

Proposal for a Relevant Adjustment to the External Contract Gain Share (ECGS_t) term (2021)

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1 Executive Summary

The External Contract Gain Share (ECGS) is a mechanism to incentivise DCC to identify and secure reductions in the costs of the External Service Provider contracts for the benefit of its customers. This is achieved through DCC being able to apply for an upward adjustment to its Allowed Revenue that reflects a share of the reduction in External Costs. The terms and conditions through which DCC is able to apply for an adjustment under the ECGS is set out in Condition 39 of the Smart Meter Communication Licence¹.

Since the Licence was granted in 2013, DCC has built up a substantial amount of experience in driving down External Service Provider costs. Over the course of those years, DCC has initiated, led, and successfully secured a series of contractual changes with its Fundamental Service Providers² (FSPs) which involved a significant reduction in interest rates for the financing of the various components of the Smart Metering Implementation Programme (SMIP). The savings that are realised as a result accrue over the remaining term of our Licence. The primary beneficiaries are our customers who will see a reduction in charges, as well as our FSPs who are able to immediately draw-down the value of achieved milestones and free-up cash to be able to continue to deliver current and future DCC programmes.

Prior to this year, DCC has submitted to Ofgem five applications to adjust the ECGS in the Allowed Revenue formula as set out in our Licence. The first two applications were undertaken in RY15/16 and RY16/17 and related solely to the refinancing of the DSP's set-up costs. Building on that expertise, DCC managed to secure further reductions in the financing rates of the DSP as well as both CSPs between RY17/18 and RY20/21. In aggregate, since then, **£109.6m** of savings have been realised by DCC for the benefit of customers.

This year's ECGS application includes savings that stem from:

- **Continuation of refinancing of set-up costs:** previously renegotiated and approved interest rates have generated a further ECGS saving of **£4.4m** across both CSPs from RY20/21 to the end of the contracts.
- **Financing of tranche 2 Communication Hubs (“Comms Hubs”):** as per the case in RY19/20, DCC successfully managed to secure alternative, value for money, funding arrangements for the financing of Tranche 2 Comms Hubs. A significant reduction in interest rates for both Telefonica and Arqiva have resulted in **£13.395m** savings in RY20/21.
- **Refinancing of Tranche 1 Comms Hubs:** in accordance with the contractual arrangements as set out in the CSP contracts, together with the extensive expertise that has been built up in this area, DCC has also managed to substantially lower the interest rates for the financing of the Tranche 1 Comms Hubs. This has yielded a net savings from RY20/21 to the end of the Licence of **£16.3m**.
- **Test Labs:** the design, build and operation of an in-house test lab service in 2018 has made it possible for DCC to provide a fully integrated end-to-end test facility that better meets our customers' needs as per the requirements in the SEC, at a cost cheaper than the testing services that were initially provided by the CSPs. Net savings of **£9.0m** have been achieved as a direct result of this from the opening of the test lab until the end of RY20/21.

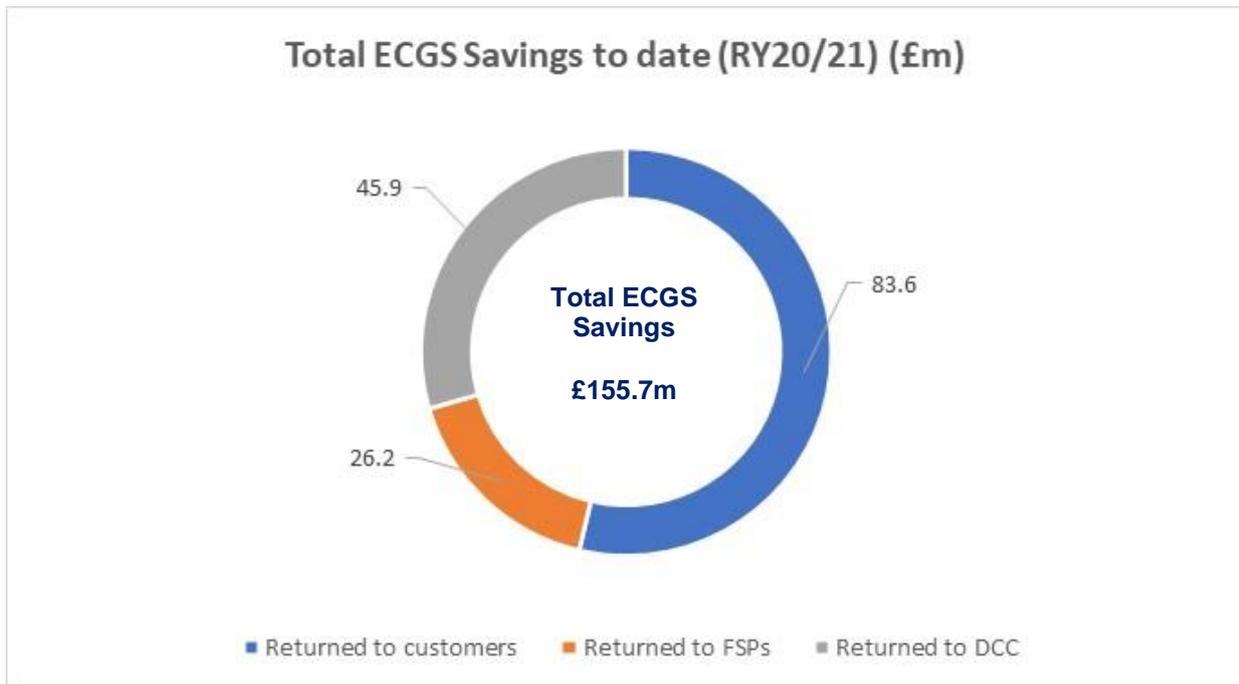
The graph below provides a breakdown of the ECGS savings that have been accrued to date, including in RY20/21.

¹ Ofgem, 09 February 2017, ‘Smart Meter Communication Licence’:

<https://epr.ofgem.gov.uk/Content/Documents/Smart%20DCC%20Limited%20-%20Smart%20Meter%20Communication%20Consolidated%20Licence%20Conditions%20-%20Current%20Version.pdf>

² These include the regional CSPs (Communication Service Providers) and DSP (Data Service Provider).

Figure 1 - Total ECGS Savings (Licence to Date)



2 DCC’s ECGS strategy and risk management

ECGS strategy and approach

Since the granting of its Licence in 2013, DCC has continued to explore viable ways to drive down costs. There are two main drivers that have enabled DCC to secure lower costs for its customers over the years:

- The reputation it has built up with banks and investors which stems from not only meeting payment obligations on schedule due to strong cash management, but also from its ability to demonstrate the level of savings it has returned to its customers. This has strengthened DCC’s position in the market by building market confidence and establishing DCC’s reputation in respect of any potential financiers in the future.
- The robust governance that is embedded into the negotiation process with DCC’s FSPs for all change requests (CRs). Once the scope of any CR has been agreed, the associated costs are systematically subject to due diligence to ensure resources are maximised against projects, and that value for money is driven across the supply-chain. DCC achieves this by using comparable resourcing and cost data from across our different programmes as well as external commercial benchmarks to ensure we are in-line with market rates.

