

Decision: DCC's role in developing a Centralised Registration Service

Decision

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Overview:

The Switching Programme aims to deliver reliable and fast switching for consumers on a new Centralised Registration Service (CRS).

Following statutory consultation in December 2015, we are now publishing our decision to modify the licence held by the Data and Communications Company (DCC) to give it new obligations and set out the funding arrangements for its role in the Switching Programme.

These changes will have effect from 14 July 2016.

Context

Smart DCC Limited is referred to as the Data and Communications Company (DCC). It is a central communications body appointed to manage communications and data transfer for 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 provide data and communications services for smart meters through its external service providers. The Department of Energy and Climate Change (DECC) granted Smart DCC Ltd the Smart Meter Communication Licence¹ (“the licence”) on 23 September 2013.

We want to use the opportunities provided by smart metering to make the switching process faster and more reliable for consumers.

Associated documents

- Modification of the conditions of the smart meter communication licence, Ofgem, 17 May 2016
<https://www.ofgem.gov.uk/publications-and-updates/decision-dccs-role-developing-centralised-registration-service>
- DCC Price control Decision document 2014/15. Ofgem, 25 Feb 2016
<https://www.ofgem.gov.uk/publications-and-updates/dcc-price-control-decision-regulatory-year-201415>
- Smart Meter Communication Licence (highlighting DECC changes dated 17 December 2015)
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/484712/Annex_D_-_DCC_Licence_-_Consolidated_-_December_2015_-_Conclusions_and_L____.pdf
- Proposals for DCC’s role in developing a Centralised Registration Service and penalty interest proposals, Ofgem, 17 December 2015
<https://www.ofgem.gov.uk/publications-and-updates/final-proposals-dcc-s-role-developing-centralised-registration-service-and-penalty-interest-proposals>
- Switching Significant Code Review (SCR) and requests for expressions of interest to participate in Programme workshops: Consultation, Ofgem, 17 Nov 2015
<https://www.ofgem.gov.uk/publications-and-updates/switching-significant-code-review-launch-statement-and-request-expressions-interest-participate-programme-workgroups>
- Updated Target Operating Model and Delivery Approach, Ofgem, 17 Nov 2015
<https://www.ofgem.gov.uk/publications-and-updates/moving-reliable-and-fast-switching-updated-target-operating-model-and-delivery-approach>
- DCC’s role in developing a Central Registration Service (CRS) and penalty interest proposals: Consultation, Ofgem, 28 Jul 2015
<http://www.ofgem.gov.uk/publications-and-updates/dccs-role-developing-central-registration-service-and-penalty-interest-rate-proposals>
- Moving to reliable next-day switching: Decision. Ofgem, 10 Feb 2015
<https://www.ofgem.gov.uk/publications-and-updates/decision-moving-reliable-next-day-switching>

¹ The Smart Meter Communication Licences granted pursuant to Sections 7AB(2) and (4) of the Gas Act 1986 and Sections 6(1A) and (1C) of the Electricity Act 1989. This consultation is being conducted in respect of both of those licences. Together, those licences are referred to as ‘the licence’ throughout this document.

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Executive Summary

Ofgem is leading a programme to deliver reliable and fast switching on a new Centralised Registration Service (CRS).² We expect DCC to have a crucial role in developing the new registration and switching arrangements³, including the procurement of the CRS.

This document sets out our decision to change DCC's licence to establish its role to:

- Contribute to the design of the new registration and switching arrangements;
- Contribute to the identification of the requirements for the new CRS; and
- Procure the Relevant Service Capability⁴ to deliver the CRS as part of a competitive tender.

These changes also establish how this activity will be funded.

These changes will ensure that DCC is appropriately funded and has clear obligations that describe its role in supporting the Switching Programme. If there is a conflict with its smart meter obligations, those will take precedence over this initial development period in the Switching Programme.

We anticipate amending the licence further to cover DCC's obligations for the build and test of the CRS and its live operation. We will review this during the Blueprint Phase.

Decision summary

After considering responses to our July 2015 consultation and December 2015 statutory consultation, we have decided to:

- Put new obligations in DCC's licence to contribute to the design of the new switching arrangements and the CRS, and to procure the Relevant Service Capability to deliver the CRS.
- Make changes to the price control framework in DCC's licence to allow it to recover the economic and efficient costs it incurs for participating in the Switching Programme.
- Within the overall licence framework, to apply an "ex-post plus" price control approach during the transitional phase⁵ (from 1st April 2016) for all of DCC's Switching Programme costs. This will help lay the path towards an ex-ante price control for DCC in the future and is described below.
- Allow DCC to recover its costs through the existing charging methodology during the transitional phase.

² 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 document, 'us/we', 'Ofgem' and 'Authority' are often used interchangeably.

³ The 'switching arrangements' are the processes by which a consumer switches from one gas or electricity supplier to another.

⁴ This means the internal and external resources which DCC relies upon in order to provide services to DCC Users.

⁵ "Transitional phase" refers to the Blueprint, Detailed Level Specification, and Enactment phases of the Switching Programme.

- Include the preparation for the CRS as a new category of Mandatory Business Service in DCC's licence.

In December 2015, we proposed a price control framework for DCC's switching activity in the transitional phase. We proposed to apply this framework by subjecting DCC's procurement costs to an ex-ante arrangement, if possible and practical, and its other costs to an ex-post arrangement.

The changes we are now making to DCC's licence will allow both ex-ante and ex-post price control elements for design, procurement or operational activity. For the transitional phase of the Switching Programme we propose to use an ex-post plus approach to assess DCC's costs. We are at an early stage in the design of the new CRS and switching arrangements, and DCC's efficient procurement costs are likely to be uncertain until the design has begun to be baselined. Given the time pressures of setting a cost allowance in advance, we do not think it is practical to apply an ex-ante approach in this transitional phase.

An ex-ante approach can provide early transparency and effective risk-management incentives. We want to drive these behaviours through our proposal to apply an ex-post plus approach in the transitional phase. This approach, which we have agreed with DCC, involves additional reporting from DCC and enables earlier scrutiny of proposed costs and activities. Under the ex-post plus approach, DCC will set out its planned activities and justify its costs upfront in a published business case. It will also report regularly throughout each regulatory year. Our final decision on DCC's acceptable costs will remain ex-post. A similar approach was used successfully for National Grid Electricity Transmission (NGET) to fund its development work for its Electricity Market Reform (EMR) delivery role.

Our overall objective remains to move to an ex-ante price control for DCC. We will consider and consult on the approach to DCC's price control for the Design Build and Test Phase and live operation during the Blueprint Phase. We consider that the flexibility in our changes to the DCC licence can facilitate the price control for these later phases.

Next steps

The licence modifications are included in the notice which is published alongside this decision publication.

The licence modifications would come into effect on 14 July 2016.

1. Introduction

Background

1.1. In July 2015, we consulted on amending the Smart Meter Communication Licence (referred to in this document as DCC's licence). We proposed new obligations for DCC to support the development of the Centralised Registration Service (CRS) and the new switching arrangements, and to procure the CRS. We explained how this activity would be funded as well as setting out draft considerations for DCC to take into account when meeting its obligations under its licence. We also proposed other consequential changes to the licence.

1.2. On 17 December 2015, having taking into account respondents' views and modified the detail of our proposals, we published a statutory consultation on changes to DCC's licence.

