

# Data Communications Company (DCC) Regulatory Instructions and Guidance

## Consultation

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### Overview:

We are consulting on the draft Regulatory Instructions and Guidance, including the reporting templates for the Smart Meter Communication Licences. These instructions and guidance will provide the basis on which the Data Communications Company must report key price control information to us.

This consultation document is accompanied by draft cost and revenue reporting templates and an instructions and guidance document to help the licensee complete the price control reporting requirements.

The licensee will report to us each regulatory year, and by 31 July 2014 will need to complete the reporting templates for the first partial regulatory year from 23 September 2013 to 31 March 2014.

## Context

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The Data and Communications Company (DCC) is a central communications body appointed to provide the communications and data transfer and management required to support smart metering. It is responsible for linking smart meters in homes and small businesses with the systems of energy suppliers, network operators and other companies. DCC will develop and deliver data and communications services for smart meters through its external providers. In the short term, DCC is responsible for ensuring that the shared infrastructure is in place to allow timely delivery of those services.

The Department of Energy and Climate Change (DECC) granted the Smart Meter Communication Licences<sup>1</sup> to Smart DCC Ltd<sup>2</sup> on 23 September 2013, following the completion of a licence competition. DCC is a new monopoly licensee regulated by Ofgem<sup>3</sup>. DECC established price control arrangements that restrict DCC's revenues, to counter its monopoly position. The price control framework requires DCC to incur costs economically and efficiently. We play an important role in deciding whether DCC has met this requirement.

The price control reporting allows us to monitor DCC's compliance with its licence obligations on price control<sup>4</sup>, and assess the costs incurred with running DCC. The information will help us determine whether DCC incurred costs economically and efficiently and we may disallow costs or impose special measures on DCC to better manage its costs if we decide this was not the case<sup>5</sup>.

The first report is to be submitted by DCC by 31 July 2014. It will then report annually. It will cover the first regulatory year from 23 September 2013 until 31 March 2014. DCC must act in accordance with the guidance that Ofgem issues, or any update to it.

## Associated documents

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- RIGS Document  
<https://www.ofgem.gov.uk/ofgem-publications/86009/1402dccrigsfinal.pdf>
- Reporting template  
<https://www.ofgem.gov.uk/ofgem-publications/86000/dccregreportingfinal.xls>

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<sup>1</sup> The Smart Meter Communication Licences granted pursuant to Sections 7AB(2) and (4) of the Electricity Act 1989 and Sections 6(1A) and (1C) of the Gas Act 1986 (such licences together referred to as 'the licence' throughout.

<sup>2</sup> Referred to as 'DCC' throughout.

<sup>3</sup> The Office of the Gas and Electricity Markets Authority (Ofgem) supports the Gas and Electricity Markets Authority ('the Authority') in its day to day work. In this consultation and in the RIGs, 'we', 'Ofgem' and 'Authority' are often used interchangeably.

<sup>4</sup> Chapter 9: conditions 35 to 41 set out the price control conditions of the licence.

<sup>5</sup> These powers are set out in Condition 37 of the Licence.

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## Executive Summary

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The Licence<sup>6</sup> requires DCC to collect and submit price control reporting to the Gas and Electricity Markets Authority. This consultation document is accompanied by a draft set of cost and revenue reporting templates and the draft Regulatory Instructions and Guidance (RIGs). DCC must at all times act in accordance with the RIGs, and these will continue to apply to each year of price control reporting.

The price control arrangements restrict the revenues of the DCC to counter its monopoly position. Due to DCC's unique nature and the new regime it will be operating in costs must be incurred economically and efficiently. We will assess the extent to which DCC's costs have been economically and efficiently incurred through an ex post review. Any excess or shortfall in charges will affect DCC's revenue entitlement and charges in future years. We have no role in approving DCC's Service Charges in advance, which are set out in the DCC's charging statement<sup>7</sup>.

