Data Communications Company

Introduction and Executive Summary

DCC Price Control Submission RY20/21

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1. Introduction

In accordance with condition 32 of the Smart Meter Communication Licence, this is DCC's reporting year 20/21 Price Control submission to Ofgem.

As a monopoly tasked with delivering the digital spine of Great Britain's energy system, we operate within a stringent licence regime overseen by the energy regulator, Ofgem. Our licence stipulates that we must ensure that our customers obtain value for money from their contribution to the delivery of the Smart Metering Implementation Programme (SMIP) and other activities covered by the licence, such as Faster Switching. DCC's activities are funded by its customers and we carry the responsibility to deliver our Programmes in a cost effective and economic manner.

DCC is held to account through a detailed annual price control submission to Ofgem, who scrutinise our analysis and justification of costs and make a determination on whether costs have been economically and efficiently incurred. Where Ofgem considers this is not the case, any "unacceptable costs" can be excluded from any future calculation of our allowed revenues. DCC publishes a significant amount of price control information each year, some of which is redacted for commercial reasons. Ofgem, however, has the full unredacted version of this information and subjects it to full scrutiny.

Delivering value for money is a central tenet for DCC. As an example, DCC typically insists on incentivised milestones to drive optimal performance from our service providers. Driving performance from our service providers is also supported by monthly dashboards with 360-degree feedback and formal 'get-to-green' plans where performance is identified as being unsatisfactory or needing improvement. We use both formal contractual tools and reputational incentives to improve performance and publish an Annual Service Report[1] giving an assessment of our suppliers. This creates pressure on our suppliers to improve performance where needed.

We continue to identify and realise efficiencies across all parts of the business while at the same time maintaining steady progress against our programmes and quality of service. DCC has made significant cost savings through long-term efficiencies across several areas. This ranges from consolidating test facilities to the refinancing of external set-up costs, as well as through continuously introducing improvements to our internal systems and processes. As we have grown and matured over the years, improvements have been made to deliver efficiencies and savings across the business.

The external contract gainshare mechanism is an effective incentive for DCC to pursue further savings, from which our customers can benefit. For example, we use our leverage to negotiate better interest rates and other terms and conditions in our contracts and pass on the vast majority to our customers. Looking forward, we would like to see a wider range of activities eligible for gainshare so that we have a stronger incentive to identify and pass on even more savings to customers.

As our activities are changing, and we have several large contracts to negotiate in the coming years, our customer engagement approach needs to evolve. In RY21/22, DCC will be subject to a financial incentive on its customer engagement[2] activities, so this year we have been baselining our performance and identifying further improvements that could be made against Ofgem's new Operational Performance Regime (OPR) framework. We look forward to working with customers and wider stakeholders on our customer engagement activities over the coming year and beyond.

DCC is committed to using people and resources effectively. This means efficiently redeploying resources across DCC as work on projects and programmes comes to an end, driving out inefficiencies in contract and consultancy costs, driving savings through high quality competitive procurement, as well as ensuring that the salaries of our staff are compared to reference benchmarks. This year, we have

[1] See: https://www.smartdcc.co.uk/media/3334/annual-service-report-2018-19.pdf
[2] And contract management.

made significant process and analytical improvements to the benchmarking method we use. We have improved information on contractor day rates from multiple sources, and detailed role-specific assessments of our permanent staff's salary and associated benefits. We have provided this to Ofgem in the price control submission and will continue to work with the regulator on any further improvements.

This Executive Summary sets out the overall narrative for DCC's spend during RY20/21. The remainder of the submission expands on this narrative and is supported by supplementary documents and evidence, including a complete set of Regulatory Instructions and Guidance (RIGs) tables, financial schedules, and a Financial Reporting Commentary. DCC is also submitting data in relation to its OPR and Switching performance. Release 2.0 was delivered during the regulatory year, while no milestones for the new ECoS programme were within scope in RY20/21. BEIS has not yet given its assessment of DCC's performance on the SMETS1 incentive, and we anticipate receiving this information in time for the RY21/22 submission.

In addition to the Price Control submission, DCC is submitting:

- A Baseline Margin Application Notice which proposes an adjustment to the Baseline Margin (BM) to reflect that DCC's costs this year were higher than forecast in the original Licence Application Business Plan (LABP) as a result of unforeseen activities or additional complexity or scale that was not previously envisaged.
- An External Contract Gain Share Notice which proposes an adjustment to DCC's allowed revenue to recognise DCC's contribution in achieving cost savings for customers.

2. Key achievements

Since the start of the Covid-19 pandemic, more than 7.6m smart meters have been added to the DCC network, bringing the total at the end of reporting year 20/21 to 11m meters. At the time of writing this figure is 13m. This is a huge achievement in the context of a series of national lockdowns, with DCC's staff, service providers and customers working tirelessly to find workable solutions to maintain the pace of roll out in the most challenging of circumstances.

