house resource or specialist external expertise is required. DCC cited activities including contract negotiations, procurement activity, FSM, DSP extension discussions, ECoS, Device Manager, ESSI, and next generation CHs as examples of areas where additional legal support may be required.
- 4.14 DCC also provided an update to its forecast for corporate services. In its Business Plan submission, DCC forecasted replacement corporate services costs. These forecasts were prepared before procurement had completed and therefore reflected uncertainty in scope and delivery assumptions.
- 4.15 Following completion of the procurement process, selection of a SP in April 2026, and finalisation of an integrated plan with a signed contract, DCC submitted revised costs reducing its previous forecasts. DCC stated that the reduction reflects improved commercial terms, greater certainty following procurement and a refined delivery approach. DCC asked for the funding of these services to be reallocated to the Licence Renewal function (see part D of this chapter) for the First RY for internal budgeting purposes.
- 4.16 DCC also provided further information and proposed changes in relation its Corporate Management Internal Function:

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- Firstly, DCC proposed changes to the External Services non-resource (ESNR) forecast. Specifically, DCC proposed to reclassify the surety bond for Capita's Parent Company Guarantee (provided under LC26 Part B of the Previous Licence) and the DCC1 Company Secretary as Pass-Through Costs for DCC1 post-TD activities (discussed in section D of this chapter). DCC further explained that the remaining ESNR forecast of £1.615m as related to DCC2 Company Secretary, Business Insurance and contingency for consultancy support.
- Secondly, DCC updated its forecast for payroll costs based on the shape of DCC2 Board from the TD, and recruitment costs to account for the need for board recruitments within the first PC period. This represented an increase of £0.527m.

4.17 DCC2 submitted evidence in respect of its newly procured business insurance, reducing the cost of the existing coverage by c.50%.

4.18 Finally, as discussed in Chapter 3 Section B, DCC also requested additional £0.386m payroll costs to administer the 2G/3G CH Replacement programme.

Reasons for our decision

4.19 Having considered all representations and further evidence, we have decided to make the following adjustments to the Required Revenue for Service Delivery & Corporate Overheads. We discuss each area in turn.

External legal services

4.20 At consultation, we were concerned that DCC had not demonstrated that the proposed level of legal expenditure was likely to be incurred or represented economic and efficient expenditure.

4.21 Following consultation, DCC strengthened its evidence base. DCC removed specific provisions and provided additional evidence demonstrating that legal panel rates had been competitively procured and benchmarked against market comparators.

4.22 We also recognise that the first PC Period coincides with procurement, contract management and regulatory activity. We therefore accept that some level of external legal support is likely to be required.

4.23 However, consistent with previous price control decisions, we continue to expect DCC to utilise internal legal, regulatory and commercial capability wherever reasonably practicable. External legal support should complement, rather than replace, established internal functions. We have therefore decided to maintain our consultation position and allow legal support at a level determined by our benchmarking.

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- 4.24 We have assessed the additional £0.775m legal support request using the same benchmarking approach applied elsewhere in this determination. Applying the benchmark efficiency factor, we consider that £0.394m represents an efficient allowance for the proposed additional legal support.
- 4.25 We have therefore decided to allow £0.394m of the requested £0.775m additional legal support provision and not allow the remaining £0.381m.

E-procurement tool

- 4.26 We have carefully considered the additional information provided by DCC regarding the e-procurement tool.
- 4.27 We recognise DCC's argument that the tool may improve procurement processes and support implementation of its procurement strategy. However, we remain of the view that procurement systems and associated corporate tooling form part of the normal capabilities expected of a regulated entity and should ordinarily be funded through existing overhead allowances.
- 4.28 This position is consistent with our previous decisions regarding the Business Accuracy Programme and other corporate system investments, where we have emphasised the need for robust cost-benefit evidence and a clear demonstration of incremental customer benefit before separate funding is provided.
- 4.29 We therefore remain unconvinced that a separate allowance for the e-procurement tool should be included within ReqR and consider these costs to be business-as-usual expenditure that should be managed within DCC's existing overhead envelope.
- 4.30 Accordingly, we have decided not to include the proposed e-procurement tool costs in the calculation of the ReqR.

Corporate management

- 4.31 We accept DCC's proposal to reclassify the forecast costs for surety bond and DCC1 Company Secretary as Pass-Through Costs. These costs have therefore been included in the calculation of PTC but excluded from the calculation of Internal Costs.
- 4.32 We have also decided to adjust downwards the proposed ReqR for the remaining Corporate Management ESNR; specifically:
- Align the monthly provision for DCC2 Company Secretary to that for DCC1 Company Secretary
 - Align the forecast costs for business insurance with evidence provided to us by DCC2
 - Reduce the contingency to 10% of the insurance and company secretary forecast costs to provide headroom, eg for additional insurance premiums.

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However, we do not consider that the need for consultancy spend has been justified.

- 4.33 Consequently, we have decided to reduce the proposed ReqR for ESNR by £1.038m to £0.577m.
- 4.34 We accept the proposed additional costs for DCC2 Board and recruitment. We agree that these costs are aligned to DCC2's decisions on its corporate governance and represent a likely necessary expenditure. Consequently, we have decided to increase the proposed ReqR for payroll and recruitment by £0.527m.

Payroll costs for 2G/3G CH Replacement programme

- 4.35 Following a benchmarking exercise, we have decided to reduce the DCC's additional payroll costs for the administration of the 2G/3G CH Replacement programme from £0.386m to £0.276m. Please see Chapter 3 Section B for further details.

Corporate services

- 4.36 Finally, we have decided to accept DCC's revised Corporate Services replacement costs. We consider that the revised costs are supported by a completed procurement process, improved commercial certainty and a signed contract. The allocation of these costs between Internal Functions is a matter for DCC's accounting and budgeting purposes only and does not affect our determination of ReqR in aggregate.
- 4.37 DCC also proposed shifting the cost of the replacement Corporate Service from internal functions to the Licence Renewal costs for the First RY. We have no objection to this proposal and have updated the ReqR allocation accordingly. We consider this allocation change is a matter for DCC's accounting and budgeting purposes only and does not affect the determination of the ReqR.

