Making a positive difference for energy consumers

Consultation

DCC Price Control: Regulatory Year 25/26

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We are consulting on our proposed positions for DCC's costs and revenues for the Regulatory Year (RY) 25/26 under the Price Control mechanism. We welcome responses from all stakeholders and the public.

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

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Foreword

This document includes our review of the DCC's costs for the 2025/26 Regulatory Year (RY) and outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses.

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Executive summary

This consultation sets out our provisional assessment of costs reported by Smart DCC Limited for Regulatory Year 2025/26 (RY25/26), together with forecast costs for RY26/27 within the scope of this review. It also sets out our proposals on the performance margin earned during RY25/26. The assessment concerns the predecessor licence arrangements and is separate from the successor licensee's ex-ante price control.

Our assessment to date indicates that most of the reported costs may be justified. However, we have identified concerns about avoidable costs associated with programme delivery, procurement and contract management. We are consulting on both the costs attributable to these concerns and their appropriate treatment under the Licence.

DCC is the central communications body licensed to provide the communications, data systems, security and operational services required to support the smart metering framework in Great Britain. These services underpin the operation of smart meters services, enabling suppliers, network companies and other industry participants to deliver better services for energy consumers.

As a monopoly service provider, DCC must be funded to deliver secure, resilient, and high-quality services while also operating efficiently and providing value for money for consumers. The price control framework supports necessary investment while protecting consumers from costs that have not been demonstrated to be economic and efficient.

During RY25/26, DCC and its Service Providers maintained critical services while progressing significant programmes and preparing for the transfer to the successor licence framework. We recognise the considerable effort involved in managing these demands in parallel, and the collaboration across DCC, its Service Providers, government and wider industry to support service continuity and preparations for the transition. This included work to enable the transfer of responsibilities and the introduction of the first ex-ante price control arrangements.

Our assessment considers the circumstances in which costs were incurred including the information available at the time decisions were taken, the alternatives available and the relevant delivery constraints and dependencies, while considering whether costs have been demonstrated to be economic and efficient.

Our headline proposals

As in previous years, DCC has provided sufficient justification for most costs incurred during the year. However, in specified areas, our provisional assessment is that DCC has not sufficiently demonstrated that the costs were economic and efficient.

We propose to determine £20.241m[1] (including Shared Service Charges, SSC) of incurred costs as Unacceptable Costs, comprising £16.629m[2] of External Costs and £3.612m[3] of Internal Costs. We also propose adjustments totalling £22.049m[4] to forecast costs for RY26/27. This includes £7.661m of Switching costs for which we are not currently proposing an allowance.

Our assessment of these costs is provisional and may be revised in our final decision following consideration of consultation responses and any additional evidence submitted by stakeholders. We welcome views on our assessment and proposed treatment of these costs.

Table 1: Summary of our proposed adjustments [£m]

[1] Please note that, for reasons of commercial sensitivity and confidentiality, the total value of costs in RY25/26 that we provisionally propose to treat as Unacceptable Costs has been redacted. Accordingly, the total presented does not include the amount subject to the proposed redaction.

[2] Please note that, for reasons of commercial sensitivity and confidentiality, the total value of External Costs in RY25/26 that we provisionally propose to treat as Unacceptable Costs has been redacted. Accordingly, the total presented does not include the amount subject to the proposed redaction.

[3] Please note that, for reasons of commercial sensitivity and confidentiality, the total value of Internal Costs in RY25/26 that we provisionally propose to treat as Unacceptable Costs has been redacted. Accordingly, the total presented does not include the amount subject to the proposed redaction.

[4] Please note that, for reasons of commercial sensitivity and confidentiality, the total value of forecasts costs that we provisionally propose to adjust in the Final RY that we propose to treat as Unacceptable Costs has been redacted. Accordingly, the total presented does not include the amount subject to the proposed redaction.