One of the main mechanisms through which DCC has managed to drive down costs substantially over the past few years is the renegotiation of interest rates. A major cost of the delivery of the overall SMIP relates to the financing of DCC programmes delivered by our FSPs. Financing rates were historically agreed between the FSPs and the Department of Energy and Climate Change (DECC) in 2013 and were included in their tender documents prior to being appointed as External Service Providers to DCC. To drive improvements and secure value for money, DCC has made a significant amount of effort over the years to negotiate and secure alternative finance arrangements for various components of the SMIP. The realisation of these deals has already delivered substantial levels of savings to our customers, and by extension, end consumers who ultimately pay for the implementation and roll-out of the SMIP.

Another route that has successfully been explored and initiated during RY19/20 stems from the contractual

framework that we have in place with our CSPs to secure alternative means for the funding of Comms Hubs.

Finally, one of the options previously looked at and pursued over the course of RY20/21 involves the savings generated through the acquisition of the in-house test lab service. Test facilities were originally provided as a temporary service through the FSP contracts. The consolidation of these test facilities through DCC as opposed to both CSPs however, provides a more cost-effective service that better responds to the increasing and differentiated needs of our customers.

As we transition from being a single programme delivery partner to a strategic partner offering multiple programmes and solutions to industry, we will continue to explore different options that provide value for money across all our programmes and outputs.

In October 2020, Ofgem consulted on increasing DCC's Revenue at Risk to include the External Contract Gain Share mechanism. Whilst the conclusion to this consultation was not to make changes in RY21/22, we supported Ofgem's proposal to conduct a review of how the gainshare mechanism works. One of the key consultation areas was on whether changes should be made to the wider framework to ensure DCC had strong incentives to seek out savings for customers. We replied to the consultation suggesting Ofgem could revisit the contracts eligible for gainshare, including those struck to deliver DCC programmes not originally within the scope of the LABP, such as the SMETS1 contracts. DCC believes that widening the scope of the gainshare mechanism to include these contracts, and to recognise DCC's role in historical and future savings, would provide a strong incentive to continue to find savings for customers.

Risks to DCC

In respect of both this year's financing arrangements for the provision of Comms Hubs as well as the refinancing arrangements that were agreed in previous years, DCC has exposed itself to a number of risks in order to secure new deals. As a key principle, DCC is responsible for making payments to the Assignee irrespective of any difficulties which DCC may encounter. In summary, these risks are:

- **Termination of the Funding Addendum:** This could be triggered by e.g. late payments, insolvency, change of control of DCC or changes to policy which prevent DCC operating. As a result, this may lead to the remaining payments having to be repaid within timescales that are shorter than those set out in the original FSP contract.
- **Retaining payment liability in the event of a default by the FSP:** For example, if DCC terminated an FSP contract because of a default, DCC would continue to be liable for the payments to the Assignee under the Funding Addendum. Under the original FSP contract, if the FSP was to fail to fulfil an obligation under its contract, DCC would have had the ability to pause payments until the obligation was fulfilled. This had the advantage of DCC being able to retain funds where service was poor or non-existent, and incentivised the FSP to cooperate so that payments would be resumed.
- **Reputational Risk and Price Control Risk:** DCC's requirement to continue to make payments to its CSPs irrespective of any difficulties which it may encounter, will make it harder for DCC to ensure its CSPs deliver a particular activity – as it no longer has the option to withhold payments. This leaves DCC at risk of having less leverage over its service providers, which in itself carries a reputational risk (such as negative press) and a price control risk (that cost is disallowed under the annual price control).

At this stage, DCC is of the opinion that each of these risks have been significantly outweighed by the savings that were realised for our customers and service providers, as well as the opportunity in terms of gainshare for DCC.

3 Savings as a Result of Refinancing of Set-Up Charges

The sections below provide an overview of the original adjustments made to the ECGS term from RY15/16 to RY20/21, the payment milestones achieved in this year's ECGS application, as well as a profile of the future

savings in terms of actual repayments.

As referred to above, this year's application includes, in part, savings that stem from adjustments that were previously proposed by DCC and approved by Ofgem. These savings are a continuation and a direct result of DCC's continued effort to reduce the financing costs across the various components and fundamental service providers of the SMIP. Contrary to previous years, this year's application does not include any further refinancing of CGI set-up charges.

The savings realised can be summarised as follows:

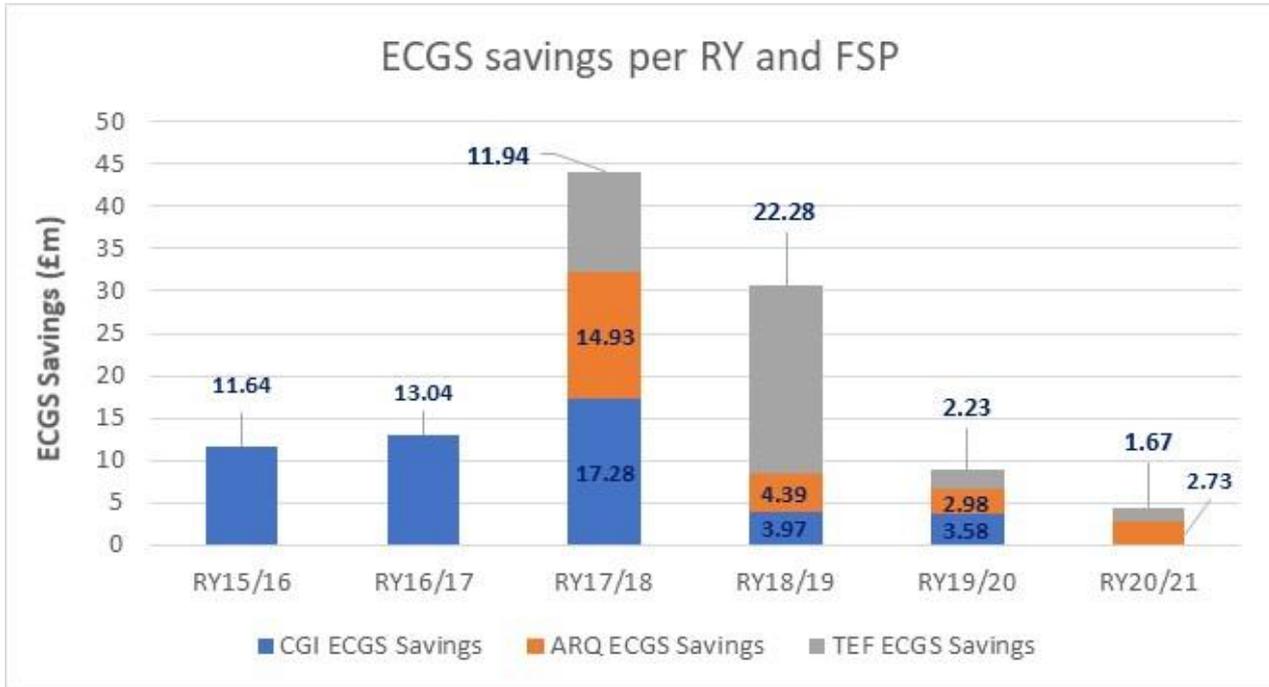
- **Arqiva - CSP (N):** As part of the refinancing arrangement agreed in RY17/18, DCC has managed to negotiate and secure funding rates ranging between REDACTED which was a significant reduction from the REDACTED funding rate originally set for Arqiva. Between RY17/18 and RY19/20, a milestone value of approximately REDACTED was refinanced, yielding total savings of **£25.75m**, with **£16.16m** being returned to customers. Additional savings of **£2.725m** were achieved during RY20/21 (**£1.703m** to be returned to industry).
- **Telefonica – CSP (C&S):** The financing arrangements for the scope of Telefónica 's work span across two different financiers, SMBC and Mitsubishi UFJ Financial Group (MUFG) and commenced in RY17/18. DCC has secured funding rates of REDACTED as opposed to the REDACTED funding rate originally set by Telefónica. As a result, total savings of **£39.45m** have been achieved, with **£19.725m** being returned to customers. Additional savings of **£1.672m** were achieved during RY20/21 (£0.92m of which we propose a return to industry).