Our decision

- 4.38 In summary, having carefully considered DCC's submission and justification, and further evidence and representations received through the consultation process, we determine the Required Revenue for this area to be £45.580m in the First RY and £111.806m in RY27/28, totalling £157.386m over the first Price Control Period. Table 4.1 below provides the detail of our decision.
- 4.39 We note respondents' concerns about the insufficient evidence of an efficient operating model, payroll costs, and contract management. While we consider payroll costs to be justified, we acknowledge these concerns and expect DCC to improve how it forecasts its internal resources aligned to a clear, output-focused TOM, presented in the next PC submission.

Table 4.1: Required Revenue for Service Delivery and Corporate Overheads, in [£m]

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	Consultation proposal	Decision	Difference
First RY (5 months)	47.722	45.580	-2.142
RY27/28 (12 months)	114.225	111.806	-2.419
Total ReqR	161.948	157.386	-4.562

B. Benchmarking

Proposal at consultation: apply 3% annual increase for payroll

Decision: maintain our consultation proposal.

Background

- 4.40 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.
- 4.41 The aggregate benchmark represents the total calculated allowance for permanent and contractor payroll costs in the RY. This is compared against actual total payroll expenditure for the year, with the resulting net variance used for assessment. The forecasted net variance is c.£6.9m below the aggregate benchmark. DCC has also forecasted a 10% reduction of payroll costs between RY24/25 and RY27/28.
- 4.42 For the *ex-ante* PC, we have applied an aggregate benchmarking approach to payroll costs. This is because the PC is forward looking and intended to set an efficient overall cost envelope before all individual staffing decisions have been made. 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.

Respondents' views (other than DCC)

- 4.43 We received three responses on our benchmarking proposal:
- One respondent supported remuneration up to benchmark median and welcomed the planned payroll reduction. They expressed no strong preference between CPI/CPIH or wage indices
 - The second respondent had concerns around the year-on-year growth of payroll costs since 2014. They requested Ofgem to monitor DCC's stated intention to reverse reliance on temporary staff/contractors

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- The third respondent suggested an organisation capability/structure assessment is needed for a sufficient benchmarking exercise. They requested benchmarking of team size/shape, spans and senior personnel

DCC's response

- 4.44 DCC responded that the forecasting wage growth was made up of many external indicators including OBR and ONS data, RPI, GDP growth and forecast unemployment levels.
- 4.45 DCC also stated the 3% is not a blanket application to all employees and is a ceiling dependent on performance.

Reasons for our decision

- 4.46 We have decided to proceed with our consultation position. The benchmarking approach uses the RY24/25 benchmark as a baseline, with a 3% annual uplift applied to reflect expected inflation. We will transition to a net-variance approach due to the forecast nature of an *ex-ante* PC with a year-on-year increase of 3% as a ceiling.
- 4.47 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.
- 4.48 We recognise the concerns raised by the respondents. DCC has responded to team size questions through its t-shirt sizing methodology, which deems what size the necessary team is, based on prior projects.
- 4.49 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.
- 4.50 Accordingly, for the next PC 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.

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- 4.51 Specifically, to the 3% annual increase, we agree with the rationale from DCC and using external indicators. However, we maintain our position in future PC controls to regulate and adjust said increase dependent on market conditions. We nevertheless encourage DCC to continue to ensure its payroll costs are economic and efficient.

C. Innovation Fund

Proposal at consultation: set the ReqR at £0.150m for the first RY and £0.325m for RY27/28, totalling £0.475m over the first Price Control Period; ringfence the ReqR for the purposes of meeting the costs of Permitted Business authorised by the Authority under Licence Condition 6, Part B.

Decision: maintain our consultation proposals.

Background

- 4.52 The Innovation Fund is a ringfenced fund for activities which aim to deliver public good benefits. DCC proposed a total ReqR of £0.475m for the first PC Period for initiatives associated with reducing fuel poverty and improving energy efficiency outcomes.
- 4.53 DCC proposed the Innovation Fund to provide a targeted mechanism to support the development, testing and de-risking of new capabilities, technologies and approaches which may not have been captured within the core delivery or programme funding of DCC's business.

Respondents' views (other than DCC)

- 4.54 We received 2 responses on our proposals for the inclusion of the Innovation Fund within the ReqR:
- One respondent had no specific comment on the inclusion of the Innovation Fund in the ReqR; however, they highlighted the need for DCC to balance the Innovation Fund appropriately with its Mandatory Business. They stated that DCC should review and test service changes within the core delivery, which will benefit and improve their services, ensuring DCC's focus remains on the delivery of its core activities.
 - The other respondent did not support the inclusion of the Innovation Fund within the ReqR, highlighting an inadvertent risk that allowing costs for the Innovation Fund may extend DCC's role beyond its core remit, creating a precedent that may be difficult to contain in future Price Control Periods. They did recognise DCC's effort to support to develop solutions which may contribute to alleviating fuel poverty and improving energy efficiency outcomes but did not believe DCC is the most appropriate organisation to lead such activities.

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

- 4.55 DCC supported the proposed inclusion of the Innovation Fund within the ReqR and accepted our rationale for ringfencing the funding.
- 4.56 DCC welcomed our recognition of the value of pursuing targeted innovation activity at a relatively limited level of cost, where the activity has the potential to deliver public good.
- 4.57 DCC also highlighted a discrepancy in the consultation, where Ofgem referred to the capabilities being available in-house, whereas DCC's proposal was to cover skills and capabilities not available in-house.

Reasons for our decision

- 4.58 We have decided to proceed with our consultation position. We consider that the provision associated with specific public good initiatives meets the Licence and Guidance requirements. Nevertheless, we recognise the concerns raised by respondents around ensuring DCC maintain focus on its core delivery. We also acknowledge a respondent's concern about the risk of scope creep. It is important to note that the provision for Innovation Fund is ringfenced for the purposes of only delivering Permitted Business authorised by Ofgem in writing under Licence Condition 6 Part B. This allows Ofgem to control the scope of the expenditure, and DCC will need to submit a notice to apply for this.
- 4.59 We note DCC's point around in-house capabilities and external capabilities. How (whether on internal or external capabilities) DCC chooses to spend the ReqR for Permitted Business is an operational decision made by DCC; however, all expenditure is subject to an application to Ofgem for authorisation of Permitted Business (which should specify the activity to be provided); and, under LC 18.4, DCC is not permitted to subsidise Permitted Business from any resources used to deliver Mandatory Business.
- 4.60 Having carefully considered DCC's submission and justification, and further evidence and representations received through the consultation process, we determine the Required Revenue for the Innovation Fund as £0.150m in the First RY and £0.325m in RY27/28, totalling £0.475m over the first Price Control Period. Table 4.2 below provides the detail of our decision.
- 4.61 We also maintain our position 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.

