Guidance

Data Communications Company: Draft Business Plan Guidance & Price Control Processes and Procedures (second Price Control Period)

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DCC2 Ltd, as a holder of the Smart Meter Communication Licence, is required[1] to submit a Business Plan Report and Price Control Information to allow Ofgem[2] to determine the Licensee's Required Revenue in a Price Control Period under Condition 24 of the Licence.

This document serves as a combined guidance for the purposes of:

- Licence Condition 22 Part C (Business Plan Guidance), to which chapters 2, 3, 4 and 6 relate
- Licence Condition 24 Part E (Processes and procedures for cost assessment and Uncertainty Mechanisms), to which chapters 5 and 7 relate
- Licence Condition 25 Part B (End-of-Year reporting), to which chapter 8 relates

[1] Under Condition 22 and Condition 23 of the Smart Meter Communication Licence granted by the Authority on 14 April 2026.
[2] Throughout this document we may use the terms "Ofgem", "Authority" and "we/us" interchangeably.

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1. Introduction

Background for information

1.1 In its general sense, the term "DCC" or "Licensee" refers to the holder of a Smart Meter Communications Licence ("the Licence").[3]

1.2 The current Licensee, DCC 2 Ltd, a wholly owned subsidiary of SECCo Ltd, was awarded its licence by Ofgem in April 2026 for an initial period of 6 years, extendable for a further period of up to 12 years.

1.3 DCC is principally responsible for managing the smart meter communication network, linking smart meters in homes and small businesses with energy suppliers, network operators and energy service companies. As DCC operates as a monopoly service provider, it is essential that robust cost controls and appropriate incentives and other regulatory tools are in place to ensure that its services are delivered to a high standard and offer good value for money.

1.4 Under Conditions 22 and 23 of the Licence (hereafter "Conditions"), DCC is required to submit a Business Plan Report and Price Control Information to Ofgem by 31 July in the Regulatory Year preceding each Price Control Period. The next submission is due by 31 July 2027 for the second Price Control Period, due to commence on 1 April 2028.

1.5 DCC is also required to consult on its draft Business Plan Report with a Customer Challenge Group constituted under the Smart Energy Code for at least four months prior to its submission to Ofgem. The CCG operates under the Terms of Reference developed by Ofgem[4].

1.6 Condition 22.11 requires the Authority to issue guidance to the Licensee for the purposes of preparing its Business Plan Report. This document sets out the Authority's guidance to the Licensee. Condition 22.8 requires the Business Plan Report to be prepared in accordance with this guidance. Therefore, in complying with Condition 22, the Licensee must comply with the provisions of this guidance.

[3] Available on the Electronic Public Register
[4] Ofgem (2025), Terms of Reference for Customer Challenge Group […] www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance

1.7 For the purposes of Condition 22 this guidance document outlines:

a) What information relating to the Authorised Business of the Licensee the Authority requires from the Licensee to determine the Licensee's Required Revenue ("Mandatory Content")

b) Requirements as to the form and way the Mandatory Content must be provided to the Authority

c) The processes and procedures the Authority expects to follow to determine the Licensee's Required Revenue

d) The principles the Authority expects to apply to determine whether the forecast costs to carry on the Authorised Business of the Licensee are economic and efficient

e) The processes and procedures the Authority expects to follow to adjust its determination of the Licensee's Required Revenue

1.8 Furthermore, this document sets out the Authority's approach to cost assessment and guidance on Uncertainty Mechanisms under Part E of Condition 24. It also sets out guidance on End-of-Year reporting under Part B of Condition 25.

1.9 This document should be read together with the Regulatory Instructions and Guidance (RIGs) which set out how the Licensee should report Price Control Information required under Condition 23.

1.10 The Licensee and other stakeholders should obtain their own legal advice on any questions relating to the interpretation and application of the Licence terms and conditions. This document should be read in conjunction with the relevant parts of the Licence. Defined terms should also be interpreted in accordance with the Licence. In the event of any inconsistency between the Licence and this document, the Licence takes precedence.

1.11 Before issuing the document, the Authority will publish on the Authority's Website:

a) The text of the proposed DCC Business Plan Guidance

b) The date on which the Authority intends the DCC Business Plan Guidance to come into effect

c) A period during which representations may be made on the content of this Guidance, which will not be less than 28 days.

The purpose of the Business Plan Report

The purpose of the Business Plan Report is to, when considered alongside the Price Control Information provided under Condition 23 of the Licence, provide the information needed to enable Ofgem to make a well-evidenced determination of the Licensee's Required Revenue, and the individual elements that make up the Required Revenue, under Condition 24 of the Licence.

1.12 A good Business Plan Report should also, when considered alongside the draft or approved Business Strategy & Technology Roadmap (BSTR), support the Licensee's compliance with its General Duties as set out in Part A of Condition 5, and to promote good outcomes for the industry and consumers.

1.13 To achieve this, we expect the Business Plan Report to:

a) Provide the Authority with the information needed to determine the Required Revenue with high confidence. This means that cost forecasts must be clearly and comprehensively evidenced as economic and efficient

b) Clearly explain how the plan will help the Licensee to comply with its General Duties as set out in Part A of Condition 5 of the Licence

c) Set out, in measurable terms, the outcomes that the Licensee will deliver, and how its delivery should be assessed, including in relation to service delivery, service quality, cost efficiency and overall value for money

d) Set out the Licensee's plans for optimising the value of its expenditure by seeking continuous improvement in its approach to procurement and contract management

e) Set out how the Licensee will better understand the needs of its customers and other key stakeholders and improve the quality of its service and levels of customer satisfaction

f) Demonstrate a clear understanding of the impact on consumers of the decisions that it expects to take, expenditure that it expects to incur and outcomes that it plans to deliver during the Price Control Period

g) Set out its strategic vision and ambitions for ensuring that the public asset that is the smart meter communication system is used effectively and efficiently to serve the long-term interests of the GB energy consumers and the wider energy system, and how its Business Plan Report supports those ambitions.

Compliance

1.14 The Licensee is required to produce its Business Plan Report in accordance with this guidance. For the avoidance of doubt, this document is subordinate to the Licence. This document does not change any definitions or obligations contained within the Licence and in the event of any ambiguity over the guidance document, the Licence will take precedence.

1.15 The content of this guidance document does not alter or supplement the Licensee's compliance with its wider obligations under legislation, its Licence or industry codes.

Developing our approach

1.16 In this document, we are seeking to state and clarify a number of principles and issues. However, this guidance document cannot be fully exhaustive in the level of detail and full range of issues and factors we may consider in assessing any Cost Control.

1.17 We will continue to develop our approach to assessing costs and applications in respect of Required Revenue, drawing upon knowledge and approaches used elsewhere. This guidance will be reviewed and updated in future to reflect these changes, and other relevant amendments to the regulatory framework, when appropriate.

Your feedback

General feedback

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

- Do you have any comments about the overall quality of this guidance?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Any further comments?

Please send any general feedback comments to dccregulation@ofgem.gov.uk

2. The Business Plan process

This chapter provides an overview of the Business Plan process. It provides guidance on the steps, processes and timings involved in DCC's Business Plan cycle. This covers the second Price Control Period starting on 1 April 2028.

2.1 Condition 22 of the Licence requires the Licensee to submit a Business Plan Report to Ofgem on or before 31 July in a Regulatory Year immediately preceding a new Price Control Period. Condition 22 also requires that Ofgem must issue the Licensee with Business Plan Guidance on or before 1 April in a Regulatory Year preceding a new Price Control Period.

2.2 This guidance pertains to the second Price Control Period, which begins on 1 April 2028 and ends on 31 March 2031.[5] Accordingly, this guidance is required to be issued by 1 April 2027 and the Licensee must submit its Business Plan Report by 31 July 2027. Condition 22 requires the Business Plan Report to be prepared in accordance with this guidance.

A. Stages in the Business Blan process

2.3 Figure 2.1 provides an overview of the key stages and timings in the Business Plan process for the second Price Control Period, which is further described in this Part A. The content required for the Licensee's Business Plan Report is outlined in chapter 3, whilst further details on Ofgem's assessment process are set out in chapter 5.

Figure 2.1: Business Plan Process (Purple = DCC-led process, Green = focus on stakeholder input, Orange = Ofgem's internal processes)



[5] Unless otherwise directed by the Authority pursuant to Condition 22.5.

Steps 1 and 2: Draft Business Plan Report

2.4 On or before 1 April 2027, the Licensee must:

a) Submit a draft version of its Business Plan Report to the Customer Challenge Group (CCG)

b) Consult with the CCG on the proposed contents of the draft Business Plan Report

c) Publish a draft version of its Business Plan Report (subject to appropriate redactions of sensitive information in line with guidance in chapter 4)

2.5 The Licensee shall also provide the Authority with a copy of the full draft Business Plan Report in the form presented to the CCG.

2.6 This draft version must be prepared in line with the requirements set out in the Licence and this guidance and must be sufficiently complete to allow the CCG to gain a sound understanding of the likely contents of the final Business Plan Report.

2.7 The Licensee should undertake external engagement in a timely manner to ensure that the views of a wide spectrum of stakeholders are already taken into account in preparing the draft Business Plan Report, including but not limited to the SEC and REC parties and consumer representatives.

2.8 Following its submission of the draft Business Plan Report to the CCG, the Licensee must engage effectively with the CCG to ensure that the CCG has the necessary information needed in a timely manner to provide effective feedback. Due consideration should be given to allowing the Licensee sufficient time before submission of the final Business Plan Report to make any changes. The Licensee should reflect and act on feedback received from the CCG in its report on the Business Plan Report for the preceding Price Control Period.

2.9 The engagement between the Licensee and the CCG shall be governed by the Terms of Reference of the Customer Challenge Group.[6]

Step 3: Submission of the Final Business Plan Report

2.10 The Licensee must submit its Business Plan Report to the Authority alongside its Price Control Information by 31 July 2027. The Licensee must publish the Business Plan Report on its website no later than 21 days after the submission to

[6] Ofgem (2025), Terms of Reference for Customer Challenge Group […]. www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance

the Authority, subject to appropriate redactions of sensitive information in line with the guidance in chapter 4.

2.11 In preparing the final Business Plan Report, the Licensee must have due regard to the views provided to it by the CCG and other stakeholders. In its Business Plan Report the Licensee must demonstrate how it has incorporated the views of the CCG (and any other stakeholders who made representations to the Licensee on the draft Business Plan Report), and include an explanation for any area where the Licensee has not acted on the feedback it has received.

Steps 4-6) Ofgem analysis, consultation and decision

2.12 The Authority will assess the Licensee's submissions to determine the Required Revenue for each Regulatory Year of the Price Control Period. The Authority will also assess the quality of the submissions using the criteria set out in this guidance. In its analysis, the Authority may draw on the views of CCG set out in a report submitted by the CCG to the Authority.[7] The Authority may seek further information or clarification from the CCG. The Authority may also request further information from the Licensee.[8]

2.13 Following its review of the final Business Plan Report, the CCG's report and any further information or evidence that it may consider necessary, the Authority will consult on its proposed determination of the Licensee's Required Revenue and its assessment of the quality of the submissions for a period of at least 28 days.

2.14 Following its review of consultation responses, the Authority will publish its decision on the determination of the Licensee's Required Revenue for the Price Control Period pursuant to Condition 24, and its assessment of the quality of submissions.

B. Monitoring of the Business Plan delivery

2.15 Following the Authority's determination of Required Revenue, the Licensee will be expected to provide quarterly financial update reports, covering the previous quarter to the Authority and the CCG in accordance with the requirements of Part B of Condition 25.

2.16 The Required Revenue determined by the Authority may be subsequently modified in accordance with Condition 24.

[7] Under section 5 of the ToR. Ibid.
[8] Condition 22 Part E

3. Mandatory contents of the Business Plan Report

This chapter outlines our expectations on the contents of DCC's Business Plan Report and provides specific guidance on what different elements of the Business Plan should contain.

Overview

3.1 Pursuant to Condition 22, DCC must prepare a Business Plan Report in accordance with this guidance. The Business Plan Report's contents must comprise the following:

a) **Information needed to set the Required Revenue**: Information on the efficient and economic costs for the purposes of setting the Licensee's Required Revenue for the Price Control Period, including any necessary appendices with detailed justification of costs submitted in line with the Regulatory Instructions and Guidance (RIGs).

b) **Information on delivery, outcomes, and value for money (VFM)**: Information on the outcomes that DCC intends to deliver over the Price Control Period, how delivery will be assessed, how DCC can be held to account for its performance, and how DCC will deliver good value for money.

3.2 The Business Plan Report must be consistent with the Business Strategy & Technology Roadmap (BSTR), prepared by the Licensee pursuant to Condition 5, and the two sets of documents must be drafted so that they can be considered together without unnecessary duplication. Where appropriate, the Business Plan Report should cross-refer to the BSTR.

3.3 It is for the Licensee to demonstrate that its proposed expenditure is economic and efficient, and that its plan delivers value for money. Any costs that are not adequately evidenced may be excluded from the Authority's calculation of the Required Revenue or substituted with the Authority's own estimate. Chapter 5 of this document provides guidance on the Authority's assessment process and the principles we expect to apply when determining whether costs are economic and efficient.