Payment milestones associated with the most recent financing arrangements that are yet to be achieved are not within scope of this year's application. The exact level of saving associated with these future milestones will only be known at the time that they have been achieved. In accordance with Ofgem's guidance document³ on DCC's price control processes, ECGS applications only include savings for milestones that have been achieved and therefore where the interest rate at the time of achievement was known.

The chart below provides a breakdown of the aggregate savings that were realised as part of the refinancing arrangements, including the total RY20/21 ECGS saving of **£112.67m**.

³ https://www.ofgem.gov.uk/system/files/docs/2017/06/2017.06_processes_and_procedures_guidance.pdf

Figure 2 - ECGS Savings per RY and FSP



A breakdown of the RY20/21 ECGS savings per service provider is set out in the sections below.

Communication Service Provider (CSP) (North Region) – Arqiva

Since the RY19/20 ECGS application, a total of 36 milestones have been refinanced. In aggregate, the total value of the refinanced milestones over the course of RY20/21 for Arqiva was circa REDACTED, representing a total ECGS saving of £2.725m, of which we propose £1.703m is returned to customers. The achieved savings have resulted in Arqiva’s repayment plan of the Set-Up charges being reduced by 12.9% against the original cost of the milestones, for the period April 2019 to March 2025. The repayment plan as a result of these savings is set out below.

Table 1 – Set-up Charges financing saving – ARQIVA – RY20/21

£m	20/21	21/22	22/23	23/24	24/25	Total
ARQ Set-up Charge (REDACTED)	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
ARQ Set-up Charge (new rates)	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Savings	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
<i>This is 12.9% savings on the original cost of the milestones</i>						
<i>ARQ Profile of Savings spans across 36 Milestones for RY20/21</i>						

The achievement of these milestones over the course of RY20/21 was evidenced by the issuance of Milestone Achievement Certificates. The funding rates for each financed tranche and associated saving is set out in Annex 1, Tab ‘Arqiva’. The breakdown of each tranche by CR/PR reference can be found in the RIGs supplementary schedules.

Communication Service Provider (CSP) (Central & South Regions) – Telefónica

A total of 50 milestones were refinanced for Telefonica over the course of RY20/21, of which 25 related to

Telefonica South and 25 to Telefonica Central. The value of the refinanced milestones over the course of RY20/21 was approximately REDACTED, including REDACTED for Telefonica South and REDACTED for Telefonica Central. In terms of the total £1.672m gainshare savings, we propose that £0.83m is returned to customers. The achieved savings have resulted in a 15.7% reduction of the original milestone value cost. The repayment plan of these savings is set out below.

Table 2 – Profile of Savings for Telefónica C&S (£m) – RY20/21

£m	20/21	21/22	22/23	23/24	24/25	25/26	Total
Tef Set-up Charge (REDACTED)	REDACTED						
Tef Set-up Charge (new rates)	REDACTED						
Savings	REDACTED						
<i>This is 15.7% savings on the original cost of the milestones</i>							
<i>Tef Profile of Savings spans across 50 Milestones for RY20/21</i>							

The achievement of these milestones over the course of the year was evidenced by the issuance of Milestone Achievement Certificates. The funding rates for each financed tranche and associated saving is set out in Annex 1, Tab 'Telefónica'. The breakdown of each tranche by CR/PR reference can be found in the RIGs supplementary schedules.

4 Tranche 2 Comms Hubs Financing

Over the course of RY19/20, DCC successfully secured a substantive reduction in interest rates for the financing of Tranche 2 Comms Hubs. This was achieved as the direct result of substantial effort from DCC's perspective, which entailed a competitive process and complex negotiation with both CSPs to secure the most economically advantageous arrangement for the financing of Tranche 2 CHs. As previously clarified to Ofgem, these savings were sought in line with the financing arrangements as set out in the original CSP contracts i.e. Schedule 7.14 (Charges and Payment), which incentivises DCC to carry out a benchmarking exercise of the financing structure of Tranche 1 Comms Hubs, specifically aimed at maximising value for money for our customers.

At the time of last year's submission, these savings were limited to Telefonica, noting that similar savings would follow with Arqiva in future years. A reduction in interest rates for Tranche 2 from REDACTED for Tranche 1 to REDACTED for Tranche 2, resulted in overall savings to industry, from Telefonica alone, of £3.003m. In total, a 10.7% saving against the original cost was realised in RY19/20.

Achieved and Future Estimated Savings

As to the savings achieved for **Telefonica** over the course of RY20/21, a reduction in interest rates from REDACTED for Tranche 1 to REDACTED for Tranche 2, resulted in a net savings to the industry as a whole of approximately **£12.02m**. The savings that have been realised are based on a batch of **circa 1.75m** units as of June 2021 and represent around **12.9%** saving against the original cost. This year's application also takes account of a portion of savings which were inadvertently excluded last year of £2.369m which relate to the cheaper Comms Hubs delivered between April 2020 and June 2020. The table below sets out the savings realized against the costs for each of the different interest rates.

⁴ Schedule 7.1. Charges and Payment), Clauses 11.9-11.16.

Table 3 – Profile of Savings for TEF C&S (£) – RY20/21

Total Realised Savings – TEF CH Tranche 2 (£)							
	19/20 (Apr-Mar)	19/20	20/21 (Jul-Jun)	21/22 (Jul-Jun)	22/23 (Jul-Jun)	23/24 (Jul-Jun)	Total
Repay at T1 rate	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Repay at T2 rate	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Savings	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED

As to Arqiva, a reduction in interest rates from **REDACTED** for Tranche 1 to **REDACTED** for Tranche 2, resulted in an additional savings to the industry as a whole of **£1.372m**. This was based on a batch of **around 526k** units as of June 2021 and represents an **8.47%** saving against the original cost. The table below sets out the savings realized against the costs for each of the different interest rates.

Table 4 – Profile of Savings for ARQ (£) – RY20/21

Total Realised Savings – ARQ CH Tranche 2 (£)							
	19/20 (Apr-Mar)	19/20 (Excluded)	20/21 (Jul-Jun)	21/22 (Jul-Jun)	22/23 (Jul-Jun)	23/24 (Jul-Jun)	Total
Repay at T1 rate	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Repay at T2 rate	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Savings	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED

In aggregate, the reduction in interest rates for both Telefonica and Arqiva have yielded a savings to industry of **£13.395m**. Compared to the original cost, the realised savings represent a reduction of **REDACTED**.