1.3. We received ten responses to December's statutory consultation. Respondents agreed with our proposals. This document describes their views together with our responses. Responses are also on our website.⁶

1.4. In February 2016, the Department of Energy and Climate Change (DECC) modified DCC's licence to reflect the Government's response to various Smart Energy Code (SEC) consultations.⁷ We have reviewed these changes in the context of our decision and do not consider that they affect our proposals. In the decision notice accompanying this document, we have highlighted any consequential changes to our proposals. These only relate to updating of paragraph numbering and do not change the intent of our consultation.

Data Communications Company (DCC)

1.5. DCC is a central communications body licensed to provide the communications, data transfer and management for 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.

1.6. DECC granted DCC's licence on 23 September 2013 following a licence competition. The licence is for 12 years and will remain in place until 22 September 2025, unless it is extended or revoked. DECC also established price control arrangements that restrict DCC's revenues, to counter its monopoly position.

⁶ <https://www.ofgem.gov.uk/publications-and-updates/final-proposals-dcc-s-role-developing-centralised-registration-service-and-penalty-interest-proposals>

⁷ The modifications were made to licence conditions 1, 2, 17, 22, 35, 36 and 38; https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/484712/Annex_D_-_DCC_Licence_-_Consolidated_-_December_2015_-_Conclusions_and_L_.pdf

Registration services

1.7. In February 2015, we published our decision to overhaul and radically re-engineer the arrangements by which energy consumers can switch gas and electricity suppliers. This included requiring DCC to put in place a new CRS that can deliver reliable, faster switching. We have established a Switching Programme to design and deliver these changes. In November 2015, we launched a Significant Code Review (SCR) for implementing the new industry arrangements for next-day switching, and requested expressions of interest to join the Blueprint Phase workgroups. We also published an updated version of the Target Operating Model (TOM).

1.8. Registration services are currently provided separately by gas and electricity networks, and the switching rules are significantly different in both markets. Registration services are the definitive record of each gas and electricity supply point in the GB market including: the identity of the supplier, the address and unique reference number of each supply point, and site characteristics, such as whether the premises is domestic or non-domestic. We want to harmonise registration services, simplify the switching arrangements and provide a common platform for reliable and fast switching for all customers.

1.9. In addition to switching, registration services support other essential market functions such as energy balancing and settlement,⁸ network charging and smart metering.⁸

1.10. In the TOM we envisaged that the detailed rules for the registration service would operate in the Smart Energy Code (SEC). Work is underway to assess all the options against our design principles and principles of good regulation.

1.11. In this document we have set out our decision to amend DCC's licence to clarify the role it should play in developing the new market arrangements. These new licence obligations will provide certainty to DCC on its role. They will also set the boundaries of the activities for which DCC, as a price controlled entity, can recover costs. As described in Chapter 3, we also propose to work with DCC as it establishes a business case setting out the activities and costs over the transitional phase (described below). This will give the market visibility of how DCC expects to meet its obligations under its amended licence.

1.12. Our decision aims to ensure that DCC has clearly defined requirements and funding to support the Switching Programme in a way that does not jeopardise delivering its other smart metering responsibilities. However, in the event of a conflict, DCC's smart meter requirements in the Transition Objective (Licence condition (LC)13) take precedence until Completion of Implementation.^{9,10}

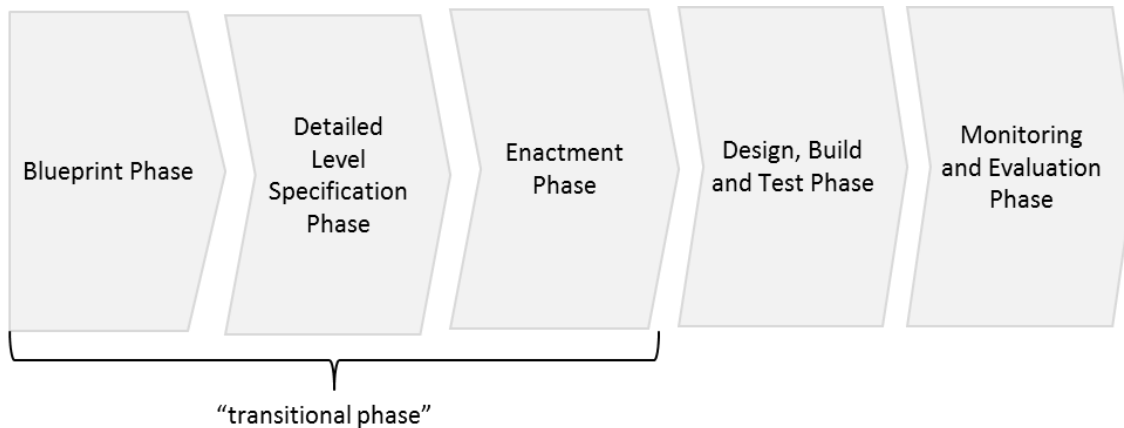
⁸ In this document, unless specifically stated, references to the CRS are references to its role as a register of relevant information on gas and electricity supply points in the GB market, to the arrangements to facilitate reliable and fast switching and the provision of information to support a wide range of other market functions including the balancing and settlement of gas and electricity, network charging and smart metering. Further detail is set out in the Target Operating Model.

⁹ Completion of Implementation as defined in licence condition 5, Part D.

Context for the changes

1.13. We have identified five phases for the Switching Programme. This consultation covers DCC's activity during the first three.¹¹ In this decision document, we refer to these collectively as the "transitional phase". See figure 1 below.

Figure 1 – Phases for the Switching Programme.



1.14. We think DCC should be funded so it can participate in workstreams led by Ofgem, with industry involvement, to establish the high-level design of the new switching arrangements. These workstreams have been established for the Blueprint Phase of the programme. Within each workstream, DCC will be a member of a Design Team, which will develop proposals for wider review. In the Blueprint Phase we have identified specific activities for which the DCC should be responsible for providing input. For the Business Process Design and Delivery Strategy workstreams the current activities are:

- Developing proposals for new solution architectures to deliver the new switching arrangements
- Developing an information risk assessment to help develop the new switching arrangements
- Developing strategies for cleansing data from 'as-is' to new 'to-be' arrangements
- Developing proposals for a testing strategy for the new systems and processes
- Developing proposals for post-implementation arrangements
- Supporting the development of policies and processes, bringing in experience, lessons and best practice from other sectors and considering the consumer

¹⁰ In addition, DCC has obligations to ensure it has sufficient resource to fulfil all of its defined Mandatory Business. We propose to include the CRS, alongside DCC's smart meter obligations, within the scope of Mandatory Business.

¹¹ The other two phases are the Design, Build and Test Phase and the Monitoring and Evaluation Phase. These follow the Enactment Phase.

journey, including future business models that will influence how consumers interact with the new switching arrangements

1.15. As the procuring body for the new CRS, the DCC has a clear role in helping design and define the specifications for the new service. It will also contribute with Ofgem and industry stakeholders to development of the price control and charging arrangements for implementing and operating the new service, as part of our Commercial Workstream.

1.16. During the transitional phase we also expect DCC to contribute to the development of the modifications to industry codes and licences. In this phase, DCC is also required to plan for and run a competitive tender to procure the CRS.

1.17. The scope of the licence changes in this consultation are the ones that are needed for DCC to be involved in this work until the CRS is procured, ie up to the end of the Enactment Phase. However, the price control changes could continue to be used for build and test as well as live operation phases in the Switching Programme.

Penalty interest proposals

1.18. The July and December consultations also proposed licence changes on the arrangements that require DCC to take all reasonable steps to secure that its regulated revenue does not exceed a prudent estimate of its allowed revenue.