A. Information needed to set the Licensee's Required Revenue

3.4 Information needed to enable the Authority to determine the Licensee's Required Revenue for the relevant Price Control Period must be set out in a costed section of the Business Plan Report. The costed Business Plan section must cover two broad narratives:

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a) A presentation of the Licensee's proposed activities, with measurable outcomes for the next Price Control Period, together with a compelling narrative on how and why it has settled on these activities

b) Information on the costs expected to be incurred to deliver these activities, providing an evidential base demonstrating the proposed costs are economic and efficient

Scope of Authorised Business and related activities

3.5 The costed Business Plan section should include a description of the proposed scope of the Licensee's Authorised Business over the Price Control Period and its alignment to:

a) The Licensee's objectives and regulatory requirements under the Licence and relevant Codes

b) The approved or draft BSTR prepared under Condition 5

3.6 The costed Business Plan section should contain a comprehensive description of:

a) What services DCC delivers and proposes to deliver over the Price Control Period

b) What new Relevant Service Capability the Licensee proposes to procure to deliver the Mandatory Business Services, supported by the evidence and analysis explaining the need for, and the scope of, the procurement

c) What changes the Licensee considers will be required to the existing Relevant Service Capability

d) How the strategic considerations identified in the BSTR have informed expenditure decisions over the Price Control Period;

e) The internal organisation, including the workforce, systems, processes and investment necessary to deliver the scope of Mandatory Business Services

f) Details of proposed changes to existing programmes, comprising both internal and external resources, supported by evidence on drivers of change and cost benefit analysis supporting the changes

g) Evidence of engagement with relevant stakeholders, in particular SEC and REC Parties, and how it has shaped the choices presented

h) Other requirements specified in this section

General information on forecast costs

3.7 The costed Business Plan section should also contain a comprehensive summary of the costs forecast to be incurred during the Price Control Period that comprise the proposed Required Revenue. These costs should be consistent with the Price Control Information prepared in accordance with Condition 23 and submitted alongside the Business Plan Report.

3.8 In support of any forecast costs, the Business Plan Report must include:

a) The regulatory driver(s) for that activity

b) Evidence that the forecast costs are economic and efficient

c) Consideration of options and evidence of customer engagement undertaken and how it has shaped the option selected

d) Justification of the forecasted costs as economic and efficient, including profiling of the proposed costs and resources required, as appropriate

e) The assumptions and evidence base which underpin the chosen option and the costs forecast

f) Specific considerations, risks and assumptions, as pertains to the described activity, project or programme

g) The level of contingency the Licensee has included for each activity, and the evidence base used to determine the contingency level forecast

h) Details of which categories of expenditure are uncertain and more difficult to forecast using historical/independent benchmarks. This should include explanation of:

(1) The dependencies for different cost scenarios and their likelihood

(2) Potential impacts on service performance or business continuity

(3) The risks of underutilisation/stranding that new/existing investments might face in the future under a range of plausible forecast scenarios

(4) The risk that an alternative solution may be the most efficient means of addressing the requirements.

(5) The risk that the investment is premature

(6) Where this is the case, we expect the Licensee to demonstrate consideration of mechanisms that mitigate these risks associated with uncertainty, and/or other evidence to justify the submitted costs

External Costs

3.9 External Costs are costs which DCC incurs through provision of Fundamental Service Capability (FSC) from External Service Providers set out in Schedule 1 of the Licence and the Regulatory Instructions and Guidance. It is the Licensee's responsibility to notify the Authority of changes to the existing External Service Provider contracts or of entering into a new contract with an External Service Provider for the provision of Fundamental Services Capability.

3.10 The information in support of forecasted External Costs should include:

a) For existing FSC contracts:

(1) Evidence that proposed costs will be incurred in line with contractual obligations

(2) Comparison against historic rates (in its submission the Licensee may suggest the suitable comparator period) for enduring costs and repeated change costs (eg testing rates)

(3) Explanation for any variation in operational costs

b) Details of all newly procured FSC contracts, including the evidence of:

(1) Customer engagement on the scope and requirements of the procurement

(2) Compliant approach to market and competition, in accordance with the Licence and Procurement Strategy

(3) Negotiations with the Service Provider and resulting value for money proposition

(4) The Final Business Case and award recommendation report approved by the Board

c) Explanation of which costs are fixed and which are variable (for example are volume dependent) and the factors materially influencing the costs identified as variable

d) Detailing of assumptions, dependencies and risks per contract as the basis for any future Reopener application

3.11 The Licensee may include costs which are uncertain or not fully "committed" (based on a signed contract or a contractual change) at the time of the Business Plan development. For any uncommitted costs the Licensee must provide the most up to date relevant assumptions, dependencies and risks behind those costs:

3.12 Where a procurement process is underway, the Licensee should provide:

a) The assumptions made in calculating the forecast costs

b) Evidence that the forecast reflects the most up to date view available to the Licensee

c) A copy of the most recent business case prepared for the procurement:

(1) Where the Licensee has received a non-objection from the Secretary of State,[9] the forecasts should be based on the final business case which had been submitted to the Secretary of State

(2) Where the Licensee is developing its business case, the forecasts should reflect the latest iteration of the business case submitted to the Secretary of State or the most up to date estimates with explanation for underlying assumptions

(3) Where no costs are expected to be incurred in Y1 of the Price Control Period and the Licensee has not developed a business case, it should still forecast costs for the remainder of the Cost Control Period and Licensee should submit more accurate forecasts when available based on the business cases

3.13 The Licensee should follow a similar process for the procurements of Relevant Service Capability, which is exempt from receiving a non-objection from the Secretary of State (for example on the basis of materiality). The forecasts should be based on the Licensee's own internal business cases submitted for the Board's approval.

3.14 For proposed costs of change, the Licensee should include evidence of customer engagement on requirements and scope for contractual changes (CRs/PRs).

3.15 For costs associated with confirmed or expected SEC/REC modifications, the Licensee should show an alignment to costs approved under SEC/REC change process with forecasts based on Impact Assessments or other available estimates.

3.16 For non-SEC/REC, Licensee-driven change, the Licensee should provide evidence of its engagement with customers and External Service Providers, clear cost-benefit analysis, copies of impact assessment (IA) or statements of work (SoW), and evidence of utilisation of contractual terms to challenge costs and poor

[9] Pursuant to Conditions 10.7-10.9

performance where costs are expended on account of service not meeting contractual or SEC/REC requirements.

3.17 Where the Licensee does not have an IA or SoW available but still considers it likely to incur costs for a planned contract variation, it should seek to provide alternative evidence, for example of benchmarking against historic costs and other External Service Providers.

3.18 It would be against this evidence that the Licensee would be asked to explain any change in circumstances in case it requested subsequent adjustments to its Required Revenue through a Reopener.

Internal Costs

3.19 Internal Costs comprise the costs that are economically and efficiently incurred by the Licensee for the purposes of the provision of the Authorised Business (excluding External Costs and Pass-Through Costs).

3.20 The Licensee should clearly outline which of its Internal Costs cover services provided by an Affiliate or Related Undertaking (as defined in the Licence), and which it expects to incur directly. This distinction should also clearly show the breakdown between ongoing costs and one-off costs incurred to deliver new systems or capabilities. The Licensee should also demonstrate how these services provide value for money and provide a full list of services and costs in the RIGs.

3.21 The forecasted Internal Costs must be submitted alongside the following information:

a) For resource costs, evidence of benchmarking against the median of market rates with a 10% tolerance level

b) For non-resource costs, evidence that the costs are incurred efficiently

c) The modelling and assumptions for the required level of resource (overheads as well as resourcing of each programme or internal function), clearly linked to the Licensee's target operating model and deliverables, and evidence of value for money provided by redeployment vs hiring of new permanent staff or utilisation of temporary contractor resource

d) Customer engagement on the scope and gap/cost-benefit analysis of any planned internal transformation programmes or investments

e) Evidence of the Licensee's approach to market for procurement of External Services, including evidence of a driver/needs case and customer

engagement, negotiations on the scope of services required, and overall value for money to be delivered

f) Evidence that delivery of any new functions in-house rather than through competitive procurement is demonstrably the most economic and efficient option

3.22 The Licensee may include costs that are uncertain over the Price Control Period, but it is for the Licensee to show that its forecasts are reasonable, economic and efficient and supported by clear assumptions.

Pass-Through Costs

3.23 Pass-Through Costs are amounts paid by the Licensee for various purposes as specified in the Licence.

3.24 The Licensee should include forecasts of the Pass-Though Costs likely to be paid during the Price Control Period, including a breakdown by each purpose as listed in the Licence. The forecasts must be reasonable and based on the best available information at the time of development and submission of the Business Plan Report.

Centralised Registration Service (CRS) Costs

3.25 CRS costs comprise the Internal and External Costs associated with the Switching Programme. The costs and performance of the Switching Programme are dealt with separately from the rest of DCC's business.

3.26 Consistent with Internal and External Costs, we require the same level of evidence and justification in relation to these costs, as set out in paragraphs above.

Uncertainty Mechanisms

3.27 Uncertainty in cost forecasts can arise for several reasons (we outline possible drivers in more detail in chapter 7). Uncertainty Mechanisms allow changes to the Licensee's Required Revenue to be made in light of what happens during the Price Control Period and help to ensure that customers only pay for the outputs that are delivered.

3.28 There are three types of Uncertainty Mechanisms:

a) "Automatic adjustments" for costs affected by a Driver approved by the Authority pursuant to Condition 24 Part C

b) An Annual Reopener application, enabling the Licensee's Required Revenue to be amended for a subsequent Regulatory Year where costs have arisen that could not be reasonably anticipated.

c) An Emergency Reopener application to account for unanticipated external shocks or requirements

3.29 Within its Business Plan Report, the Licensee must identify all costs it proposes to be subject to the Automatic Adjustment Uncertainty Mechanism (UM) pursuant to Condition 24, Part C. We expect these to include:

a) Pass-Through Costs

b) Contractual indexation

c) Other volume-driven costs with identifiable Drivers: costs directly dependent on customer demand (or other factors outside DCC's control) such as: number of Comms Hubs on the network, number and size of messages to and from smart meters, incident and service request volumes related to the service desk provision, number of users of software licences, and use of cloud platform capacity

3.30 For all such costs, the Licensee must provide its proposed forecasts for these costs for each Regulatory Year of the Price Control Period with the following evidence:

a) A regulatory obligation to incur these costs

b) That the precise effect of the Driver on these amounts cannot be:

(1) foreseen by the Licensee at the time the Price Control Information for the Price Control Period is submitted

(2) controlled by the Licensee

c) The assumptions, such as? own modelling using insights provided by users, used to calculate an economic and efficient forecast

d) The contractual mechanisms used to deal with these costs and variations (and how they provide value for money), such as:

(1) Defined capacity (where a contract variation is required to exceed it)

(2) Purchased capacity (where excess capacity is subject to pre-specified charging arrangements)

(3) Unit cost (where a price is set against a specific unit of measure)

e) An up-to-date network capacity plan

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f) The factors that will affect the identified costs (the proposed "Drivers"), detailing in particular:

(1) The relationship between each proposed Driver and cost

(2) Why the Driver is an appropriate measure of the activity giving rise/fall to the cost

(3) The unit rate, charging mechanism, contractual pricing structure or other methodology by which changes in the Driver result in changes in cost

(4) Any thresholds, capacity bands, minimum commitments or other dependencies affecting the relationship between the Driver and the cost

(5) Details of how the Driver, forecast volumes and associated costs will be reported in the RIGs and reconciled against outturn performance for the purposes of the Automatic Adjustment Mechanism

g) For inflationary costs, the Licensee should provide evidence of contractual terms in respect of indexation. For other inflationary impacts, requiring the Licensee's discretion, the Licensee should apply for adjustment as part of its annual Reopener application.

3.31 In the event of overspend which cannot be managed by the Licensee via its budget flexibility or contingency funding, a Reopener can be triggered within a set application window to allow the Licensee to access funding or stop a given activity. The Business Plan Report must include sufficient information on the assumptions behind the forecast costs that a potential Reopener application can refer back to, highlighting specific areas of change.

3.32 Further information on the requirements for Reopener applications and guidance on Uncertainty Mechanisms can be found in Chapter 7.

Ringfenced costs within the Authorised Business

3.33 The Licensee may propose that the Authority ringfence a proportion of Required Revenue for a defined purpose in accordance with Condition 24.5. A ringfenced amount may not be spent on any other purpose. Any such proposal must be supported by a business case that meets the same economic and efficient evidential standard as other proposed costs, and the Authority will assess it in the round.

3.34 The business case must set out:

a) The justification for ringfencing, including an explanation of why it is appropriate to hypothecate this part of the Required Revenue for the specific activity.

b) A precise definition of the purpose and scope for which the amount is ringfenced, the amount sought and its profile across the period, and where the activity is contingent, the conditions under which the funding would be drawn down.

c) The specific deliverables the ringfenced amount will fund, linked to the relevant objectives and success measures (see next section), so that the delivery of the activity funded by the ringfenced amount can be assessed.

Ringfenced funding for additional Authorised Business

3.35 The Licensee may propose in its Business Plan Report a ringfenced fund for the development of additional Authorised Business (beyond the Mandatory Business requirements imposed by the Licence, the SEC and the REC).