5 Tranche 1 Comms Hubs Refinancing – Telefonica

Context and DCC Due Diligence

The CSP contracts oblige the CSPs to put financing arrangements in place to allow the cost of the Comms Hubs to be paid for over the life of their contracts. There is also an obligation for the CSP to propose and facilitate refinancing of existing financed assets where it results in savings to both the DCC and its customers. As per above, these savings arise where loan arrangements are refinanced at lower interest rates than those initially offered by the CSP. The Tranche 2 CH arrangements agreed in 2020 are delivering a saving compared to the previous cost.

The purpose of this transaction is to refinance Tranche 1 Comms Hubs specifically for Telefónica in a single transaction that will reduce the rate paid by DCC from approx. Redacted. (the rate charged by Telefónica) to 1 REDACTED. (the ‘all-in’ margin charged by the banks). The long-term duration of the CSP contract, the financial stability of the DCC and the financial magnitude of the amount being refinanced means this is a commercially attractive arrangements for the banks, that offers significant financial savings.

Previous competitive procurement of financing arrangements identified two relationship banks, SMBC and MUFG which were able to provide funding at low rates that are still being honoured. Engagement with the market, backed by evidence from Telefónica, strongly suggested that it would be unlikely to achieve these low rates given the economic pressures of the pandemic. Negotiations with SMBC and MUFG has also confirmed the mechanism by which each bank can bring in ‘loan note holders’ behind the banks to a) spread the risk of having too great a proportion of funding from a small number of banks headquartered in the same country (e.g. Japan in the case of MUFG and SMBC) and b) allow funding that is sustainable ‘green’ investment funding. Both a) and b) are of significant advantage to the DCC. DCC has considered the introduction of a third full

relationship bank (such as REDACTED) into the existing arrangements for this transaction but concluded this would not improve the position.

The introduction of a third bank was likely to result in higher costs of borrowing as well as introduce significant delays into the process with consequent reductions in savings realised by the DCC. Because of this, DCC has decided not to pursue this option but instead move ahead with the existing SPV ('Special Purpose Vehicle' for the DCC's financing) and a 50%:50%, fair and equitable split of loan volume across SMBC and MUFG.

SMBC has confirmed it can provide a REDACTED. Share. Similarly, MUFG have confirmed they can also meet the REDACTED. Share (noting that MUFG have confirmed they could provide REDACTED. If required). In order to fully leverage the advantages of diversity in the loan note holders, the DCC has also initiated discussions with the banks on sustainable financing and the banks have confirmed that institutional loan note holders would be interested, including those with a strong track record in sustainable, green finance such as REDACTED, subject to the DCC's own due diligence.

Telefónica previously ran a thorough procurement process to select the banks and structural arrangements that will provide the refinancing arrangement. The requirements set by the CSP and the DCC to obtain financing proposals from external lenders were as follows:

- Obtaining financing at the most economically advantageous basis
- Ensuring financing is fixed at the point of drawdown
- In the case of refinancing Telefónica Tranche 1 Comms Hubs (already deployed), the arrangement must allow for 100% of the outstanding principal to be paid to the CSP and for the DCC to assume repayments at the new favourable rate.

The least expensive way of administering the refinancing has been through a dedicated SPV whose role is to ensure that the DCC's total borrowing for each drawdown is syndicated to the funding banks via an interest rate swap process, thus ensuring that the DCC obtains the funds at a fixed repayment rate and that Telefónica can be repaid in full.

The impact of undertaking this refinancing arrangement with the banks is that we can achieve an improved and more cost-effective method of financing the Tranche 1 Comms Hubs roll-out. There is no operational impact and costs are reduced. It has been demonstrated that internal financing by Telefónica is more expensive than the interest rate we can achieve by going to the financial markets. DCC has worked hard over the last three years to demonstrate the strength of the DCC covenant and have been a reliable payer to financing banks; this credibility has been helpful during these discussions and has driven achievement of a low market-based interest rate. The principal benefits to customers of such arrangements are that it:

- Spreads the cost of the Tranche 1 Comms Hubs over its lifetime:
 - Ensuring a level playing field for early and late entrants to the market
 - Enabling consumers to switch suppliers without those suppliers incurring a penalty nor gaining an advantage
- Reduces costs for our customers.

Achieved and Future Estimated Savings

The substantially reduced interest rates from circa REDACTED.to REDACTED.has resulted in a net savings to industry of approximately **£16.3m**. Compared to the original cost, this represents a saving of REDACTED.DCC proposes that for the RY20/21, **£8.165m** is returned to our customers.

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6 DCC Test Labs

Summary

Since 2018, DCC has worked to design, build and operate an in-house test lab service, as we believed this had the potential to deliver significant savings. The provision of testing services originally sat within the FSP contracts⁵, making such services only available for a temporary period of 12 months, extendable on a monthly basis. Prior to DCC's Test Labs going live, these payments were made every month following the expiration of the original 12-month term. Following an assessment by DCC, we concluded these costs should be reduced.

As DCC transitioned from a single to a multi-programme delivery partner, it became apparent that, as per original assumptions in the LABP⁶, this approach to testing needed to change in order to accommodate the range of services and solutions that are being offered to industry. The approach to making these service available to testing participants on an enduring basis also directly responds to the regulatory requirement within the SEC.⁷

The benefits of the new test facility are:

- Consolidated industry test facilities, with flexibility to scale capacity to support: customer on-boarding testing; critical programme testing, in-life testing; new feature development testing; and fault triage testing.
 - A step change in testing capacity meant that we scaled up from circa 400 to 1200-1600 meters, supporting energy suppliers to test and deploy meters to customer premises.
 - Aligned resources, processes and systems (for example asset management, booking, test automation, test case and defect management) have ensured a consistent approach to testing, and faster resolution for issues due to availability of onsite support.
- A 24/7 and 365 days a year Technical Operations Centre (TOC) with an integrated Security Operations Centre (SOC) with the ability to monitor the depth and width of the smart metering ecosystem thereby enabling proactive intervention and ensuring continuous operations. This facility operates under very strict security rules which is part of DCC's strategic security approach: Secure by design; Secure by assurance; and Secure by proactive monitoring/management.
- A 24/7 and 365 days a year service desk working in tandem with our Ruddington site to provide business continuity.
- A co-creation and innovation hub to meet customer demand for elective services and our Licence Obligation to develop value added services.
- Co-location working and meeting facilities to meet industry on-demand requests for all relevant parties to be present in one location, including: meter manufacturers; communications hub manufacturers; DCC; and energy suppliers, for activities such as technical triage.

Due Diligence

Prior to 2018, DCC had operated a three-site strategy with locations in London, Ruddington and in the North West:

- **London**, Head office location (**Ibex**)

⁵ Schedule 6.2 of the FSP contracts (Testing and Acceptance)

⁶ Section 8, Risks and Uncertainty

⁷ Enduring Testing Approach Document (ETAD)

- **Ruddington**, Service Desk prime location (Discovery House (**DH**))
- **North West**, Integrated technical and operations centre (Preston Brook (**PB**))

Both Ruddington and the North West were considered multi-site disaster recovery locations required under our licence mandate to provide dedicated operations on a 24/7, 365 days a year basis. In 2018, it became clear however that the increasing demands on the programmes put a pressure on the North West site in its capacity of a multi-occupancy contact centre that was able to meet DCC’s customer commitments in the long term. Together with Capita Group Property support and external subject matter expert advice, DCC launched a project to find an alternative location that was able to fulfil that role. This project concluded with the recommendation to the DCC Board to adopt a new North West location called Brabazon House, near Manchester airport.