1.19. We proposed introducing a penalty interest rate regime for overcharging and the form this could take.

1.20. These penalty interest rate proposals have now been subject to a further statutory consultation¹² and are not addressed in this document.

¹² <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-final-proposals-dcc-penalty-interest-rate-0>

2. Registration and switching arrangements

Chapter Summary

We will modify DCC's licence (LC15) to require it to contribute to the design of the CRS and switching arrangements and to procure Relevant Service Capability to deliver the CRS. We will modify LC16 so that the Relevant Service Capability must be procured through competitive tender. We have decided not to update the considerations for DCC to take into account when meeting its requirements under LC15 as we expect this will be driven by the development of the business case described in the next chapter.

2.1. In our December 2015 consultation we proposed to place an objective (the "Interim Centralised Registration Service Objective") on DCC to:

- contribute to the full and timely design of a CRS that would support reliable, faster switching;
- make all relevant preparations; and
- procure the CRS.

2.2. This would replace the current rules in LC15 that allow the Secretary of State to direct DCC to secure the incorporation of energy registration services into the services provided under the SEC.

2.3. We also proposed an obligation on DCC to contribute to documenting the design of the CRS and to comply with any Direction issued by us on LC15.

2.4. To be clearer about LC15's intent, we consulted on draft considerations that DCC should take into account when meeting its new obligations under LC15.

2.5. We also proposed that CRS capability should be procured by DCC through competitive tender without exception. This was to be achieved by introducing a new defined term describing the capability DCC must procure for the CRS¹³.

Changes to LC15

Consultation responses

2.6. Respondents supported our proposals to amend LC15 and several provided detailed comments.

¹³ "Fundamental Registration Service Capability" introduced in LC 16

2.7. One respondent did not think that the Interim Centralised Registration Service Objective should include procuring the CRS as it considered that case for this had not yet been fully made.

2.8. One respondent noted that stakeholders needed assurance that the documentation used for commercial procurement of the CRS was fit for purpose. It said that the review arrangements should be subject to stakeholder consultation.

2.9. One respondent suggested including a requirement in LC15 for Ofgem to consult with stakeholders before issuing a direction under LC15.

2.10. One respondent noted that there were shared definitions in LC21.12 and LC15.8 (for example on the definition of specific industry codes and licensee types). It suggested that only one set of definitions should be used in the licence. Another noted that there were some differences in the description of these terms between the two licence conditions.

2.11. One respondent queried the drafting of LC15.4(c)(i). This requires that the Relevant Service Capability procured should reflect the design of the CRS designated by us, including any amendments to that designated design. The respondent wanted us to clarify whether DCC was required to take account of any amendments to the design of the CRS designated by us before the service is procured, or whether the procured service must be changed to meet design requirements.

2.12. One respondent asked if the term "executed" in relation to Relevant Service Capability (LC15.4(c)(ii)) was a reference to that service having been; procured (but without contracts signed), contracted or implemented.

2.13. One respondent was concerned that the reference to the Data Transfer Catalogue within the CRS definition could cause confusion on the scope of the CRS. They noted that the scope of the data flows in the Data Transfer Catalogue is wider than the scope of those data flows linked to supply point registration. They suggested that this should be excluded and that further consideration given, during the Blueprint Phase, to the detailed CRS requirements.

2.14. One respondent suggested that the definition of the CRS should allow for exclusions from the design of future switching arrangements. This, they argued, would provide more flexibility for us to make design decisions to support efficient implementation of new switching arrangements and the CRS.

2.15. One respondent noted a typographical error in LC15.9. The reference "(b)" had been incorrectly used instead of "(ii)" in a sub-clause.

Our response

2.16. We continue to think that the Centralised Registration Service Objective should include a requirement for DCC to procure the CRS. We want DCC to undertake the procurement in the transitional phase and then to enter into a contract for the CRS. This obligation makes it clear to DCC that it should invest in providing a high-quality procurement exercise that potential service providers will respond to.

2.17. We are working with DCC on how to develop the procurement arrangements. We agree that it is important to test this approach with stakeholders to reassure them that, for example, the procurement documentation published by DCC will correctly describe the design requirements. We propose to test our thinking on this with the Commercial Workstream as well as with Switching Programme External Design Advisory Group (EDAG) or any other appropriate group in the Switching Programme governance structure during the Blueprint Phase. In addition to the requirements that we have proposed to include within LC15 on the quality of the procurement, we will also examine, during the Blueprint Phase, whether to incentivise specific procurement activities.

2.18. We note the request for a requirement, on the face of the licence, for Ofgem to consult on a direction before issuing it. We have a general public law duty to consult where appropriate. We therefore do not consider it necessary to reiterate this requirement within the licence in respect of this direction. This is consistent with the approach taken to the drafting of certain other powers of direction in DCC's licence.

2.19. We agree that the definitions that are used in both LC15 and LC21 should be moved to LC1 and have included these changes in the accompanying decision notice. Where there were minor differences to the description between the two licence conditions, we have adopted the version that was previously in LC21.

2.20. In relation to the comments on the Relevant Service Capability:

- Our intention in LC15.4(c)(i) is that DCC enters into a contract on the basis of the latest design designated by the Authority for that purpose. We note that the design is likely to change as the programme progresses through the Design, Build and Test Phase although this is not the intent for this to be covered by this specific obligation. However, it will be necessary to incorporate flexibility and change control arrangements in the contracts that DCC enters into to account for future design changes both during the build and test phase and after implementation.
- The term "executed" in relation to LC15.4(c)(ii) means the completion of the procurement activity including entering into the contract for the provision of the CRS.¹⁴

2.21. In relation to the comments on the definition of the CRS:

- We agree that including a reference to the Data Transfer Catalogue within the definition of the CRS could make its scope confusing. For the electricity market, the CRS definition includes but is not limited to the provision of services equivalent to those currently included in the meter point administration services (MPAS). We agree that this provides sufficient scope at this stage. We have therefore removed the reference to the Data Transfer Catalogue and consider that this is consistent with the intent of the

¹⁴ Under this obligation, DCC will be required to conduct the procurement and enter into a contract that, in all likelihood, will give effect to an efficient, economical and secure CRS that would provide a platform for fast and reliable switching for customers.

consultation. Further detail on the definition of requirements will be developed during the Blueprint Phase.

- We do not propose to provide a list of areas that should be excluded from the definition of the CRS at this stage. We consider that definition is drafted at a high enough level so as not to constrain the detailed design of the CRS and the switching arrangements.
- We have updated the numbering referencing in the definition from (1)(a)(b) to (1)(a)(ii).

New defined term: “Fundamental Registration Service Capability”

Consultation responses

2.22. In December we proposed changes to introduce a new type of Relevant Service Capability termed Fundamental Registration Service Capability to ensure that DCC procures the CRS externally¹⁵.

2.23. Respondents agreed with the proposal that the CRS should be procured via competitive tender without exception, supported by a new defined term of Fundamental Registration Service Capability.

2.24. One respondent said that it was too early to provide for specifics of procurement using licence changes.

2.25. Another respondent said that all industry parties should be involved in and influence the development of the CRS because it will be fundamental to their business.

Our response

2.26. We are introducing a new Fundamental Registration Service Capability term because we believe it is essential to set out in the licence that the CRS should be procured externally. This should ensure the best long-term value for money for service users and consumers.

2.27. We agree that all parties should be involved in and influence the development of the CRS. We note that the CRS requirements will be developed in the Switching Programme workstreams with industry parties. Also, we have said that DCC should consult before tender of the CRS, and we intend for DCC’s specific procurement framework and plan to be tested with stakeholders through the Programme.