Below is a list of the key operational achievements DCC has delivered in the last reporting year:

- Migration and Testing Services have ensured full-service continuity during the Covid-19 pandemic.
- Successfully delivered 27 Smart Energy Code (SEC) Modifications and 3 Change Requests across the June 2020 & November 2020 releases, as well as the completion of 18 Preliminary Impact Assessments and 8 Full Impact Assessments.
- Delivered the SEC Systems Release in June 2020 and November 2020 on time and under budget.
- Exceeded its 97% Prompt Payment target of invoices paid within 30 days.
- Monthly Supplier Relationship Management (SRM) dashboards are operational and recent improvements include reducing the time to publication by 7 days by improving the effectiveness of information gathering and reporting.
- Performance Recovery Plans were designed and successfully introduced where necessary in collaboration with DCC strategic External Service Providers.
- Successful ISO27001 re-certification and successfully undertook the SOC2 assessment of SMETS2 Service Providers within a shorter timeframe.
- Retention of t-Scheme accreditation for the smart meter Key Infrastructure (SMKI) service.
- Successfully separated the Enterprise IT domain from the DCC parent organisation to enable DCC to assert and manage domain and threat-led specific cybersecurity control measures.
- Developed Security Incident Management processes and runbooks.
- Completed the development of core systems, functional and non-functional systems integration testing phases on schedule to allow the user testing phase for the Faster Switching programme to commence.

SMETS1

In 2015, DCC was asked by government to deliver a programme to migrate and enrol all the SMETS1 meters that had been installed by energy suppliers. This task has proven to be much more difficult than anyone predicted, with significant technical challenges in a wide range of areas.

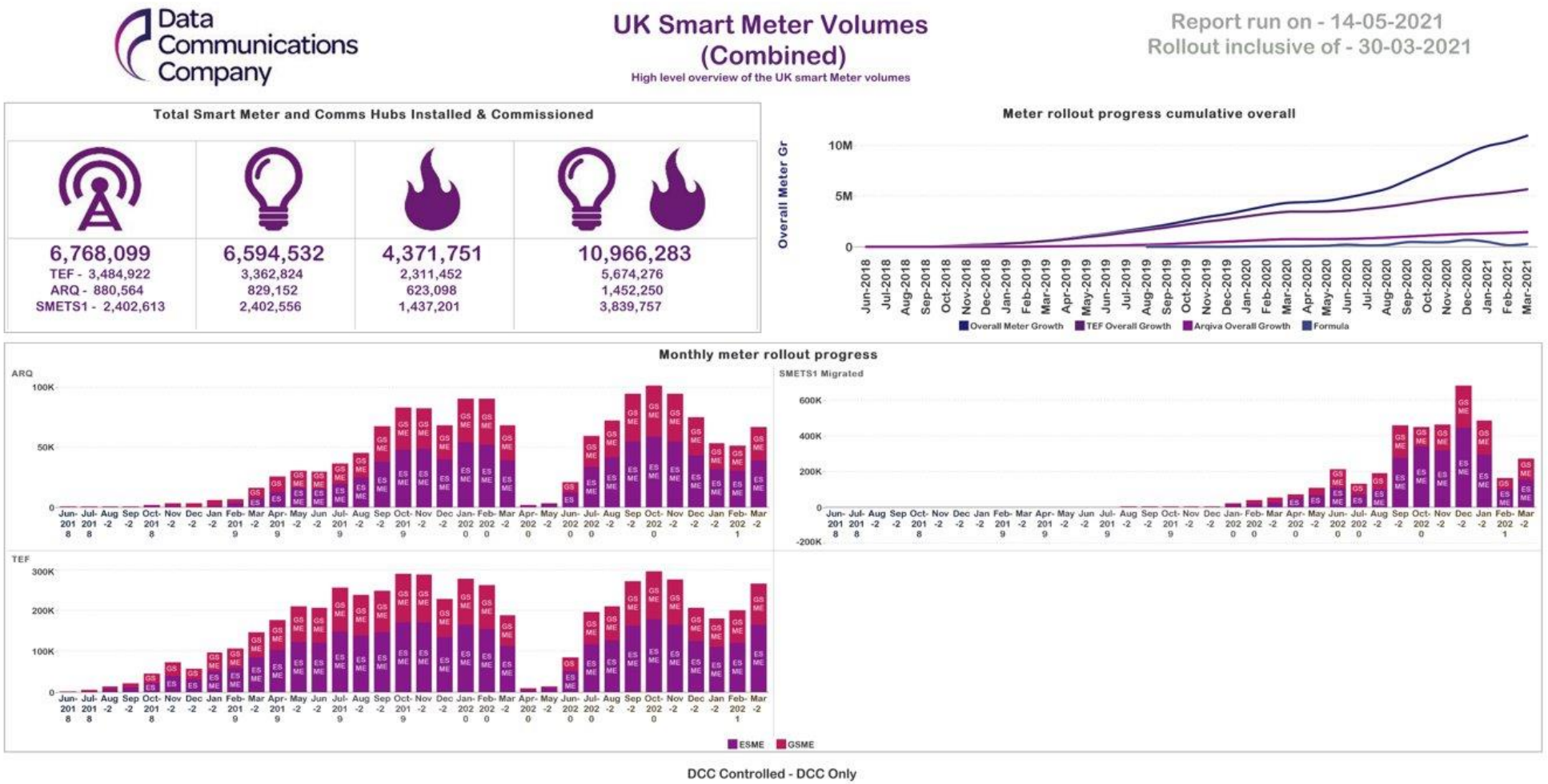
During the year, Middle Operating Capability (MOC) and Final Operating Capability (FOC) were deployed, with almost 3.9m meters enrolled onto DCC's systems by the end of the reporting year. Just as importantly, the end-year performance of the enrolment showed a 99% right first-time performance. This shows the effectiveness of DCC's testing regime. If a lesser standard had been adopted, additional costs would have been incurred by customers due to failure and re-enrolment attempts

All eligible dormant Initial Operating Capability (IOC) and MOC meters have successfully been migrated onto DCC's systems and are operating in smart mode. Reactivating this smart functionality and allowing customers to benefit from competition in the energy market without fear of their meters going dumb, is extremely important.