Leading to the conclusion of Brabazon House, DCC carried out a robust assessment of the case for alternative sites at either Brabazon House or the Preston Brook site.

	REQUIREMENT	DESCRIPTION	PB	BH	COMMENT
TEST LAB INFRASTRUCTURE	Prevention of RF leakage	The premises that are leased by DCC must be capable of being completely enclosed by shielding. Full height walls are required, glass walls are unsuitable and use of plaster board walls must be minimised	Red	Green	Brabazon House comprises brick external walls and a mix of stud & 'solid' internal walls. Both an Independent RF expert and potential test lab build subcontractors have confirmed the suitability of the building. Brick external wall will absorb RF and internal walls can be shielded with copper. Preston Brook: is unsuitable for use as a test lab. Internal walls could be modified to support shielding, but floor- ceiling windows do not provide a barrier to leakage of non-ionising radiation and cannot be shielded. Windows would need to be removed or steel enclosed cages created to house the test lab. Both costly and with an impact on delivery lead times.
	Creation of secure modular test labs	DCC must be able to create modular mini test labs within the overall test lab space (to minimise the level of non-ionising radiation within each working area and to prevent interference between meter sets). Loading bays with secure access for regular deliveries of meters, communication hubs are required.	Yellow	Green	Modular mini test labs can be created at both sites, but windows at PB are a limiting factor.
	Dedicated air conditioning/ fire suppression	The temperature inside each test lab area must be maintained within set limits and individual air conditioning controls will be required	Yellow	Green	Activity not included in PB schedule of works, but assurance that this can be provided has been given via e:mail. An independent M&E survey has confirmed the suitability of the air conditioning at Brabazon House to support the test lab requirements
OFFICE INFRASTRUCTURE	Dedicated Meeting facilities	Due to the sensitive nature of the DCC operations, DCC requires dedicated meeting rooms with restricted access.	Red	Green	Requirement met in full at Brabazon. Dedicated meeting rooms can be created within the space allocated to DCC at PB but this will adversely impact office/test lab space.
SECURITY	Restricted Access to Building	Access to the area surrounding the premises must be restricted to DCC personnel and visitors by prior agreement. Secure delivery and storage facilities for high volumes of sensitive equipment/ devices into the premises is required	Red	Green	An exclusion zone can be created around Brabazon House This would be difficult to achieve at PB.
	Creation of secure zoned areas	The office space will include a new Technical Operations Centre. A dedicated security desk/reception is required for access to both the DCC Test Lab and office space.	Yellow	Green	Brabazon House is a single user site and requirements can be met in full. A dedicated reception/security desk can be created for the test lab area at PB, but not for the TOC (if located on the 1 st floor). However secure zoned areas can be created on the 1 st floor.
H&S	RF Protection Monitoring	DCC will install RF protection monitoring systems and establish evacuation procedures in premises occupied by DCC staff. If multi-occupancy premises are used DCC will expect the landlord to meet its health and safety obligations by: <ul style="list-style-type: none"> • installing RF monitoring/protection systems in common use areas and areas that are not occupied by DCC. • ensure that building wide evacuation procedures are implemented and protected . • We also assume that the landlord will consult with all other building occupants regarding the change of use of the premises. 	Yellow	Green	Brabazon House is single occupancy and RF monitoring systems / evacuation procedures can be established by DCC. PB landlord has stated that the risk to others will be assessed and appropriate measures put in place. This creates a risk to the DCC Programme – other building occupants may object to the establishment of an RF test lab and/or it may not be possible to create meet HSE requirements Note, the results of the Independent RF Survey - A more rigorous level of RF Monitoring would be required throughout Preston Brook than in Brabazon House – not just in the test lab areas.
General	Staff Impact	Impact on existing PB staff should be taken into account	Green	Yellow	A small number of staff will be adversely impacted by move to Brabazon House. Staff currently working at PB will not be impacted if Preston Brook is selected.

The assessment concluded that the advantages of the Brabazon site were:

- **Functional requirements:** already on site was a back-up generator; separate air-conditioning units; and loading bays.
- **Integrated and dedicated facility:** the building is not a shared environment therefore meeting DCC and customer requirements in full as well as reducing implementation risk.
- **Building design:** the building is brick-built and office style windows therefore meeting DCC’s H&S specification. An independent expert has confirmed that it meets all regulatory health and safety requirements associated with electromagnetic radiation
- **Security:** the building is an enclosed site with existing security facilities in place, one of DCC’s overriding priorities.

- **Timescales:** availability of the site meant that it could meet the Q1 2019 target date to support SMETS1 and SMETS2 programmes.
- **Cost:** a significant reduction in Testing Service charges payable to the CSPs. DCC also negotiated a 2-year rent-free period (value of REDACTED.) and fixtures and fittings left by previous occupant valued at REDACTED..

In contrast, the disadvantages of the Preston Brook (PB) site were:

- **Building Purpose:** PB was designed, built and occupied as a multi-user contact centre. This was a very different proposition to a Radio Frequency (RF) test lab and integrated operational environment. This is why Telefonica decided to use a separate facility, adjacent to PB to build their own test lab. Telefonica and Arqiva have both provided commentary around the unsuitability of PB for test labs.
- **Functional requirements:** as a shared facility there was no separate air conditioning units; no dedicated loading bays; no backup power generation in place and time-consuming/costly to implement.
- **Health and Safety:** multiple users in building; advice from independent experts stated that “ICNIRP health and safety will be very difficult to manage at PB”; compounded by perceived concerns by staff and visitors. This could also impact further sub-letting at PB and rental valuations.
- **Flexibility and Adaptability** for new and emerging technology - not straightforward in a multi-occupancy building. If our requirements changed, there would be no scope to secure more space.
- **Security:** Separate entrance for deliveries, customers, suppliers were required and difficult to achieve and avoid the thoroughfare set up of PB currently. Additional costs would be incurred by increasing window security and providing secure access to the TOC and SOC.
- **WIFI:** separation requirements would be crucial to avoid interference with other PB users; a system has been installed at Preston Brook (DAS) to boost the O2 network signal. DCC has been advised this may prevent SMETS1 meters from connecting to the relevant mobile network.
- **Space requirements:** PB configuration meant that DCC staff were in different parts of the building which was less beneficial for ongoing security, teamworking and collaboration. The space offered did not meet DCC needs.
- **DCC customer needs:** the facility is for the exclusive use of DCC customers and suppliers. A multi-occupancy site imposes constraints on in-built flexibility and increased security risk.

The risks DCC took to realise these savings are as follows:

- **Use of previously unproven first in class technology:** The creation of the DCC Test Lab was based on a desire to centralise user testing activity for both SMETS1 and SMETS2 devices, providing a common testing service across all regions and device types and improving customer experience while at the same time reducing testing service costs. This centralised service requires the generation of different wide area network (WAN) signals within one location. Whilst the technology to support this multiple WAN generation was available (in shopping centres for example) it had not previously been used to concurrently target specific, finely tuned WAN frequencies into different areas within the same location (in this case Test Lab Modules). Conduct of SMETS1 and SMETS2 device testing, and testing in respect of CSP C&S and CSP North in the same facility would not have been possible without this ability, neither would it have been possible to use the Test Labs flexibly when user testing requirements changed over time (e.g. to re-purpose a specific Test Lab module from supporting SMETS1 testing to SMETS2 testing) without incurring additional build cost.