¹⁵ We also proposed changes to DCC’s price control licence conditions related to its switching and CRS costs. These are addressed in Chapter 3.

Considerations for DCC

Consultation responses

2.28. In December, we updated the proposed considerations for DCC to take into account when seeking to meet its new Interim Central Registration Service Objective under LC15. All respondents broadly agreed with the proposed considerations. Some had detailed comments.

2.29. One respondent suggested that the draft considerations should be monitored and reviewed by the EDAG.

2.30. One respondent said that it would be sensible for DCC to seek synergies between smart metering and registration and to ensure that these are considered within the Blueprint Phase. They said that DCC should also immediately highlight any potential impact that its involvement in developing the CRS and new switching arrangements would have on its delivery of smart metering services. This would clarify DCC's role in proactively identifying and managing conflicts.

2.31. One respondent noted that there was an issue with the drafting of paragraph 2.15 in the draft considerations consulted upon in December. One respondent noted that, in addition to the consideration proposed in December (paragraph 2.19) for DCC to transpose CRS requirements into a technical specification for procuring the CRS, there will be other requirements that should also be referenced. These include the requirements relating to the operation of the CRS.

Our response

2.32. As described in the following chapter, DCC will produce a business case that describes what it will do in the transitional phase (ie until it has entered into a contract to deliver and operate the CRS). This will be developed with stakeholders and us, and will be consulted upon. DCC will update on progress against the business case. We think this is the right way to describe DCC's activity under LC15. We therefore have not republished the considerations consulted on in December. In developing the business case and in preparing and carrying out procurement, we expect DCC to take the draft considerations set out in December fully into account as well as our comments below on the issues raised by respondents.

2.33. We agree that it would be sensible for DCC, as well as other stakeholders, to identify synergies between smart metering and CRS development. We also agree that DCC should immediately highlight any potential impact that its involvement in developing the CRS and new switching arrangements would have on its delivery of smart metering services.

2.34. We note the error in paragraph 2.15 of the December draft considerations. Our intention here was for DCC to contribute to developing the scope of the CRS and its role within the wider industry framework.

2.35. We agree that DCC should be required to develop the full range of documents needed for potential bidders to understand what services it was procuring. To

facilitate the delivery of the CRS and the new switching arrangements, DCC may be asked to procure other services, for example a systems integrator to support the Design, Build and Test Phase. The CRS functions may also be split for procurement, for example between an enquiry service and the registration database service.

3. Recovery of costs

Chapter Summary

We will amend DCC's licence to allow it to recover costs for its CRS and switching activity. We will use an ex-post plus price control arrangement for the transitional phase.

3.1. Where possible, we want to use an ex-ante price control for DCC. In line with this, our December consultation said that we would prefer, if possible and practical, to use an ex-ante approach for DCC's procurement cost during the transitional phase. We said that DCC's other costs during this phase should be subject to an ex-post arrangement because they are more difficult to assess and benchmark in advance.

3.2. We consulted on proposed licence drafting to allow the Authority to introduce a specific price control arrangement for DCC's CRS activities. This includes the ability to include ex-post as well as ex-ante arrangements for the price control. We also consulted on how to determine these ex-ante costs, and the possibility of introducing incentives and a cost adjustment mechanism.

Price control model

3.3. We have summarised respondents' views below on different aspects of our price control proposals. Our responses follow, setting out our licence modifications and our decision to operate the framework using an ex-post plus price control arrangement for the transitional phase.

Consultation responses

Price control framework

3.4. Some respondents agreed with the proposals to introduce a framework with ex-ante and ex-post price control elements for DCC's switching costs. One respondent disagreed with use of both ex-post and ex-ante arrangements, believing this mixture to be confusing.

3.5. One respondent was opposed to a framework with ex-ante price control elements. This respondent said that ex-ante price controls for energy network companies had not proven to be more efficient and effective than ex-post, and singled out the difficulties in benchmarking DCC's distinctive costs against suitable comparators.

3.6. One respondent suggested that changes to the timescales for baseline margin adjustments should be considered alongside changes to DCC's allowed revenue framework. This response suggested that applying the baseline adjustment mechanism for DCC's CRS activities in a similar way to its new scope smart metering activities would be too lengthy a process.

3.7. Another response suggested that the new CRS Revenue framework should include its own correction factor to allow for any over- or under-recovery to be given, or collected, from those paying for and benefitting from the service.

Operating the framework in the transitional phase

3.8. In December, we proposed to operate the framework through an ex-post price control for non-procurement costs and an ex-ante price control for procurement costs. We proposed a timetable and process for agreeing ex-ante procurement costs as well as any uncertainty and incentive mechanisms.

3.9. One respondent disagreed with our proposal to operate with an ex-post price control for non-procurement costs. This respondent did not consider that the degree of uncertainty on DCC's switching activities during the transitional phase was sufficiently material to justify such an arrangement. The respondent suggested that an ex-ante cost allowance mechanism for all DCC's costs during this phase combined with a performance incentive would provide the correct incentive for DCC to deliver its objectives efficiently and flexibly.

3.10. Respondents generally agreed with the proposed timetable and process for agreeing ex-ante procurement costs, as well as any uncertainty and incentive mechanisms.

3.11. A couple of respondents were concerned that the proposed timeline was ambitious and lacked contingency. One of them suggested more time was needed to agree the appropriate CRS revenue and possible adjustment mechanisms. The other highlighted a risk to meeting overall programme timescales of agreeing ex-ante procurement costs.

3.12. One respondent indicated that the proposed timeline was generally viable. However, they noted some wider implications and risk as a result of the proposed timelines. One of the implications they suggested was that DCC would have to submit its procurement business plan before the end of the Blueprint Phase under the proposed timetable, and this could compromise the accuracy of the proposed cost allowance. Another implication was that within-year adjustment to charges would create instability for service users given the proposed timing of the cost allowance decision after charges are set.

3.13. This respondent said that an ex-ante price control would pose undue cost risk to DCC given this uncertainty. The respondent also noted that there was no detail on the scope, scale and complexity of the proposed timelines for introducing any uncertainty and incentive mechanisms.

3.14. On the process for agreeing ex-ante procurement costs, two respondents suggested that there should be more detail within the licence on the Authority's process for determining the components of DCC's allowed revenue for CRS activities that our proposed licence drafting stated may be populated by direction at a later date.

3.15. One respondent wanted to discuss whether the best ways to influence DCC's behaviour in the transitional phase are through licence requirements, or other

means. Another respondent said that focusing on coming to a pre-agreed cost allowance for the CRS procurement risked limiting DCC's flexibility in carrying out the CRS procurement, which could compromise long-term value for money for consumers.

3.16. Other respondents focused on cost transparency. One said that DCC should be encouraged to share the breakdown of CRS costs within the allowed revenue variable. Another suggested that it should be clear how DCC's revenue will be charged, and notice of the amounts should be given at least 15 months in advance of cost-recovery.

Our response

Price control framework

3.17. We are modifying the allowed revenue formula to include ex-ante and ex-post terms as proposed in December. This licence drafting provides flexibility to introduce an ex-ante approach in the future should it become possible and practical to do so. We will consider the approach to DCC's price control for the later phases of the Switching Programme in the Commercial Workstream during the Blueprint Phase, and will consult on these proposals.

3.18. In relation to the specific drafting comments, we have amended the licence drafting to reiterate that the CRS Revenue Pre-agreed Cost term in the allowed revenue formula will take the value of zero unless the Authority directs otherwise, in response to a respondent's suggestion¹⁶. We have also clarified in the definitions of the cost terms that appear in the allowed revenue formula, for avoidance of any doubt, that economic and efficient costs DCC incurs for its smart and switching activities under the licence will not be double counted.