DCC must submit price control information for each regulatory year by 31 July in the following regulatory year. It must provide this information as specified in any RIGs published by us. We will use this DCC report as part of our monitoring and assessing whether DCC's costs were economically and efficiently incurred, and if we decide they have not, either:

- these costs will be excluded from the future calculation of allowed revenue, resulting in lower Service Charges for Service Users
- DCC could be subject to an undertaking in relation to the future management of its costs<sup>8</sup>.

We may consult on any costs that we are considering disallowing in this way.

For the avoidance of doubt, this document should be read in conjunction with the RIGs Licence conditions. The terms used in the RIGs have the same meaning as is defined in the Licence, unless it is expressly stated otherwise. The RIGs will not change, alter, or amend, any definition or obligation contained within the Licence. In the event of any inconsistency between the Licence conditions and this document the Licence conditions will take precedence, except where expressly stated otherwise. Where changes or corrections need to be made to the Licence we will address these through Licence modifications.

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<sup>6</sup> Condition 32 of the Licence.

<sup>7</sup> Available from DCC's website, [http://www.smartdcc.co.uk/media/4969/charging\\_statement\\_for\\_ry\\_2013\\_14\\_-\\_20\\_november\\_2013\\_-\\_issue\\_1\\_0.pdf](http://www.smartdcc.co.uk/media/4969/charging_statement_for_ry_2013_14_-_20_november_2013_-_issue_1_0.pdf)

<sup>8</sup> These powers are set out in Condition 37 of the Licence.

## RIGs and reporting templates

The information collected in the reporting templates and specified in the RIGs is required for:

- 1. Consistency**

The RIGs should consistently give the Authority price control information for every regulatory year of the Licence, as required under Licence Condition 32. They create a template for DCC to provide, as required under Licence Condition 37, a comparison between the actual incurred costs, and those estimated in the Licence Application Business plan<sup>9</sup>, and any updated forecast. The costs associated with the Business plan will be separated from those costs that have been incurred as a consequence of new scope.
- 2. Compliance**

We will use the RIGs to monitor DCC's obligations under the Licence, in particular Condition 36, which obliges it to take all reasonable steps to secure that regulated revenue does not exceed a prudent estimate of allowed revenue for that regulatory year, and ensure that Service Charges do not need to be amended in the course of the year except in response to a reasonably unlikely contingency. The RIGs allow us to monitor effectively the revenue of the DCC and to confirm that the revenues recovered were in line with the Licence.
- 3. Monitoring incentives and outputs**

The RIGs allow us to record the performance of the DCC against the implementation milestones contained in the licence and to identify any impact on revenue. We will also be looking for information on DCC's outputs and performance against operational incentives, which will be introduced at a later date. These aspects are likely to be developed in the future.
- 4. Building knowledge**

DCC is operating in a new and unique regime, and acquiring experience and knowledge of the costs and outputs will help us understand how future changes will impact the business.
- 5. Financial health and regulatory action**

Monitoring financial information enables us to respond as early as possible in the event there is any change to DCC's financial health.
- 6. Efficient and economic**

The information provided under the RIGs, together with information from other sources, for example on performance, should allow us to determine whether costs were economically and efficiently incurred. To assess the management of change control, we will closely scrutinise where deviations from the Licence

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<sup>9</sup> The Licence Application Business plan is the plan submitted in the course or as a consequence of the licence application process. It contains estimates of revenues, costs, capital investments and cash flows for each regulatory year of the Licence Term, and was taken into account by the Secretary of State in determining the grant of the Licence.

Application Business plan<sup>10</sup> occur. Where changes are unsubstantiated we will look at these more closely and consider whether further action is needed.

## Future Development

This is a new price control regime and DCC's role is still evolving. Given these uncertainties, it is likely that the RIGs may be modified in future years. It is likely they will need to be adjusted as the DCC business develops and additional cost items are included, or more regular reporting might be required. We recognise that any significant changes to the scope and form of the information requested can increase the regulatory burden on DCC. We will consider this impact when introducing any changes. Modifications to the RIGs will be in accordance with the process set out in Licence Condition 33, Part B.