While the FOC platform went live in February 2021, issues with SMETS1 comms hub firmware were identified with one energy supplier resulting in a delay to Device Model Combination Testing (DMCT) and a delay completing the rollout of the FOC cohort. Delays to the rollout and additional unplanned activities required of DCC will entail additional expenditure. We are keenly aware that customers are funding this additional expenditure and are ensuring that we are acting to balance the needs of government's programme requirements with the impetus to keep costs as low as possible.

Figure 1 below sets out the key statistics on meter volumes achieved by the end of March 2021, including the effect of the first national Covid-19 lockdown and the recovery since then.

Figure 1 – smart meter volumes



Faster Switching

DCC is responsible for delivering Ofgem's Faster Switching programme and continues to make strong progress. During reporting year 20/21 we successfully responded to a managed replan of the Design Build and Test phase of the Faster Switching programme – at industry's request – and we are on track to launch the service in summer 2022.

Network Evolution

In reporting year 20/21, DCC has made significant progress to ensure that customers are not adversely affected by the sunsetting of old technology, and the service they receive continues to improve.

Two major workstreams have made significant progress this year. First, in relation to our Comms Hub and Network workstream, we have worked with customers and various industry bodies to understand requirements for 4G comms hubs to replace the sunsetting 2G and 3G technology. This included sharing a detailed cost-benefit analysis to help inform customers' views.

Second, we have been working with industry to understand their business needs for the Data Services Provider (DSP) in the future. Once fully understood, work will start on options and conceptual design of the service.

We met a key milestone in the reporting year when we issued an Invitation to Tender for the service, with responses received from potential tenders in February 2021.

Enterprise wide

DCC is still a relatively young organisation and its responsibilities and activities continue to evolve. DCC has both business as usual SMETS2 rollout activities, and a range of government programmes to deliver and manage concurrently. There are activities taking place across DCC to ensure that we can deliver more efficiently for our customers, including the continued separation of our systems from our shareholder Capita, and a programme of work focussing on how to more accurately forecast, manage and control DCC's costs against the highly complex and changing backdrop of business as usual and programme-related activities.

3. Responding to our Customers' Needs

We are committed to continually making improvements to the services we provide our customers. We have responded to our customers' needs on in-life change and improvement and have delivered SEC releases ahead of time and under budget.

Over the past 18 months we have made considerable effort to listen and respond to how all our customers would like to be engaged, so that they can tell us in a way that works for them how to improve the services we provide. Following the consultation exercise we undertook in 2018 and 2019, we are applying our new approach to customer engagement, and continuing to review its effectiveness.

We have changed significantly as an organisation, building a team with the key capabilities to lead the strategy and achieve a significant cultural shift in how we deliver high quality customer engagement. But we will not stop there and will continuously seek to improve. Particularly, we look forward to seeing Ofgem's assessment of DCC's performance under the baseline year for DCC's new customer engagement incentive under the new OPR arrangements. We expect this will shed crucial light on where we need to get better. DCC will build an action plan following Ofgem's assessment and will track our progress against it.

3.1 Customer engagement

DCC fully recognises the importance of effective customer engagement and collaboration. It is a critical aspect of making decisions that are economic and efficient and benefit DCC's users. It is in direct response to feedback from customers and Ofgem that we have already initiated a number of important steps in this area.

Our new approach to customer engagement was developed with customers between May and September 2019, and is based on giving customers visibility in matters that affect them and giving them a say in our decision-making process, through a structured three phase approach of Inform, Shape and Survey. We are continuing to review and improve our approach, including being clearer on why we are engaging with customers, and how we will use that engagement.

Although we have made significant steps forward in our customer engagement activities, we know we still have more to do. That is why we are continuing to make changes internally, to build the skills and experience we need to deliver a high-quality customer experience. We are exploring a range of activities to put this into effect, leveraging traditional engagement tools as well as advanced self-service tools to deliver a better service.

3.1.1 Acting on What Our Customers Said About Last Year's Price Control

Our approach to customer engagement continues to mature. In this year's submission we are making further improvements. Responses to Ofgem's consultation on the RY19/20 Price Control made a number of important points that we are addressing:

- **Costs and efficiencies** – we take this seriously and provide a significant amount of detail to Ofgem on the costs we incur and how we achieve value for money. Most of this will be published in an unredacted format shortly after we submit to Ofgem, but the cost information (for example discounts achieved) is highly sensitive and will be seen by Ofgem only.
- **Performance** – we continue to prioritise delivering our core services as effectively as we can and have taken significant steps to put pressure on our suppliers where they are not performing. We continue to use all the levers at our disposal to improve their performance. This is detailed in our Annual Service Report.[3]
- **Transparency of information** – much of the Price Control information we provide to Ofgem is confidential, so we understand that there might be a perception of a lack of transparency if we need to withhold or redact details. As with last year, we are publishing our section on incentive scheme performance and our financial summary document. We are also ensuring that we publish as much information on costs as possible.
- **Benchmarking** – some customers made the point last year that DCC should benchmark whole staff costs. Acting on this point, in this year's submission we have provided Ofgem with benchmarked information on non-base salary benefits. We have also provided more comparator information for Ofgem to consider.
- **Forecasting** – we are subject to an extremely high threshold for including forecast costs in the Price Control submission. We have engaged with Ofgem this year on moving to an approach that aligns our price control forecasting to the charging statement forecasts, and hope to use this in next year's price control submission.