3.36 The Licensee may propose funding for additional activities only where they meet the following lead criteria:

a) Their primary purpose is to support a specific and identifiable objective of Government energy policy, particularly where these are set out in the Strategic and Policy Statement designated by the Secretary of State under the Energy Act 2013, or in a Public Interest Statement issued by the Secretary of State under Condition 10 Part C of the Licence

b) They represent an efficient and economic use of the smart meter communication system as part of the long-term strategy for the system as set out in the BSTR

c) They do not unduly hinder or prevent the delivery of the Mandatory Business

3.37 If the proposal meets the above lead criteria at the first stage, we will subsequently proceed to assess the proposal relating to the below criteria:

a) They are not already part of the Licensee's Mandatory Business

b) Their scope does not involve a material change to the wider context of the Licensee's Authorised Business

c) The provision of funding for the proposed additional activities is demonstrably in the interests of consumers

d) The Licensee is either capable of their provision without procurement of additional Relevant Service Capability, or any additional costs incurred are demonstrably efficient and represent good value for money

3.38 As part of its application, and in addition to the business case guidance already laid out in this document, the Licensee must provide evidence of:

a) What additional activities the proposed funding relates to and how those activities meet the requirements in paragraph 3.29

b) What feedback has been received from stakeholders on the proposal including if any objections had been raised by stakeholders

c) What public policy objective is being delivered and why the Licensee is best suited to deliver this activity

d) What benefits (tangible or non-tangible) will GB energy consumers derive from this activity, and over what time horizon

e) How the proposal is backed by robust evidence and justification, including justification for the proposed costs, in particular any additional Internal Costs (resource or non-resource)

f) What funding options the Licensee has considered, including the utilisation of any grants available or funding from third parties that may also benefit from these activities.

g) How the Licensee will monitor the delivery of the anticipated benefits against the incurrence of the proposed cost

h) How the Licensee will ensure that the proposal(s) will not negatively impact the network or the provision of its Mandatory Business

i) If applicable, plans for third-party involvement and how the Licensee will ensure protection of data, information and security of its system

j) How the Licensee will consider, and mitigate, if necessary, the potential impacts of these activities on consumers in vulnerable situations

k) The steps that the Licensee will take to ensure that additional projects are not duplicative of previously funded work or of work being concurrently delivered by other parties

l) Any plans to collaborate and disseminate innovation learnings with other companies and other interested bodies

3.39 We will consider all evidence in the round in deciding whether to grant the ringfenced budget. No additional Required Revenue approved in this manner may be reallocated for the purposes of delivering any other aspect of the Licensee's Authorised Business. As part of its End-of-Year reporting, the Licensee must provide evidence of delivery of any approved additional activities and their benefits. If any funds remain due to delivery of a project being delayed or due to a re-profiling of expenditure, the Licensee may be able to transfer unused funds into the following Regulatory Year; in all other instances, unused funds must be returned to the funding parties.

3.40 The scope of additional activities which the Licensee may propose through this mechanism may be expanded in future by the Authority's revision of this guidance.

B. Information on delivery, outcomes and value for money (VFM)

3.41 This part of the Business Plan Report must set out the Licensee's proposals for outcomes that the Licensee will achieve, the measures by which its success will be judged, the deliverables through which it will be achieved, and how its delivery should be assessed. The Authority will use this information as the basis for the accountability and VFM framework, implemented through the Business Plan quality assessment, the determination of Required Revenue, the annual assessment of delivery against initiatives funded through the Price Control, the Authority's annual performance and VFM report (as set out in our Remuneration Policy Guidance).

Outcomes

3.42 The Licensee must set out the key outcomes that it intends to achieve over the Price Control Period and explain how these outcomes are consistent with the BSTR. Taken together, the proposed outcomes should be aligned with the Licensee's statutory and licence duties, and with stakeholder priorities and feedback.

3.43 The Licensee's proposed outcomes must be comprehensive, build on its historical performance (and the performance of the Previous Licensee), and represent meaningful improvements across the range of services and activities being undertaken. The proposed outcomes should be ambitious and be set at a stretching level such that achieving them to a high standard would represent strong performance.

3.44 Each proposed outcome must be supported by tailored measures that show how it will be delivered in practice and against which its achievement will be assessed.

Measures should be objectively verifiable from evidence that are readily available through the various reporting mechanisms, including the End-of-Year Report in Condition 25.11, the System Performance Report in Condition 21 Part A, the Customer Satisfaction Survey (Condition 21 Part B) and any procurement and contract management audits (Condition 21 Part C). Where a measure relates to service performance, it must be linked to the Key Performance Indicators (KPIs) developed under the Operational Performance Regime (Condition 21 Part A).

Deliverables funded through the Price Control

3.45 The Business Plan Report must include firm commitments on the deliverables that the Licensee will be held accountable for in return for the funding provided through Service Charges. These must be specific, measurable and timebound, with milestone dates, expected costs and broad specifications set out clearly.

3.46 Any new initiatives or projects for which expenditure is being proposed in the Business Plan Report must be accompanied by firm deliverables to provide assurance that consumers are protected and they receive what they pay for. Where projects or initiatives span multiple Price Control Periods, interim milestones or deliverables must be proposed for the period covered by the Business Plan Report. Where appropriate, DCC may propose deliverables for other areas of ongoing expenditure.

Management of the overall cost envelope

3.47 The Licensee must demonstrate how it will manage its costs across the Price Control Period to deliver ongoing VFM and to prevent unnecessary cost escalation. This must include description of lessons learnt from the past, and how those lessons have been turned into concrete actions for the future.

3.48 We expect to see evidence of consistent and systematic processes for optimising the value of the Licensee's spending, rather than a simple comparison of out-turn expenditure vs forecasts. Our determination of Required Revenue, which is based on forecasts, should not be considered as our fixed view on the efficient and economic level of costs in the out-turn. It is always incumbent on the Licensee to manage its business so that its out-turn costs are efficient and economic.

Procurement approach and strategy

3.49 The Business Plan Report must outline the Licensee's procurement approach for the Price Control Period, including by reference to the Licensee's procurement strategy that takes account of the principles established by Condition 10.

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3.50 The procurement approach must be consistent with the BSTR and any Public Interest Statement issued by the Secretary of State in accordance with Condition 10 Part C.

3.51 This approach should include:

a) An outline of the proposed procurements in the pipeline within the Price Control Period including an overview of the internal assurance that is undertaken prior to the procurement, such as the scope of work

b) Assignment of key roles and responsibilities within each procurement

c) Identification of key metrics to measure Service Providers' performance

d) Planned dates for re-procurements

e) Criteria to assess and choose service providers

f) How the Licensee will use competition to identify and reveal efficient costs and efficient terms and conditions for contracts with service providers

Contract management

3.52 The Licensee must set out how it will manage its External Service Provider contracts across their lifecycle to control costs and secure performance and value for money.

3.53 It should describe the approach to key metrics and KPIs by which External Service Providers' performance, costs and value for money will be monitored and held to account and change control arrangements through which proposals for variations are scrutinised and assessed. It should set out how the Licensee intends to proactively monitor the operation of ongoing contracts to identify opportunities for beneficial variations, extensions or early terminations.

3.54 The Licensee must demonstrate how it has considered and learnt the lessons from the Previous Licence period (2013-2026), including on service provider performance and on the control of contract cost and scope, and explain how its proposed contract management approach addresses any weaknesses identified.

C. Stakeholder Engagement

3.55 The Business Plan Report must set out how the Licensee has incorporated the views and feedback provided to it by the CCG and other stakeholders which the Licensee has consulted with in developing the Business Plan Report, following the process set out in chapter 2 of this guidance.

3.56 Accordingly, the Business Plan Report should include:

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a) A description of the methodology that the Licensee has used to identify its stakeholders and to engage with them to understand their needs

b) Separately, a description of any planned changes to the ongoing use of this methodology

c) The evidence accrued through the application of this methodology, including demonstration of how the Business Plan Report has been derived from this evidence

d) Evidence of the Licensee's communication and feedback events or activities with stakeholders about how their needs have been interpreted and formed the basis of the Business Plan Report

e) Plans of any future communication and feedback events or activities with stakeholders about how their needs have defined the Business Plan Report objectives and associated actions

3.57 The Business Plan Report must set out the Licensee's approach to ongoing stakeholder engagement until the end of the relevant Price Control Period, including a strategy for engagement as well as a set of proposed commitments to deliver the strategy within the Price Control Period. This must recognise the changing priorities of DCC's customers. This strategy must:

a) Be inclusive of all stakeholders, including through a consideration of the needs of both existing and future customers

b) Be responsive to stakeholder needs, including through setting how the Licensee will maintain an up-to-date understanding of customers' needs as well as how it will ensure views are captured and incorporated into the day-to-day operation of the business

c) Include clearly defined performance commitments (relating to stakeholder engagement) which are appropriate, well-evidenced and stretching

d) Incorporate and build on the best practice methods learned and consider best practice methods employed in other industries

e) Incorporate procedures for handling complaints and concerns raised by stakeholders

D. Supporting documents to the Business Plan Report

3.58 Alongside the Business Plan Report, the Licensee should produce any additional information and deliver it to the Authority in Writing. This should include

supporting materials explaining the forecast costs submitted through the quantitative submission using the Regulatory Instructions and Guidance.

3.59 The evidence should include business cases developed for procurement of (including re-procurement or amendments to) External Service Provider contracts. In this section we focus solely on our expectation of Business Case content. For clarity, this should not be viewed as an exhaustive list of the supporting materials we may require from the Licensee and should not be interpreted that all business cases for procurements are required to be submitted to Ofgem.

3.60 Business cases must include:

a) A clear statement of need which outlines the issue that the investment is designed to address, including how it aligns to the Licensee's objectives, and the level of support for the project amongst consulted parties.

b) The different options considered for meeting current and future requirements, including the cost of "doing nothing" and of "deferral" options and the associated cost benefit analysis (CBA)

c) For options discounted by the Licensee at this stage, full reasoning, detailing key assumptions, dependencies, and selection criteria given for exclusion

d) The reasons for the timing of costs under the different options considered, including expected outputs related to the cost

e) An evaluation of why the preferred option provides the best value for money

f) An evaluation of potential risks and how they will be mitigated

g) A roadmap for the next stages of the procurement, including timelines, resources, and stakeholders

3.61 Where a new procurement falls within the scope of Conditions 10.7-10.9, the Licensee should provide a copy of the business case which received non-objection from the Secretary of State. Where a new procurement does not fall under Conditions 10.7-10.9, the Licensee should still present its own business case or an equivalent assessment.

3.62 The Licensee should include copies of business cases and supporting papers presented to its Executive Committee/Board for approval.

3.63 Where a business case is still in development, then the evidence should include the latest version of the relevant business case and the most recent cost

assumptions within that business case along with a detailed explanation of how the assumptions have changed and developed, including any new assumptions.

4. Presentation and structure of the Business Plan Report

This chapter outlines the presentation and structure of DCC's Business Plan Report submission.

A. Presentation

4.1 The information provided in line with the Mandatory Contents guidance set out in chapter 3 should be presented through:

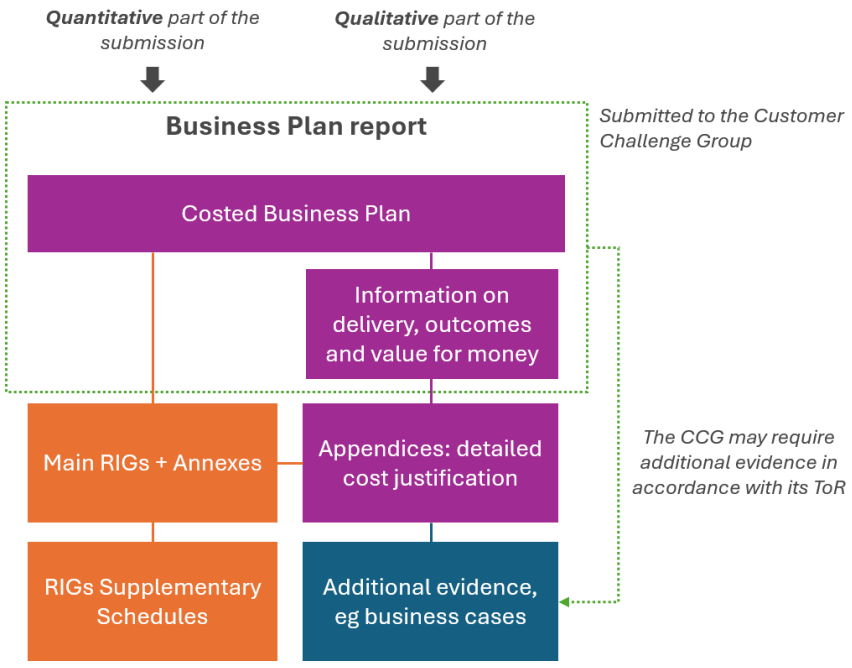
a) A combined Business Plan Report, including the information needed to set the Licensee's Required Revenue and the information on delivery, outcomes and value for money

b) Appendices with detailed cost justifications for cost data submitted in the RIGs templates

c) Additional supporting evidence

4.2 The Business Plan Report contents should be presented in the overall context of the Licensee's Price Control submission. Figure 4.1 provides an illustration of the structure of the Licensee's complete submission.

Figure 4.1: Structure of Cost Control submission



4.3 Whereas the Business Plan Report is the basis for overall Price Control Information and the rationale for activities, the reporting via RIGs templates

provides the quantitative data on the basis of which the Authority will determine the Licensee's Required Revenue. The RIGs templates contain detailed instructions on what to report and offer guidance on how to complete the reporting templates.