3.19. We do not currently see value in introducing a specific correction factor for DCC's CRS costs in the transitional phase given the expected low materiality. However, this is something that could be considered by the Commercial Workstream for future phases of the Programme, particularly if an ex-ante approach is recommended.

3.20. We did not propose to change the timescales of the baseline margin adjustment mechanism to reflect DCC's switching activity in December. We proposed the CRSPA_t term as a mechanism to adjust DCC's allowed revenue to incentivise delivery against its obligations under the Programme. This provides the Authority the ability to direct a margin allowance and a potential outcome-based incentive regime linked to that margin, following consultation with stakeholders. We expect to consult on a direction of this term later this year.

Operating the framework in the transitional phase

¹⁶ This is also set out in the definition of the CRSPC_t term as proposed in our statutory consultation, for avoidance of doubt.

3.21. We have considered consultation responses, and continued to assess the practicalities of adopting an ex-ante arrangement for DCC's CRS procurement costs. We continue to believe that an ex-ante approach has advantages for DCC, stakeholders and consumers in the long run. We are therefore putting in place a price control framework which allows the Authority to direct an ex-ante cost allowance for DCC's Switching Programme activities. However, given that we are at an early stage in the design of the new CRS and switching arrangements and taking account of points raised during the consultation, we do not regard it as practical for the transitional phase.

3.22. The scope, timing and scale of DCC's activities, and costs it will incur during the transitional phase, are still uncertain. Because of this, and the timetable pressures of setting a cost allowance in advance, we do not consider that an ex-ante model will be practical. It would create undue risks of adverse impacts on the overall Switching Programme or being poor value for money for consumers.

3.23. We recognise the benefits of making DCC's activities and costs visible during the transitional phase. This would help to protect consumers from uneconomic and inefficient costs, make costs more predictable for DCC users, and create more regular opportunities for stakeholders, including us, to challenge cost changes. We also see benefits through rigorous planning and risk management disciplines on DCC at this stage. It will help DCC prepare for the future shift to an ex-ante price control.

3.24. We have therefore developed an approach which brings together elements of ex-ante and ex-post. We refer to this as 'ex-post plus', and have agreed this with DCC. A similar approach was used successfully for National Grid Electricity Transmission (NGET) to fund its development work for its Electricity Market Reform (EMR) delivery role. We consider it can be applied successfully to DCC's activities in developing the switching arrangements, as well as developing and procuring the CRS. We also see this as a valuable first step in the move to an ex-ante price control approach for DCC's costs.

3.25. In the ex-post plus approach:

- DCC will set out a plan of activity and justify its forecast costs upfront in a business case
- It will work with us and stakeholders to develop this business case
- We will lead a consultation on the business case so that stakeholders can scrutinise and challenge it before it is baselined
- DCC will report on its activities and costs against its baseline business case regularly throughout each regulatory year and update stakeholders through the Switching Programme governance structure. This will make costs incurred and cost changes relative to the baseline more visible, allowing better scrutiny.
- Our final decision on its acceptable costs and allowed revenue will remain ex-post.

3.26. Overall, we consider that the specific context and circumstances of DCC’s Switching Programme activity warrants using an ex-post approach. When combined with the mitigating features of our proposed ex-post plus model, we believe this delivers the right combination of incentives and proportionate regulation.

3.27. For consistency and transparency, we will apply the ex-post plus price control approach to all DCC’s switching-related costs during the transitional phase after 1 April 2016.¹⁷ This includes both procurement and non-procurement costs.

3.28. Adopting these additional reporting requirements will not require further licence modifications to those we proposed in December.

3.29. We have agreed the ex-post plus approach with DCC through an exchange of letters. It is described in more detail in Appendix 1. We will keep the ex-post plus arrangements under review during the transitional phase to ensure that they work effectively in practice and add value.

3.30. The table below sets out how we intend to use the new licence terms in the price control framework to operate the ex-post plus approach during the transitional phase.

Table 1 - Revenue terms

Term	Description	How it will be applied in the transitional phase
CRSR _t	Centralised Registration Service Revenue The revenue DCC is entitled to for its switching activity	This will be calculated from the following terms in the table.
CRSEC _t	Centralised Registration Service External Cost The cost of the external CRS provider(s) that DCC must procure the CRS from	These costs will not be incurred in the transitional phase but this term is included to provide some flexibility in the future. The Switching Programme will review and determine how these costs should be treated in phases following the procurement of the CRS provider(s).
CRSIC _t	Centralised Registration Service Internal Cost DCC’s internal costs that are not subject to an ex-ante control	DCC’s costs during the transitional phase will be assessed ex-post, subject to the economic and efficient test each year.
CRSPCT	Centralised Registration Service Pre-Agreed Cost The cost that will be subject to ex-ante control	This term will take the value of zero during the transitional phase. Ex-ante costs could be directed for future phases of the Programme if such arrangements are proposed by the Commercial Workstream following consultation.

¹⁷ DCC’s switching-related costs incurred before this date will be assessed as part of the 2015/16 ex-post price control review and accepted costs will be reflected in a positive correction factor.

CRSCA _t	<p>Centralised Registration Service Cost Adjustment</p> <p>Cost adjustment mechanism for the ex-ante cost</p>	<p>There could be uncertainty over the scope of DCC's activity at the time of setting any pre-agreed cost allowance, if a direction is made under the term CRSPC_t. Depending on how uncertain it is, we may consider developing, consulting on and directing some type of adjustment mechanism for the ex-ante costs.</p>
CRSPA _t	<p>Centralised Registration Service Performance Adjustment</p> <p>Performance Adjustment mechanism</p>	<p>To incentivise DCC to deliver against its obligations well and promptly, we may consult on and direct a performance incentive regime. This would include a specific margin allowance and could include delivery measures putting any margin allowance at risk to DCC's performance. We expect to consult on a direction of this term later this year.</p>

4. Consequential licence changes

Chapter Summary

This chapter summarises the consequential licence changes that we propose to make to facilitate DCC's role in the Switching Programme.

4.1 Our December consultation proposed that the preparation work for CRS should be included in the DCC licence as a new service in the Mandatory Business Service requirements. We also consulted on consequential amendments to the Licence.

4.2 In December we said we did not need to amend the SEC as we are not proposing changes to the current charging methodology.¹⁸ We continue to hold this view. This issue is not discussed further in this document.¹⁹

Mandatory Business Service

Consultation responses

4.3 All respondents, apart from one that did not comment, agreed with our proposal to include CRS as a new service in the Mandatory Business Service requirements. Several respondents provided additional comments.

4.4 Many supported our proposals to separate the smart meter and switching requirements and to clarify in LC15 that, in the event of a conflict, the objectives relating to smart metering (ie the Transition Objective, Interim General Objective and/or Enduring General Objective) will prevail over the Interim Centralised Registration Service Objective.

4.5 One respondent noted that including the CRS within the definition of Mandatory Business Services allowed the use of shared services in DCC and that this could drive economies of scope. It was suggested that all costs must be accounted for separately between smart metering and CRS including a shared services cost split in areas such as HR and Finance.

4.6 One respondent said that the description of Mandatory Business should exclude the reference to "preparation for" the CRS. It said that the approach undertaken with existing Mandatory Business for smart metering has been to define it as it is ultimately meant to be delivered, rather than including the preparation. It considered that LC13 plays a similar role to LC15 but for smart meters.