3.2 Managing our contractors

DCC's licence prohibits us from providing Fundamental Service Capability, so we do so by procuring and contracting with external Service Providers. Approximately three-quarters of our total costs are

[3] All reports are available here: Search Results | Smart DCC

associated with the delivery of these services. Given the high proportion of these costs, we are committed to ensuring that the delivery of these services, both during phases of implementation and live operation, take place in a timely manner and to the highest possible standard.

As DCC's responsibilities have expanded since the award of the Licence, so has the scope of the services that our contractors provide. This means where we are required to deliver additional services not originally stipulated in the contracts, we must negotiate with them to deliver new services, and do so to deliver an economic and efficient outcome.

Managing Performance

A key role for DCC is ensuring contractors deliver in line with specification. We do this through a combination of contractual and non-contractual levers as follows:

- Application and monitoring of the Service Credit regime
- Monthly Service Reviews - review of all contracted measures. Imposition of Service Credits where appropriate and multipliers where the same issue is repeated
- Monthly Commercial and Finance Forum to address commercial or finance issues and/or disputes
- Quarterly Executive Reviews
- Annual Service Report – a formal report on all contractors' performance for the regulatory year
- Monthly Supplier Relationship dashboards and review meetings.
- Escalation of concerns to Performance Recovery Plan
- Correction Plans established to address specific issues
- Weekly update calls and ad hoc meetings
- Ad hoc projects such as the "Common Issues Forum"
- Supplier days when we good performance and share best practice

The CSP North network is being asked to handle a volume of traffic that it was not designed to accommodate. We know and understand customers' concern and frustration with the ongoing issues and assure our customers that DCC is using all of the levers above to improve performance. The Annual Service Report[4] sets this out in more detail.

Ensuring DCC gets a good deal for customers

We note that customers responded to Ofgem's consultation on the RY19/20 price control expressing concern about the cost of change. Although the balance of leverage is against DCC when seeking to renegotiate an existing contract, we do everything we can to ensure we get a good deal. In the submission we provide to Ofgem, for material Change Requests (CRs) and Project Requests (PRs), we provide a significant amount of detail on the contractual negotiations we undertook and the discount or service improvement we achieved.

We deploy a wide range of robust contract management tools when negotiating contracts and ensuring contractual compliance, including:

- Robust processes, methodologies and strategies
- Sophisticated contract design with cost of failure clauses, adaptability clauses and use of payment milestones to force timely delivery
- Clearly designed scope of work
- Internal review process including technical, legal, commercial and financial review and Executive level approval
- Robust in-life monitoring and reporting including through dedicated supplier relationship managers, the Supplier Dashboards and the Annual Service Report
- Cost benchmarking and options appraisal
- Value for money reviews
- Reducing charges to customers for Fundamental Service Provider poor performance

[4] All reports are available here: Search Results | Smart DCC

Last year we initiated a review of the existing end-to-end CR and PR processes with the aim of streamlining them and introducing improvements that will benefit our customers.

4. RY20/21 Costs at a Glance

Over the course of RY20/21, DCC incurred costs of **£643.7m**. Around 75% (**£482.3**) of these costs relate to External Costs – these are the costs associated with the provision of Fundamental Service Capability. The contracts which provide these are in relation to:

- SMETS2.
- SMETS1.
- Switching.
- Other [LIST]

Circa 16% (**£103.3m**) of the total costs in RY20/21 relate to Internal Costs[5], these include:

- Payroll costs.
- Recruitment.
- Project/consultancy spend not related to Fundamental Service Capability.

A breakdown of the total costs is set out in Figure 2 and Table 1 below.