4.4 The text of the Business Plan Report should be succinct, presenting proportionate evidence and justifications for the proposed expenditure and outputs. Further information, for example to justify line items and data points submitted in the RIGs templates, should be submitted through appendices and supplementary documents. Appendices and supporting evidence should be clearly signposted and referenced within the core Business Plan Report text. They may include technical or commercially sensitive information (eg copies of impacts assessments, business cases, Board papers etc). The annexes should be as clear and readable as the rest of the Business Plan Report.

B. Structure

4.5 The Business Plan Report structure should be based logically around the Licensee's Mandatory Business and aligned to the RIGs. The breakdown of the reporting by Service Families and Internal Functions is specified in the Licensee's RIGs.[10]

4.6 The Business Plan Report should provide sufficient quantitative and qualitative information for each Service Family and Internal Function, including any change programmes. It should distinguish between External Costs and Internal Costs, detailing within each new areas of expenditure and distinguishing between fixed and variable costs and their drivers. The cost forecasts should be presented for each Regulatory Year of the Price Control Period.

4.7 For each Service Family the Business Plan Report should outline:

a) External Service Provider contracts and their fixed and variable components and proposed expenditure to cover these contractual obligations

b) What code modifications are expected in the Price Control Period and the proposed budget for their implementation

c) The expected contract variations and proposed expenditure for Licensee-led changes

[10] Ofgem (2026), Data Communications Company (DCC): Regulatory Instructions and Guidance (second Price Control Period). www.ofgem.gov.uk/guidance/data-communications-company-dcc-regulatory-instructions-and-guidance-second-price-control-period

d) What new procurements are expected, their status, and proposed expenditure

e) Any live or expected projects delivering a distinct piece of work and the associated requirements and proposed expenditure.

f) What Internal Costs (resource and non-resource) have been allocated and their budget

4.8 For each Internal Function, the Business Plan Report should present:

a) Proposed resourcing aligned to the Licensee's Target Operating Model

b) Proposed non-resource costs, explaining in particular the need for any third-party support

c) What each Internal Function is expected to deliver throughout the Price Control Period

d) Common overhead costs and how the Licensee is ensuring overheads represent value for money

C. Cross-referencing

4.9 The Licensee should ensure that information relevant to each Service Family, Internal Function, change programme or other assessment area is presented in its relevant chapter or section rather than spread throughout the Business Plan Report.

4.10 Where it is not possible to include all relevant information within its own single chapter or section (for example where a supplementary annex is required), the Licensee should identify where in the Business Plan Report the relevant material is located. The Business Plan Report should include a table that maps information on these key areas to relevant parts of the Business Plan Report.

4.11 To allow the reader to navigate the Business Plan Report, the Licensee should effectively cross-reference between different sections, using hyperlinks where possible (for example, when referencing any of the data tables, annexes or any further detail which is explored elsewhere in the Business Plan Report).

4.12 It is important to have clear links between the data tables and the core narrative sections. Data tables should be clearly numbered and any data in the narrative should be clearly linked to the relevant data table number (and include a hyperlink wherever possible). For each data table, there should also be a link to where in the main narrative this data is discussed. For some data tables this may be more than one part of the Business Plan Report that describes the data.

D. Assurance and governance

4.13 The Business Plan Report must include an Assurance Statement approved by the Licensee's Board of Directors.

4.14 All assurance processes undertaken by the Licensee should be clearly set out in the Licensee's Assurance Statement. The Assurance Statement should include a statement from the Licensee's Board that they have carried appropriate checks and are satisfied that the Business Plan Report and the Price Control Information represent good value for money and have been appropriately challenged for accuracy, ambition, efficiency and customer interest.

4.15 The Assurance Statement must also include a statement from the Licensee's Board that appropriate corporate governance arrangements will be in place over the duration of the Price Control Period to provide the Board with assurance that the Business Plan is deliverable, that it will take reasonable steps to ensure that the outcomes and deliverables proposed are delivered, and that expenditure will be subject to robust controls such that the Required Revenue determined by the Authority will not be exceeded without prior consent from the Authority.

4.16 The Licensee should submit a compliance checklist showing how the requirements set out in chapter 3 and chapter 4 of this guidance have been met, with reference to specific parts of the Business Plan Report (including any appendices) and the responsible Senior Manager or subject matter expert.

E. Publication and redaction requirements

4.17 The Licensee should publish its Business Plan Report in a prominent place on its website within 21 days after submission to the Authority. Any commercially sensitive or otherwise confidential information may be redacted prior to publication. Supporting evidence and appendices are not required to be published.

4.18 The Licensee should also submit and publish an executive summary alongside its Business Plan Report detailing the key data and information contained therein.

4.19 Where the Licensee redacts information from the published plan on grounds of commercial confidentiality (or any other reason), the reasons for such redaction must be clearly and comprehensively set out in an explanatory statement published alongside the Business Plan Report. For example, if information is redacted on the grounds of commercial confidentiality, an explanation of the particular commercial interest, which the Licensee considers would be prejudiced by disclosure, should be provided.

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4.20 The Licensee should comply with best practice with respect to accessibility to its published report, and at a minimum the standards laid out by the Web Content Accessibility Guidelines (WCAG) 2.2 AA unless there are valid legal reasons not to.

5. Cost assessment

Chapter summary

The procedure we expect to apply for our assessment of cost is outlined in this chapter. We set out some of the principles we expect to apply when determining whether costs are economic and efficient and should be included in the Licensee's Required Revenue, as well as the methods of assessment we may use, and the types of criteria we may apply.

A. Cost assessment approach

5.1 This chapter focuses on the process Ofgem will follow in our assessment of the Licensee's submission on costs in order to determine the Required Revenue for the Price Control Period (steps 4-6 in chapter 2).

5.2 The *ex-ante* regulatory framework requires Ofgem to review the Licensee's forecast costs before they have been incurred in order to determine the Licensee's Required Revenue. Economic regulation seeks to proxy or mimic competitive outcomes in monopolistic markets or businesses. The objectives of the Price Control process are therefore to:

a) Robustly scrutinise the Licensee's forecast costs and encourage it to manage its costs appropriately and ensure that the best possible outcomes for consumers are achieved

b) Monitor the costs incurred by the Licensee and ensure that they are economic and efficient and provide value for money to consumers

5.3 The methods we use to assess costs to calculate the Licensee's Required Revenue in the Price Control Period are likely to evolve over time, but it is likely the following, will be a core part of our approach.

5.4 In accordance with Condition 24, we will carry out analysis of the information provided by the Licensee in its Business Plan Report and Price Control Information submissions. We will draw on the findings set out within the report submitted by the CCG, and any other information that we consider to be relevant to our determination of Required Revenue.

5.5 We will assess all forecast costs submitted as part of the submission to determine whether they are expected to be economic and efficient. In addition, we will assess the justification submitted by the Licensee on whether those costs are likely to provide value for money to electricity and gas consumers. Where we determine that the forecast costs submitted by the Licensee are not expected to

be economic and efficient or provide value for money to consumers, we may remove them from the calculation of Required Revenue for the Price Control Period or replace them with our own view of the likely economic and efficient costs.

5.6 In the following sections, we set out broad principles that we apply in our assessment of the Licensee's forecast costs. It is not possible to list an exhaustive set of principles and an approach for determining whether costs are economic and efficient. There needs to be flexibility to consider new evidence and scenarios not anticipated.

5.7 We are open to early engagement on any proposed significant changes in costs or submission structure. While we may be able to provide a provisional view on whether the proposed costs are likely to be considered as economic or efficient, we are not able to pre-approve any costs or conclude definitively that the costs might not be economic and efficient before the decision on the *ex-ante* allowances or review at the end of the regulatory year. This is because we can only complete our assessment of the costs once we have received all of the relevant information and have conducted our own analysis of it.

5.8 Our silence on a matter in previous cost control submissions or other forms of engagement should not be considered as indication of our future approach once the matter comes to be formally assessed within the relevant cost control. In particular, our silence on an issue should not be considered as tacit acceptance or approval. The Authority determines each Regulatory Year's Required Revenue within a Price Control Period based on the information for that Price Control Period. Where project costs span over more than one Price Control Period, the inclusion of those project costs in the calculation of Required Revenue merely means that, in the Authority's view, those project costs are likely to be incurred during that Regulatory Year. It should not be interpreted as approval of the project costs in its entirety

B. Principles

5.9 Here we outline some of the principles that we are likely to apply when reviewing the Licensee's cost forecasts. This set of principles is not an exhaustive list but should make our approach clearer.

1. The Licensee must demonstrate that all forecast costs are economic and efficient

5.10 "Economic and efficient" are not defined terms in the Licence. As such, we will consider all evidence and explanation that DCC provides to justify its cost

forecasts. This includes, for example, giving consideration to any evidence and explanation of trade-offs the Licensee has made between cost, quality and/or timeliness of activity when we set the cost control.

5.11 The Licensee must report its costs in accordance with the RIGs, but the RIGs will never prescribe exactly how and to what level the Licensee should justify every cost. It is the Licensee's responsibility to make the best case for each cost forecast included in its submission. Part C of this chapter provides further guidance on the types of criteria we are likely to consider when assessing forecast cost against the economic and efficient test.

5.12 It is possible that for certain costs the Licensee will not be able to fully justify the forecasts through signed contracts, governance documents, approved business cases. In such instances, the Licensee should provide evidence of other considerations made at the point of the Licensee's decision-making when preparing its forecasts. For example, this could be a business case explaining the issue to be resolved, the constraints faced, the options considered, and the steps followed to arrive at the most cost proportionate and efficient option including assessment of both quantitative and qualitative factors.

5.13 We also recognise that the Licensee has multiple stakeholders, and on occasion may not be in full control of the work that is to be delivered or the method of delivery. We will assess what is within the Licensee's reasonable control when assessing the forecast costs and any appropriate uncertainty mechanisms. We expect the Licensee's assessment of options as part of a Business Plan Report to:

a) Take into account all relevant considerations, including financial/commercial, regulatory, and whole programme impacts as well as risks and constraints

b) Be proportionate to the likelihood of an option being plausible, and this may mean that some options are ruled out early on

c) Reflect stakeholder views, noting that the Licensee can share the full range of options being considered with stakeholders including customers

d) Document which options are not plausibly on the table for full consideration, and why. For example, if an option relies on regulatory change by Government or SEC and the Licensee can evidence that there is no appetite for such a change

5.14 Good quality reporting is not necessarily about the quantity of evidence; it is about providing a sufficient level of detail and evidence to give confidence the outcomes achieved are the most economic and efficient. A well-structured, clear

submission may be beneficial in reducing the number of follow-up clarification questions. Nonetheless, the Licensee should be prepared to provide additional information upon request.

5.15 If we have significant concerns with the justification provided or process in place for controlling costs it is likely that we will have to ask more questions and potentially require a more granular explanation in order to complete our analysis of those costs. However, the level of detail that the Licensee provides should be proportionate and reflect the materiality of the costs.

What if we conclude that forecast costs are not likely to be economic and efficient?

5.16 If no, or insufficient justification or evidence is provided on whether a forecast cost is economic and efficient, it is likely to be excluded from the Licensee's Required Revenue or replaced with our own view of the likely efficient and economic cost. In such cases we may:

a) Use other evidence to determine the likely level of economic and efficient costs using other sources of information as per principle 5 (paragraph 5.26)

b) Remove costs that we are unable to substantiate as likely to be economic and efficient from the calculation from the Licensee's Required Revenue

c) Set out the reasons for our decision in the notification of our determination of the Licensee's Required Revenue.

d) Outline the failure to provide justified costs in our assessment of the Business Plan submission for the Licensee's Board to take into account in setting its Remuneration Policy

5.17 We will consult on our proposed determination of Required Revenue, including how we arrived at any proposed adjustments and disallowances and our reasoning. This ensures the Licensee and other stakeholders can respond to our proposals and make representations.

2. Material variations from the Business Plan submission and updated forecasts need to be explained via Reopener applications and End-of-Year reporting

5.18 The Licensee must ensure that it manages its costs well throughout the Price Control Period. However, our determination of Required Revenue is based on forecasts and therefore is subject to some uncertainty. It is possible that efficient and economic costs in the out-turn could be higher than initially forecast.

5.19 To mitigate against risk, the Licensee has a range of flexibility options:

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a) Budgetary flexibility, including the ability to reallocate costs, provided these are not ringfenced for particular purposes

b) Utilise Uncertainty Mechanisms, including:

(1) Automatic Adjustments to account for Pass-Through, contracted indexation impacts and other costs for which the Authority has approved a Driver under Condition 24 Part C

(2) An Annual Reopener application to enable the Required Revenue to be amended for the following Regulatory Year where costs have arisen that could not be reasonably anticipated

(3) An Emergency Reopener application to account for external shocks

5.20 The Licensee should use its budgetary flexibility in the first instance to accommodate cost variations. The Licensee must also report on its delivery against the Authority's determinations to the Customer Challenge Group and Ofgem at minimum each quarter, highlighting any potential or materialising cost overruns with explanations and plans to mitigate them.[11]

5.21 Where the Licensee cannot accommodate cost variations via existing flexibility, it may submit an Annual Reopener application to apply for an adjustment to its Required Revenue for the subsequent year. A Reopener application must provide a clear explanation for how and why costs have deviated from approved forecasts, how the Licensee has sought to accommodate them using budgetary flexibility of contingency funding and justify any proposed additional funding as economic and efficient. The Reopener application guidance is set out in chapter 7.