¹⁸ The SEC sets out the charging methodology for DCC services. We do not propose to amend the existing charging methodology for the transitional phase given the expected low materiality of the charges and short period for which this would apply.

¹⁹ We note one response suggested that a reference to the CRS in Mandatory Business Service should be included in the SEC when those modifications are introduced for the first time.

4.7 This respondent also noted that DCC has a requirement (LC21.3) to take all appropriate steps within its power to make sure that the SEC is consistent with LC22. It questioned the requirement in LC22.20 to include or make appropriate provision within the SEC for the preparation of the CRS. It did not think that the SEC was likely to ever include details of the preparation for the CRS.

Our response

4.8 We welcome the support for including the CRS as a new service within the definition of Mandatory Business Service requirements.

4.9 For the comment on cost reporting and shared services, we will consider what changes are needed to the Regulatory Instructions and Guidance (RIGs)²⁰ including any requirements to separately report smart shared services and switching shared services. We also expect DCC to break down its expected switching costs into cost categories which include shared services, in its business case.

4.10 We do not agree that the definition of Mandatory Business Services should exclude the preparation stage of the CRS. This is the activity that DCC is required to undertake under LC15. We will consider what changes need to be made to DCC's licence to cover the Design Build and Test Phase of the programme as well as live operation later this year. We aim to make any changes required for these later stages of the Switching Programme in sufficient time for DCC to be clear on its requirements.

4.11 We also consider that the SEC could include provisions related to the preparation of the CRS. This will be discussed within the Switching Programme during the Blueprint Phase. We note that the licence drafting in LC21.3 requires DCC to take all appropriate steps. Where it is not appropriate for DCC to seek to include provisions in the SEC for the preparation of the CRS then it will not be required under its licence to do so.

Consequential licence and SEC changes

Consultation responses

4.12 In December, we consulted on the consequential changes that we proposed to make to DCC's licence to support its role in the Switching Programme.

4.13 Other than in relation to the comments made in the preceding chapters, all respondents agreed with the proposed consequential changes.

4.14 One respondent noted that, although this was not proposed for the transitional phase, if it is decided that CRS costs should be recovered from SEC parties in a specific way, various other consequential licence changes as well as changes to the SEC would be required.

²⁰ The RIGs provide the basis on which DCC must report price control information as required under its licence.

4.15 One respondent said that DCC should update the documents referred to by LC24²¹ within a defined time rather than waiting for the next review date.

Our response

4.16 We welcome the continued support for the consequential changes that we proposed in December.

4.17 We disagree with the respondent that requested DCC update the documents referred to by LC24 within a defined time rather than waiting for the next review date. Once the new licence changes have come into force, DCC will be required to incorporate its CRS and switching requirements in the next update of the LC24 documents due 31 July 2016. Given the expected low materiality of the costs and impact on DCC's resources over this initial period, we are content that this is a proportionate approach.

4.18 Table 2 below summarises the changes we have proposed in the decision notice following our review of responses to the December consultation.²²

Table 2: Summary of the consequential changes to the licence

Type of change	Licence Condition	Description
1. Licence conditions that require changing	Identified 10 licence conditions	<ul style="list-style-type: none">• Inclusion of new definitions for CRS• Inclusion of references so it is clear CRS is a Mandatory Business Service
2. Licence conditions where obligations apply	Identified 17 licence conditions	<ul style="list-style-type: none">• Identified where it is appropriate certain licence conditions apply• Some of the annual reporting will need to take into consideration CRS

4.19 We are only proposing minor changes that are necessary to ensure suitable obligations apply and DCC can participate in the transitional phase. As noted in December, a more comprehensive review and full set of changes will be discussed and made as part of the industry working groups as the requirements develop.

²¹ Under this licence condition DCC is required to provide information to Ofgem on the resources available to it to carry on its Authorised Business in accordance with the functions it exercises under or by virtue of the Principal Energy Legislation, this Licence, and the Smart Energy Code.

²² Appendix 3 sets out a more detailed analysis of the licence changes.

Appendices

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Appendix 1 – Ex-post plus price control

1.1. Chapter 3 of this document set out our choice of an ex-post plus price control approach to facilitate funding DCC over the transitional phase. This appendix describes how we will apply this approach, the role of DCC and the opportunities for stakeholders to engage.

Summary

1.2. Over the remainder of the transitional phase we will adopt an ex-post price control approach with additional reporting requirements. We refer to this as an “ex-post plus” approach.

1.3. The ex-post plus approach has previously been used successfully to allow National Grid Electricity Transmission Plc (NGET) to recover costs for preparatory activities for delivery role in the Electricity Market Reform (EMR). We believe that a similar approach can also be applied successfully to DCC’s switching activity.

1.4. Our decision on which of DCC’s costs to accept, associated with its switching activity over the transitional phase, will be done annually on an ex-post basis. This is the same process that has been established for DCC’s smart metering activity. However, the ex-post plus approach will include two key additional features:

- DCC will submit a business case to Ofgem, setting out the switching activities that it expects to undertake for the transitional phase, along with the associated costs; and
- DCC will provide ongoing reporting of incurred and updated forecast costs during each regulatory year once its business case has been established.

Key features

1.5. The key aspects of an ex-post plus arrangement are:

- **Business case:**
 - DCC will engage with stakeholders to develop a business case for its switching activity in the transitional phase undertaken from 1st April 2016.
 - DCC will submit the business case to us.
 - We will review and scrutinise the business case and consult with stakeholders on its contents.²³

²³ Ofgem will continue to undertake an ex post assessment of whether costs were economically and efficiently incurred. This assessment will take place at the time of DCC’s annual price control. Any comments provided to DCC in respect of the Business Case in the interim are in no way determinative of that future assessment.

- We expect DCC to take into account our views and those of other stakeholders in an updated “baseline” business case publication.
- DCC will engage with stakeholders on any significant changes it intends to make to update and baseline its business case since the consultation
- **Ongoing cost reporting:**
 - DCC will provide regular reports to us on its incurred and forecast costs during each regulatory year following the baseline business case publication. We expect these reports to be monthly initially and will keep the frequency under review.
 - DCC will also report to stakeholders on in-year movements in incurred and forecasts costs, including updates on the most likely of the scenarios set out in the baseline business case.
- **Reviewing the business case:**
 - At key Switching Programme milestones, DCC will be required to review whether cost changes have exceeded pre-determined materiality thresholds²⁴ and publish an updated version of the business case if this has occurred.
 - We, along with DCC, would report to stakeholders on any material changes to the Switching Programme scope, DCC’s role in the Programme and Programme timelines.
- **Ex-post decision on economic and efficient costs:**
 - Our assessment of DCC’s acceptable costs will be done annually on an ex-post basis following a consultation on our proposals.
 - This process is the same as has been established for DCC’s Smart Metering activity.

1.6. Further details behind the process are provided in the remainder of this appendix.

Legal process

1.7. This approach will be applied using the licence modifications set out in the accompanying decision notice. The value of the CRS Revenue term, or any of its component parts, will not be set out in the licence itself but will subsequently be populated by direction.

1.8. The ex-post plus price control approach will be applied from the start of regulatory year 2016/17. Any costs incurred by DCC in relation to transitional phase activity prior to this will be subject to the same ex-post price control arrangements that apply to DCC’s smart metering activities.

²⁴ These thresholds will be determined through the consultation on DCC’s business case.

1.9. DCC will be able to recover its reasonable costs for 2015/16 via the correction factor following our ex-post price control review for that regulatory year.²⁵ These costs will be subject to the existing tests on whether they were economically and efficiently incurred. We consider this approach to be appropriate given the low materiality of the costs, and the fact it enables us to provide earlier certainty to DCC over the costs that will be funded.