	RY25/26 (Incurred costs)	RY26/27 (Forecast costs)
Internal Costs proposal (including SSC and excluding switching)	-3.612[5]	-1.823[6]
External Costs proposal (excluding Switching)	-16.629[7]	-12.565
Switching Costs proposal	0	-7.661
Total cost that may constitute Unacceptable Costs (including SSC)	**20.241[8]**	**22.049[9]**

This consultation provides stakeholders with an opportunity to submit further evidence and challenge our provisional conclusions. We welcome views on all aspects of our assessment, including whether the identified costs were economic and efficient, whether they should constitute Unacceptable Costs and whether they should be removed from DCC's Allowed Revenue.

Our provisional concerns relate to programme planning, scope management, procurement, contract management, and commercial decision-making. We therefore particularly welcome evidence and views on whether the circumstances giving rise to these respective costs could reasonably have been foreseen, managed or mitigated. We will consider all responses and supporting evidence before reaching a final determination and may revise our proposals considering those representations.

[5] Please note that, for reasons of commercial sensitivity and confidentiality, the total value of Internal Costs in RY25/26 that we provisionally propose to treat as Unacceptable Costs has been redacted. Accordingly, the total presented does not include the amount subject to the proposed redaction.
[6] Please note that, for reasons of commercial sensitivity and confidentiality, the total value of Internal forecasts costs that we provisionally propose to adjust in the Final RY that we propose to treat as Unacceptable Costs has been redacted. Accordingly, the total presented does not include the amount subject to the proposed redaction.
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Cost assessment

DCC reported Total Costs of £747.9m in RY25/26, 11.6% below the inflation-adjusted forecast submitted in last year's price control review, although higher than the previous year. The lower-than-forecasts costs were primarily driven by a financing arrangement for 4G Communications Hubs, which spreads cost recovery over approximately 15 years, rather than concentrating a substantial proportion in RY25/26. This largely reflects a change in the timing of cost recovery rather than an underlying saving. Internal Costs, excluding Shared Services Costs, were also £15.9m below forecast.

When compared against inflation adjusted forecasts submitted as part of the previous year's Price Control review, DCC's incurred costs were materially lower than anticipated. DCC reported Total Costs of £747.9m, compared with an inflation-adjusted forecast of £846.1m, representing a reduction of £98.3m (11.6%) against forecast. The largest contributor to this variance was External Costs, which were £76.2m (11.7%) lower than forecast. Internal Costs (excluding Shared Services Costs) were also lower than forecast by £15.9m (11.5%). Overall, costs were materially below forecast despite costs increasing relative to the previous Regulatory Year.

Our approach

We assess costs against the Licence and the DCC Price Control Processes and Procedures Guidance (the "guidance").[10] DCC is required to provide sufficient evidence to demonstrate that its expenditure was economic and efficient, including the options considered and the reasons for its decisions.

Our assessment considers the circumstances in which costs arose, including the information reasonably available when decisions were taken, the realistic alternatives, and relevant delivery constraints and dependencies. Cost increases, programme delays or changes in scope do not, by themselves, establish that expenditure was uneconomic or inefficient. The question is whether DCC took reasonable and appropriately evidenced steps to secure economic and efficient outcomes in the circumstances.

The principal issues informing our consultation proposals relate to programme planning and delivery, procurement and commercial strategy, contract management, governance and evidence, and the forecasting of future costs. Across each of these areas, we have considered whether DCC has identified and managed the requirements, risks and dependencies appropriately; whether procurement and commercial decisions secured value for money; whether sufficient oversight and

[10] Ofgem (2022), DCC Price Control Guidance: Processes and Procedures 2022.

governance were applied to key decisions; and whether additional costs could reasonably have been avoided or better managed.

More specifically, a number of our assessments consider whether costs arose from requirements that could have been identified earlier, whether procurement activity and replacement programmes were progressed in a sufficiently timely manner, whether contractual arrangements and commercial decisions delivered value for money for customers, and whether forecast costs are supported by sufficiently robust evidence. Where we have identified concerns, these generally relate to whether additional costs arose from matters that were within DCC's reasonable ability to anticipate or manage, rather than from factors genuinely outside its control.