DCC addressed this delivery challenge by working with a specialist technology provider to implement a fully flexible distributed antennae system with the ability to direct and fine tune different WAN signals

into adjacent Test Lab rooms and to change the signal piped into a specific location. This concept was previously unproven and attracted high delivery risk.

Failure to deliver this flexibility would have required the use of additional testing facilities (with additional cost) if the predicted demand for SMETS1 and SMETS2 testing changed over time.⁸ Rough Order of Magnitude costs obtained from a 3rd Party Test Lab provider indicated that these annual costs could be £6.2m pa. As an alternative contingency option, DCC considered the continued use of the CSP Test Labs to provide this flexibility, again incurring additional cost and reducing savings to DCC Users.

The £6.2m costs are based on:

- 10,000 sq ft test lab facility
 - 1,000 device test positions
 - Accommodation costs include utilities and cleaning
 - Furniture costs including: bespoke racking for the devices (including specialist current/air flow racking); partitions for different test areas. Costs are spread over a 10-year operating life
 - Hardware costs include test tool servers, and test laptops for clients (depreciation/replacement over the period of time not included).
 - Security and storage to cover multi-factor authentication access, private working spaces, modesty covers, lockable cabinets for clients to use whilst on site, and building extra security into existing test tools
 - Software licences including test orchestration devices test tools and complimentary software services (cloud, data sets, monitoring tools, meteorology tools, etc)
 - Resources: costs include a team of 15-20 people to support the facility, to manage its day-to-day running, to provide training and support to client users, to manage administration (e.g. bookings) and technical aspects of the test lab
 - Communications costs include: Wi-Fi, networks, telephones (limited, not at all test positions) and connections to both Arqiva and Telefonica CSPs
- **Compliance with “The Control of Electromagnetic Fields at Work Regulations 2016 No. 588”:** Ionising radiation is emitted by Communication Hubs. Co-location of a large number of Communication Hubs (as required to support the volume of testing supported by the centralised Test Lab), increases the level of ionising radiation that is generated and could create a Health and Safety risk to Test Lab personnel and office staff. DCC addressed the health and safety risk by shielding each Test Lab module with copper mesh. However, the effectiveness of this shielding system could only be measured post construction of the Test Labs and was unproven for the volume of co-located smart metering devices (and therefore level of ionising radiation emitted) at the DCC Test Lab. The delivery risk was therefore significant. Failure to demonstrate compliance with the regulation, which sets out the safe permitted level of radiation inside and outside the Test Labs would have resulted in re-fit of the Test Lab modules or reduction in the volume of testing permitted at Brabazon House and potentially an inability to relocate staff away from the DCC Preston Brook site. This would have imposed significant, potentially unrecoverable costs on DCC, and led to a delay in delivering consolidated testing services.
 - **Ability to Support Triage Activity:** triage activity is dependent upon the ability to capture test traces and logs. This activity was supported in the CSP Test Labs through the use of Debug Communication Hubs. However, these devices “expose” the WAN network, with an inherent security risk. CSPs had,

⁸ The Covid-19 pandemic has shown that there is always risk to the accuracy of forecast demand.

understandably, been reluctant to permit the use of these Debug Communication Hubs outside designated CSP premises unless DCC could demonstrate that sufficient security controls had been established. Failure to satisfy CSP concerns (assessed via a post-construction and pre-service transition audit), would have resulted in a reduction in the level of testing service provided at the DCC Test Lab and a continuation of SMETS2 user testing activity at the CSP Test Labs, with associated increase in costs.

- **Price Control disallowance risk:** although supported by customers, BEIS and Ofgem, building the Test Labs to reduce industry testing charges still required DCC to deliver the activities in an economic and efficient manner. Given the expenditure was significant, DCC's Price Control exposure risk was notable. We went to great lengths to ensure that we were designing the best value for money service within a heavily regulated environment. Had we got our options analysis wrong or failed to spot a future challenge that could have reduced the net benefit of the Test Labs, we could have been exposed to a significant ongoing Price Control disallowance risk. We could also have been exposed to SEC and licence non-compliance had we not been able to offer a full testing service.

Achieved and Future Estimated Savings

One of the main strategic reasons for establishing an integrated end to end test facility stemmed from having lower unit costs for testing services. Across the entire length of the service, the consolidation of business and testing activities via our test lab, together with the closure of the old Preston Brook office, is expected to generate a total saving to customers of approximately £96.3m. This is circa £35m more than expected through the original business case.

RY20/21 is the first year in which a net saving is being realised against the original UIT testing service charges and Preston Brook costs. The total cost of the DCC test lab for RY20/21 was approximately REDACTED. In comparison, the original UIT testing service charges would have costed our customers of approximately REDACTED, resulting in an actual gross savings for the year of approximately £10.5m. Net cumulative savings in RY20/21 are circa £9m, representing 45% cost reduction against the cost of the original UIT testing service charges.

In terms of the total **£9m** gainshare savings in RY2021, we propose that £5.0m is returned to customers. The profile of costs and savings is set out below.

Table 5 – Summary of DCC Test Lab Savings (£m) – RY20/21

REDACTED

7 Proposed Changes to ECGS Term for RY20/21

The purpose of the ECGS mechanism is to incentivise lowering the costs of DCC's FSPs. In the spirit of our Licence, we consider that most of these savings should firstly be returned to our customers, and only then a proportion should be retained by DCC for the efforts in creating these savings as this ensures that it is:

- Incentivised to actively explore all new opportunities to save money for its customers as well as the end consumers over the term of its Licence; and
- Compensated appropriately for its efforts in negotiating the refinanced arrangements as well as the additional financial risk that it has incurred as a result of implementing these new arrangements.

DCC reaffirms that that the previously agreed new financing arrangements have not resulted in a reduction in scope of these contracts nor did any associated activity in establishing these new arrangements lead to an

increase in costs.

The table below provides a consolidated overview of the RY20/21 savings per Fundamental Service Provider (FSP).

Table 6 – Summary of Savings (£m) for each External Service Provider contract – RY20/21

	Set-up Refinancing			T2 Refinancing		T 1 Financing		Test Labs		Total
	CGI	TEF	ARQ	TEF	ARQ	TEF	ARQ	Savings vs BC	Additional Savings	
ECGS	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.
Customers	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.
FSPs	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.
DCC	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.	REDACTED.

A summary of the total ECGS savings from each of the agreed arrangements, as well as DCC’s proposal for apportionments of the savings between customers, FSPs and the DCC are provided in the Annex to this application.