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	Consultation proposal	Decision	Difference
First RY (5 months)	0.150	0.150	-
RY27/28 (12 months)	0.325	0.325	-
Total ReqR	0.475	0.475	-

D. Licence Renewal***Proposal at consultation:***

- For DCC1 (Pass-Through) Costs: set the ReqR at £0.704m in the First RY and £0.613m in RY27/28, totalling £1.317m over the first Price Control Period; reduce the proposed ReqR by lowering the proposed Price Control consultancy support; and removing costs associated with a Transition Service Agreement (TSA).
- For DCC2 (Internal) Costs: set the ReqR at £3.544 in the First RY and £0.063m in RY27/28, totalling £3.607m over the first Price Control Period; reduce the proposed ReqR by removing all payroll costs for Licence Renewal in RY27/28 and removing closedown consultancy support.

Decision:

- For DCC1 (Pass-Through) Costs: set the ReqR at £1.449m in the First RY and £1.644m in RY27/28, totalling £3.093m over the first Price Control Period; maintain our consultation position for DCC1 PTC for consultancy support and TSA costs; reject DCC's proposal to move Price control consultancy support to DCC2 Internal Costs, remove redundancy payments, contingency, Capita document production and company closure, include additional external legal support and move DCC1 board costs to PTC, include security bond and company secretary to DCC1 PTC
- For DCC2 (Internal) Costs: set the ReqR at £5.493m in the First RY and £0.869m in RY27/28, totalling £6.362m over the first Price Control Period; reduce the proposed ReqR by removing all payroll costs for Licence Renewal in RY27/28, allowing hypercare and ringfenced contingency costs, and remove closedown consultancy support; reflect DCC's proposal to move corporate service costs to the Licence Renewal function in the first RY.

Background

4.62 "Licence Renewal" costs are separated into two distinct categories:

- Costs that the Previous Licensee (DCC1) proposed to incur after the Transfer Date, classified as Pass-Through Costs in the Licensee's (DCC2) ReqR under

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LC25. DCC1 post-TD costs comprise expenditure associated with mandatory activities DCC1 must complete after the TD and for which it should be reimbursed (eg statutory accounts or final price control). DCC2 will recover money from customers on behalf of DCC1 and pay it on receipt of an invoice monthly in arrears to DCC1 pursuant to an agreement signed by DCC1 and DCC2 under Condition 43 of the Previous Licence, as per the decision on financing arrangements during Business Handover.²⁷

- Continued Licence Renewal costs that DCC2 will incur after the Transfer Date, classified as Internal Costs in DCC2's Required Revenue. DCC2 Licence Renewal Internal Costs relate to things such as corporate services transition and payroll for the handover team until March 2027.

Respondents' views (other than DCC)

- 4.63 We received two responses specifically commenting on Licence Renewal costs which were broadly supportive of our consultation positions.
- 4.64 One respondent supported our proposed adjustments to the ReqR, acknowledging that more information was available compared to when DCC submitted its original Business Plan. They also emphasised that Licence Renewal ReqR should not be a target but a maximum spend, encouraging DCC to outturn below the amount.
- 4.65 The second respondent supported our proposed ReqR for Licence Renewal, acknowledging it is appropriate to fund DCC1 costs which have been sufficiently justified and evidenced, and treated as Pass-Through Costs. They also recognised DCC couldn't define the full scope of all potential Licence Renewal activities at this stage and supported Ofgem's approach to revisit these requirements, based on information received during the consultation process. They considered that there could be merit in ringfencing the Licence Renewal ReqR.

DCC's response

- 4.66 DCC agreed with most of our proposals but disagreed with some of our proposed reductions, stating they did not reflect the cost and complexity of the activities required to deliver a controlled transition to DCC2 and enable DCC1 to discharge its obligations to Licence expiry.
- 4.67 DCC provided further information through a refined cost forecast, reflecting improved clarity on delivery scope, transition arrangements and resource requirements. Whilst it accepted some reductions in the ReqR, DCC proposed to reinstate some costs, as well as provide some additional costs that were not included at the business plan stage.

²⁷ Ofgem (2025), Financing arrangements for DCC1 and DCC2 during Business Handover.
www.ofgem.gov.uk/consultation/financing-arrangements-dcc1-and-dcc2-during-business-handover

Decision Determination of DCC's Required Revenue: November 2026 to March 2028**DCC1 post-TD costs (Pass-Through Costs)**

- 4.68 **DCC1 post-TD Price Control obligations:** DCC accepted the reduction in the ReqR for delivering the final DCC1 Price Controls but proposed to move the allocation for these Price Control activities to the Strategy and Regulation function of DCC2, which DCC stated will deliver the Price Control processes on behalf of DCC1.
- 4.69 **DCC1 post-TD compliance and auditing:** DCC accepted our proposal to include the costs associated with compliance and auditing the residual deliverables for DCC1.
- 4.70 DCC proposed additional costs totalling £0.876m relating to DCC1 activities after the Transfer Date, comprising the following:
- **Overheads for DCC1 to continue to operate after the Transfer Date:** DCC asked for a provision to fund its overheads, including HR capabilities, office facilities and travel to ensure DCC1 can continue operating after the TD.
 - **Capita Document Production:** a small provision for Capita to produce documents to support the DCC1's remaining regulatory duties
 - **DCC1 External Legal support:** a contingent provision for external legal support for residual mandatory activities
 - **DCC1 Redundancy Payments:** proposed as a contingent amount in the event DCC1 has any permanent employees at the point of DCC1 closed down
 - **DCC1 Closure Costs:** cost to Capita to dissolve DCC1 and update the information on Companies House
 - **Contingency:** proposed for any variation to the forecast costs where the initial funding may not be sufficient
 - **DCC1 residual Board and team costs:** the cost of maintaining DCC1 Board post-TD and a supporting Capita exit team
- 4.71 Finally, DCC proposed to reallocate provision for a surety bond and company secretary from Corporate Management Internal Function at no cost increase.

