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

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Date: 29 May 2015

Dear Colleague

## **Decision on modifications and issuing of new Regulatory Instructions and Guidance<sup>1</sup> for the Data Communication Company (DCC)**

We consulted on our proposed modifications to the Regulatory Instructions and Guidance (RIGs)<sup>2</sup> for DCC, the central communications body appointed to manage communications and data transfer for smart metering. The consultation closed on 27 April 2015 and we received two responses.

We have taken into account the consultation responses received. We consider that the proposals set out in the consultation provide further detail and clarity on DCC's reporting requirements. We consider that some additional modifications suggested during consultation would provide greater detail and transparency. These further modifications are in this letter, with a summary of consultation responses.

We are also publishing the finalised new RIGs and reporting templates. The main changes made since the consultation are in Appendix 1. We are also issuing a Direction to DCC, in the form set out in Appendix 2, for the purpose of modifying and issuing the new RIGs. If you have any questions on DCC price control or anything in this decision letter, contact [tricia.quinn@ofgem.gov.uk](mailto:tricia.quinn@ofgem.gov.uk).

### **About DCC**

DCC is a monopoly licensee regulated by Ofgem<sup>3</sup>. The Department of Energy and Climate Change (DECC) granted the Smart Meter Communication Licences<sup>4</sup> to Smart DCC Ltd<sup>5</sup> on 23 September 2013, following a licence competition.

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

<sup>2</sup> Available on the Ofgem website: <https://www.ofgem.gov.uk/publications-and-updates/consultation-modification-data-communications-company-dcc-regulatory-instructions-and-guidance-rigs>

<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.

Price controls restrict DCC's revenues to counter its monopoly position. Because of DCC's unique nature and the new regime in which it will operate, the costs it incurs must be economic and efficient. DCC will incur costs, pass these onto Service Users, and we will review them ex post, after the end of the regulatory year they were incurred in.

DCC must compile a price control report and submit it to us for each regulatory year by 31 July the following regulatory year<sup>6</sup>.

## What are the RIGs?

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

- the Specified Information that DCC must report
- the Authority's requirements for collecting, recording, and providing Specified Information
- instructions and guidance on the standards of accuracy and reliability for the Specified Information
- explanations 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 DCC's compliance with the RIGs.

## Summary of responses

Our March consultation on modifications to the RIGs and templates asked for views on our proposed changes. It also asked for any other suggestions to help ensure we have enough information to decide whether costs have been economically and efficiently incurred. We received two responses to the consultation, which are both on our website<sup>7</sup>. In general, the respondents supported the clarity and detail the changes provide. They gave some further suggestions for improvement to the RIGs, and raised clarification questions. These suggestions and questions are summarised below with our responses.

### 1. Approach to modifying the RIGs

A respondent commented that changes to the RIGs should be consistent and allow for comparison between price control submissions made by DCC. Another respondent said that the RIGs should be kept under regular review until DCC is operating steadily to reflect its changing activities, and the principles established through the price control process.

#### *What we think*

We agree that changes made to the RIGs must ensure that price control submissions remain comparable between different reporting years. We are also committed to annually reviewing the RIGs to ensure they are fit for purpose during the implementation phase of

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<sup>4</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>5</sup> Referred to as 'DCC' throughout.

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

<sup>7</sup> <https://www.ofgem.gov.uk/publications-and-updates/consultation-modification-data-communications-company-dcc-regulatory-instructions-and-guidance-rigs>

DCC's activities, and consulting on any modifications. Changes will be required in future to introduce quality of service reporting requirements to the RIGs alongside an operational incentive regime.

## *2. Changes to data submitted under the RIGs*

A respondent suggested that any revisions made to historical data DCC has previously submitted should be reviewed and authorised by the Authority before the DCC's price control submission. This would avoid confusion and delays to Ofgem's assessment process. This respondent also queried the format and frequency of DCC's reporting, highlighting differences between DCC's price control reporting cost submission and the forecasts in its prudent budget.

### *What we think*

If DCC brings an error in a historical costs previously submitted to our attention with enough time to review it before we receive DCC's reporting submission, the Authority should authorise these changes ahead of that submission. For clarity, DCC will report any differences in its price control reporting from the forecasts made in its prudent budget annually alongside the price control submission under qualitative questions.