Proposed split of benefits between customers, service providers and DCC

In terms of the apportionment of the savings, DCC’s default position is that the largest share of the savings always ought to be returned to customers. Depending on the type of ECGS arrangement, a smaller but proportionate amount is then shared between the FSPs and DCC. That proportion typically follows either one or a combination of the following criteria:

- **Continuation** of previously agreed **refinancing arrangements**: The proposed split of ECGS savings among customers, service providers and DCC aligns to the weighted split that was agreed by Ofgem for each of the respective service providers in previous RYs.
- **DCC effort in leading negotiations and taking risks**: as to the **refinancing deals** that were made in previous RYs, DCC is of the view that this would have not been secured without the determination and significant efforts undertaken by DCC. DCC has played a pivotal role driving the negotiations which ultimately led to securing a successful and satisfactory outcome for all parties involved. That also applies to the extensive level of effort and risk taking that DCC went into in securing the significant amount of savings realized under **DCC test labs** and the financing and refinancing of both **CH tranches**.
- **Benchmarking of other Gainshare Arrangements**: Appendix A provides comparable benchmarks from ten different regulated companies across a variety of sectors. DCC notes that the proposed apportionment of the ECGS savings is substantially lower than the agreed gainsharing arrangements in other regulated industries where customers receive as little as 30% of any saving and where 40%-50% is the norm.

A summary of the proposed apportionment for the different ECGS types included in this year’s application is set out below:

REDACTED

Proposed Adjustment Date

DCC proposes an Adjustment Date of **01 April 2022**, which is consistent with the requirement that the Adjustment Date may not be earlier than 01 April of the Regulatory Year immediately following the Regulatory

Year in which the Notice has been served⁹.

DCC confirms that this Notice is served in July 2021, which is consistent with the requirement to serve the Notice at any time during the month of July (“the Application Window”) in any Regulatory Year (excluding RY2013/14 and RY2014/15).¹⁰

⁹ Licence Condition 39, Appendix 1, Part A, A5 (c)

¹⁰ Licence Condition 39, Appendix 1, Part A, A5 (a)

Appendix A – Benchmarking of other gain share arrangements

The table below details existing gain share arrangements operating in regulated sectors in Great Britain, with a particular focus on the energy sector.

Comparator	Company/Licensee %	Points to note
OFTO	50%	Under OFTOs licence TR7, refinancing gains are shared 50:50 between the offshore transmission owner and consumers on the grounds that it is clear, simple and should provide sufficient incentive to continue to undertake refinancing.
ENW	Tbc (was 58%)	Ofgem propose to introduce a similar system to RIIO-2 for ED2.
NPG	Tbc (was 55%)	
UKPN	Tbc (was 53%)	
SPEN	Tbc (was 54%)	
SSE	Tbc (was 56%)	
Cadent, SGN, WWU	50% (was 60%)	
NGN	49% (was 60%)	
NGGT	39%	
NGET and SHET	33% (NGET was 47%)	
SPT	49% (was 50%)	
Network Rail	NA (was 75%)	Network Rail was entitled to retain 75% of any efficiency savings, with its customers (the Train operating companies) receiving the remaining 25% in CP5 under the route level efficiency benefit sharing mechanism (REBS) which replaced the EBSM from the previous period. There is no REBS for CP6.
Ofwat		Ofwat proposed an illustrative gearing outperformance sharing mechanism with a 10% deadband above the notional gearing level of 60% for PR19. The mechanism will trigger for companies with actual gearing levels of 70% and above. The mechanism will share 50% of the difference between notional nominal cost of equity and actual nominal cost of debt for the proportion of gearing that is above a reference point of 65%.

Appendix B – Cross references to the Licence

Licence reference	Information requirement
Condition 39, Appendix 1, Part A, A3 (a)	Must take account of any Relevant Adjustments previously determined under this Appendix 1.
Condition 39, Appendix 1, Part A, A3 (b)	Must detail the change (or changes) to the ECGS value (or values) that are proposed and the Regulatory Year (or Years) to which the change (or changes) would relate.
Condition 39, Appendix 1, Part A, A3 DCC	Must set out the particular activities that are the subject of the proposal under the relevant External Service Provider Contract (or Contracts).
Condition 39, Appendix 1, Part A, A4 (a)	Must set out how the costs associated with the activities that are the subject of the proposal were included in the original External Service Provider Contract (or Contracts).
Condition 39, Appendix 1, Part A, A4 (b)	Must describe how such activities are to be, or are being, more efficiently carried out, and provide assurance that costs will not be, or have not been, increased for any other activity as a result.
Condition 39, Appendix 1, Part A, A4 DCC	Must describe the collaborative process associated with negotiation of the relevant contractual amendment, the amount by which External Costs are to be (or are expected to be) reduced by virtue of the amendment, and the amount of the gain that has been (or is expected to be) derived by the relevant External Service Provider (or Providers) as a consequence of the process.
Condition 39, Appendix 1, Part A, A4 (d)	Must set out the basis of the calculation of proposed changes to the amount of the ECGS _t term and justify them in relation to the amount of the reduction that has been, or is expected to be, achieved in External Costs.
Condition 39, Appendix 1, Part A, A4 DCC	Must explain why, in the Licensee's opinion, the Relevant Adjustment is justified in all the circumstances of the case.
Condition 39, Appendix 1, Part A, A5 (a)	May be served at any time in the month of July ("the Application Window") in any Regulatory Year (excluding Regulatory Years 2013/14 and 2014/15) provided that it complies in all respects with the provisions of this Part A.
Condition 39, Appendix 1, Part A, A5 (b)	Must be served within the first Application Window after the date on which the grounds for proposing the Relevant Adjustment first arose.

**Condition 39, Appendix 1,
Part A, A5 DCC**

Must contain an Adjustment Date (being the date on which it is proposed that the Relevant Adjustment should take effect), which may not be earlier than 1 April of the Regulatory Year immediately following the Regulatory Year in which the Notice has been served.

Appendix C – Glossary

Term	Definition
Adjustment Date	Means the date on which it is proposed that the Relevant Adjustment should take effect.
Application Window	Means any time during the month of July in any Regulatory Year (excluding the Regulatory Year 2013/14).
Approved Payment Milestone Certificate	Means a Payment Milestone Certificate that satisfies all of the following conditions, namely: <ul style="list-style-type: none"> (a) Is approved by the Client in accordance with clause 2.4 as may be adjusted in accordance with clause 2.6; and (b) The Assignee purchases the Assured Charges that are the subject matter of the relevant Payment Milestone Certificate as evidenced by an email confirmation in accordance with 2.5 of the Funding Addendum.
Assignee	The third-party funder specified in 7.1.1 of the Funding Addendum (Barclays Bank PLC or SMBC Leasing & Finance).
Assured Charges	Means the assured charges payable by the Client to the Supplier specified as such in an Approved Payment Milestone Certificate and as may be amended in accordance with clause 2.6 of the Funding Addendum.
Communications Service Provider (CSP) Central	means: <ul style="list-style-type: none"> (a) the entity that shall contract with the DCC further to the selection process for Lot 2 (smart communications services in central GB including Wales) initiated by notice in the Official Journal of the European Union with reference number 2011/S 165-273113 (b) any person(s) providing services in replacement of such CSP, but excluding any direct or indirect sub-contractor, contractor, agent, representative or service provider providing any goods or services to the person that is contracted directly to the DCC; (i.e. Currently Telefonica UK Ltd)
Communications Service Provider (CSP) South	means: <ul style="list-style-type: none"> (c) means the entity that shall contract with the DCC further to the selection process for Lot 3 (smart communications services in southern GB) initiated by notice in the Official Journal of the European Union with reference number 2011/S 165-273113; (d) any person(s) providing services in replacement of such CSP, but excluding any direct or indirect sub-contractor, contractor, agent, representative or service provider providing any goods or services to the person that is contracted directly to the DCC; (i.e. Currently Telefonica UK Ltd)
Communications Service Provider (CSP) North	means: <ul style="list-style-type: none"> (a) the entity that shall contract with the DCC further to the selection process for Lot 1 (smart communications services in central GB including Wales) initiated by notice in the Official Journal of the European Union with reference number 2011/S 165-273113; (b) any person(s) providing services in replacement of such CSP, but excluding any direct or indirect sub-contractor, contractor, agent, representative or service provider providing any goods or services to the person that is contracted directly to the DCC;