DCC is also still in the implementation phase of its licence term. As a result, specified information in these RIGs does not currently include reporting of Quality of Service information. This is expected to be added to the RIGs in future.

## Key issues for consultation

We are consulting on the RIGs and templates and welcome comments in particular on the following areas:

- whether they capture the significant cost and expenditure items
- whether the definitions are correct
- whether they provide scope for flexibility for the future
- whether the breakdown of the information is sufficient to enable a determination of whether costs have been economically and efficiently incurred, while maintaining an appropriate level of regulatory burden on DCC?

## Next Steps

This consultation will last for ten weeks and will close on 23 April 2014. This length is considered appropriate in order to give us sufficient time to consider responses and publish the RIGs, and to give DCC enough time to adjust its internal systems, if necessary, and be ready to provide the first report by 31 July 2014. The details on how to respond are in Appendix 1. We intend to publish our decision in May 2014.

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<sup>10</sup> Referred to "Business plan" for the remainder of the document.

# 1. Introduction

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## Chapter Summary

This chapter sets out the background, purpose and structure of the RIGs that are proposed to apply to DCC.

## Background

1.1. DECC granted the Licence to DCC on 23 September 2013 following a licence competition. DCC is a new monopoly licensee regulated by Ofgem. The Licence is for 12 years and will remain in place until 22 September 2025, unless it is extended or revoked. DCC is a central communications body appointed to provide the communications and data transfer and management required to support smart metering. It is responsible for linking smart meters in homes and small businesses with the systems of energy suppliers, network operators and other companies.

1.2. DCC will develop and deliver data and communications services by contracting external service providers. We expect DCC to start offering data and communications services to its service users<sup>11</sup> in late 2015. In the interim, DCC is making sure it can provide these services, by testing the systems being built by the service providers to make sure they work together, and with the systems of the service users.

1.3. DECC established price control arrangements that restrict DCC's revenues, to counter its monopoly position. Due to DCC's unique nature and the new regime it will be operating in it must incur costs economically and efficiently. We will assess the extent to which DCC's costs have been economically and efficiently incurred through an ex post review. DCC must submit price control information for each year by 31 July in the following regulatory year. The first report will cover the first DCC regulatory year from 23 September 2013 until 31 March 2014.

1.4. We have no role in approving DCC's service charges in advance, which are set out in the DCC's charging statement. Indicative budgets for the regulatory years starting April 2015 and April 2016 are available on DCC's website ([www.smartdcc.co.uk](http://www.smartdcc.co.uk))<sup>13</sup>.

1.5. The RIGs provide a framework which enables us to collect data from DCC for the duration of the Licence in a consistent format. The data we collect, together with information from other sources, for example on performance, will allow us to

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<sup>11</sup> Includes energy suppliers, network operators and other companies.

<sup>12</sup> Required under Section J of the Smart Energy Code.

<sup>13</sup> Required under Section J of the Smart Energy Code.

monitor and assess whether costs were economically and efficiently incurred. The RIGs inform DCC about the information we require, and guide DCC on putting systems in place to collect the data and provide it to us to the level of detail we require.

1.6. DCC must be party to and comply with the Smart Energy Code (SEC). The SEC is a multi-Party agreement that defines the rights and obligations of the DCC, energy suppliers, network operators and other relevant parties involved in smart metering. The SEC is managed by the SEC Panel with regulatory oversight where appropriate from Ofgem. The SEC panel should ensure that the SEC is effected in a way that is efficient, fair and does not discriminate between Parties or classes of Parties. We expect projects undertaken by DCC, which could be new scope, and the associated costs will be scrutinised under the SEC governance arrangements.