## *3. Publication of information*

A respondent questioned whether elements of the cost information that Ofgem scrutinises to reach its price control decisions will be made public.

### *What we think*

As more time elapses since the Licence was awarded to DCC, it may be possible to share some historical data from DCC's price control reporting submissions. But, at present, we encourage DCC to be as transparent as possible with stakeholders on its costs. We intend to issue guidance this summer on the DCC price control process to ensure the principles and criteria we apply in conducting our assessments are clear.

## *4. Shared Service charge*

A respondent suggested that the term "shared service" is replaced with "corporate overhead" to more clearly reflect the purpose of the charge from DCC's parent company.

### *What we think*

We have updated the explanation of the Shared Service charge. This is to avoid ambiguity about whether the charge is only incurred if the services listed as provided by the parent company are drawn upon by DCC. We have also updated the explanation of Internal Services to clarify the distinction between these and Shared Services. This clarifies the meaning of the Shared Service charge but does not lead to any change in how we treat DCC's costs.

## *5. Reporting costs by Service Level*

One of the responses suggested removing the requirement in the RIGs to report Internal Costs by operational service level. The respondent commented that the service levels are no longer useful for understanding DCC's business. This is because its activities and environment have evolved since these service levels were set out during the bid process to award the Licence.

### *What we think*

The operational service level reporting requirements were included in the RIGs to aid our understanding of cost allocation, and assessment of potential successor Licensees' bids in the future. But, DCC's services have evolved since the Licence was granted and they will continue to evolve over the term of the Licence. As such, we agree there is limited value in maintaining this reporting requirement, both for understanding DCC's cost allocation and facilitating future competitive procurement of DCC's successor. We have removed this requirement from the RIGs and associated reporting template to reduce the regulatory burden on DCC.

### *6. Supporting questions on procurement*

One respondent queried the intent of the multiple supporting questions on procurement of Relevant Service Capability. This respondent commented that it was unclear how the questions on efficiency and value for money differed, and on whether only new procurements were within scope of the questions.

### *What we think*

We have amended the supporting questions on Procurement of Relevant Service Capability and Incurred and Future costs to remove any duplication. The amendments also clarify the supporting information required on the procurement exercises done by DCC, and the provisions in place for ensuring *ongoing* value for money. We have also clarified the timing of procurements in scope for the supporting questions, and distinguished between services procured from parties within the Licensee's parent group and from other parties.

We have numbered the supporting questions within the Specified Information section of the RIGs for ease of reference.

### *7. Implementation Milestones*

Completion of Implementation reference in RIGs

A respondent suggested that in light of the ongoing review of the Implementation Milestones and the potential for future reviews, the RIGs and reporting template should be flexible enough to accommodate change in the structure of the milestones.

### *What we think*

We have reviewed the reporting template for the RIGs and have provided flexibility for DCC to enter the Incentives and Time Factors manually to recognise the Implementation Milestones review, and any future reviews.

The implications of the current review of the Implementation Milestones for the drafting in the Licence are not yet decided. We have not amended the RIGs to as major changes to the drafting could have consequences on the structure of the reporting template and the guidance in the RIGs. Regardless, the changes to the Implementation Milestones envisaged should not affect the regulatory reporting for the Regulatory Year 2014/2015. DCC can also provide any additional reporting under the qualitative supporting question (J) in the RIGs, under the heading "events".

For these reasons, we will review references to the Implementation Milestones in the RIGs and reporting template when the Licence is amended. We will align any changes with the introduction of operational incentive reporting requirements. We will assess DCC's performance against the Licence criteria that apply at the time of our price control assessment for each Regulatory Year.

## **Changes to the RIGs and templates**

We have changed the RIGs and reporting templates from the versions proposed in March in response to the consultation. There were also some minor corrections and updates required in the spreadsheet and the RIGs which we have now made. These incremental changes made since the consultation are in Appendix 1.

## **Next steps**

DCC must report in accordance with the RIGs by 31 July 2015. We will review and analyse the information over the summer. We hope to publish a consultation on the outcome of the ex post review in winter 2015, and a final decision in early spring 2016. This timetable will vary depending on the number and complexity of issues that may arise.