5.22 The Licensee must submit its End-of-Year Report to Ofgem no later than 31 July following the end of each Regulatory Year. The guidance for End-of-Year reporting is set out in chapter 8 of this document.

5.23 We recognise that there may be instances where the Licensee may defer expenditure into a following Regulatory Year on account of delays to programme implementation. However, cost deferrals must not be automatically treated as an underspend to be reallocated to programmes which are running over budget. We will therefore expect the Licensee to report on any such reprofiling as part of its

[11] Customer Challenge Group ToR, paragraph 4.1. www.ofgem.gov.uk/publications/draft-terms-reference-customer-challenge-group-and-draft-business-plan-guidance
See: Ofgem (2025), Draft Terms of Reference for Customer Challenge Group and draft Business Plan Guidance. www.ofgem.gov.uk/publications/draft-terms-reference-customer-challenge-group-and-draft-business-plan-guidance

End-of-Year reporting and to explain it within any Reopener application. The Licensee should also explain any delays to the CCG as part of its quarterly reporting.

3. We expect a long-term strategy to be in place

5.24 As the Licensee has now reached operational phase, we expect it to have a strategy in place for ensuring that costs are economic and efficient over the duration of the Licence, recognising that this strategy will need to evolve over time, including where the Licensee takes on new programmes and other mandatory work.

4. We expect the Licensee to explain how it has managed contingency funding

5.25 As part of ongoing reporting during the Price Control Period, the Licensee will need to ensure it provides sufficient detail on how it has managed any contingency funding provided as part of the Required Revenue, including any mitigating actions and instances where it was not within the Licensee's reasonable control, which led to the use of the contingency.

5. We may use other sources of information in our assessment

5.26 We look at information from other sources in addition to the information provided by the Licensee in its Business Plan Report to determine whether costs will be economically and efficiently incurred. This may include:

a) Performance information reported under the future quality of service RIGs, or from other sources

b) Other compliance documents or reporting submitted by the Licensee, for example the Regulatory Accounts and its procurement strategy. We will be checking these other sources of information for consistency and any differences in assumptions made by the Licensee

c) We may conduct a cost visit to ask additional questions or request supporting references and evidence

d) Reports submitted by the CCG including feedback on the Business Plan Report

e) Any information or evidence provided by other stakeholders whether as part of our public consultation or otherwise. We are aware of the commercial sensitivities of sharing costs but we expect the Licensee to be providing transparency to its customers and allowing them to scrutinise costs where possible

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f) Independent and market sources of information to compare costs and the Licensee's evidence. We may check any financing rates and we would expect such rates to be competitive

g) Benchmarking of certain Internal and External Costs. When considering the benchmarking of External Costs, we are likely to look at comparable tasks and components

h) We may undertake a forensic accounting audit to provide additional assurances about the information the Licensee has provided

C. Types of criteria

5.27 The assessment we undertake in the Price Control process is to find out if forecast costs are expected to be incurred economically and efficiently and provide value to consumers. There are certain types of criteria we will apply when reaching this decision. Some of them are:

a) That evidence should be provided and clearly linked to explanation for newly proposed costs or variations from previously approved costs

b) That benchmarking evidence is robust

c) That the Licensee must provide evidence it is delivering value for money, for example by demonstrating savings achieved through challenging External Service Providers or implementing lessons learned from previous programmes

a) Robust evidence of how the Licensee has taken customer and Customer Challenge Group views into account

b) That there are clear controls, governance and processes in place

c) That forecast costs are supported by a clear bottom-up approach

5.28 These criteria are not exhaustive, and we may expand the criteria we apply as appropriate.

Criterion a) Providing evidence

5.29 If no, or insufficient justification or evidence is provided on how economic and efficient a cost is, it is likely to be excluded from the Licensee's Required Revenue or replaced with our own view of the likely efficient and economic cost. We cannot assume costs are economic and efficient; the burden of evidence is on the Licensee. While we will seek to request additional evidence where we lack information, we may follow other processes as set out in principle 5.

Criterion b) Benchmarking

5.30 If the Licensee provides benchmarking evidence, it should be consistent with the following principles:

a) We should be confident that the Licensee's approach and assumptions are objective and well-justified

b) Its methodology should be clear so all stakeholders can understand it

c) The process and resulting assessment should be robust

d) It should consider the balance between costs and the quality of service

e) It is important the benchmarking technique is adaptable

f) If an approach imposes additional cost, it should only be used if it delivers much better information

g) There should be evidence to support assumptions, findings or decisions

h) If there are results above benchmarks, they need to be well justified

i) The benchmarking exercise should be replicable given the same inputs

Criterion c) Value for money

5.31 The Licensee must provide evidence that it will deliver value for money.

Internal costs

5.32 The Licensee must demonstrate that the level of Internal Costs (both resource and non-resource) provides value for money. The Licensee should refer to paragraphs 3.20-3.22 for the type of evidence we will look for when assessing the Internal Cost forecasts.

5.33 Where External Services are procured for activities that are likely to be undertaken on a regular or ongoing basis, we expect the Licensee to consider whether it would be more economic and efficient to recruit the necessary skills to be able to undertake these activities in house.

5.34 It is also important that the Licensee manages its Internal Costs well during the Price? Control Cycle and uses its allowance flexibly, for example by deploying workforce to priority areas before applying for additional allowance.

5.35 We will closely scrutinise any new Internal Cost forecasts which should be accompanied by a clear needs-case evidence-based justification.

External costs

5.36 The Licensee should refer to paragraphs 3.9-3.17 for the type of evidence we will look for when assessing the External Cost forecasts.

5.37 We will assess any procurement activity to ensure the outcomes are economic and efficient. When justifying these procurements, we expect the Licensee to:

a) Fully reflect on the feedback and learnings from any forensic audit reviews or previous cost controls in its procurement strategy. The Licensee should clarify when it considers it appropriate to use the different approaches outlined in its strategy

b) Provide clear evidence to confirm that consistent sourcing strategies have been used to forecast costs and if not, why different procurement routes have been chosen to base the forecast costs

c) Ensure that appropriate due diligence is carried out sufficiently early on in any procurement process

d) Provide consistent evidence on the evaluation processes and criteria used, and sufficient justification for discounting shortlisted bidders and for award recommendations

e) Confirm that the shortlisted bidder remains the most economic and efficient if changes in requirements occur midway through a procurement exercise

f) Demonstrate that it has followed its procurement strategy and appropriate governance safeguards were in place to ensure a fair process

5.38 The Licensee must ensure that cost changes to the External Costs in respect of existing contracts are justified as economic and efficient. When setting allowances, we will be looking for evidence that the Licensee is effectively managing the contracts through effective negotiation, drawing upon appropriate commercial expertise, using all the levers it has available to secure value for money and manage performance.

5.39 We will be looking for evidence from the Licensee showing how its forecasts are based on competitive agreed costs and rates. The Licensee needs to provide benchmarking wherever possible to demonstrate that alternative options, including the counterfactual, have been considered and evaluated. Evidence that costs have been robustly assessed and scrutinised by the Licensee will be a valuable input into our assessment.

5.40 If the Licensee considers its approach to External Service Provider management, including the ultimate apportionment of costs between the Licensee and External Service Providers, is economic and efficient in the wider context of the programme and delivers greater benefit for consumers, it must be able to evidence and justify it as such. This is particularly true where the Licensee's decisions would result in consumers paying more for a service. The Licensee must provide explanations for how it has ensured commercial negotiations, separately and in aggregate if appropriate, have resulted in economic and efficient outcomes.

5.41 As the Licensee re-procures its External Service Provider contracts, a part of a contract, or procures a new External Service Provider contract as defined by the Licence, we expect the Licensee to demonstrate that these new contracts will deliver value for money. In those instances, we will be looking for evidence that the Licensee followed a robust procurement process and managed the determination of the final price of those contracts similarly to how they manage change to existing contracts, for example through effective negotiation and use of commercial expertise. If any part of a contract is reprocured, this needs to be evidenced as the best solution to secure an economic and efficient outcome.

Centralised Registration Service (CRS) costs

5.42 Consistent with Internal and External costs, we also require evidence and justification that forecast costs in relation to CRS are economic and efficient. The CRS costs are subject to additional arrangements through the Retail Energy Code budget process and governance. The Licensee should nonetheless provide a full explanation for the forecast costs within its submission and explain alignment to the REC process.

Criterion d) Robust evidence of how the Licensee has taken customer views into account

5.43 We expect that all forecast costs to have followed the stakeholder engagement process set out in this document.

5.44 Our general approach will be to consider criteria set out in table 5.1 below.

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Table 5.1: evidence of how the Licensee has taken customer views into account

Aspect of customer engagement	**Assessment Questions**
Timing and frequency of engagement	Has the Licensee communicated and engaged with its customers at appropriate times to seek their views, allowed sufficient time for customers to provide feedback, and provided timely updates on its activities? (This includes providing general updates, reactive engagement, strategic engagement, and unplanned issues).
Quality of information provided by the Licensee	Has the Licensee's communication and engagement approach with its customers been tailored to the relevant audience and timed appropriately which enabled the audience to understand the issues to act on, and allowed sufficient time for the audience to provide feedback appropriately? (This includes providing customers with clear information on costs, benefits and/or consequences of the decisions and on the Licensee's broader engagement)
Taking account of customer views	Has the Licensee clearly explained how the views of its customers have informed its decision making, and where relevant, why the Licensee has decided not to incorporate these views?

5.45 This applies both to proposed new services and changes to agreed or existing services where there are substantive cost and/or service impacts.

5.46 For decisions that have substantive cost and/or service impacts, we expect to see evidence showing how the governance framework has been applied to inform decision-making. Examples of evidence can include but is not limited to the following:

a) Evidence that customer input was sought and gained in advance of key decision points

b) Evidence that customers were provided with information at a level of detail (including costs and benefits) that enabled them to develop an informed view, for example through sharing draft business cases or impact assessments

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c) Evidence that customers were consulted on options and cost/service trade-offs

d) Evidence of how decisions took customer views alongside other factors into account, for example showing how and why initial proposals were amended or the reason the views were not reflected in final proposals.

5.47 How customer views have been taken into account is one of the many factors we consider when assessing if forecast costs are likely to be economic and efficient on a specific deliverable/project. We may consider the report produced by the Customer Challenge Group to this effect.

Criterion e) Clear controls, governance and processes are in place

5.48 To make sure the Licensee is incurring costs economically and efficiently we expect it to have sufficient controls, a robust governance framework, and processes around costs. Where they are relevant to how the Licensee is forecasting its costs, we would expect evidence to support how these have been appropriately applied and that they remain fit for purpose. We expect the Licensee to be managing risks and have a clear strategy in place; we will be looking for evidence where possible that the Licensee has taken appropriate measures to mitigate risks and as a result it only incurs economic and efficient costs.

Criterion f) Bottom-up assessment of costs

5.49 We will look for evidence of a clear bottom-up approach to deriving forecast costs. The Licensee should be able to explain its forecasts by providing quantitative breakdowns of costs or headcounts associated with individual programmes, supported by a traceable set of underlying assumptions. The breakdowns provided should be proportionate to materiality, but we may ask more detailed questions if we have concerns about a particular area.

D. Targeted incentives

5.50 A target incentive model will provide assurance of cost and performance by tying remuneration to key performance indicators. The Board's Remuneration Committee is required to be fully independent and have due regard to the Licensee's performance against key performance indicators when setting

remuneration principles, targets and policies for Senior Managers in accordance with Ofgem's Remuneration Policy Guidance.[12]

5.51 As part of our assessment, we may consult with the committee on their measures of the Licensee's performance across the four pillars of the remuneration policy: Customer Satisfaction, System Performance, Business Plan quality and Business Plan delivery.

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

6. Business Plan Quality assessment

Chapter summary

This chapter sets out our approach to the assessment of the quality of the Business Plan Report and Price Control Information

6.1 The Authority will assess the quality of the Business Plan Report and Price Control Submission and publish the results of its assessment. The outcome of the assessment must be considered, alongside other relevant factors, in the Licensee's remuneration for its Senior Managers in accordance with the Remuneration Policy Guidance[13] issued under Condition 20 of the Licence.

6.2 As Business Plan Report and Price Control Information are closely linked to each other, our assessment will consider them jointly and this will be reflected in our assessment outcome.

6.3 In forming our view on the quality of the Business Plan Report and Price Control Information, we will take account of the report from the CCG and the views of customers and other stakeholders. We expect the Licensee to reflect on our assessment report and to formally respond to it, setting out its plans for how it will act on the feedback received so that the quality of its Business Plans improves over time.

6.4 We propose to use a two-stage process for our assessment.

- Stage 1: Minimum requirements
- Stage 2: Quality of the submission

Stage 1: Minimum requirements

6.5 In stage 1 of our assessment, we will check whether the Business Plan Report and Price Control Information are complete and compliant. This means that they:

a) Have been submitted on or before the applicable deadline

b) Are materially complete and accurate in respect of the mandatory contents as set out in the Business Plan Guidance and the RIGs

c) Follow the prescribed presentation and structure in the Business Plan Guidance and the RIGs

[13] Ofgem (2026), Data Communications Company (DCC): Remuneration Policy Guidance. www.ofgem.gov.uk/guidance/data-communications-company-dcc-remuneration-policy

d) Are consistent with each other

e) Include a Board Assurance Statement

6.6 A submission that fails to meet the minimum requirements would be assigned the lowest grade and could be a breach of the Licensee's obligations under Condition 22.