### **DCC ex post review**

1.7. DCC's price control regime is different from that of other companies we regulate. The networks under RIIO<sup>14</sup> are subject to an ex ante price control where the costs are agreed up front. The costs and revenue for the offshore transmission networks are also agreed up front. In contrast, DCC will incur costs, pass these onto users, and we will review these after the end of the regulatory year in which the costs were incurred, in our ex post review. DCC is also asset-light and thinly capitalised. Because of this, the RIGs have been specially designed specifically for the DCC.

1.8. The competitive application process for the DCC licence should have ensured the efficiency of the initial costs stated in DCC's business plan. Our review will look at how DCC's own internal costs and external service provider costs were incurred. The templates have been designed to allow us to compare actual costs levels with those previously forecast. DCC will be required to explain and justify any significant deviations from the forecast costs in the business plan or any updated forecast.

1.9. DCC has inherited a set of competitively-procured contracts from government with certain elements that will be fixed, including prices charged to the DCC by the external service providers. As the government negotiated these contracts we expect the competitive procurement process they conducted to have delivered value for money in the pricing of those contracts. We understand some cost levels might be outside DCC's reasonable control and influence. However, we expect DCC to demonstrate through its reporting that it has incurred contract costs and its own internal costs as efficiently and economically as possible, doing everything it reasonably can to ensure value for money. Ultimately, DCC will need to establish a strategy to ensure that the contract costs remain efficient and this will apply especially to any future contract procurement activity it undertakes.

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<sup>14</sup> RIIO (Revenue=Incentives+ Innovation+Outputs) is Ofgem's framework for setting price controls for network companies

## Legal framework

1.10. Conditions in the Licence require DCC to collect and provide certain information to us. Licence Condition 32 contains this obligation and Condition 33 sets out the scope and governance arrangements for the RIGs. Licence Condition 37 specifically requires DCC to provide comparisons between the internal and external costs actually incurred, and those that were estimated in the business plan and any updated forecasts. DCC is also required to explain any material divergence revealed by the comparisons and any material revisions to any financial or operational matter arising from such divergence.

1.11. Chapter 9 conditions 35 to 41 contain the price control conditions of the Licence which seek to limit or control the charges or the revenue of DCC. They include mechanisms for determining the allowed revenue that can be recovered by DCC and for Ofgem's assessment of the costs the DCC incurs.

1.12. For the avoidance of doubt, this document should be read in conjunction with the RIGs Licence conditions<sup>15</sup>. The terms used in the RIGs have the same meaning as is defined in the Licence, unless it is expressly stated otherwise. The RIGs will not change, alter, or amend, any definition or obligation contained within the Licence. In the event of any inconsistency between the Licence conditions and this document the Licence conditions will take precedence, except where expressly stated otherwise. Where changes or corrections need to be made to the Licence, we will address these through Licence modifications.

1.13. The Licence incorporates a new price control regime and the role of DCC will evolve. It is likely that the reporting requirements will need to be adjusted for additional cost items to be included. We anticipate that the RIGs may be modified in future years. This will be in accordance with the modification process set out in Licence Condition 33, Part B.

## Instructions and guidance

1.14. The RIGs are the basis on which DCC must report, they give detailed instructions on how to complete the associated tables. They provide:

- a complete statement of the specified information which DCC is required to report
- the systems, processes, procedures for recording and provision of price control information to the Authority
- the standards of accuracy and reliability that are applicable to recording the specified information (including different classes of specified information)
- explanations of the meaning of words and phrases used in defining price control specified information

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<sup>15</sup> Licence Conditions 32, and 33.

- requirements for how and how frequently the specified information must be recorded, and given to the Authority; and
- how the Authority expects to monitor and assess the licensee's compliance with the RIGs.

## Reporting under the RIGs

### Timescales for reporting

1.15. The regulatory reporting year under the RIGs runs from 1 April to 31 March. DCC needs to report by the following July each year. DCC will need to complete the reporting template for the first partial regulatory year from 23 September 2013 to 31 March 2014, by 31 July 2014.

