



Making a positive difference
for energy consumers

The Data Communications Company, suppliers, gas transporters, electricity distributors and any other interested parties.

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Date: 24 March 2015

Consultation on proposal to modify and issue new Regulatory Instructions and Guidance¹ for the Data Communications Company under Part B of Condition 33 of the Smart Meter Communications Licence²

The regulatory instructions and guidance (RIGs)³ provide the basis on which Smart DCC Ltd, also known as the Data Communications Company (DCC) must report key price control information to us⁴.

We are consulting on changes to the RIGs to provide further description and clarity, as well as make some amendments to the reporting templates. This is a new price control regime and DCC's role is still evolving. Given these uncertainties it is likely the RIGs may need to be modified in future years. On 27 February 2015 we published our decision following our first ex post review of DCC's costs for the Regulatory Year 2013/14. We consider that it may be beneficial to look at revising some aspects of the RIGs following our experience of the first ex post review of DCC's costs.

It is important to note, however, that the RIGs will never prescribe exactly how and to what level DCC should justify every cost variation. It is DCC's responsibility to prove costs incurred are economic and efficient.

We would like your views on the modifications we are proposing to the RIGs and the reporting templates. We publish revised versions of those documents today alongside this consultation letter.

The price control arrangements restrict the revenues of the DCC to reflect its monopoly position. DCC must submit price control information for each regulatory year⁵ by 31 July in the following regulatory year. In doing so, it must act in accordance with any RIGs we

¹ All terms used in this Notice shall have the meaning given to them under the Licence, unless expressly stated otherwise.

² The Smart Meter Communication Licences were granted under both the Gas Act 1986 and the Electricity Act 1989. For ease, in this letter we refer to these licences in the singular. DCC's licence can be found at <https://epr.ofgem.gov.uk/Document>.

³ The Regulatory Instructions and Guidance were published in June 2014 and available from <https://www.ofgem.gov.uk/publications-and-updates/data-communications-company-dcc-regulatory-instructions-and-guidance>

⁴ 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 letter, 'we', 'Ofgem' and 'Authority' are often used interchangeably.

⁵ The regulatory year is a period of twelve months beginning on 1 April in any calendar year and ending on 31 March of the next calendar year.

issue. We will use their reports as part of our monitoring and to assess whether DCC's costs were incurred economically and efficiently.

We have also given DCC Notice of the proposal to modify and issue new RIGs as required under the licence⁶.

We are interested to hear whether you agree with the proposed changes. We would also welcome other suggestions on improvements to the RIGs. We will consider responses to this consultation when making our final decision on modifying the RIGs. At present we plan to publish the final RIGs in May.

DCC will be required to use the modified RIGs when they report their Price Control Information for the Regulatory Year 2014/15 by 31 July 2015.

What are the RIGs?

The RIGs form the basis on which DCC must report Specified Information, which includes Price Control Information. They provide:

- a complete statement of the specified information which DCC is required to report
- instructions and guidance on the Authority's requirements with respect to the collection, recording, and provision of Specified Information
- instructions and guidance on the standards of accuracy and reliability that apply 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
- how the specified information must be recorded, and given to the Authority
- how the Authority will monitor and assess the DCC's compliance with the RIGs.

The competitive application process for the licence should have ensured the efficiency of the initial costs stated in DCC's Licence Application Business Plan (LABP). The information that the DCC reports allows us to make comparisons between the actual costs it incurred for the Relevant Regulatory Year and those it estimated it would be likely to incur in its LABP. We also compare DCCs costs against updated forecasts of economic and efficient costs from the previous price control (which are also submitted by DCC as part of the Price Control Information).

DCC has to explain and justify any material divergence from the forecast costs in the LABP and any updated forecast. DCC must demonstrate through its reporting that it has incurred contract costs and its own internal costs as efficiently and economically as possible, ensuring value for money.

The RIGs data informs our ex post review of DCC costs. Together with information from other sources (eg performance, benchmarking analysis), this will allow us to assess whether costs were economically and efficiently incurred. If we decide that is not the case:

- these costs will be excluded from the future calculation of allowed revenue, resulting in lower Service Charges for Service Users; and/or

⁶ Licence Condition 33, Part B.