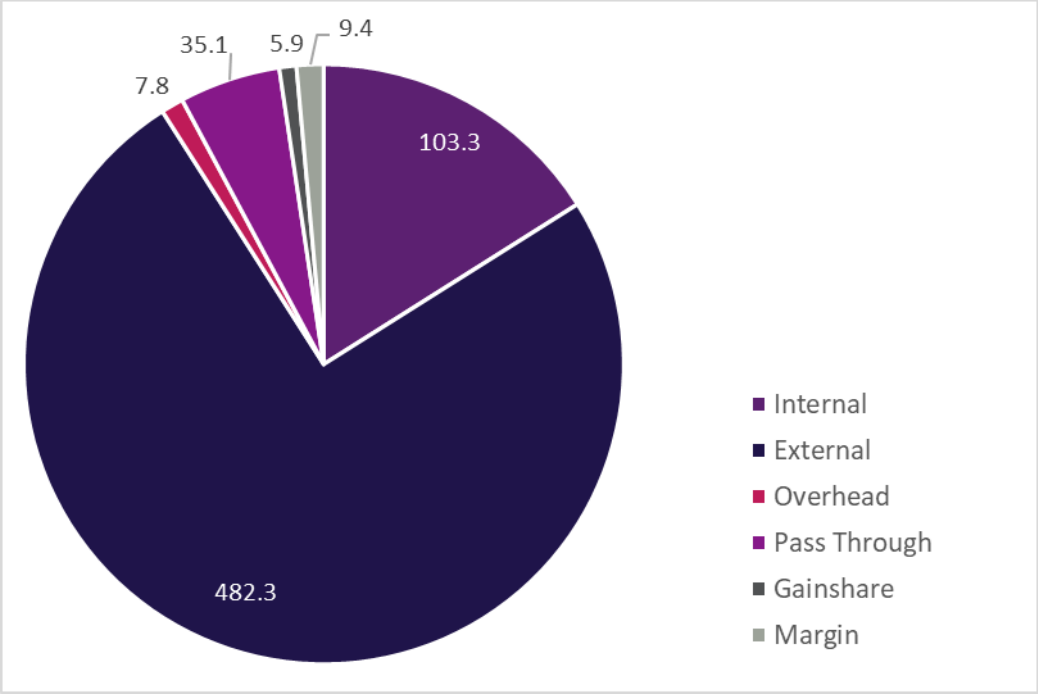


Figure 2 - Breakdown of costs incurred in RY20/21

£m	Programme	RY20/21 (£m)
Internal Costs	SMETS2	78.7
	SMETS1	18.9
	Switching	5.7
	Total Internal Costs	**103.3**
External costs	SMETS2	363.8

[5] Excluding Shared Service cost

	SMETS1	94.3
	Switching	24.2
	Total External Costs	**482.3**
Overhead		7.8
Pass-Through		35.1
External Contract Gain Share		5.9
Baseline Margin		9.4
Total		**643.7**

Table 1 – RY20/21 programme breakdown

3.3 Variance to Previous Year's Forecast – Internal Costs

Last year's Internal Costs forecast for RY20/21 was £73.6m (excluding overhead and Switching costs). Incurred costs are approximately 33%[6] above last year's forecast. Ofgem requires us to adopt a high certainty threshold for our forecasts. This broadly translates into a requirement that only activities that have a signed contract are eligible to be included in future years' forecasts. This means that every year there is a large mismatch between the activities we intend to undertake in our business plans versus what we forecast for the Price Control, simply because of this rule. Similarly, because each year's submission covers three years only, the final year's forecast is always a new number without a prior baseline.[7] This means it always shows as a variance, regardless of whether we have planned the activities.

We have already engaged Ofgem with a view to moving from two forecasts to a single forecast used for both the Price Control and the Charging Statement from RY21/22.

The variances in Internal Costs in RY20/21 are largely driven by activities in the areas below. Table 2 below shows these drivers by cost centre, and table 3 underneath presents the drivers for our programmes.

Key internal cost variance drivers by cost centre

Cost centre	Driver of cost variance
Corporate management	▪ Continuation of prior year's expenditure on Brabazon House fit out and rent ▪ External services activities including annual Price Control PMO support
Commercial	▪ Payroll costs almost exclusively arising from disallowances of last year's forecast costs ▪ Growing complexity in the supply chain as our strategic suppliers have increased from 16 to 40 ▪ Project looking at how to improve DCC's Commercial Operating Model with its Fundamental Service Providers
Design and Assurance	▪ Expenditure on emulators arising from the November 2020 SEC release
Finance and People	▪ Movement of Legal team from Commercial cost centre ▪ Additional support to DCC colleagues through improved Health, Safety and Wellbeing activities ▪ Additional audit activities

[6] This excludes overhead and Switching costs.
[7] With some limited exceptions.

Operations	▪ Extension of Enhanced Data Analytics Model ▪ Improved Security Monitoring Capability through DCC's Security Operations Centre
Security	▪ No material variances in RY20/21
Service Delivery	▪ Project to accelerate the Impact Assessment process for relevant SEC activities and to deliver better value for money ▪ Continuation of Dual Band Comms Hub support activities

Table 2 – Key internal cost variance drivers by cost centre

Programme	Driver of cost variance
ECoS	▪ No material variances in RY20/21
Market-Wide Half-Hourly Settlement	▪ No material variances in RY20/21
Network Evolution	▪ Allocation of costs to this cost centre following BEIS's approval of DCC's Network Evolution business case
SMETS1	▪ Extension of FOC
Switching	▪ The Switching programme has no baseline so all incurred costs appear as a variance

Table 3 – Key internal cost variance drivers for Programmes in Development

3.4 Variance to Previous Year's Forecast – External Costs

Last year's External Costs forecast for RY20/21 was £382.8m (excluding Switching costs). Incurred costs are approximately 20%[8] above last year's forecast. The increase in costs is largely driven by activities in the following areas.