1.16. Except where stated otherwise, DCC must provide the information required under the RIGs not later than 31 July following the end of the relevant reporting year to which such information relates. This is the latest date that DCC can submit information, unless we have previously consented to a later date in writing. DCC must act in accordance with the guidance that Ofgem issues or any update to it.

## 2. Regulatory Instructions and Guidance

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### Chapter Summary

This chapter provides an overview of the information required and explains the purpose of the RIGs and data template tables.

### Overview

2.1. The data templates comprise tables in a Microsoft Excel workbook. This allows DCC to submit consistent and comparable financial, cost, revenue and output information.

2.2. The RIGs comprise two main elements:

- Microsoft Excel Workbook for reporting.
- Instructions and guidance on how to report the data.

2.3. The RIGs cover four parts:

- Reporting incurred and forecast revenue and costs
- Reconciling reported information with previous forecasts and Licence Application business plan
- Business structure
- Questions requiring qualitative explanations

2.4. Detailed instructions of each area and the corresponding worksheets are included in the RIGs. There is a brief summary below.

### Reporting of incurred and forecast revenue and costs

2.5. The reporting in this part captures the following areas:

2.6. **Revenue** – The information collected in this worksheet allows us to effectively monitor DCC’s revenue and to confirm that they were in line with the requirements of the Licence. We will use this information to compare DCC’s regulated revenue to its allowed revenue. It will also help us to monitor DCC’s obligation under Licence Condition 36, which obliges it to take all reasonable steps to ensure that regulated revenue does not exceed a prudent estimate of allowed revenue.

2.7. **Internal cost** – These worksheets collect information on DCC’s internal costs. We require DCC to report these costs by function and service level, alongside commentary to explain changes in costs compared to the forecasts from the previous report. DCC’s internal reporting is aligned with reporting costs by function. We understand that requiring DCC to report costs both ways does involve some administrative burden. But we believe that this is justified, given the structure of the original bid submission and the need for future flexibility.

2.8. Reporting the costs by function and service level should provide us with a better understanding of cost allocation that could be particularly relevant if value added services<sup>16</sup> were included in the long term. We do not expect operational service cost reporting to be at the same level of detail as the reporting by Smart DCC function, but we do consider it necessary to retain this reporting system in the context of a licensed activity that will in future need to be competitively re-procured.

2.9. **Financials** – The information requested includes the financial statements and the cash flow profile throughout the year. This enables us to monitor the DCC’s financial health and comparison with the business plan cash flow. It also enables us to effectively monitor DCC’s approach to the prudent estimate of allowed revenue.

2.10. **External costs** – These worksheets collect information on the external costs related to the Data Service Provider (DSP) and the three Communication Service Providers (CSPs). Additional external costs may need to be added in the future, if the DCC were to procure more external services.

2.11. DCC is required to report on costs associated with the scope agreed in the business plan, (labelled “Baseline” in the worksheets), separately to those that have been incurred as a consequence of a new activity or project, this is labelled (“New Scope” in the worksheets). This information provides transparency and will allow us to distinguish between a variation in costs associated with baseline conditions, an over- or under-estimate of costs that are in the business plan, and those that were not estimated or foreseen in the plan. This level of breakdown, accompanied by qualitative reporting, will aid our ex post review.

2.12. In order to provide for this, the templates allow DCC to add rows under the “New Scope” section of the internal cost, external cost, and reconciliation sheets. This will ensure that cost reporting is consistent. When a new project or activity is added under “New Scope”, DCC will need to provide definitions and justification, and also explain how the project scope relates to the scope of baseline activities and existing projects under the qualitative reporting.

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<sup>16</sup> Value added services are defined in Licence Condition 1.

## Reconciliations

2.13. DCC is required under Licence Condition 37 to provide a comparison between the actual incurred costs, compared to those in the business plan, and any updated forecast. The worksheets capture this information and following reconciliations are requested:

2.14. **All costs and revenue** – A reconciliation of reported and incurred total costs and revenues with forecasts from:

- the previous year regulatory reporting
- the Licence Application business plan.