Proposed incurred-cost adjustments

The proposed adjustment to External Costs totals **£16.629m**[11]. It comprises:

- **SMETS1 ANSO contract (£5.448m-£9.873m):** relating to whether earlier procurement and implementation of a replacement service could reasonably have reduced costs.
- **Future Service Management (FSM) programme:**[12] relating to costs associated with requirements and functionality that were not reflected in the approved business case, and whether earlier identification and management of those requirements could reasonably have reduced incurred costs.
- **DCO delayed benefits (£3.282m):** relating to additional operational costs associated with delays to the replacement DCO service.
- **DCO Capita project costs (£1.131m):** relating to project costs associated with the replacement DCO service.
- **DSP Leadership Funding (£1.533m):** relating to the net cost impact of revised funding arrangements.
- **Test Automation Framework (TAF) programme (£0.810m):** relating to costs associated with programme delivery issues identified during our assessment.

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The proposed adjustment to Internal Costs totals **£3.612m[13] including SSC and 3.431m[14] excluding SSC**. It comprises:

- **Future Service Management (FSM) programme resource:**[15] reflecting our assessment of resource costs associated with the FSM programme.
- **Enterprise Programme Management Office (EPMO) resource (£1.131m):** relating to the scale and composition of programme management and governance resource, and whether costs represented an economic and efficient use of resources.
- **Partnerships and Projects resource (£0.428m):** relating to the level of resource supporting partnerships and project activities
- **People (£0.261m):** expenditure under the outsourced learning partner arrangement.
- **Non-resource Legacy Areas (£1.328m):** relating to costs on legacy activities and programmes, including whether the activities continued to be necessary and represented value for money for customers.
- **Learning Portal (£0.216m):** relating to an outsourced learning partner arrangement.
- **Staff benchmarking (£0.128m):** relating to contractor costs above benchmarked levels.

We invite views on the reasoning and quantification set out in the relevant assessments, including evidence concerning the extent to which the expenditure was within DCC's control or reasonable influence and could reasonably have been avoided or mitigated.

Treatment of potential Unacceptable Costs

Where costs are ultimately determined to constitute Unacceptable Costs, our provisional view is that those costs should not be included in Allowed Revenue. We will consider all consultation responses before determining the appropriate treatment of those costs.

Licence Condition 37.8 permits the Authority to accept an undertaking from the Licensee in lieu of a disallowance of Unacceptable Costs. Any such undertaking must relate to the Licensee's future management of those costs and/or the Licensee's future procurement of Relevant Service Capability.

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Following the transfer of DCC's Authorised Business to the successor licensee on 2 November 2026, the predecessor licensee is no longer responsible for future service delivery and procurement. We therefore consider it unlikely that an undertaking would satisfy the requirements of the Licence in the circumstances of this review.

Performance Incentives

DCC met all incentivised System Performance measures in RY25/26. However, our assessment of Contract Management and Customer Engagement indicates that it should not retain the full margin available under the Operational Performance Regime (OPR). We propose reductions totalling £1.260m from the £14.005m baseline margin placed at risk, leaving DCC with £12.745m.

The proposed reductions comprise £0.834m for Contract Management and £0.426m for Customer Engagement. These performance-related margin adjustments are separate from our proposed cost disallowances: meeting operational performance targets does not establish that the associated expenditure was economic and efficient.

Switching Programme

DCC's Switching performance is assessed separately under the Switching Incentive Regime. Based on the evidence currently available, our provisional assessment is that DCC's internal and external costs for RY25/26 were economic and efficient. Consistent with our approach in previous years, we are also minded to temporarily exclude DCC's forecast Switching Internal Costs (£1.921m) and External Costs (£5.740m) for RY26/27 from the Allowed Revenue.

We also propose margin reductions of £0.041m for operational performance and £0.003m for customer engagement. DCC would therefore retain circa £0.159m of the £0.203m Switching margin placed at risk in RY25/26.

Next Steps

Please send responses to DCCregulation@ofgem.gov.uk by 8 January 2027. We will consider all responses before reaching our final decision, which we will publish in February 2027.