Programme/area	Driver of cost variance
ECoS	▪ New programme requiring DSP changes
Release 2.0	▪ Dual band re-start and completion
SMETS1	▪ Delivering MDUST service in UIT ▪ SIT execution for MOC ▪ Core uplift ▪ FOC extension and execution
Switching	▪ Switching DSP consequential change replacing CR1037, build, PIT and SIT
Other material costs	▪ November 2020 SEC Release ▪ Testing services ▪ CSS – DSP Environments ▪ CSPN SMWAN Coverage Database additional granularity

[8] This excludes Switching costs.

Table 4 – Key external cost variance drivers

3.5 DCC Cost Forecast - RY20/21 and beyond

The table below summarises the total costs (Internal, External, Pass-Through and Baseline Margin[9]) forecast for the remainder of the Licence term, comparing our forecast from last year and our updated forecast this year.

£m	RY2020/21	RY2021/22	RY2022/23	RY2023/24	RY2024/25	RY2025/26
PC21	643.7	502.2	453.1	479.9	511.4	269.6
PC20	529.3	437.7	365.6	403.9	444.6	253.9

Table 5 – How the forecast has changed since PC20

These forecast costs have increased since last year's Price Control submission and the original LABP for the reasons set out above in section 4.1.

Figure 3 below shows how the cost forecasts have changed over time. Note that these costs need to meet 'certainty criteria' so should not be considered as DCC's current view on the expected overall expenditure.

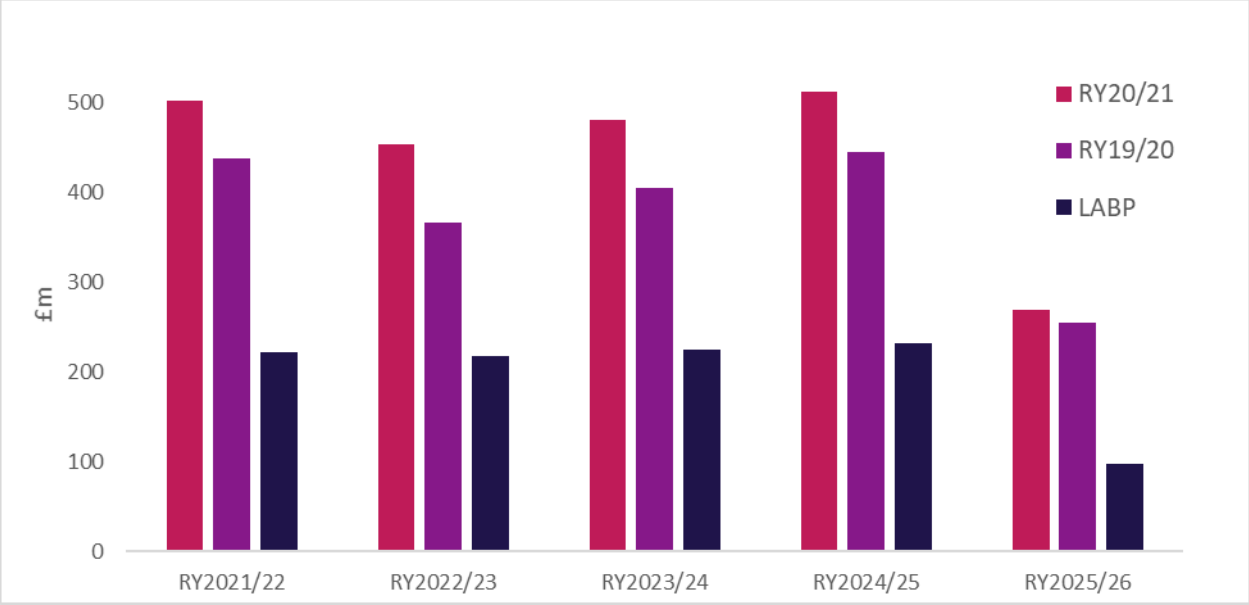


Figure 3 - How the forecast has changed since LABP and PC20

The forecasts submitted in DCC's Price Control documentation must be sufficiently certain i.e. more likely to occur than not occur. For this reason, we continue to see variances between the Price Control forecast and the Charging Statement and Indicative Budgets[10]. The chart below illustrates that difference. This is discussed in more detail in PC21 Financial Reporting Commentary.

[9] These values do not include the correction factor
[10] These publications are accessible here: https://www.smartdcc.co.uk/document-centre/charging-methodology-statements-budgets/