Stage 2: Quality of the submission

6.7 Stage 2 of our assessment will focus on the quality of the Business Plan Report and Price Control Information. We will assess the submissions against the following criteria:

A. Cost efficiency

B. Outcomes for customers and consumers and value for money

C. Accuracy and clarity

6.8 Each of these criteria will have a number of sub-criteria that we will consider as part of our assessment.

6.9 We set out in the table below further details about these criteria, their relative weights in the overall assessment, what evidence we will look at and our expectations in relation to each.

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Table 6.1: Stage 2: Quality assessment criteria and relative weights

Criterion A. Justification of cost efficiency (Weight 40%)

Criterion	What we will look at	Our expectations
A1. Internal Cost efficiency	Internal Cost forecasts, efficiency targets, organisational structure and strategy, headcount, pay policy and benchmarking	Costs are not built by default from baseline plus inflation. Efficiency targets are quantified and set for all areas. Staffing numbers, shape and organisational structure are justified and linked to articulated deliverables. Pay is benchmarked to comparators. Recurring work is done by permanent staff unless justified.
A2. Contract management	How DCC manages External Service Provider contracts, performance management, risk allocation, change control, contract review and optimisation	For each Fundamental Service Capability Contract, the plan reports provider performance, delivery risk and any remedial action taken. Benchmarking and risk and gain sharing mechanisms are actively explored and used where appropriate. Performance is regularly reviewed and SPs are held to account. Risk is allocated efficiently. Contract changes are used efficiently.
A3. Procurement strategy	Forward view of contract expiry, breakpoints and new procurement pipelines, procurement strategies, lessons learnt from previous procurement, market engagement, procurement competition design.	Pipeline covers all expiry and breakpoints for the upcoming Price Control Period, options evaluation process in place covering extension, variations and re-procurement. Lessons from past procurement are properly considered and applied. Open competition is the default with direct awards kept to a minimum and justified. Scope and requirements of procurements are informed by customer engagement. Procurements are clearly linked to long-term strategy, run on time and supported by timely, high-quality business cases. Implementation of new contracts is based on a complete design.
A4. Evidence and justification	Business cases, benchmarking evidence, market testing, optioneering, quantified risk assessments.	All material initiatives have up to date business cases and benchmarked cost estimates. Material variations from previous years' costs are explained and justified. Progress towards any Business Case milestones are outlined and

Criterion	What we will look at	Our expectations
		explained. Contingency allowances are justified by reference to quantified risk. All proposed costs are derived bottom-up from clearly traceable assumptions.

Criterion B. Promoting good outcomes and value for money (Weight 30%)

Criterion	What we will look at	Our expectations
B1. Promoting General Duties	Contribution to the Condition 5 duties and consistency with the BSTR	Each major initiative or programme is mapped to the General Duty or to other licence obligation that it serves. The plan sets out specific and measurable actions on efficiency, security and resilience, innovation, competition amongst supplies and the Natural Environment. It is consistent with the BSTR.
B2. Promoting consumer outcomes	Outcomes proposed in the Business Plan Report along with justification for the choices made. Deliverability of outcomes.	Evidence that customer needs have been appropriately considered. Measurable outcomes for customers and consumers have been proposed, such as delivery and commissioning of key capabilities or service enhancements. Assessment of risks, assumptions and dependencies that could impact delivery.
B3. Value for money (VFM)	Evidence that VFM is a top-level business priority across all its activities	Evidence that the DCC Board has actively considered whether the Business Plan Report represents good VFM and has taken proactive steps to ensure VFM remains at the heart of decision-making throughout the business. For individual initiatives or projects, evidence that a good balance has been achieved between cost and quality/performance. Evidence of customer, CCG and other stakeholder support for the plan.

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Criterion C. Accuracy and clarity (Weight 30%)

Criterion	What we will look at	Our expectations
C1. Accuracy, clarity and completeness	The Business Plan Report submission, the Price Control Information and all associated documents and files. Written answers to Clarification Questions (CQs), and information provided (whether verbally or in writing) during cost visits and other meetings involving the Licensee and Ofgem staff.	Evidence of a robust audit, assurance and governance process to ensure that the information provided in the submission is accurate and clearly presented. All requirements on the mandatory content (set out in chapter 3 of this guidance) and presentation (set out in chapter 4 of this guidance) have been met. Clarification questions asked during the assessment process have been responded to within 5 working days (unless otherwise agreed), additional requested evidence has been provided in full. All relevant information is clearly signposted and catalogued.

Assessment grades

6.10 We will rate the Business Plan Report and Price Control Information against each of the three criteria listed in the table above using four grades as set out in the table below. We may apply these criteria against individual parts of the submissions (such as Service Families or Internal Functions) or the submission as a whole.

6.11 The use of grades provides DCC's Remuneration Committee with the input needed to implement Pillar 3 of our Remuneration Policy Guidance on the quality of the Business Plan Report and Price Control Information. That guidance requires the Remuneration Policy to use a structured and graduated assessment of performance, rather than a binary pass/fail test.

6.12 As part of our assessment, we will take account of feedback from the CCG on the draft Business Plan Report and evidence that this feedback has been acted upon and has been reflected in the final Business Plan Report.

6.13 The grades that we assign will primarily be based on the original submission. We may take account of improvements made after the submission in deciding grades, but we will only do this in exceptional circumstances and where there is strong justification for why the improvement could not have been incorporated into the original submission. We want to encourage high-quality submissions in the first instance as this will allow us to carry out a thorough assessment in the time available.

Table 6.2: Assessment grades

Grade	Explanation	Score
Does not meet expectations	Our expectations are not met in material aspects. Evidence is missing or particularly unconvincing across large parts of the submission and cost base.	0
Partially meets expectations	Some expectations are met, but there are important gaps and incomplete evidence.	1
Meets expectations	All our expectations are met.	2
Exceeds expectations	All of our expectations are met. In addition, the submission goes above and beyond our expectations in areas to deliver improvements to value for money and service quality. The submission includes initiatives that provide longer-term benefits for	3

Grade	Explanation	Score
	customers, energy consumers and the broader energy system.	

Overall assessment

6.14 Following our assessment, we will assign a grade (and the associated score) in respect of each of the three criteria. We will then aggregate the score using the weights set out in table 6.1 to calculate an overall score. The overall score would be rounded to 2 decimal places.

Following our assessment

6.15 We will publish the outcome of our assessment, along with an explanation for the grades awarded, both at the level of the individual criteria as well as the overall submission. We expect DCC to reflect on the feedback provided and seek to make improvements in future submissions.

6.16 In line with our Remuneration Policy Guidance for DCC, we expect remuneration for senior managers of DCC to take account of the outcome of our assessment so that performance is appropriately recognised.

7. Uncertainty Mechanisms guidance

Chapter summary

This chapter sets out the process for application of Uncertainty Mechanisms, including information required as part of any Reopener applications submitted to the Authority and the procedure, we will follow to assess these applications.

7.1 This chapter sets out how the Licensee must prepare its applications for Reopeners, including:

a) The level of detail required in a Reopener application

b) Requirements to publish the Reopener application

c) When it is appropriate to make redactions in published Reopener applications

d) Requirements to ensure senior leadership assurance of the application

7.2 The Licensee must ensure that its application complies with this document and any other licence requirements prior to submission. Failure to prepare an application in accordance with any of the relevant requirements may result in rejection of the application.

A. Factors which may impact the Licensee's costs

7.3 A range of factors can give rise to change in the Licensee's efficient and economic costs after we determine its Required Revenue. We have identified nine general factors set out in table 7.1 below. This list is non-exhaustive.

Table 7.1: Factors which may impact DCC's efficient costs after its Required Revenue has been set

Factor	Examples
Implementation of industry code change – materialisation of costs which were not known at the Business Planning stage	Costs of code modifications which were not known at the time of Business Planning, in particular code changes beyond the first year on the cost control cycle
Award or an extension of a contract - materialisation of costs which were in part not sufficiently certain at the Business Planning stage	The Licensee finalises contract procurement which was at a negotiation stage at the time of BP approval and the final costs vary to the business case rough order of magnitude or

Factor	**Examples**
	to the Licensee's estimates (in the case of smaller contracts not subject to the business case process under Conditions 10.7-10.9).
Changes in assumptions on account of new customer requirements not known at the Business Planning stage	Larger volumes of comms hubs orders Network demand growth where an increase in the traffic (number of messages) on the Licensee's network is correlated with the increase in charges the Licensee has to pay to its External Service Providers Enhancement of Service Level Agreements in an External Service Provider contract *NB, we would expect changes in customer requirements with impact on the Licensee's contracts to be subject to code modification process*
Changes in assumptions on account of new technological requirements not known at the Business Planning stage	Software upgrade A technology refresh
Changes in assumptions on account of new regulatory requirements not known at the Business Planning stage	Inclusion of a new mandated service into the Licence Update to cybersecurity requirements *NB, we would expect regulatory changes to be implemented via either a code or Licence modification*
Changes in assumptions during the design, build, test (DBT) phase of a new programme	Additional testing required prior to go-live date
Technical issues outside the Licensee's control (where it has used all	Costs to remedy operational incidents

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Factor	**Examples**
reasonable contractual levers to remedy the issue and cost passthrough to customers is demonstrably the only or the most economic option)	
Impact of inflation	External Costs example: Application of contractual indexation and a corresponding increase in operational charges Internal Costs example: Increase in costs of professional services with impact on the cost of contractors hired by the Licensee
Impact of external factors on the Licensee's operations/supply chains – "*force majeure"*	Insolvency, supply chain disruption Covid-19

7.4 Where budgetary flexibility and contingency would not suffice to address the impact of these factors, a different mechanism is in place to ensure that the Licensee can continue to deliver its Mandatory Business. In such circumstances, we recognise that two broad types of adjustment mechanisms may be used: Automatic Adjustment mechanisms, and Reopener (Annual and Emergency) applications.

B. Automatic Adjustments

7.5 The Automatic Adjustment mechanism is a term applied to the treatment of proportions of the Required Revenue for which the Authority has approved a Driver pursuant to Condition 24 Part C. The Licensee may propose to the Authority that certain costs be subject to the Automatic Adjustment mechanisms by identifying the relevant Drivers. We expect these to include:

a) Pass-Through Costs (defined in the Licence) over which DCC has no control and which must be recovered in full

b) Impacts of inflation on the basis of contractual terms

c) Volume-driven costs subject to factors outside DCC's control

7.6 The evidence required from the Licensee in support of costs proposed to be subject to Automatic Adjustments is set out in paragraphs 3.29-3.30.

7.7 Where a Driver is approved, the Licensee must adjust the Required Revenue in accordance with any instructions given by the Authority in its approval. Typically, we expect that the Licensee will be required to adjust its Required Revenue in line with the effect of the Driver on a specific cost (both upwards and downwards from the forecast determined by Ofgem as part of its Determination of the Required Revenue) and reflect changes in these costs directly in its Charging Statement. This can happen either within a year if the Licensee reopens its Charging Statement or at the end of the year in preparation of the Charging Statement for the following Regulatory Year, which would reconcile any difference between forecast and outturn values. In any case, all changes to the Licensee's Charging Statement are subject to Condition 27 (Charging Statement for Service Charges).

7.8 Variations from the forecasts resulting from the effect of a Driver should not be reallocated to other parts of the Licensee's Required Revenue as they do not represent true overspend/underspend. We may use our ringfencing powers pursuant to Condition 24 Part B, in combination with our approval of cost Drivers and associated Required Revenue, to prevent undue cross-subsidy.

C. Reopener applications

7.9 Where the Licensee identifies a risk that it will spend more than the Required Revenue, or any ringfenced amount, determined for a Regulatory Year in the Price Control Period, and that risk cannot be managed through budgetary flexibility or contingency, it may apply for an Annual Reopener seeking an amendment to the Required Revenue for a future Regulatory Year in the same Price Control Period. The Licensee must report the risk of exceeding the Required Revenue through its Quarterly Report (see Condition 25.9(b)) and in its October Quarterly Report, state whether an Annual Reopener is expected and the reasons for it (Condition 25.10) and submit the application in December (Condition 24.11).

7.10 There is no set materiality threshold for the Reopener, but each application must justify the materiality of the issue and demonstrate that the relevant costs could not have been reasonably anticipated.

7.11 Where a material issue cannot wait until the December application window, the Licensee may instead apply for an Emergency Reopener at any time, in respect of any Regulatory Year in the Price Control Period (Condition 24.12).

7.12 In any event, to support Ofgem's assessment of any Reopener application, the Business Plan Report must clearly set out the assumptions and dependencies

underpinning its forecasts and characterise the nature of uncertainty and potential Drivers of costs that might give rise to the need for a Reopener.