	(i.e. Currently Arqiva UK Ltd)
Data Service Provider (DSP)	<p>means:</p> <p>(c) the entity that shall contract with the DCC further to the selection process initiated by notice in the Official Journal of the European Union with reference number 2011/S 165-273114; and</p> <p>(d) any person(s) providing services in replacement of such DSP,</p> <p>but excluding any direct or indirect sub-contractor, contractor, agent, representative or service provider providing any goods or services to the person that is contracted directly to the DCC;</p> <p>(i.e. Currently CGI IT UK Ltd)</p>
Deferred Set-up Charges	Means the monthly amount in Set-up Charges calculated and payable in accordance with Schedule 7.1 (Charges and Payment) following Achievement of the associated Set-Up Payment Milestone.
External Contract Gain Share	Means the component of the Allowed Revenue of the Licensee that is determined in accordance with the provisions of Condition 39 (Determination of External Contract Gain Share) so as to secure the effect set out in Part A of that condition.
External Costs	Means in relation to each Regulatory Year the actual amount of the costs that were economically and efficiently incurred by the Licensee in procuring Fundamental Service Capability during that period.
Financial Model	Means the model developed in accordance with the provisions as set out in Appendix 3 to Schedule 7.1 (Charges and Payment) of the DSP contract.
Financing Agreement	Means all or any of the agreements or instruments entered into or to be entered into by the Contractor or any of its Affiliates relating to the financing of the Set-Up Charges (including any agreements or instruments to be entered into by the Contractor or any of its Affiliates relating to the rescheduling of their indebtedness related to this Agreement or any Refinancing).
Financing Percentage	Is the average percentage financing charge applied in each Payment Month to the then outstanding Set-up Balance, being the difference between the total costs incurred minus total revenues and calculated in accordance with the Financial Model based on the relevant Milestone Value and the profile of the Deferred Set-up Charges.
Fixed Operational Charges	Charges which consist of a fixed monthly charge payable in respect of the provision of the Services after the Achievement by the Contractor of the Commencement of Initial Operational Services for each month during the remainder of the Term in line with the Fixed Operational Charge profile set out in Schedule 7.1 of the DSP contract.
Fundamental Service Capability	Has the meaning given to that term in Part J of Condition 16 of the Licence (Procurement of Relevant Service Capability), as amplified by reference to the particulars set out in Schedule 1 to the Licence (Details of Fundamental Service Capability).
Fundamental Service Provider (FSP)	Means a Service Provider contracted with DCC to deliver Fundamental Service Capability.
Funding Addendum	Means the Funding Addendum relating to the provision of IT Services between the DCC and Contractor dated on or around 08 July 2015 for Barclays and dated on or around 26 September 2016 for SMBC Leasing and Finance.

Funding Rate	Means the actual interest rate used by the Assignee for calculating the Assured Charges.
GB Companion Specification (GBCS)	Means the document of that name set out in Schedule 8 of the SEC.
Licensee	Means Smart DCC Ltd, a company registered in England and Wales under number 08641679, whose registered office is at 17 Rochester Row, London SW1P 1QT, and who is the person that holds the Licence.
Licence Term	Means (subject to the provisions of Part 1 and Part 2 of the Licence with respect to continuation and revocation) the period that begins on Licence Commencement Date and ends on 22 September 2025 during which the Licence remains in force and is held by and applies to the Licensee.
Milestone	Means an event or task described in the Implementation Plan (reference to a specific milestone shall be construed as reference to such milestone as individually listed in Schedule 6.1 (Implementation Planning) Appendix 1), which, if applicable, must be completed by the relevant Milestone Date.
Milestone Value	Is the amount in Set-Up Charges associated with the delivery of the relevant Milestone if paid on the date of the associated Milestone Achievement Certificate.
Milestone Achievement Certificate (MAC)	Means the Milestone Achievement Certificate, as defined in the Services Agreement, in respect to a Milestone.
Payment Milestone Achievement Certificate (PMAC)	Means a certificate delivered by the Supplier to the Client in accordance with Clause 2.2 confirming the Assured Monthly Charges attributable to a Milestone substantially in the form set out in Schedule 1.
Payment Month	Means a calendar month to which a payment obligation in the DSP agreement relates
Refinancing	Means: <ul style="list-style-type: none"> (a) any amendment, variation, novation, supplement or replacement of any Financing Agreement; (b) the exercise of any right, or the grant of any waiver or consent, under any Financing Agreement; (c) the disposition of any rights or interests in, or the creation of any rights of participation in respect of, the Financing Agreement or the creation or granting of any other form of benefit or interest in either the Financing Agreement or the contracts, revenues or assets of the Contractor whether by way of security or otherwise; or (d) any other arrangement put in place by the Contractor or another person which has an effect similar to any of (a) to (c) above, that will give rise to a Refinancing Gain greater than zero.
Refinancing Gain	Means an amount (which must be greater than zero) being the difference between: <ul style="list-style-type: none"> (a) the total financing charges relating to the Set Up Charges, as set out in the Financial Model immediately prior to the Refinancing; and (b) the total financing charges relating to the Set Up Charges, as set out in an updated

	version of the Financial Model which has been revised to take account of the effect of the Refinancing.
Regulatory Year	Means a period of twelve months beginning on 1 April in any calendar year and ending on 31 March of the next calendar year (and the Licensee's first Regulatory Year is deemed to have begun on 1 April 2013).
Relevant Adjustment	Means an adjustment that is proposed in accordance with the requirements of Part A of the Licence Condition 36, Appendix 2.
Set-up Charge	Means the Charge identified as such and calculated in accordance with paragraph 3 of Schedule 7.1 (Charges and Payment) of the DSP agreement.
Set-up Balance	Means the difference between the total costs incurred minus total revenues and calculated in accordance with the Financial Model based on the relevant Milestone Value and the profile of the Deferred Set-up Charges.
Set-up Payment Milestone	Means those Milestones triggering payment of Deferred Set-up Charges as set out in Paragraph 3.1 of Part B of Schedule 7.1 (Charges and Payment).
Smart Energy Code (SEC)	Means the document of that name, as was designated by the Secretary of State under Condition 22 of the Licence (The SEC), that is maintained for the purposes of that Condition, that is subject to modification pursuant to Condition 23 (Change control for SEC), and that may be referred to in the Licence as "the SEC".
SEC Party	Means, from time to time, a person that has agreed to be bound by the SEC (either pursuant to the Framework Agreement or an Accession Agreement), and (without prejudice to Section M8.14 (Consequences of Ceasing to be a Party)) that has not at that time ceased to be so bound in accordance with Section M8 (but excluding SECCo).