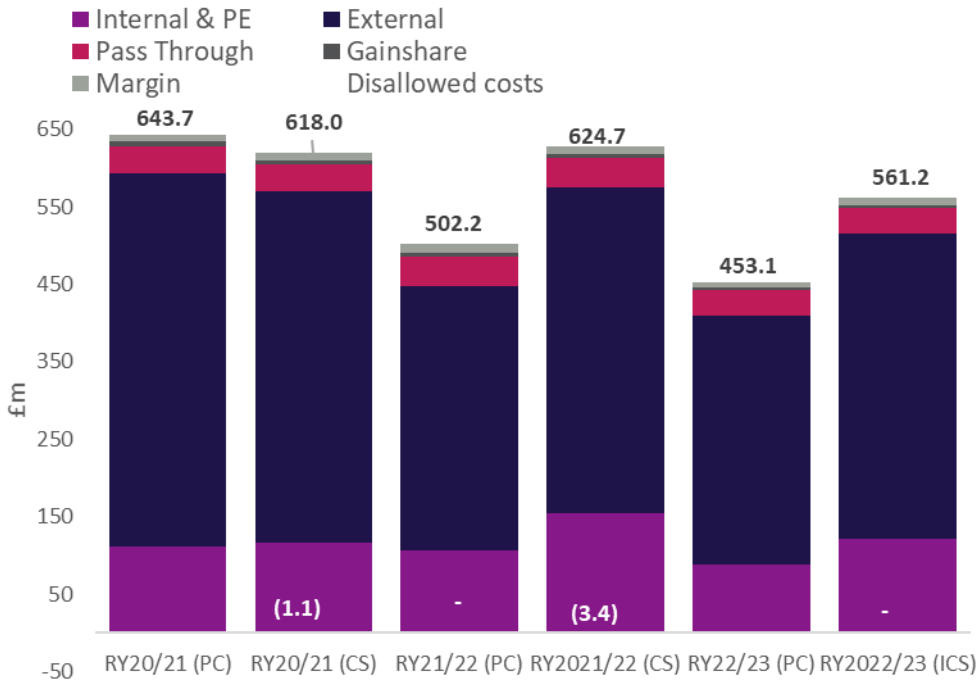


Figure 4 - Comparison of Price Control to Charging Statement[11]

3.6 Securing Value for Money and Savings for Our Customers

We are keenly aware that the costs we incur to implement and maintain the smart metering system are borne by our customers and we have a responsibility to them to deliver in a cost effective and economic way. In practice this means the organisation focuses on:

- Delivering efficiency and savings through our planned service development activities, exploiting technology, automation and new ways of working to deliver better service at lower cost.
- Using people and resources effectively, bearing down on contract and consultancy costs and driving savings through high quality competitive procurement.
- Continuing to improve the way we manage our supply chain, negotiating new contracts and holding our Service Providers accountable for their costs and service.
- Providing greater cost transparency through an increasingly customer-centric approach. Our new strategy commits us to improving clarity on our planned initiatives and carry out specific engagement activities for major initiatives.
- Provide more information on how efficiency savings are planned and realised for the different cost centres.
- Continuing to enhance and embed our benchmarking of staff salaries to provide confidence that our recruitment offers value for money whilst allowing us to recruit the skills we require.

Through the application of the above, we deliver significant savings to industry and customers every year. One of the main ways we do this is through refinancing of the set-up costs associated with our SMETS2 FSP[12] contracts, the savings from which we share with those who pay for our services.

[11] This compares the total annual DCC costs excluding Communications Hubs Device Revenue, Explicit Charges and correction factor but including disallowed costs.
[12] These are the DSP and CSPs.

External Contract Gain Share (ECGS)

Under the External Contract Gainshare arrangements, DCC is incentivised to seek opportunities for cost savings in the key service provider contracts (external costs). In RY20/21, we are proposing that over £28.6m will be returned to customers and industry as a result of the savings we have negotiated, including:

- Refinancing of Set-up charges for Telefonica and Arqiva
- Financing of tranche 2 of DCC's Comms Hubs
- Refinancing of tranche 1 of DCC's Comms Hubs
- Delivery of DCC's Test Labs

Of the amount that DCC has saved, we propose just over £24.1m and £4.5m is returned to our customers and service providers respectively. The percentage of savings we return to industry and customers compares favourably with other regulated sectors such as energy and rail. In total, over the course of our Licence, cost savings have been made of more than £155.7m.

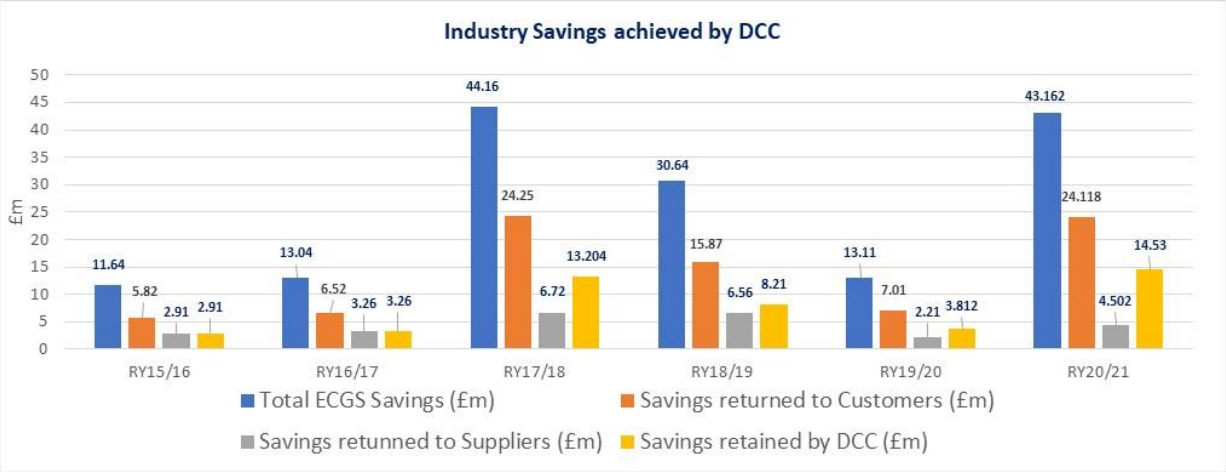


Figure 5 - Industry Savings achieved by DCC to date

DCC smart savings programme

The Smart Savings programme was introduced in RY18/19. Whilst RY20/21 led to some cost increases - including changes to offices to enable essential workers to use the space in a safe way during the pandemic - it has also led to some cost savings, for example inter-site travel that was not permitted for the majority of the year. These avoided cost saving items are likely to continue into RY21/22 and beyond as some of the successes of remote working, such as video conference use for meetings, will continue to be used and generate cashable savings. DCC has recorded more than £15m of Smart Savings in RY20/21.