DCC2 Licence Renewal (Internal) Costs

- 4.72 **DCC2 Payroll:** DCC proposed to reinstate a portion of the payroll costs incurred in RY27/28 to support a transformation team to undertake improvements within the company after the Business Handover. As part of this, DCC proposed to reinstate costs for the net position of change in payroll for the Licence Renewal programme compared to other cost centres in RY27/28.
- 4.73 DCC further proposed additional costs for the JHSG chair to allow five additional meetings post-TD and for external consultancy support for business handover, using existing knowledge.

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4.74 DCC presented a number of cost areas associated with the replacement of corporate services, which we discuss in turn below.

DCC2 corporate services

4.75 DCC proposed to include £1.302m for DCC2 corporate service costs within Licence Renewal, comprising several discreet line items:

- **Change management of Day 2 Delivery:** additional support for “day 2” functions of the replacement corporate systems, outside of the SP contract. DCC explained that this covers change management which was excluded from the original contract to derisk procurement due to tight timelines
- **Additional independent assurance:** DCC disagreed with our proposal not to allow any costs associated with potential independent assurance work for corporate services, if required by the JHGS. DCC proposed to reinstate the cost at a slightly reduced forecast
- **DCC2 Finance, Resource and system TSA costs:** DCC proposed to reinstate costs associated with a Transitional Service Agreement with Capita for use of software licences for a business planning tool. DCC confirmed the planning tool was business critical and explained that this provision was required to allow DCC2 to use the tool pending its reprocurement
- **Billing system TSA:** DCC proposed to reinstate the costs associated with running the billing system in case of a need for a TSA
- **Hypercare & contingency:** DCC2 requested a provision for six support roles to provide programme hypercare for an additional month after the TD, and a ringfenced contingency to account for risk

4.76 As covered in section A of this chapter, paragraph 4.37, DCC separately proposed to include the run costs of the replacement corporate services for the First RY under the Licence Renewal cost category.

Reasons for our decision**DCC1 post-TD costs (Pass-Through Costs)**

4.77 Following consultation and consideration of additional evidence, we have decided to make the amendments to our calculation of the Licence Renewal ReqR for DCC1 (Pass-Through) Costs. Consequently, we direct that £1.449m in the First RY and £1.644m in RY27/28, totalling £3.093m over the first Price Control Period, shall be included in the calculation of the ReqR as Pass-Through Costs. This is an increase in the proposed ReqR by £0.745m in the First RY and increase by £1.031m in RY27/28. Our decisions on individual areas are set out below. Tables 4.3 and 4.4 below provide further details.

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- 4.78 Pursuant to Licence Condition 24, our decision is to direct that Pass-Through Costs will include payments made to “the Previous Licensee as reimbursement for expenditure incurred after the Transfer Date in complying with the conditions of the Smart Meter Communication Licence (the Previous Licence)”. For the avoidance of doubt, all expenditure must remain economic and efficient and DCC1 should not treat our decision as a spending target. Mirroring the arrangement in place with DCC2 pre-TD, we expect to issue a standing information request under Condition 29 of DCC1 Licence (Provision of Information by the Licensee) to DCC1 to monitor the expenditure against this allowance.
- 4.79 **DCC1 post-TD Price Control obligations:** We have decided to maintain our consultation proposal and classify the provision for DCC1 final PC work as DCC1 (Pass-Through) Costs. We therefore reject DCC's proposal to classify these costs as DCC2's Internal Costs within the Strategy and Regulation Internal Function (cost centre). It is DCC1's responsibility to comply with the Price Control conditions of its Licence. Although DCC2 is expected to provide reasonable assistance to DCC1, the procurement and management of any additional support, if required, remains DCC1's responsibility.
- 4.80 **DCC1 post-TD compliance and auditing:** We maintain our consultation position to include the costs associated with compliance and auditing the residual deliverables for DCC1 in our calculation of the ReqR.
- 4.81 **Overheads for DCC1 to continue to operate after the TD:** We accept that DCC1 will incur limited corporate overhead costs associated with operating until the expiry of its licence. As such, we agree that DCC should be able to fund this expenditure through the PTC allowance. None of these costs should attract Shared Service Charge paid to DCC1's parent company as DCC1 no longer incurs any Internal Costs.
- 4.82 **Capita document production:** We do not agree with DCC's proposal to include additional ReqR to meet costs of Capita's document production. We have included funding within the ReqR for DCC1's regulatory and statutory audits and for staff to support post-TD obligations and operating overheads. We do not consider this addition expenditure to represent economic and efficient or necessary cost in addition to the above provisions.
- 4.83 **DCC1 external legal support:** We accept that DCC1 may require some legal support in discharging its remaining licence obligations and agree to include this provision on the calculation of the ReqR. However, we are concerned that DCC did not include this in its original forecast this at an earlier stage, given the final mandatory activities were known.
- 4.84 **DCC1 redundancy payments:** We do not agree with DCC's proposal to include additional provision for redundancy payments. DCC1 has not identified any existing permanent employee nor is expected to hire any permanent employees.

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We therefore do not consider this cost as likely to be incurred. Should DCC have any permanent employees hired from the Capita group, we consider any redundancy costs to be a consequence of a Capita business decision.

- 4.85 **DCC1 company closure costs:** Similarly, we do not agree with DCC's proposal to include any company closure costs. The decision to dissolve Smart DCC is not a regulatory or statutory requirement, but a business decision made by DCC1's parent company. We have decided not to include these costs in our calculation of the ReqR.
- 4.86 **Contingency:** We do not agree with DCC's proposal for additional contingency as DCC did not identify or quantify any risks associated with this provision. We consider all licence requirements to be known; we accept an uncertainty associated with potential legal support which is why we have accepted DCC's proposal for a provision for legal support (see paragraph 4.84 above). We have therefore decided to exclude the contingency costs from our calculation of the ReqR.
- 4.87 **DCC1 Board and exit team:** Following further information from DCC, we have decided to adjust our proposal to include an allowance for residual DCC1 Board costs, and a small number of identified individuals to support the residual mandatory activities. We have reduced the allowance for DCC2 payroll costs accordingly where the original provision was previously allocated.
- 4.88 **DCC1 Security Bond and Company Secretary:** We agree to reclassify these costs as DCC1 PTC with a commensurate reduction in the Corporate Management Internal Function. The impact on the total ReqR is nil.