- we may accept an undertaking from DCC on terms that relates to either or both of the DCC's future management of its costs and its future procurement of Relevant Service Capability⁷.

We may consult on any costs that we are considering disallowing in this way or undertaking we are considering accepting⁸.

What changes are being suggested and why?

We are proposing some changes to the reporting template for 2015. Most of them are as a result of our experiences from having conducted the first ex post review which we completed in February 2015. We give a general overview of the areas covered by the proposed changes below⁹.

- **Minor amendments and corrections to formula.** In some cases this is to make sure the formula aligns with DCC accounting procedures (eg in sheet six). In other cases we have corrected minor errors in the spreadsheet (eg sheet ten).
- **Clarifications – particularly around the reporting of internal costs which do not incur the shared service charge.** There was an error in how these costs were reported in the template in 2013/14. We have modified row titles to make it clearer what information must be provided, as well as ensuring formulae are specified correctly to avoid any double counting. The revised guidance document provides further clarity on how DCC should report costs not incurring the shared service.
- **Request for more detail on assessments.** We have incorporated some new qualitative questions within the RIG spreadsheet, as well as adding extra supporting questions to specified information requested in the guidance document.
- **More detail on staff costs.** We have added the facility for DCC to report average staff costs by function.
- **Minor structural changes.** Where necessary we have inserted new rows to the spreadsheet to reflect additional line items reported by DCC in 2014. This also provides us with flexibility to add further items when necessary.

What are we asking for your views on?

We are interested in your views on our suggested changes. We would also welcome any other suggestions that will help ensure we have sufficient information to decide whether costs have been economically and efficiently incurred.

How can you respond?

Please send us your views on this consultation before 5pm on **27 April 2015**. Email responses to tricia.quinn@ofgem.gov.uk, or post them to the smarter metering team using the address below.

Smarter Metering Team
9 Millbank
Ofgem
London
SW1P 3GE

⁷ These powers are set out in Condition 37 of the Licence.

⁸ Our price control determination for 2013/14 was published in February 2015 and available from: <https://www.ofgem.gov.uk/publications-and-updates/data-and-communications-company-dcc-price-control-final-decision>. The RIGs document we have published with changes tracked,

⁹ Appendix 1 sets out in more detail the changes being proposed to the reporting templates.

We will publish any responses we receive on our website, except those marked as confidential. We currently intend to publish our decision on modifying and issuing the new RIGs in May 2015.

Yours sincerely,

Laura Nell
Head of Smart Metering

Appendix 1: Changes to RIGs and reporting templates

This table lists the main changes made to the reporting templates and RIGs.

Change	Sheet number/RIGs	Detailed description
Shared service charge clarification in template titles	<ul style="list-style-type: none"> • Sheet one: row 19 • Sheet two: row 35 and row 36 • Sheet four: row 19, 20, 213, 214 • Sheet five: row 32 • Sheet nine: row 18 • Sheet 11a: row 115, 138, 239, 262, 363, and 386 • Sheet 11b: row 115, 138, 239, 262, 363, and 386 • Sheet 11c: row 21, 23, 211, 212, 217, 219, 401, 402, 407, 409, 591, 592 • Sheet 11d: row 21, 23, 211, 212, 217, 219, 401, 402, 407, 409, 591, 592 	We have made changes to certain cell titles in the template. This change is intended to provide additional clarity on how DCC should report costs not incurring the shared service.
Shared service charge clarification on reporting	<ul style="list-style-type: none"> • Sheets four, five, 11a, 11b, 11c and 11d • Sheet nine (rows 27 – 29). • Sheets four, 11a, 11b, 11c, 11d • Sheets 11c and 11d 	<p>We have made clearer in the RIGs document that all internal costs should be included in the internal costs by DCC function. This includes those internal costs which are excluded from the calculation of the shared service charge.</p> <p>The sub-set of internal costs which do not incur the shared service charge is reported separately.</p> <p>In the LABP section of sheets, the shared services charge and the sub-set of internal costs which do not incur shared service charges, should be entered manually.</p> <p>The totals at the start of each section have been amended so that they include the shared service charge.</p>
Data change	<ul style="list-style-type: none"> • New sheet 	This has been added to capture