If you have any questions on the DCC price control or any of the issues in this decision letter, contact [tricia.quinn@ofgem.gov.uk](mailto:tricia.quinn@ofgem.gov.uk)

**Laura Nell**  
**Head of Smarter Metering**

## Appendix 1: List of main changes made to reporting templates and RIGs since the consultation

Reference	Change	Reason
Sheet three: Implementation Milestones	Restrictions on the values that can be entered for Time Factors removed.	Provide additional flexibility in the template.
Sheet five: Internal costs – by service level	Removed completely.	Reduce regulatory burden.
Sheet seven: Cash balances (now Sheet 6)	Added VAT contributing to Outgoings.	To capture full outgoing cash balances.
Sheets 8 c and 8d: External costs – CSP (now Sheets 7c and 7d)	Total New Scope costs formula for CPS Central and CSP South amended.	Fix a minor error in template.
Sheets 8a, b, c and d: External costs (now Sheets 7a-7d)	Deleting of New Scope cost categories that are no longer relevant.	Streamline the template to relevant activities and costs only.
Internal Costs by cost centre – Sheet 4: Part 2 – inputs	Explanation of the shared service charge and Internal Services expanded on.	Clarify the nature of the charge.
Supporting questions: Procurement for Relevant Service Capability and Incurred and Future Costs	Questions made more specific and duplication removed.	Provide more detail and clarity on reporting requirements.
Supporting questions	Questions numbered.	Ease of reference.

## **Appendix 2: Direction to DCC**

**To: Smart DCC Limited**

**Direction issued by the Gas and Electricity Markets Authority pursuant to licence condition 33.7 of the Smart Meter Communication Licences granted pursuant to section 7AB(2) and (4) of the Gas Act 1986 and section 6(1A) and (1C) of the Electricity Act 1989 (the “Direction”)**

### **WHEREAS**

1. Smart DCC Limited (“the licensee”) holds the Smart Meter Communication Licences granted pursuant to section 7AB(2) and (4) of the Gas Act 1986 and section 6(1A) and (1C) of the Electricity Act 1989 (“the licence”)
2. The Gas and Electricity Markets Authority (“the Authority”) has the power pursuant to condition 33.7 of the licence to modify the Regulatory Instructions and Guidance (“RIGS”) by giving the licensee a direction for that purpose after complying with the requirements of Part B of condition 33 of the licence.
3. The Authority has complied with the requirements of Part B of condition 33.
4. The Authority gave notice of its intention to modify the RIGS to the licensee on 24 March 2015 and has considered all representations duly made in coming to its decision on how to modify the RIGS.

### **NOW THEREFORE**

5. The Authority hereby directs that the RIGS be modified as set out in the Schedule to this Direction<sup>8</sup>.
6. This Direction shall take effect on 1 June 2015
7. The following documents constitute notice pursuant to section 49A Electricity Act 1989 and section 38A Gas Act 1986:
  - a. This Direction
  - b. Decision on modifications and issuing of new Regulatory Instructions and Guidance for the Data and Communications Company (DCC), dated 29 May 2015
  - c. Notice of proposal to modify and issue new Regulatory Instructions and Guidance for the Data and Communications Company under Part B of Condition 33 of the Smart meter Communications Licence, dated 24 March 2015.

Dated: 29 May 2015

**Laura Nell**  
**Head of Smarter Metering**

**Authorised for that purpose by the Authority**

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<sup>8</sup> The main changes made to the reporting templates and RIGs are listed in the Appendix to this Direction.

## Appendix: Changes to RIGs and reporting templates

This table lists the main changes made to the reporting templates and RIGs. All sheet number references are based on the RIGs issued in March 2015.

Change	Sheet number/RIGs	Detailed description
Shared service charge clarification in template titles	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"> <li>• Sheets four, five, 11a, 11b, 11c and 11d</li> <li>• Sheet nine (rows 27 – 29).</li> <li>• Sheets four, 11a, 11b,</li> </ul>	<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</p>