Developing the business case

1.10. We expect DCC's business case submission to include details on:

- the scope of activities that it expects to undertake during the transitional phase of the Switching Programme, and planned deliverables;
- options assessed by DCC for meeting these deliverables, the accompanying assessment approach and assumptions made;
- the costs associated with DCC's proposed deliverables (including shared services), and the key cost drivers;
- DCC's approach to uncertainty over the transitional phase (see below for further details); and
- DCC's proposals for a margin allowance and delivery incentives, and the basis and justification for its proposals.

1.11. Throughout DCC's production of the baseline business case, it will engage with key stakeholders. We expect it will do this through Programme governance, for example, the Commercial Workstream User Group and any other appropriate group in the Switching Programme governance structure, and consider whether any other forums outside of the Programme are appropriate for this stakeholder engagement. This will ensure that the business case is aligned with external expectations on each of the above aspects.

1.12. DCC's business case will set out an explanation of the key areas of uncertainty, over the transitional phase, that are known to it at that stage. This will be accompanied by quantitative and qualitative analysis of how these uncertainties drive potential variations in costs, and will be presented as a range of possible high level scenarios.

1.13. The business case will also set out proposed materiality thresholds for changes to costs in each high level scenario, along with an explanation of the form and level of these thresholds. These thresholds will act as tolerances for re-baselining the business case.

1.14. Following our receipt of DCC's submission, we will review and scrutinise its contents, challenging DCC on particular aspects where appropriate. We will then ask DCC to update and resubmit the business case to take account of our comments. Any comments provided to DCC in respect of the business case in the interim are in

²⁵ DCC must provide its price control reporting for 2015/16 by 31 July 2016.

no way determinative of our future assessment of our future price control decisions, including our ex-post assessment of whether costs were economically and efficiently incurred.

1.15. We will then consult on DCC's final submission, drawing attention to particular areas where we (or other stakeholders) may have queries or challenges.²⁶ We will publish a document that summarises the consultation responses received and sets out our views on issues that we expect DCC to take into account. DCC will then publish an updated baseline business case for the transitional phase.

1.16. Leading up to DCC's publication of the baseline business case, DCC will undertake further stakeholder engagement to explain any changes it intends to make in order to finalise the baseline business case.

Updating the baseline business case

1.17. After DCC's publication of the baseline business case, it will provide updates to industry on its current view of the most likely high level cost scenario set out in the business case. We expect that this will be done through the relevant Switching Programme governance forums and through DCC's quarterly finance webinars.

1.18. In addition, at key Switching Programme milestones²⁷, DCC will review whether changes in costs since the last publication of the business case have exceeded set materiality thresholds. If so, this will trigger DCC to update and re-publish the business case.

1.19. We will confirm the materiality thresholds as part of our summary document on the business case consultation. In this document, we will set out our response to DCC's proposals on how to treat uncertainty outlined in its business case.

1.20. The purpose of the materiality thresholds is to increase transparency for stakeholders – i.e. so that stakeholders understand if and why there is a material change in costs, and have an opportunity to feed in views on such changes. This will ensure that the Switching Programme retains credibility. We will not be seeking re-publication for changes in costs that are within the tolerances.

1.21. In the event of breaching a materiality threshold, DCC will submit an updated business case to Ofgem prior to any re-publication. We will then use the Switching Programme governance structure to consult stakeholders on the submission, for example through the Commercial Workstream User Group and any other appropriate group in the Switching Programme governance structure.

²⁶ The Consultation will not cover:

- the principles of the ex-post plus approach for the transitional phase;
- the scope of DCC's enduring Switching role, the associated regulatory framework, the detailed design and technical specification of the CRS and new switching arrangements, or the enduring commercial arrangements;
- views on DCC's procurement strategy itself; or
- other Switching Programme decisions.

²⁷ These key programme milestones are yet to be determined, but could include points when an updated Design Baseline or other key programme decisions are published.

1.22. More generally, any changes to the scope of the Switching Programme, DCC's role in the programme, or programme timelines, which affect DCC's deliverables, will be reviewed by us with DCC as necessary. Material changes will be agreed between us, and stakeholders will be informed through the Switching Programme governance, for example through the SPDG.

Regulatory reporting timelines

1.23. Under the ex-post plus approach, the regulatory years, and associated regulatory reporting timelines, for this activity will be aligned with those for DCC's smart metering activity.

1.24. The regulatory year will run from the 1 April to 31 March, with DCC required to report annual price control information for switching activity by 31 July following the end of each regulatory year. The Regulatory Instructions and Guidance (RIGs) and reporting templates for Regulatory Year 2016/17 onwards will be updated to include Switching Programme costs.

1.25. Following receipt of the price control information for the previous regulatory year from DCC, we will then review this information and determine whether costs have been economically and efficiently incurred. This review will also draw on information provided by DCC in its baseline business case, and any subsequent updates to this (as described above), along with information provided to us by DCC as part of the ongoing reporting process.

1.26. Any costs that are determined not to have been economically and efficiently incurred are classified as Unacceptable Costs under the Licence. These costs will either be excluded from any future calculation of DCC's Allowed Revenues, or we may accept an undertaking from DCC on the future management of some or all of the Unacceptable Costs and/or on DCC's future procurement of Relevant Service Capability.

1.27. DCC's price control reporting will also include any updates to forecast Switching Programme costs across the licence term, relative to forecasts accepted in previous price controls.

Ongoing reporting between DCC and Ofgem

1.28. During the regulatory year, DCC will provide a regular report to us updating its incurred Switching Programme costs to date, and forecasts. This report will also highlight progress against the business case, and changes to the activities and assumptions made in it. We expect this report to be monthly initially but will keep the frequency under review during the transitional phase.

1.29. Following receipt, we will meet with DCC to review its report, unless there are no significant updates to discuss. This will provide an opportunity for us to set out any major concerns as they emerge but we will not accept the report. These discussions are in no way determinative of our future price control decisions, including our ex-post assessment of whether costs were economically and efficiently incurred.

1.30. Separately, we expect DCC to use the Switching Programme governance structure and quarterly finance webinars to inform industry of any updates to incurred and forecast costs.

Margin allowance

1.31. DCC can reasonably expect a margin for its switching activities which is commensurate with the degree of associated risk.

1.32. We propose that a margin allowance will be incorporated in DCC's allowed and regulated revenues via a direction which specifies the "Centralised Registration Service Performance Adjustment" (CRSPA) term in the licence modifications. The direction will set out:

- our proposal for the margin allowance;
- number of regulatory years for which the margin allowance will apply; and
- scope and process for either Ofgem or DCC to propose a revision to the margin allowance as part of the ex-post plus review for the relevant regulatory years.

1.33. The direction may also include a specification of any outcome-based delivery incentives.

1.34. As set out above, we expect that DCC's business case will include details on its proposed margin allowance and delivery incentives, and the basis and justification for its proposals. As such, we expect DCC's stakeholder engagement practices in developing the business case to cover these proposals.

1.35. We intend to publish a consultation on the direction for the CRSPA term at the same time as DCC's business case is published for consultation, such that these two processes can run in parallel. We expect to use the Commercial Workstream User Group and any other appropriate group in the Switching Programme governance structure to develop the margin allowance and delivery incentives.

1.36. Following a consultation period, we will publish the final direction for the CRSPA term. Our aim is to do this in time to allow DCC to include the proposed margin allowance and any delivery incentives for 2016/17 and any subsequent years included in the Direction in its charges from 1st April 2017.