Table 4.3 DCC1 post-TD activities with allowances (Pass-Through Costs)

Activity	First RY allowance	RY27/28 allowance
Price control & closedown	YES – as consulted on	YES – as consulted on
Compliance officer	YES – as consulted on	N/A - not required
Audit/assurance	YES – as consulted on	YES – as consulted on
Reallocated: Security Bond	YES – Reallocated from DCC2 corporate management costs	YES – Reallocated from DCC2 corporate management costs
Reallocated: Company Secretary	YES – Reallocated from DCC2 corporate management costs	YES – Reallocated from DCC2 corporate management costs

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Activity	First RY allowance	RY27/28 allowance
NEW: DCC1 Overheads	YES – accepted as a likely necessary cost	YES – accepted as a likely necessary cost
NEW: External Legal Support	YES – accepted as a contingency	YES – accepted as a contingency
NEW: DCC1 residual board and exit team	YES – updated and reallocated from DCC2 payroll costs	YES – updated and reallocated from DCC2 payroll costs
NEW: Capita document production	NO – excluded	NO – excluded
NEW: Redundancy payments	NO – excluded	NO – excluded
NEW: Company Closure costs	NO – excluded	NO – excluded
NEW: Contingency	NO – excluded	NO – excluded

Table 4.4: Required Revenue for Licence Renewal DCC1 costs – reclassified as Pass-Through Costs, in [£m]

	Consultation proposal	Decision	Difference
First RY (5 months)	0.704	1.449	+0.745
RY27/28 (12 months)	0.613	1.644	+1.031
Total ReqR	1.317	3.093	+1.776

DCC2 Licence Renewal (Internal) Costs

4.89 Having carefully considered DCC's submission and justification, and further evidence and representations received through the consultation process, we determine the DCC2 Internal Licence Renewal ReqR as £5.493 in the First RY and £0.869m in RY27/28, totalling £6.362m over the first Price Control Period. This is an increase on the proposed ReqR by £1.949m in the First RY and by £0.806m in RY27/28. Our decisions on individual areas are set out below. Please note that

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this adjustment reflects DCC's proposal to move the costs of corporate services in the first RY to the Licence Renewal Internal Function (cost centre). Tables 4.5 and 4.6 below provide further details.

- 4.90 **DCC2 payroll costs:** We maintain our consultation position to remove from our calculation of the ReqR all Licence Renewal payroll costs in RY27/28, including any additional recharge between cost centres. We have not seen sufficient justification for the proposed costs linked to any necessary Licence Renewal or transformational activities into RY27/28. DCC is not prohibited from carrying out internal transformation; however, we have not seen good justification for increase in Internal Costs for that purpose. We have also adjusted the payroll costs in the First Regulatory Year downwards to avoid double counting of DCC1 Board and exit team cost (see paragraph 4.87 above).
- 4.91 **DCC2 non-payroll costs:** We maintain our consultation position to include a small provision for non-payroll costs comprising things such as travel and expenses. We consider this to be a reasonable inclusion within business overheads.
- 4.92 **JHSG Chair:** We agree with DCC's proposal to include a provision in DCC2 Internal Licence Renewal costs for the JHSG chair to cover five extra meetings post-TD. We consider this provision to be proportionate and five additional JHSG meetings after the TD to be likely.
- 4.93 **Business Handover consultancy support:** We acknowledge the need for DCC2 to have a proportionate allowance for knowledge retention and to assist with handover, however we disagree with the scope and duration of the assistance. We consider 1 day a week for 3 months to be more proportionate allowance to allow for programme closure and knowledge handover. Consequently, we have decided to reduce the proposed allowance by c.88%.

DCC2 corporate services

- 4.94 **Change management of Day 2 Delivery:** On balance we accept the need for the requested provision for change management for the replacement corporate services, beyond the scope of the existing contract. However, we are not yet satisfied, based on the evidence available to us, that the procurement process was fully economic and efficient. We will scrutinise DCC's procurement and management of the contract, and any costs incurred in the Final Regulatory Year, through the final ex-post Price Control.
- 4.95 **HR/Finance implementation:** We maintain our consultation position to include a provision for HR and finance system improvement costs in the calculation of DCC2's ReqR, acknowledging the systems will require planned enhancements from minimum viable products following the TD.
- 4.96 **Transitional Service Agreement (TSA) for Billing:** The JHSG met in August, where it was agreed that the TSA would be stood down as the replacement corporate

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service solution will be in place for transfer date. We have seen no evidence that there will be need for DCC to incur costs associated with the billing systems provided by Capita. We therefore maintain our consultation position to remove these from the ReqR.

- 4.97 **Finance and Resource Systems TSA:** We are satisfied that this tool is likely business critical and accept that DCC2 may rely on Capita licences for a period of time. We therefore include the proposed allowance in the ReqR. However, are not currently persuaded that this expenditure was inevitable and that DCC1 could not bring the tool in-house before the TD by better planning. We will therefore consider the economy and efficiency of DCC's actions and the resulting costs through the final PC assessment
- 4.98 **Additional independent JHSG assurance:** We maintain our consultation position not to include any provision for additional independent assurance of activities commissioned by the JHSG following the TD. We have not seen evidence that the JHSG has mandated such additional assurance, nor that it is likely to do so; therefore, we have decided to exclude the proposed costs from our calculation of the ReqR.
- 4.99 **Hypercare and contingency:** We recognise that the DCC2 programme may require hypercare and a level of contingency funding outside of the corporate services replacement provider. We therefore agree to include a provision in the calculation of DCC2's ReqR with 50% of the allowance ringfenced for the purposes of meeting specific Licence Renewal risks. This provision does not mean increase in cost to consumer as the provision for a hypercare team and contingency was already a part of DCC2's pre-TD date set-up budget. Our decision reassigns a portion of this funding to DCC2's ReqR post TD with any unused amounts returned to consumers.
- 4.100 We acknowledge the proposed inclusion in DCC2's Internal Costs for the operations of the replacement corporate services into the Licence Renewal function in the First RY as outlined above in paragraph 4.37. This has nil cost impact.