log		any changes in historical data as explained in the guidance document.
Summary data	<p>Sheet three</p> <ul style="list-style-type: none"> Row 33 Sheets 4; 5; and 8a – 8d 	<p>Values for BM entered based on values in the license.</p> <p>Some summary charts added.</p>
Revenue reporting	<p>Sheet three</p> <ul style="list-style-type: none"> Row 29 Row 34 Row 120 New sheet: "RPI" Sheet 2, row 15 	<p>Minor formula correction to ensure correct Retail Price Index (RPI) value is used for the regulatory year.</p> <p>Formatting for Relevant Adjustment of Baseline Margin changed from 'licensee input' to 'no input required'. We will fill in these cells.</p> <p>The Regulated Revenue formula now incorporates the modelling assumption that for all forecast years after the relevant regulatory year, the licensee's regulated revenue will be equal to the licensee's allowed revenue. This assumption is required for modelling the Correction Factor¹⁰ correctly, based on economic and efficient forecasts of costs and revenues. It does not affect the information reported in sheet six.</p> <p>New sheet added for the purpose of calculating the RPI as specified in the licence to calculate the Baseline Margin Price Index Adjuster.</p> <p>Formula changed to refer to Sheet 6 row 91 (i.e. the new "regulated revenue" row).</p>
Internal costs – by DCC cost centre	<p>Sheet four</p> <ul style="list-style-type: none"> Column D 	<p>Drop-down boxes have been incorporated to be clear that the licensee needs to identify the relevant General Ledger code for any new item added.</p>

¹⁰ Correction Factor as calculated in LC36, Part F.

	<ul style="list-style-type: none"> • Rows 37 – 41 • Rows 42 – 46 • Row 211 and 212 • Row 260 	<p>New items added to reflect DCC's 2014 regulatory submission. These items will be retained to ensure consistency over time.</p> <p>New rows added to allow us to include new items.</p> <p>Formula added to link to relevant cells in sheet nine.</p> <p>Added reference to economic and efficient forecasts for clarity.</p>
Financial statements	<p>Sheet six</p> <ul style="list-style-type: none"> • Row 91 • Row 242 	<p>Inserted row to state "Regulated revenue" as defined under licence condition 35 Part B.</p> <p>Qualitative question included in this sheet for licensee to explain any difference between regulated revenue and revenue as reported in the statutory accounts.</p>
Shared/group/s support/external service costs	<p>Sheet nine</p> <ul style="list-style-type: none"> • Row 20 • Row 24 • Row 26 • Row 31 • Row 63 	<p>Formula inserted to calculate the shared service charge from the relevant input data.</p> <p>Formula inserted to calculate the internal cost base to which the shared service charge is applied.</p> <p>Formula inserted to aggregate all internal costs which do not incur the shared service charge.</p> <p>Check-boxes have been added under 'licensee costs excluded from calculation of group costs allocation'.</p> <p>A qualitative question has been included in this sheet so that the licensee can explain the costs which have been incorporated as not incurring the shared service charge.</p>
Staff resourcing and	Sheet ten	

costs	<ul style="list-style-type: none"> • Row 116 to 181 • Part three and part four • Parts one, two, three and four, column R • Part three and four 	<p>New part three added for the licensee to report average staff costs by DCC function, and an explanation has been added to the updated guidance.</p> <p>Units for average staff costs have been changed to £ to match the RIGs guidance document.</p> <p>A LABP for the next reporting year column (column R) has been added to every section so that the new forecast can be compared with the original LABP forecast for next year.</p> <p>Formulae for the calculation of average staff costs at the cost function level have been removed. DCC is required to report these aggregate level figures separately.</p>
Reconciliations	<ul style="list-style-type: none"> • Sheets 11c and d • Sheet 8a, 8b, 8c, 8d • Sheets 11b and 11d 	<p>In addition to the shared service charge changes we have added new rows to reflect the DCC 2014 submission and made some minor changes to the structure of the sheets.</p> <p>New rows inserted to reflect the 2014 DCC return. This led to equivalent row insertions and cell reference modifications in sheets 11a – 11d.</p> <p>New scope sub-sections deleted – only a single row referring to aggregate new scope is needed when comparing to LABP</p>