Appendix 2 – Consequential changes

Consequential Licence changes

1.1. In this appendix we outline the consequential changes by licence condition. The table sets out the licence conditions, whether we are proposing a consequential change and our reasoning for this. There are a number of obligations which would now capture CRS. We are proposing that where there is any compliance reporting that will follow the modification need to include CRS, DCC will need to consider this when they next review the documents.

1.2. We have also considered what further parts of DCC's licence should be reviewed to ensure that they are fit for purpose for the Switching Programme. For completeness, these are set out at the end of the table below. We expect to examine these in the Commercial and Regulatory Design Workstreams during the Blueprint Phase.

1.3. The detailed proposed changes are published in a decision notice alongside this document in a tracked version of the licence.

Type of change	Licence Condition (LC)	Brief description
Licence Conditions that require changing	LC1: Definitions for the Conditions of the Licence	Include the new definitions for CRS and Fundamental Registration Service Capability
	LC6: Authorised business of the licensee	Define CRS as a new service under Mandatory Business Services.
	LC15: Incorporation of energy registration services	Licence condition re-written and called Incorporation of Centralised Registration Service
	LC16: Procurement of Relevant Service Capability	Part A to include Fundamental Registration Service Capability

Decision: DCC's role in developing a Centralised Registration Service

	<p>LC21: Roles in relation to Core Industry Documents</p> <p>LC22: The Smart Energy Code</p> <p>LC30: Requirements for the regulatory accounts</p> <p>LC35: Price Control Definitions</p> <p>LC36: Allowed Revenue</p> <p>LC37: Assessment of Mandatory Business Cost</p>	<p>Moved the definition of Core Industry Codes to LC1, as this definition also applies to the new LC15</p> <p>Include CRS in the list of Mandatory Business Services listed in LC22.20 and remove LC22.21 as this reference is no longer relevant. Move definitions that are common to new LC15 into LC1.</p> <p>Include CRS in the list of Mandatory Business Services in LC30.17</p> <p>Include the CRS terms that will derive the value of the CRS Revenue term</p> <p>Allowed Revenue principle formula updated to include CRS revenue. Part D added to set out how CRS revenue is calculated. Penalty interest rate drafting added.</p> <p>CRS external and internal costs added to comparisons</p>
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Decision: DCC's role in developing a Centralised Registration Service

<p>Licence Conditions where obligations will apply</p>	<p>LC7: General control for the authorised business LC8: Security controls for the authorised business LC9: Independence and autonomy of the licensee LC10: Protection of confidential information LC11: Duties arising from the licensee's special position LC12: Appointment and duties of compliance officer LC16: Procurement of relevant service capabilities LC18: Charging Methodology for Service Charges LC19: Charging statement for service charges LC24: Availability of all necessary resources LC27: Indebtedness and transfers of funds LC28: Disposal of relevant business assets LC32: Reporting of price control information LC34: Annual service report to the authority LC37: Assessment of mandatory business costs LC42: Management orders for the licensee LC43: Arrangements for the handover of business</p>	<p>As a Mandatory Business Service it is appropriate the obligations under these Licence Conditions apply to CRS</p> <p>Where there are regulatory reports or strategies which need to be reviewed or approved once the Licence modification is made, in the next review DCC undertakes it will need to take into consideration CRS, and make amendments as appropriate.</p>
<p>Licence conditions that need to be reviewed as part of industry working groups</p>	<p>LC 5: General objectives of the licensee LC17: Requirements for the provision of services LC 18: Charging Methodology for Service Charges LC 20: Determination of disputes by the authority LC 21: Roles in relation to core industry documents LC 26: Financial stability and financial security LC31: Reporting of quality of service information LC 34: Annual service report to the authority LC 35-LC38: Price control conditions LC40: Determination of the VAS contribution</p>	<p>Regulatory and commercial obligations that should be reviewed in the enduring framework</p> <p>Also, there could be interactions with the development of the operational performance regime and quality of reporting requirements that should be considered in the enduring framework.</p>

Appendix 3 – Glossary

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 (if any) and any other taxes based directly on the amount concerned.

Authority

The Gas and Electricity Markets Authority

C

Centralised registration service (CRS)

A future service, procured and run by the DCC to facilitate switching at gas and electricity premises.

Communications hub

As defined in Licence Condition 1, means a component, forming a part of the Smart Metering System installed at an Energy Consumer's premises, that enables data to be communicated to the Licensee from authorised devices within the premises that are connected to, or form part of, that system, and vice versa.

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

As defined in Licence Condition 35 of the Licence. The fundamental service capability predominately comprises of the communication service providers (CSP) and the data service providers (DSP). This definition means that costs associated with other externally procured contracts, for example the Smart Metering Key Infrastructure (SMKI) contract are reported under internal costs.

I

[Industry codes](#)

Industry codes and agreements underpin the gas and electricity markets and set out detailed rules for the gas and electricity markets that govern market operation and the terms of connection and access to the energy networks. The codes are contracts between signatories and provide a level playing field for services provided by central/monopoly providers, and contain interoperability requirements between competitors.

[Internal Cost](#)

As defined in Licence Condition 35 of the Licence. 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

M

[Mandatory Business Costs](#)

Costs associated with the Authorised business of that consists of the operation or provision, on behalf of or to SEC parties, of Mandatory Business Services under pursuant to the SEC.

[Mandatory Business Services](#)

As defined in Licence Condition 1 of the Licence, means the services comprising of the Mandatory Business of the Licensee. These are the Core Communication Services and the Enabling Services.

O

[Ofgem](#)

Office of Gas and Electricity Markets

P

[Pass-Through Costs](#)

The amount equal to the total amount fee paid by the licensee to the Authority and the payments to SECCo Ltd for purposes associated with the governance and administration of the SEC.

R

[Registration](#)

Each network company is required by its licence to maintain a register of supply points connected to its network. This register includes an address and unique reference number for each supply point as well as the identity of the supplier responsible for it.

[Regulatory Accounts](#)

As defined in Licence Condition 1, means the accounts of the Licensee produced in accordance with the provisions of Condition 30 (Requirements for the Regulatory Accounts).

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.

Regulatory Year

As defined in Licence Condition 1, means 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 Licence Condition 1, means the capability procured (or provided from within the Licensee's own resources) in accordance with Condition 16 (procurement of Relevant Service Capability) for the purposes of securing the provision of Mandatory Business Services under or pursuant to the Smart Energy Code. This means the internal and external resources which the DCC relies upon in order to provide services to DCC Users

S

Significant code review

The significant code review (SCR) mechanism is designed to facilitate complex and significant changes to the codes that energy companies are required to abide by. It enables Ofgem to undertake a review of a code-based issue and play a leading role in facilitating code changes through a review process.

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

SECCo

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

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



Decision: DCC's role in developing a Centralised Registration Service

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 Gas Act 1986 and Sections 6(1A) and (1C) of the Electricity Act 1989.

[Supply Point Administration Agreement \(SPAA\)](#)

This industry code sets out the inter-operational arrangements between gas suppliers and GTs. It is a multi-party agreement to which all domestic gas suppliers and all gas transporters are required by their licences to sign and comply with.

[Switching programme](#)

This programme concerns the process used by industry to transfer a consumer from one supplier to another. Smart metering presents an opportunity to improve this process. Ofgem's ambition is for a fast, reliable and cost-effective process that facilitates competition and builds consumer confidence.

[Switching arrangements](#)

The process by which a consumer switches from one supplier to another.