Table 4.5: DCC2 post-TD activities with allowances

Activity	First RY allowance	RY27/28 allowance
Payroll	YES – reduced by DCC1 board and exit team costs (reallocated to PTC)	NO – as consulted
Non-payroll	YES – as consulted on	YES – as consulted on

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Activity	First RY allowance	RY27/28 allowance
NEW: Change Management of Day 2 Delivery	YES – included to provide support for transition	N/A - not required
HR/Finance implementation	YES – as consulted on	YES – as consulted on
Additional JHSG assurance	NO – as consulted	NO – as consulted
Billing TSA	NO – as consulted	NO – as consulted
Finance and Resource Systems TSA	YES – at a reduced cost to provide temporary access to licences	YES – at a reduced cost to provide temporary access to licences
NEW: JHSG Chair	YES – included on the basis of additional evidence	N/A - not required
NEW: Business Handover consultancy support	YES – reduced by 88%	N/A - not required
NEW: Hypercare & Contingency	YES – at no additional cost	N/A - not required
NEW: Re-allocation of corporate services revenue from Corporate Overheads (First RY only)	YES – included on the basis of internal re-allocation at no additional cost	N/A - not required

Table 4.6: Required Revenue for Licence Renewal DCC2 costs – categorised as Other Internal Costs, in [£m]

	Consultation proposal	Decision	Difference
First RY (5 months)	3.544	5.493	+1.949
RY27/28 (12 months)	0.063	0.869	+0.806
Total ReqR	3.607	6.362	+2.755

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Appendix 1. Summary of ringfencing decisions

- A1.1 This appendix summarises our decision on the proportions of the ReqR to be ringfenced pursuant to LC 24 Part B and the purposes for which the ReqR may be used.
- A1.2 Table A1.1 sets out the ringfenced ReqR for individual SFs. The ReqR is ringfenced for the purpose of meeting economic and efficient costs of the Relevant Service Capability Provider contracts within these Service Families, as reported in the RIGs.

Table A1.1: Ringfencing for individual Service Families, [£m]

Ringfenced area	First RY (5 months)	RY27/28 (12 months)	Total
SMETS1 SF	10.576	19.172	29.748
SMETS2 SF	49.959	122.388	172.347
4G SF	16.433	39.877	56.310
Centralised Registration Service (Switching) SF	3.834	8.863	12.697
Meter Data Management SF	48.407	112.245	160.652
Privacy and Security SF	14.860	53.462	68.322
Service Management SF	5.149	6.151	11.300
Testing Services SF	1.278	3.436	4.714

- A1.3 Table A1.2 sets out the ringfenced ReqR for Pass-Through Costs. In line with the definition in Licence Condition 24, the use of Pass-Through Cost ReqR is 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
 - AlthANCo Ltd for purposes associated with the Alt Han Arrangements
 - RECCo Ltd for the purposes associated with the Centralised Registration Service

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- Energy Suppliers as Reimbursement Amount for the purposes of the Communications Hub Replacement Reimbursement Service
- The Previous Licensee as reimbursement for expenditure incurred after the Transfer Date in complying with the conditions of the Smart Meter Communication Licence (the Previous Licence)

Table A1.2: Ringfencing for Pass-Through Costs, [£m]

Ringfenced area	First RY (5 months)	RY27/28 (12 months)	Total
Pass-Through Costs	19.475	49.646	69.121

A1.4 Table A1.3 sets out the ringfenced ReqR for the Innovation Fund. The Innovation Fund ReqR is ringfenced for the purpose of meeting the costs of Permitted Business authorised by the Authority in Writing under LC 6 Part B.

Table A1.3: Ringfencing for Innovation Fund, [£m]

Ringfenced area	First RY (5 months)	RY27/28 (12 months)	Total
Innovation Fund	0.150	0.325	0.475

A1.5 Table A1.4 sets out the ringfenced ReqR for volume-driven costs:

- The ReqR for volume-driven costs (subject to Automatic Adjustments) is ringfenced for the purpose of meeting External Costs associated with Drivers approved by Ofgem under LC 24 Part C. This excludes Pass-Through Costs, CH Exchange financing, contractual indexation and Centralised Registration Service (Switching) SF ReqR which have approved Drivers but are ringfenced separately
- The ReqR for volume-driven costs (not subject to Automatic Adjustments) is ringfenced for the purposes of meeting External Costs incurred as:
 - Communications Hubs financed monthly asset charges and maintenance charges under CSP-N, CSP-C and CSP-S contracts
 - SMETS2 (Arqiva) financing
 - CH&N financing
- The ReqR for CH Exchange financing is ringfenced for the purpose of meeting efficient External Costs of capital and interest repayments, and

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Arrangement and Commitment fees incurred for the sole purpose of financing payments made to suppliers as Reimbursement Amount for the purposes of the CH Replacement Reimbursement Service

Table A1.4: Ringfencing for Volume-Driven Costs, [£m]

Ringfenced area	First RY (5 months)	RY27/28 (12 months)	Total
Volume-Driven Costs (subject to Automatic Adjustments)	51.849	140.733	192.582
Volume-Driven Costs (not subject to Automatic Adjustments)	60.261	140.320	200.582
CH Exchange financing	1.585	18.854	20.439

A1.6 Table A1.5 sets out the ringfencing for individual change pipeline projects. The specific ReqR set aside for each project is deemed commercially sensitive and has been redacted from this decision. It is included in a direction issued to the Licensee alongside this decision.