2.15. **Internal cost** – A more detailed reconciliation of incurred and forecast internal costs by function with forecasts from:

- the previous year regulatory reporting and
- the Licence Application business plan.

Further reconciliation of internal cost with the previous regulatory year is requested for changes to the baseline cost and changes related to new scope.

2.16. This information will identify any costs that have significantly deviated from the forecast costs in the business plan or any updated forecast. It is likely these costs will receive greater scrutiny under the ex post review. We expect DCC to explain and justify how these costs were efficiently and economically occurred.

## Business structure

2.17. DCC is operating within a unique regime and is a new monopoly licensee. Information on its business structure will help us to understand how future changes will impact the business.

2.18. **Shared or group costs/support costs** - The purpose of this worksheet seeks information about shared costs between the licensee and the company group. We expect DCC to provide commentary to demonstrate how the shared group costs gives ongoing value for money.

2.19. **Staff resources** - This worksheet is intended to provide information about staff resources, grades and costs in the current reporting year compared to:

- the previous year
- the previous year's forecasts for the current year
- the forecast for the forthcoming year

- the estimate from the Licence Application business plan for the current year.

## Qualitative reporting

2.20. As part of its annual regulatory reporting submission, DCC will need to provide additional information and evidence. The supporting information part of the RIGs lists a number of questions relating to:

- **External cost value for money provisions** – This seeks information on how DCC is undertaking its contract management responsibilities, and how the value for money provisions in the service provider contracts have been applied.
- **Incurred and future costs** – This will allow us to understand how DCC has reviewed service provider costs it occurred in the current regulatory reporting year and the actions it proposes taking for the forthcoming regulatory reporting year.
- **Service provider performance** – This requires DCC to assess the performance of its external service providers. It will also seek supportive information on how DCC is managing the Service Providers.
- **Register/assessment of risks** – This will detail how the DCC is monitoring short, medium and long term risks related to external service provider performance. It will provide additional supportive information on how DCC is managing the Service Providers.
- **Cost allocation and group charges** - Information on DCC’s business structure will help us to understand how future changes will impact the business when carrying out our regulatory functions.
- **Definition of baseline:** - This information will set out what DCC considers to be included in its reported and forecast baseline Internal and External costs. This will help us to distinguish the costs incurred as a result of new scope.
- **Project definitions** - When a new row is added under “New Scope”, DCC will need to provide definitions, justification, and also explain how the project scope relates to the scope of baseline activities and existing projects under the qualitative reporting. This will aid us in our ex post review to understand how costs have been incurred.
- **Prudent estimate of allowed revenue** – Information on the uncertainties, the activities, assumptions and any relevant modelling that will help us understand the approach to the prudent estimate of allowed revenue in the current regulatory year and in the forecasts.

- **Communication hubs** – Information provided here will help us understand the costs and cash flows associated with the roll-out of communications hubs. It should also identify any action DCC is taking to secure value for money.
- **Events** – This seeks information to help us to understand costs or revenue associated with implementation milestones, the introduction of Value Added Service, or the event associated with a build-up cash reserves.
- **Minimal Services and Value Added Services:** Information on minimal services or value added services will help us understand the DCC’s revenue from providing these permitted business services. It will allow us to check that turnover from minimal services, in total, does not exceed £500,000 in any regulatory year.
- **Procurement for relevant service capability** – The information requested will help us understand how DCC is procuring or plans to procure relevant service capability, and how it is securing value for money through the procurement process.

2.21. This information is required to help us effectively monitor and understand the business support cost drivers and allocations. It should also help facilitate comparison or benchmarking between different sectors and against other industries.

## Future development of the RIGs

2.22. This is a new price control regime and the role of DCC is still evolving. Given these uncertainties it is likely that the RIGs may be modified in future years. It is likely that new reporting items will need to be added into the templates as business services develop or DCC undertakes new projects, which it might be required to do under the Smart Energy Code.