DCC continue to improve our savings monitoring. In RY20/21 our internal audit team carried out an audit of the Smart Savings Programme. It identified that the differentiation between Cashable Savings and Cost Avoidance is consistently applied, but that a greater focus should be placed on Efficiency Savings in future to ensure they are consistently identified and recorded. We are in the process of applying the findings from the audit.

3.7 Looking Ahead – Our Future Plans and Priorities

Over the coming years, our priority will remain the roll-out of smart meters across Great Britain. This is to make sure that as many consumers as possible can benefit from a smart meter. We will continue to

scale the live service to support the roll-out while maintaining a stable, reliable and secure service for our customers.

Following government's January 2021 direction to DCC to produce a Network Evolution implementation plan, DCC is moving forward with a programme of work to support the transformation of the energy sector and support the drive to net zero. This programme is split into four components:

- **Network Evolution DSP**: Designing and procuring data services which are secure and sustainable, with a reduced operating cost, capable of rapid and cost-effective change in response to market and customer demand. This work will include investigations into how cloud computing and microservices could contribute to a new design for DSP to de-risk the overall re-tendering activity.
- **Network Evolution Communication Hubs and Networks**: Designing and procuring future-proof Communications Hubs and Networks (CH&N). We require a technology with a longevity of at least 15-20 years so that the full benefit of CH assets' operational life is realised from the point of installation. Over time we will also consider options for providing roaming and switchable capability to increase resilience, reduce industry costs, and minimise inconvenience to the end consumer.
- **Network Evolution SMKI**: Procuring a replacement or extension to the Smart Metering Key Infrastructure (SMKI) security Trusted Service Provider (TSP) service in a cost-effective way.
- **Network Evolution Test Automation**: Designing and implementing automated testing of the SEC releases to achieve faster and lower-cost testing.

We issued an Invitation to Tender for the Network Evolution DSP and Communication Hubs and Networks components in February 2021.

In addition to this evolution of our core capability, required to manage the risk of disruption from the sunsetting of old technology, we have also been instructed by government to play a role in the Enduring Change of Supplier (ECoS) programme and the introduction of Market Wide Half Hourly Settlement (MWHHS):

- The ECoS Programme will define and implement the enduring arrangements for the changing of security credentials on SMETS devices. Enabling energy customers to change supplier securely and easily is one of the fundamental purposes of the smart metering rollout and is underpinned by DCC's change of supplier process. Following a direction from BEIS in March 2020, DCC is now required to deliver the Go-Live of the ECoS service by 30 June 2022, and for migration to be complete by 14 April 2023. DCC's activities over the coming two years will have a significant focus on delivering ECoS.
- Currently consumers are billed using estimates of their consumption, based on profiles of average consumers rather than on actual consumption or export in each half-hour period. MWHHS will provide suppliers with the true cost of their customers' usage in half-hourly periods and incentivise them to take steps to help their customers move their consumption to times of the day when electricity is cheaper to generate. This will build on the platform provided by smart metering to enable a smarter, more flexible energy system that lowers bills, reduces carbon emissions and enhances security of supply. On 28 May 2021, Ofgem issued a statutory consultation to change DCC's licence, which would require DCC to comply with the MHHS implementation provisions planned to be in place in the Balancing and Settlement Code. MHHS envisages changes to DCC's systems and business processes. We look forward to engaging with Ofgem on the substance of the changes and what they will mean for DCC.

Permitted business

On 1 October 2018, Section H7 of the Smart Energy Code was activated by the Secretary of State, which placed obligations on DCC to assess and make available Elective Communication Services (ECS) for DCC Users. The Government sees the activation of Section H7 of the SEC as an important milestone for the Smart Metering Program. It enables energy suppliers to make differentiated service

offerings available to their customers, and to request any additional services that they wish to receive in respect of enrolled SMETS1 meters.

Following customer engagement on small-scale changes which included 7 principles and 5 ideas for improvements (e.g. making the exclusivity period longer and 'try before you buy') customers confirmed that small incremental changes to the ECS process would not satisfy customer demand for bespoke new services and an overhaul to the ECS process would be required.

As a result, DCC continues to evaluate the ECS options and has started to re-engage with customers recently on the scope of a redesigned new ECS process. These elective services will provide simple access to DCC's connectivity and data including all the supporting services required for product development at cost.

Operational Performance Regime

RY20/21 is the baselining year for Ofgem's new OPR incentives on DCC's customer engagement and contract management activities. The customer engagement incentive requires DCC to make a submission to Ofgem by 31 July, enabling the energy regulator to then consult and make its decision on DCC's outturn score as part of the Price Control process. We are submitting our customer engagement documentation alongside this Price Control submission.