Table A1.5: Ringfencing for individual change pipeline projects

Ringfenced budget	Purpose
Long Range Radio Committed Term capex	To meet capital expenditure, incurred as economic and efficient External Costs under the CSP-N contract, associated with Next Generation Base Station installation, subject to a Final Business Case and a non-objection from the Secretary of State under Licence Condition 10.7
Long Range Radio Committed Term financing costs	To meet economic and efficient External Costs of capital and interest repayments incurred for the sole purpose of financing capital expenditure of the Long-Range Radio Committed Term project under CSP-N contract
Device Manager Re-procurement	To meet economic and efficient External Costs of necessary design, build and test activities under a new, re-procured contract for the provision of Device Manager services to enable transition to a new External Service Provider, subject to a Full Business Case and a non-objection from the Secretary of State

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Ringfenced budget	Purpose
	under Licence Condition 10.7; does not include any expenditure under the existing Device Manager contract with the incumbent External Service Provider
4G & Beyond	To meet economic and efficient External Costs incurred under 4G CH contract enabling a 5G comms hub functionality, subject to a Final Business Case and a non-objection from the Secretary of State under Licence Condition 10.7
DSP2 risk provision	To meet efficient External Costs incurred under the Fundamental Service Capability contracts within the scope of the Meter Data Management Service Family, procured for the provision of the DSP2 programme, ²⁸ that are specifically necessary for the implementation of the DSP2 programme in accordance with the Joint Industry Plan ²⁹ and the assumptions set out within the Final Business Case for the DSP2 programme, with all expenditure subject to approval in writing by the Programme Governance Board; ³⁰ may not be used to offset baseline DSP1 or DSP2 delivery costs or to pay for fixed operational charges of any existing contract
Post Quantum Cryptography	To meet economic and 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: • Deliver a fully functional Post Quantum Cryptography Proof of Concept for 4G Communications Hubs • Implement the new solution with a communications hub software release within the timeframe set by the National Cyber Security Centre • Carry out evaluation and deliver a major release for Long-Range Radio Communications Hubs • Upgrade the TSP, crypto inventory and system interfaces in agreement with the SEC SSC and DESNZ

²⁸ Identified in paragraph 1.5(24),(25),(27) in Appendix 1 to the Smart Meter Communication Licence

²⁹ DCC (2025), Consultation on the revised delivery plan.

www.smartdcc.co.uk/media/bnhh4b3g/dsplc13b-consultation-on-the-revised-delivery-plan-v10.pdf

³⁰ 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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Ringfenced budget	Purpose
Enduring Change of Supplier re-procurement	To meet efficient External Costs of design, build and test To meet economic and efficient External Costs of design, build and test activities committed under a re-procured contract (or contracts) for the provision of Enduring Change of Supplier service to enable transition to a new Service Provider (or Providers) by June 2028; subject to a Full Business Case and a non-objection from the Secretary of State under Licence Condition 10.7; may not be used to meet costs incurred under the existing Enduring Change of Supplier contracts with the incumbent Service providers
Enterprise System and Service Integrator	To meet economic and efficient, contractually committed External Costs (under a relevant contract within the Meter Data Management Service Family), necessary to meet design, build and test activities for the implementation of Enterprise System and Service Integrator; subject to a Full Business Case
Energy Data Best Practice	To meet economic and efficient External Costs required for DCC to comply with Licence Conditions 11.9 and 11.10, including: • A change from Data Processor to Joint Controller • Implementation of required SEC changes • Set-up of a robust triage function • Data quality and cleansing work • Full metadata coverage to the Dublin Core standard • Review and alignment with either CCL or OGL for data licensing • Set-up of a data catalogue
Centralised Consent	To meet economic and efficient External Costs necessary for the Licensee to perform a role of Energy Data Holder in accordance with the final Centralised Consent Solution (CCS) design delivered by RECCo; specifically, deliver technical interoperability to allow the Licensee to accept and verify CCS tokens and furnish access to specified SM data in accordance with the CCS design requirements
Guaranteed Standards of Performance (GSOP)	To meet economic and efficient External Costs incurred in procuring Relevant Service Capability through External Service Provider contracts within the scope of the Service Management Service Family to comply with Ofgem's decision on SM GSOP.
DCC Diagnostics Role	To meet economic and efficient costs of procuring Relevant Service Capability necessary to comply with regulatory requirements on DCC Diagnostics Role, if made by the Secretary of State.

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Ringfenced budget	Purpose
Licence Renewal contingency	To meet economic and efficient Internal Costs of post-Business Handover stabilisation, including the extension of Hypercare or delivery of “day 2” of corporate services (in accordance with a plan agreed by the Joint Handover Steering Group); may not be used for any business-as-usual operations outside the Licence Renewal Function or any transformation activities.

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Appendix 2. Outcomes we expect DCC to deliver

A2.1 This Appendix sets out our decision on the outcomes we expect DCC to deliver during the first Price Control Period. Any assessment of DCC's delivery of the Business Plan, for example for the purposes of the Remuneration Policy under LC20 should include assessment of DCC's performance in delivering these outcomes.

Table A2.1 Agreed outcomes for SFs

Area	Outcomes
SMETS1 SF	• Exit from the current DXC ANSO contract with a full transition to the new CGI ANSO provider no later than November 2026 without disruption in service and delivery of benefits of the new solution set out in the Final Business Case (FBC) • Successful delivery of technical changes to SRVs 4.32³¹ and 4.10³² by November 2026 and March 2027, respectively, to mitigate the impact of SMETS1 overages • Achieve steady state operations of SMETS1 service focus on improvement in the performance of SMETS1 Service Providers (SPs) to ensure stability and reliability; evidenced by consistently meeting relevant Target Performance Measures in the Smart Energy Code • SPs are held to account for under-performance, minimising expenditure on change; evidenced by application of contractual measures where contractual obligations are not met • Continuation of the swap-out and decommissioning strategy in line with plans agreed with industry and the Secretary of State
SMETS2 SF	• Maintain service continuity in all regions for LRR/2G/3G networks (evidenced by consistently meeting Target Performance Measures in the SEC); secure the continuation 2G/3G WAN coverage in the Central and South Communication Regions until 2033, while minimising cost increases and protecting and improving performance standards

³¹ Smart Energy Code (2026), Scheduling Services for SMETS1 Devices (SRV 4.3).