2.23. It might also be appropriate in the future to have more regular reporting of some aspects of the price control information. DCC is still in the implementation phase of its licence term. As a result, specified information in these RIGs does not currently include reporting quality of service information. This is expected to be added to the RIGs in future.

2.24. We recognise that any significant changes to the scope and form of the information requested can increase the regulatory burden to DCC. We will consider this impact when introducing any changes. Modifications to the RIGs will be in accordance with the process set out in Licence Condition 33, Part B.

**Question 1:** Do the RIGs and templates capture the significant cost and expenditure items?

**Question 2:** Do you have any comments on the definitions used in the RIGs?

**Question 3:** Given the evolving role of the DCC, do you think the templates are flexible enough?

**Question 4:** Do you think the breakdown of the information described in the RIGs is sufficient to enable a determination of whether costs have been economically and efficiently incurred, while maintaining an appropriate level of regulatory burden on DCC?

## 3. Next steps

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### Chapter Summary

Here we show the timings for the consultation and finalising the reporting framework. We set out our approach on the publication and sharing of information and the ex post review.

### Timing

3.1. This consultation will last for ten weeks and will close on 23 April 2014. This length is considered appropriate in order to give us sufficient time to consider responses and publish the RIGs. It also gives DCC enough time to adjust its internal systems, if necessary, and be ready to provide the first report by 31 July 2014. The details on how to respond are in Appendix 1. We intend to publish our decision in May 2014.

3.2. During the consultation period DCC will be populating the template with their baseline position, reflecting the business plan as a 'trial run' of using the templates that will similarly inform the conclusions reached by this consultation. We will consider changes to the RIGs and templates if any issues arise from this exercise.

### Publication and sharing of information

3.3. DCC will report its costs and revenues to Ofgem annually, so that we can make a full assessment of the efficiency of its costs. We will scrutinise this information to decide whether costs should be disallowed or whether extra measures are needed to improve DCC's management of its costs. DCC's internal costs will reflect the bid that was submitted by Capita plc as part of the licence application process. Similarly, DCC's external costs will be based on price commitments that the external service providers made during the procurement process.

3.4. In consideration of this, we expect that a large proportion of the price control information that DCC will report to us is likely to be covered by our legal duty to not disclose information that could seriously and prejudicially affect the affairs of a corporate body<sup>17</sup>.

3.5. We do not envisage publishing the completed costs and revenue templates. However, we may decide to publish the information in an aggregated format if we consider that it is in consumers' interests. Where we make any decisions under the price control conditions of this licence relating to costs or otherwise, we will give notice of the reasons for our decision. We may justify our decisions using

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<sup>17</sup> Article 35(2) Gas Act and Art.48(2) Electricity Act

information submitted under the RIGS, either to provide transparency or because the publication of certain information is in consumers' interests<sup>18</sup>. We would consult with DCC or any organisation that could be prejudicially affected by publishing the information.

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<sup>18</sup> Both the Electricity Act 1989 (s.48) and the Gas Act 1986 (s.35) provide an avenue for the 'publication of advice and information about consumer matters' where it appears to Ofgem that it would promote the interests of consumers.

# Appendices

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## Appendix 1 - Consultation Response and Questions

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1.1. We would like to hear any views about the issues in this document.

1.2. We would especially welcome responses to the specific questions at the beginning of each chapter heading, and which are replicated below.

1.3. Please send your responses to us by 23 April 2014, and send them to:

Tricia Wiley  
Smarter Metering Team  
9 Millbank - SW1P 3GE London  
020 7901 3132  
[tricia.wiley@ofgem.gov.uk](mailto:tricia.wiley@ofgem.gov.uk)

1.4. All responses will be published on our website and put in our library, unless marked confidential. You can request for your response to be kept confidential, which we will respect (subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004).

1.5. If you want your response to remain confidential, you should clearly mark this on your document, including the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing, and please put any confidential material in the appendices to your responses.