7.13 Any Reopener application must clearly provide the Authority with answers to the following questions:

a) Why an adjustment is needed and justified

b) What that adjustment should be

7.14 Of the factors identified in table 7.1 above, a fixed Annual Reopener is suitable to account for the following:

a) Implementation of industry code changes – inclusion of any unforecasted SEC mods for year 2 (or subsequent years)

b) Award or an extension of a contract – adjustment to Required Revenue on the basis of a signed contract where the contracted costs differ from the Business Planning stage

c) Changes in assumptions on account of new customer, technological or regulatory requirements not known at the Business Planning stage – all non-SEC mod changes

d) Changes in assumptions during the design, build, test (DBT) phase of a new programme, which can be explained against the assumptions detailed in the Business Plan Report

e) Technical issues outside the Licensee's control

f) Impact of external factors on DCC's operations/supply chains

7.15 The Licensee is not prohibited from applying for a Reopener due to other factors; however, its explanation should be clear. There may be some Reopener applications where the Licensee will not be able to provide the required information listed within this document. In such instances, the Licensee must provide a justification for not providing all the required information, setting out which circumstances or assumptions have changed, and which areas of the Required Revenue, with reference to the relevant parts of the original Business Plan Report, should be reopened and amended. We will consider whether there is sufficient information to progress a Reopener application in the absence of all the required information on a case-by-case basis.

7.16 Each application must include a table that maps out which sections of the application relate to individual requirements as set out in this section. An updated

version of the RIGs templates with specific additional Required Revenue requested must be submitted alongside this application.

7.17 The following section deals with the requirements for Annual Reopener applications. The process for Emergency Reopener applications is set out further below.

Alignment with overall Business Plan Report and commitments

7.18 The Reopener application must include a clear statement of how the proposed expenditure aligns with the final Business Plan Report, Licence requirements and wider strategy, and, if relevant, its proposed Business Plan Report for a future Price Control Period.

Demonstration of needs case/problem statement

7.19 The Reopener application must include a clear statement as to the need for the proposed expenditure or the problem the Licensee is trying to address in the context of its significance for consumers, customers, and wider industry. It should refer back to the assumptions within the original Business Plan Report, clearly identifying what circumstances have changed and why, drawing distinction between external factors and Licensee's own actions in dealing with the change.

7.20 The affected customers, consumers or assets must be identified, and the associated risk being addressed quantified, where possible.

7.21 As well as demonstrating the needs case, the application must also provide the rationale for the level of expenditure proposed and why this level should be regarded as being efficient.

Consideration of options and methodology for selection of the preferred option

7.22 The application must include a clear description of the list of options considered and the selection process undertaken to reach the preferred option. This must include the following:

a) A clear description of the various options considered, setting out the key features of each option, this should include options considered that were not ultimately adopted

b) A 'do minimum' option to act as a counterfactual to demonstrate the financial impact of no additional investment or programme expenditure taking place

c) An option to delay proposed capital expenditure recognising the option value of such delay

d) A clear statement of the criteria used to assess the various options and the assessment of each option against these criteria

e) A brief description of the process used to select the options: either the internal process (for which relevant documents should be included) or the existing industry process

f) An appropriate sensitivity analysis, using relevant statistical or other techniques

g) A clear summary of any Cost Benefit Analysis that has been carried out

h) A justification for the proposed timing of additional expenditure

The preferred option

7.23 The application must include a clear description of the preferred option, sufficient to allow us to make an informed decision on whether the preferred option is suitable. This should include the following:

a) a clear description of the key features of the preferred option including how that option will address the issues set out in the demonstration of needs case / problem statement. This should also include a clear description of why the option is preferred compared to the other options considered

b) A clear statement of the benefits to customers, both quantitative and qualitative, of the preferred option

c) If the preferred option is predicated on a particular scenario, a clear description of the scenario

d) A clear statement of the key benefits of the preferred option along with any drawbacks identified

e) A register of the various assets or programmes of work that will be impacted by implementation of the preferred option

f) Evidence of the technical feasibility of the preferred option, using technical annexes as appropriate

7.24 The application must include a clear statement as to any project delivery and monitoring plan for the preferred option. This should include the following:

a) A project delivery programme including provisional dates and key milestones

b) Governance structure of each project (*eg* project roles, responsibilities and the resources required)

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c) A consideration of whether the Licensee has access to sufficient resources to ensure timely delivery

d) A description of how monitoring, lessons learned, and improvements will be tracked

e) A description of how performance will be monitored, including real users of the service whether external or internal

f) A description of how project constraints, dependencies, priorities, and risks will be tracked/managed including for example, information reflected in a prioritised backlog

g) Key performance indicators to be used to monitor the progress of the project

Evidence of stakeholder engagement

7.25 The application must include an explanation of how stakeholder engagement contributed to the identification and design of the preferred option. Stakeholder engagement may be limited to those categories of stakeholders who are materially impacted by the choice of preferred option.

7.26 If the Licensee does not carry out stakeholder engagement, it must provide an explanation for why stakeholder engagement was not considered appropriate or necessary.

7.27 In any case, the Licensee must seek a view on its Reopener applications from the Customer Challenge Group.

Cost information

7.28 When the adjustment sought relates to the level of allowances, a Reopener application must include sufficient cost information to provide:

a) Evidence to justify why the expenditure is additional to that already provided for by relevant *ex-ante* allowances, or that will be provided through other uncertainty mechanisms

b) Evidence to justify the assumptions, inputs and rationales behind cost calculations and results. Potential mitigation measures and sensitivity analysis should be conducted where appropriate.

c) Evidence to justify why the costs in question cannot be funded from its contingency funding and fungible revenue to offset this expenditure and why it is appropriate that customers should provide further funding for this.

d) Why the level of forecast costs is economic and efficient. Please note, the efficient and economic level of costs will be determined at the time of any determination of a Reopener application.

7.29 The cost evidence included in the Reopener application must be provided in accordance with the following requirements:

a) The Licensee must submit an updated version of the RIGs templates with specific additional forecast costs and Required Revenue requested

b) All data tables must be clearly labelled and set out in a logical manner, including, where appropriate, instructions on the operation of workbook functionality

c) In a sufficient level of detail to clearly demonstrate how overall values were derived and in a way that can be easily replicated, including the use of transparent formulae

d) In a way that is easily comparable with other benchmarks, where applicable, or other data provided by the Licensee to Ofgem

e) With all relevant assumptions and sources of data used provided and clearly justified

f) With key cost drivers explicitly identified and justified

g) With uncertainties in forecast cost levels and any potential mitigations clearly identified. These uncertainties should form the basis of any sensitivity analysis using appropriate techniques and, where appropriate, a register of these uncertainties must be included

h) A risk register for the specific project, for any allowances requested for project risk

i) To demonstrate that cost efficiency measures have been identified and their impact fully accounted for

j) Commitment to the use of good practice corporate governance, *ie* management structure that monitors and approves Programme and Project investments throughout project lifecycles. This is recognisable as a sequence of gate approvals as the project matures, its definition becomes more certain and potential risk events are understood and, where reasonable, mitigated.

7.30 While the evidence that needs to be provided to justify differences between forecasts and proposed updated forecasts during the cost control would need to reflect the particular case being considered, we provide a non-exhaustive list of

some ways the Licensee can make sure it provides good quality reporting to support cost variations:

a) Statements and opinions should be supported by evidence

b) Commentary should be supported by appropriate assessments and analysis demonstrating costs have been assessed and scrutinised

c) Cost benefit analysis should be quantified as far as reasonably possible and supported by qualitative analysis including the assumptions made and non-monetary criteria considered

d) Justifications should include an explanation and evidence of how the Licensee has checked the costs agreed are competitive, and how they will remain so for the duration of any agreement

e) Where appropriate, evidence from independent sources should be used to strengthen justifications

f) Reporting should set out how different options have been considered, including how customer views have been sought and taken into account as well as potential impacts on service and energy consumers where appropriate, and the analysis supporting the preferred option

g) Supporting evidence demonstrating how value for money was achieved should be included, such as evidence of effective internal processes (*eg* recruitment/ procurement)

h) How the Licensee uses the levers under the contracts to ensure value for money should be referenced and evidenced

i) Where appropriate, evidence as to how any lessons learned will be implemented to avoid similar Reopener events from re-occurring

7.31 Where the Licensee cannot justify that the proposed variations are economic and efficient and provide value for money to consumers, we may reject the application for adjustment to Required Revenue.

D. Guidance on style and structure of Reopener applications

7.32 Reopener applications should follow a style and structure that clearly and concisely sets out the evidence that the Licensee wishes to present in support of its request to adjust the Required Revenue as previously determined under Condition 24 Part A.

7.33 Reopener applications should follow a logical structure that aligns with the various requirements set out in this document. The application should consist of a core

narrative that concisely sets out all the relevant evidence that we need to make an informed decision. Further detailed analysis and technical information can be set out in clearly identified annexes. Where evidence derived in the annexes is relied upon in the core narrative this should be clearly identified and the core narrative should include a specific reference to where the derivation is presented.

7.34 The core narrative should be clear and concise in the presentation of all the relevant evidence required to make an informed decision. The emphasis should be on the proportionate presentation of evidence avoiding duplication and superfluous information or narrative. The narrative should focus on quantifiable and objective evidence rather than subjective or qualitative assertions.

7.35 When determining the proportionate amount of evidence presented with respect to any particular issue, relevant factors should include:

a) materiality of the issue with respect to the overall decision

b) the complexity of the issues being considered

c) the quality of evidence being considered

d) the level of certainty about the future

e) interaction with other relevant considerations

7.36 As far as possible defined terms should have the same meaning as they have in the Licence. Data tables should be clearly and precisely labelled.

7.37 While the purpose of the annexes is to present detailed analysis and technical information, the same principles with respect to the clear and concise presentation of evidence should apply.

E. Authority assessment process

7.38 This part E sets out an indicative framework that is intended to ensure that our decision-making process for Reopeners is as agile, efficient, and proportionate as is reasonably practicable. Our objective is to make Reopener decisions in accordance with our principal objective and statutory duties. Our assessment process is designed to deliver the decision within 3 months after an Annual Reopener application has been received and before the commencement of the new Regulatory Year. However, we recognise this may not always be possible.

7.39 This part also provides information on Emergency Reopener applications.

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Stages in the indicative assessment process

7.40 Table 7.2 below summarises the various stages of our indicative assessment process. The rest of this section explains each stage of the process in greater detail.

Table 7.2: Stages of Assessment Process

Stage 1: Engagement	**Steps**
Pre-application engagement	The Licensee must seek views from the Customer Challenge Group prior to its submission of an Annual Reopener application to Ofgem An Emergency Reopener application may be submitted directly, depending on the urgency
Stage 2-3: Assessment	
Application window for submission opens	An Annual Reopener application should be submitted by 31 December in each Regulatory Year (except for the RY directly preceding a new Price Control Period) An Emergency Reopener application may be submitted at any point.
Report submitted by Challenge Group	The Customer Challenge Group submits a brief report to Ofgem with a recommendation to approve in full, approve in part or reject the Licensee's application
Standard Assessment	All Annual Reopener applications will be subject to a standard assessment unless it is an Emergency Reopener application
Stage 4-5: Direction	
Consultation	We will consult at minimum with the Licensee ahead of determining whether to adjust the Licensee's Required Revenue
Direction issued	We will publish our direction to adjust the Required Revenue alongside our decision on the Reopener application

Stage 1: Pre-application engagement

7.41 The Licensee is required to report on its delivery to the Business Plan and Required Revenue to the Customer Challenge Group and to Ofgem at minimum quarterly. This should include any advance warning of potential cost overruns and likelihood of a Reopener application being served.

7.42 We are open to further pre-application engagement with the Licensee to understand the nature of upcoming Reopener applications and to respond to help the Licensee make sure it provides the information we are likely to need for our assessment, insofar as that is not clear through this guidance.

7.43 The appropriate timing, and extent, of the pre-application engagement will vary depending on the specific nature of the Reopener application being discussed. We expect the Licensee to initiate discussions with the Customer Challenge Group from Q2 update in October at the latest. In the case of an Emergency Reopener application this may not be possible.

7.44 None of the discussions during this pre-application engagement will commit either party during the later stages of the assessment process.

7.45 Should experience from pre-application engagement with the Customer Challenge Group suggest that it would be helpful we may develop a more structured engagement process.

Stage 2: Application window for submission

7.46 The Licensee must submit its Reopener application during the application window. This will ordinarily be by the end of Q3 (December).

Stage 3: Report submitted by Customer Challenge Group

7.47 Upon the Licensee's consultation with the Customer Challenge Group, the Group will present to Ofgem a concise summary of its recommendation as to whether Ofgem should approve the Reopener, identifying the specific areas or issues where costs have materially changed from the Business Plan Report. The Customer Challenge Group will submit a report to Ofgem alongside the Licensee's submission of the Reopener application, recommending whether Ofgem should approve the application. Details of the contents and presentation of the report can be found in the draft Terms of Reference published alongside this document.[14]

7.48 This recommendation will be based on reasons including but not limited to:

[14] Ofgem (2025), Terms of Reference for Customer Challenge Group, Section 5.

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a) Whether the application very clearly does, or does not, contain the quantity and quality of evidence that we require in this section

b) The alignment of the proposed intervention with relevant policy objectives and precedent

c) The quality of pre-application engagement and the clarity with which the application is presented

d) Other factors that they may determine are relevant when reaching a decision on the application

Stage 4: Standard Assessment

7.49 Upon receipt of an application, we will check the application fits the relevant criteria and can proceed through the subsequent stages. An application that has been rejected may be submitted during another application window, assuming it fulfils the relevant criteria. An application will be deemed to be invalid if it does not:

a) Comply with the requirements of relevant licence conditions; and/or

b) Comply with the requirements set out in this Reopener guidance

7.50 We will write to the Licensee setting out the outcome of these checks setting out the reasons for our decision should we determine that the application is invalid.