<https://smartenergycodecompany.co.uk/modifications/scheduling-services-for-smets1-devices-srv-43/>

³² 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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Area	Outcomes
	• Agree a unified plan with industry for 2G and LRR swap-out and support a controlled migration away from legacy WAN technologies onto 4G • Further challenge SP on the set-up and enduring costs of the LRRCT project, only committing to the extension and further capex once all options have been exhausted and have gained the best possible value for money, subject to non-objection from the Secretary of State • Work with industry to agree Key Performance Indicators (KPIs); effectively hold CSP-N SP to account under the contract to improve service performance and meet contracted Service level agreements (SLAs) and Key Performance Indicators (KPIs); apply contractual measures where performance falls short of contracted SLAs and KPIs • Achieve all milestones included in the LRRCT FBC during the Price Control Period and pursue all optionality within the FBC to avoid costs where possible; evidenced by optionality presented to users
4G SF	• Complete the FBC within the current timelines (end of 2027) for the Device Manager re-procurement, procuring a replacement at the earliest opportunity, in line with the outcomes of the Price Control for RY22/23. • Fully assess options with regard to 4G & Beyond; deliver a FBC on a timeline requested by the Secretary of State; subject to the FBC outcome, commence activities and meet milestones necessary to roll out solutions by 2029 to ensure a continued minimum 15-year CH lifespan • Continue to provide and scale the 4G network to futureproof the network, in preparation for movements away from 2G/3G networks. Hold 4G WAN SP to account under the contract to deliver 4G WAN coverage and other SLAs per contract terms • Hold all SPs to account for any underperformance and under-delivery during the Price Control Period, evidenced by application of contractual measures where delivery and performance falls short of contracted SLAs/KPIs; minimise cost of change
Switching SF	• Continue delivery of service improvements and enhanced customer experience in accordance with KPIs agreed with industry (this may include continuation of the measures

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Area	Outcomes
	currently used under the Switching Incentive Regimes or new measures selected under LC 21 Part A).³³ • Maintain service continuity through the proposed extension of the FSC contracts and improved contractual arrangements • Achieve improved switching accuracy, reliability, and a better consumer experience through targeted improvements, including to address management; evidenced by meeting Key Performance Indicators within the Retail Energy Code
Meter Data Management SF	DSP1 • Maintain stability and continuity of service, with minimal disruption to existing operations • BAU service delivery within a controlled and predictable cost envelope, avoiding incremental/cumulative scope expansion • Reduced reliance on reactive or late-stage change requests, improved upfront planning and specification • Adhere to agreed service levels, with issues resolved through service management rather than additional scope DSP2 • 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 • Maintain discipline over mobilisation and transition scope, preventing unnecessary enhancements or redesign beyond what is required for safe service transfer • Keep cost discipline during mobilisation, with expenditure demonstrably linked to approved transition activities • Achieve progressive reduction in transition risk over time, evidenced by diminishing reliance on parallel running, contingency measures and short-term fixes • Achieve a clear pathway to steady-state BAU delivery, such that DSP2 programme is fully delivered in line with the Joint Industry Plan (DSP2 implemented by December 2028)
Privacy and Security SF	• Maintain a stable and secure DCO service for SMETS1; manage change to minimise additional costs needed to invest into recently re-procured contracts • Progress ECoS re-procurement exercise, deliver a good quality FBC by September 2027, with comprehensive industry

³³ Ofgem (2023), Switching Incentive Regime Guidance. www.ofgem.gov.uk/decision/dcc-switchingincentive-regime-direction-and-guidance

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Area	Outcomes
	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 • Deliver a fully functional PQC PoC for 4G CHs; implement the new solution with a CH software release within the expected NCSC timeframe and in agreement with the SEC SSC and DESNZ, while observing strict budget discipline and avoiding nugatory spend.
Service Management SF	• FSM: 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 • 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 set-up up of a data catalogue to be populated. We also expect this to be prepared for publication as a Digitalisation Strategy (DSAPs) • CCS: Deliver agreed upon technical interoperability that will allow DCC to accept and verify CCS tokens and furnish access to the specified SM data; 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. • GSOP: Facilitate the implementation of GSOP in line with Ofgem's decision; ensure Service Providers are fully held accountable for non-operating meters under DCC's contracts.

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Area	Outcomes
Testing SF	• Ensure the User Integration Testing (UIT) environment remains available during core operating hours, with a target 95% availability • Provide necessary resources and tools to fully support User Testing Services with requests met within requested timelines for each activity • Share details of testing issues and defects via monthly reporting shared with the Testing Design and Execution Group (TDEG) • Make automated test solution fully available by November 2026 to support pre-System Integration testing for DSP2 and CTA3 test phase
Service Delivery and Corporate Overheads	• Maintain focus on internal efficiencies, including continually reducing reliance on external consultants and contractors • Demonstrate a clear, skills-based, delivery-focused structure with a streamlined organisational hierarchy • Improve forecasting methodology, in particular for resourcing; deliver an improved submission for the second <i>ex-ante</i> Price Control Period in line with the Business Plan Guidance

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Appendix 3. Required Revenue tables

Appendix table 4.1: Summary of ReqR per cost category, in [£m]

Cost Category	First RY (5 months)	RY 27/28 (12 months)	Total (m)
External Costs	261.940	660.223	922.163
Internal Costs	53.474	118.278	171.752
Pass-Through Costs	19.475	49.646	69.121
Total	334.888	828.147	1163.035

Appendix table 4.2: Summary of ReqR per Service Family/area of ReqR, in [£m]

Service Family/area of ReqR	First RY (5 months)	RY 27/28 (12 months)	Total
Smart Energy Service Families	192.397	485.107	677.505
SMETS1	10.576	19.172	29.748
SMETS2 (LRR/2G/3G)	49.959	122.388	172.347
SMETS2 (4G)	16.433	39.877	56.310
CRS (Switching)	3.834	8.863	12.697
Smart Energy volume-driven costs	111.595	294.807	406.402
Enabling Services & Testing Service Families	71.794	180.394	252.187
Meter Data Management	48.407	112.245	160.652
Privacy & Security	14.860	53.462	68.322
Service Management	5.149	6.151	11.300
Testing Services	1.278	3.436	4.714
Enabling Services & Testing volume-driven costs	2.100	5.100	7.200
Internal Costs (outside SFs)	51.223	113.000	164.224
Total Overhead Costs	45.580	111.806	157.386
Other Costs	5.643	1.194	6.837
Pass-Through Costs	19.475	49.646	69.121

Notes:

- **Internal Costs (outside SFs)** exclude ReqR for External Services non-resource (ESNR) allocated to Smart Energy and Enabling Services & Testing Service Families
- **Other Costs** includes Innovation Fund and Licence Renewal
- Figures may not add up exactly due to rounding