1.6. After considering the responses, we will publish our decision letter in May 2014. Any questions on this document should, in the first instance, be directed to:

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Smarter Metering Team  
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020 7901 3132  
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**Questions**

**Question 1:** Do the RIGs and templates capture the significant cost and expenditure items?

**Question 2:** Do you have any comments on the definitions used in the RIGs?

**Question 3:** Given the evolving role of the DCC, do you think the templates are flexible enough?

**Question 4:** Do you think the breakdown of the information described in the RIGs is sufficient to enable a determination of whether costs have been economically and efficiently incurred, while maintaining an appropriate level of regulatory burden on DCC?

## Appendix 3 - Glossary

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### A

#### Allowed Revenue

Total amount of revenue determined on an accruals basis in relation to each regulatory year in accordance with the Principal Formula set out in Part C of Condition 36 after the deduction of value added tax and any other taxes.

#### Authority

The Gas and Electricity Markets Authority.

### C

#### Communications hub

A Device which complies with the requirements of CHTS and which contains two, logically separate Devices; the Communications Hub Function and the Gas Proxy Function.

#### Communications Service Provider (CSP)

Bodies awarded a contract to be a service provider of the DCC's communications services. Arqiva Limited and Telefónica UK Limited have been appointed to provide these services.

### D

#### Data and Communications Company (DCC)

This is a company that manages the data and communications to and from domestic consumers' smart meters.

#### Data Services Provider (DSP)

Body awarded the contract to deliver systems integration, application management and IT hosting services to the DCC. CGI IT UK Limited has been appointed to provide these services

#### Department for Energy and Climate Change (DECC)

The UK government department responsible for energy and climate change policy.

### E

#### External Costs

The costs that were economically and efficiently incurred by the Licensee in procuring Fundamental Service Capability

### I

#### Internal Cost

Costs (excluding external costs and pass-through costs) that were economically and

efficiently incurred by the Licensee for the purposes of the provision of Mandatory Business Services under or pursuant to the SEC

## **L**

### [Licence Application Business Plan](#)

The plan submitted in the course or as a consequence of the licence application process. It contains estimates of revenues, costs, capital investments and cash flows for each regulatory year of the Licence Term, and was taken into account by the Secretary of State in determining the grant of the Licence.

## **R**

### [Regulatory Instructions and Guidance \(RIGs\)](#)

Provide the basis on which the licensee must report price control information as required under the Smart Meter Communication Licence.

### [Regulated Revenue](#)

The actual revenue in a regulatory year, measured on an accruals basis received by the Licensee through Service Charges that are levied in accordance with the provisions of Condition 18.

### [Relevant Services Capability](#)

The internal and external resources which the DCC relies upon in order to provide services to DCC Users

## **S**

### [Smart Energy Code \(SEC\)](#)

The SEC is a new industry code which is a multiparty agreement which will define the rights and obligations between the Data and Communications Company (DCC) and the users of its services Suppliers, network operators and other users of the DCC's services who will all need to comply with the Code

### [SEC Panel](#)

Panel established to oversee the Smart Energy Code with powers and duties as set out in Section C of the SEC.

### [Service Charges](#)

The charges levied by and payable to DCC in connection with the operation or provision of Mandatory Business Services under or pursuant to the SEC

### [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 also comply with the technical specification set out by the Smart Metering Programme.



[Smart Meter Communication Licence](#)

The Smart Meter Communication Licences granted pursuant to Sections 7AB(2) and (4) of the Electricity Act 1989 and Sections 6(1A) and (1C) of the Gas Act 1986

**o**

[Ofgem](#)

Office of Gas and Electricity Markets

## Appendix 4 - Feedback Questionnaire

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1.1. We believe consultation is at the heart of good policy development. We are keen to consider any comments or complaints about how this consultation has been conducted, and are keen to get your answers to the following questions:

1. Do you have any comments about the overall process which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand? Could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments.

1.2. Please send your comments to:

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