	<p>11c, 11d</p> <ul style="list-style-type: none"> <li>• Sheets 11c and 11d</li> </ul>	<p>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>
Shared service charge clarification on meaning	<ul style="list-style-type: none"> <li>• Sheets four, five, 11a, 11b, 11c and 11d</li> </ul>	<p>We have made clearer in the RIGs document that the shared service charge is akin to a corporate overhead charged by the Licensee's parent company.</p>
Internal services clarification on meaning	<ul style="list-style-type: none"> <li>• Sheet four</li> </ul>	<p>We have made clearer in the RIGs document that internal services are exclusive of shared services.</p>
Supporting questions: Procurement for Relevant Service Capability and Incurred and Future Costs	<ul style="list-style-type: none"> <li>• Section seven</li> </ul>	<p>We have made the information required under the procurement and incurred and future costs more specific for clarity in the RIGs document.</p>
Data change log	<ul style="list-style-type: none"> <li>• New sheet</li> </ul>	<p>This has been added to capture any changes in historical data as explained in the guidance document.</p>
Summary data	<p>Sheet three</p> <ul style="list-style-type: none"> <li>• Row 33</li> <li>• Sheets 4; 5; and 8a – 8d</li> </ul>	<p>Values for BM entered based on values in the licence.</p> <p>Some summary charts added.</p>

Revenue reporting	<p>Sheet three</p> <ul style="list-style-type: none"> <li>• Row 29</li>   <li>• Row 34</li>   <li>• Row 120</li>   <li>• Rows 47, 50, 53, 56, 59, 62, 65, 68, 71, 74, 77, 80, 83</li>   <li>• New sheet: "RPI"</li>   <li>• Sheet 2, row 15</li> </ul>	<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 Factor<sup>9</sup> correctly, based on economic and efficient forecasts of costs and revenues. It does not affect the information reported in sheet six.</p> <p>Drop-down boxes for Time Factors related to Implementation Milestones removed to allow flexible input by the licensee.</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 –	Sheet four	Drop-down boxes have been

<sup>9</sup> Correction Factor as calculated in LC36, Part F.

by DCC cost centre	<ul style="list-style-type: none"> <li>• Column D</li> <li>• Rows 37 – 41</li> <li>• Rows 42 – 46</li> <li>• Row 211 and 212</li> <li>• Row 260</li> </ul>	<p>incorporated to be clear that the licensee must identify the relevant General Ledger code for any new item added.</p> <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>
Internal costs – by service level	Sheet five	Sheet deleted as no longer relevant.
Financial statements	Sheet six <ul style="list-style-type: none"> <li>• Row 91</li> <li>• Row 242</li> </ul>	<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>
Cash balances	Sheet 7 <ul style="list-style-type: none"> <li>• Row 52</li> <li>• Row 60</li> </ul>	<p>Formula to calculate total outgoing cash-flows amended to include row 60.</p> <p>Row added to allow licensee to report Value Added Tax in its outgoing cash-flows.</p>

External costs - CSP Central	Sheet 8c <ul style="list-style-type: none"> <li>Row 33</li> </ul>	Formula to calculate total New Scope costs amended to correct an error.
External costs - CSP South	Sheet 8d <ul style="list-style-type: none"> <li>Row 33</li> </ul>	Formula to calculate total New Scope costs amended to correct an error.
External costs	Sheet 8a <ul style="list-style-type: none"> <li>Rows 36, 47-57, 77-87, 95-111</li> </ul> Sheet 8b, c and d <ul style="list-style-type: none"> <li>Rows 47-57, 77-87, 95-111</li> </ul>	Rows deleted for New Scope cost categories that are no longer relevant.  Rows deleted for New Scope cost categories that are no longer relevant.
Shared/group/support/external service costs	Sheet nine <ul style="list-style-type: none"> <li>Row 20</li>   <li>Row 24</li>   <li>Row 26</li>   <li>Row 31</li>   <li>Row 63</li> </ul>	Formula inserted to calculate the shared service charge from the relevant input data.  Formula inserted to calculate the internal cost base to which the shared service charge is applied.  Formula inserted to aggregate all internal costs which do not incur the shared service charge.  Check-boxes have been added under 'licensee costs excluded from calculation of group costs allocation'.  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.
Staff resourcing and costs	Sheet ten <ul style="list-style-type: none"> <li>Row 116 to 181</li> </ul>	New part three added for the licensee to report average staff

	<ul style="list-style-type: none"> <li>• Part three and part four</li>   <li>• Parts one, two, three and four, column R</li>   <li>• Part three and four</li> </ul>	<p>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"> <li>• Sheets 11c and d</li>   <li>• Sheet 8a, 8b, 8c, 8d</li>   <li>• Sheets 11b and 11d</li> </ul>	<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>