7.51 We may ask clarification questions to gather further information. The Licensee should not expect to use it as a means of submitting additional information that the original Reopener application should have included and is missing. It is not our intention to use the process as a means of working up weak or poor-quality applications.

7.52 To aid the agility of the process, the Licensee is expected to respond to a clarification question within five working days unless otherwise specified by us.

Stage 5: Consultation

7.53 Following our analysis, we will consult at minimum with the Licensee on our findings and our proposed adjustment to the Required Revenue.

Stage 6: Decision and direction

7.54 We will issue a direction, setting out our decision on the adjustment of the Required Revenue, following consideration of consultation responses received in Stage 5. We will publish on our website:

a) The text of the direction

b) The reasons for the direction

7.55 The direction will be issued as soon as reasonably practicable. For the Annual Reopener application, we will aim to publish our decision and direction by end-March to allow the Licensee to adjust its charging statements if needed.

F. Emergency Reopener

7.56 The Licensee may submit an application for an Emergency Reopener application at any point throughout the Price Control Period. An Emergency Reopener application may only be submitted to account for:

a) *Force majeure* where external factors impact on the Licensee's operations and supply chains and the Licensee requires a quick access to additional funding

b) Implementation of urgent code modifications which require costs to be incurred in the same Regulatory Year

c) Funding for any additional Mandatory Business introduced into the Licence or the codes directly by the Secretary of State or Ofgem, where new costs must be incurred within the same Regulatory Year – Ofgem may ask the Licensee to submit a Reopener in such an instance

7.57 We may use our information gathering powers to obtain further evidence we deem necessary to make a decision on whether it would be appropriate to amend the Required Revenue.

7.58 Should this option be utilised we would, where appropriate, follow the principles on which this indicative Reopener assessment process is based. In particular, a proportionate approach to the information requested and level of analysis. We may also follow the various stages set out in table 7.2 above, where applicable, and Ofgem will be able to direct an immediate change to Required Revenue if it deemed the circumstances critical.

7.59 Nonetheless when applying for an Emergency Reopener we would expect the Licensee to provide as much information as timing allows, especially on the need for and the proposed course of action, and the likely level of costs, as they were understood at the time of the application.

G. Other matters

Assurance and publication requirements

7.60 All Reopener applications must be accompanied by written confirmation from a suitable senior person within the Licensee that the Reopener application has been prepared and submitted, such that:

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a) The proposed outcomes represent good value for consumers

b) There were quality assurance processes in place to ensure accuracy of the information provided

c) The application has been subject to internal governance arrangements and received sign off at an appropriate level within the Licensee

7.61 A point of contact must be provided for each Reopener application, including name, position, email, and phone number

Publication and redaction requirements

7.62 The Licensee must, within five working days of submitting a Reopener application to Ofgem, publish its complete application in a prominent place on its website, in such a manner that relevant stakeholders can easily locate the application

7.63 The Licensee must publish its Reopener application in its entirety making only necessary redactions. Where redactions are made, we expect the Licensee to publish an explanation for the redaction. We recognise that redactions may be appropriate for reasons including:

a) confidentiality

b) commercial sensitivity

c) security

8. End-of-Year reporting guidance

Chapter summary

This chapter provides additional guidance for the purposes of End-of-Year reporting requirements set out in Part B of Licence Condition 25.

8.1 This chapter sets out the information expected to be provided by the Licensee for the End-of-Year reporting. Condition 25 Part B sets out that on or before 31 July, the Licensee must provide the Authority with an End-of-Year Report for the previous Regulatory Year.

8.2 Under Condition 25.11 the Report must:

a) Be prepared in accordance with any guidance issued by the Authority for this purpose

b) State the costs incurred by the Licensee in that Regulatory Year

c) Compare the incurred costs with the costs the Authority expected to be incurred when determining the Required Revenue for that Regulatory Year

d) Where the comparison of the above point shows a variation, provide an explanation

e) State any adjustments to the Required Revenue for the Regulatory Year in which the End-of-Year Report is submitted, or any future Regulatory Years, arising from the Authority exercising its powers under Conditions 24.8 or 24.9

8.3 The Licensee must ensure that the Report complies with this document and any other licence requirements prior to submission.

Information to be included in the Report

8.4 The End-of-Year Report must comprise:

a) Price Control Information submitted by the Licensee using the relevant RIGs templates issued by the Authority under Condition 23 for the Price Control Period

b) A qualitative report providing appropriate explanations for the quantitative submission

8.5 The Report must include Price Control Information detailing the costs incurred by the Licensee in the past Regulatory Year against each line item of forecast costs within the Main RIGs, which provides unambiguous cost reconciliation against the determined Required Revenue for the past Regulatory Year.

8.6 If incurred costs do not reconcile completely with the Required Revenue determined for that Regulatory Year, the Licensee must clearly explain the reasons for any underspend or overspend. The explanations provided must be specific for each area in which a divergence from forecast costs has occurred; should a divergence in multiple cost categories be caused by one factor, the impact on each individual area should be explained, referenced and evidenced. We expect the level of detail included in the qualitative report to be proportionate to the level of cost divergence.

8.7 The Report must include a description of how the Licensee managed the proportions of the Required Revenue which had been ringfenced for specific purposes by the Authority under Condition 24 Part B.

8.8 The Licensee must identify and report any reallocation of non-ringfenced amounts. The Report should:

a) Explain why a reallocation was deemed necessary and efficient

b) Explain what other options, including savings or deferrals, were sought in the original area before cost reallocation

c) Outline the risks of cost reallocation from another business area on service quality and delivery, and how the Licensee has mitigated them

8.9 The Licensee must provide a final annual cash statement submitted through the Main RIGs template. The Report should include a description of how the Licensee managed its Recovered Revenue over the Regulatory Year in accordance with Condition 25.

8.10 Using the Uncertainty Mechanism tabs provided in the MS Excel RIGs templates, the Licensee must report all adjustments to the Required Revenue:

a) For the past Regulatory Year, arising from the effect of any Driver approved by the Authority under Condition 24.8 and made under Condition 24.9

b) For the forthcoming Regulatory Year or Years, made in accordance with any direction given to the Licensee under Condition 24.10 (based on approved Annual or Emergency Reopener applications)

Appendices

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Appendix 1 – Overview of Information Required for Reopener applications

Issue	**Information**
Why a Reopener is appropriate?	Set out the uncertainty identified and why a Reopener might be appropriate. How has the contingency available been managed and has Licensee considered realising efficiencies elsewhere to offset some of the proposed overspend?
What is the issue/risk that the proposed Reopener addresses?	Is the issue/risk regionally specific or industry wide?
If the Reopener was adopted in the cost control, where would the ownership of risk lie in relation to the uncertainty covered by the proposed Reopener?	Clearly set out where the risks lie with regard to customers/Licensee/both, justifying why the apportionment is appropriate.
Materiality of issue	Quantification of the materiality of the issue (what is the expenditure exposure of the issue)
Frequency and probability of issue over the Price Control Period	What is the expected frequency and probability of the issue arising during the Price Control Period?
What are the justifications for the Reopener?	Set out the benefits of the Reopener
What are the drawbacks of the proposed Reopener?	Set out the drawbacks of the Reopener. Again, where possible, the materiality of these drawbacks needs to be set out.
Explanation of how on balance, the Reopener delivers value for money while protecting the ability to finance efficient delivery.	Explanation of why the benefits of the Reopener outweigh the drawbacks.
We also expect the quantification of how the proposed Reopener delivers value for money whilst ensuring efficient delivery	

Appendix 2 – Glossary

A

Automatic Adjustment (AA)
A mechanism requiring the Licensee to adjust its Required Revenue based on the effect of specified cost Drivers, approved by the Authority under Condition 24 Part C of the Licence.

Authority
The Gas and Electricity Markets Authority

B

Business Plan Report
means the document prepared and submitted in accordance with Condition 22 and this guidance

Business Strategy & Technology Roadmap (BSTR)
A document prepared by the Licensee pursuant to Condition 5 Part C, which sets out the Licensee's long-term strategic plan for the delivery of Authorised Business and how its technology and services need to evolve.

C

Centralised Registration Service (CRS)
A component of the switching service, procured by DCC to facilitate switching at gas and electricity premises.

Customer Challenge Group (CCG)
The sub-committee of that name established under Section C6 of the SEC with whom the Licensee must consult on its draft Business Plan and to whom it must submit a quarterly financial update under Condition 25.8. It operates under the Terms of Reference issued by the Authority.

D

Data and Communications Company (DCC)
A generic term used to describe the holder of the Smart Meter Communication Licence (the **Licensee**).

Driver
A factor which will or could affect the Required Revenue for a Regulatory Year.

E

End-of-Year Report
A report prepared by the Licensee in accordance with this guidance and provided to the Authority by 31 July following each Regulatory Year pursuant to Condition 25.11.

External Costs
In relation to a Regulatory Year, costs economically and efficiently incurred in procuring Fundamental Service Capability.

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External Service Provider
Any person from whom Relevant Service Capability is procured by the Licensee for the purpose of enabling the provision of Mandatory Business Services under or pursuant to the Smart Energy Code or Retail Energy Code.

F

Fundamental Service Capability
The Relevant Service Capabilities provided under Legacy Procurement Contracts as defined in the Licence and identified and described in Schedule 1 (Details of Fundamental Service Capability) to this Licence

I

Internal Costs
In relation to a Regulatory Year, the sum of the costs (excluding External Costs and Pass-Through Costs) economically and efficiently incurred to provide the Authorised Business.

Internal Function
A part of the internal organisational structure of the Licensee for the delivery of Mandatory Business Services (including corporate overheads); described in the Regulatory Instructions and Guidance for the purpose of Internal Costs reporting

L

Licence
See **Smart Meter Communication Licence**

Licensee
Refers to DCC 2 Ltd, a company registered in England and Wales under number 16740622 and who is the person that holds the Licence.

M

Mandatory Business Services
The services comprising of the Mandatory Business of the Licensee under Condition 6. These are the Core Communication Services, the Enabling Services, Additional User Services and Prescribed Business Services.

O

Ofgem
Office of Gas and Electricity Markets

P

Pass-Through Costs
Costs defined in Condition 24.17.

Price Control Period
The period of three years beginning with the 1 April immediately following the previous Price Control Period and ending with 31 March (unless otherwise directed by the Authority pursuant to Condition 22.5).

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R

Regulatory Instructions and Guidance (RIGs)
Provide the basis on which the Licensee must report Price Control Information as required under Condition 23 of the Licence.

Regulatory Year
As defined in Condition 1, a period of 12 months beginning on the 1 April each calendar year and ending on 31 March of the next calendar year.

Relevant Services Capability
As defined in Condition 1, means capability procured (or provided from within the Licensee's own resources) in accordance with Condition 10 (Procurement of Relevant Service Capability) for the purposes of securing the provision of Mandatory Business Services.

Remuneration Policy
A document prepared and submitted by the Licensee approved by the Authority in accordance with Condition 20, which links the remuneration of Senior Managers with the Licensee's performance in carrying out the Authorised Business

Remuneration Policy Guidance
A guidance issued by the Authority to the Licensee under Condition 20 Part C, for the purposes of preparing the draft Remuneration Policy.

Reopener (**Annual** or **Emergency**)
A type of Uncertainty Mechanism allowing the Licensee to apply, pursuant to Condition 24 Part D, for an adjustment to the Required Revenue for a Regulatory Year.

S

Senior Manager
As defined in the Condition 20 Part F, a person in a position of Significant Managerial Responsibility or influence, or who plays a significant role in making decisions about how the whole or a substantial part of a programme is delivered, and as may be further specified within the Remuneration Policy Guidance.

Smart Energy Code (SEC)
An industry code which is a multiparty agreement which defines the rights and obligations between the Data and Communications Company (DCC) and the users of its services. Suppliers, network operators and other users of DCC's services, as well as DCC itself, must comply with the SEC.

SECCo
A company established under the SEC, owned by SEC Parties and which acts as a contracting body for the SEC Panel.

Service Charges
The charges levied by and payable to the Licensee in connection with the operation or provision of the Authorised Business.

Service Family
A group of External Service Providers contracts, which aligns with how DCC structures the delivery of its services to its customers; described in the Regulatory Instructions and

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Guidance for the purposes of reporting of External Costs and External Service (non-resource) Internal Costs.

Smart Meter
Smart meter is a meter which, in addition to traditional metering functionality (measuring and registering the amount of energy which passes through it) is capable of providing additional functionality, for example two-way communication allowing it to transmit meter reads and receive data remotely. It must comply with the Smart Metering Equipment Technical Specifications.

Smart Meter Communication Licence
The Smart Meter Communication Licences granted by the Authority to DCC2 Ltd on 14 April 2026 pursuant to granted pursuant to: section 6(1)(f) of the Electricity Act 1989 and section 7AB(1) of the Gas Act 1986 Sections 7AB(2).

U

Uncertainty Mechanism
A mechanism by which the Required Revenue determined by the Authority can be adjusted. It may refer to either an Automatic Adjustment, an Annual Reopener or an Emergency Reopener.