

Smart DCC Ltd

Licence Application Business Plan

Version:

Final Redacted

Date:

30th April 2014

DCC Public

Contents

1	Introduction	4
1.1	Smart Meter Communication Licence.....	4
1.2	The Purpose of the Licence Application Business Plan.....	4
2	Background to the grant of the Licence	6
2.1	DCC Licensing Competition	6
2.2	DCC Service Provider Procurements	6
2.3	Finalisation.....	7
3	Internal Costs	8
3.1	Smart DCC's Outputs.....	8
3.1.1	General Objectives and Authorised Business.....	8
3.1.2	Smart DCC design through the Licence Application	8
3.2	Operational Service Requirements.....	9
3.3	Smart DCC Functions	12
3.3.1	Resource Costs	12
3.3.2	Resource development over the Licence	13
3.3.3	Non-Resource Costs.....	17
3.3.4	Adjustment of Internal Costs and Baseline Margin	19
3.3.5	Total Internal Costs by year	20
3.3.6	Internal Costs by Service Requirement output	21
3.3.7	Internal Costs by Smart DCC Function.....	23
3.3.8	Internal Costs excluded from the LABP.....	24
4	External Costs	25
4.1	Service Providers	25
4.1.1	Included Costs	25
4.1.2	Excluded Costs	27
5	Pass-Through Costs	29
6	Smart DCC Revenues and Cash Flow.....	30

7	Smart DCC Capital Investments.....	31
8	Risks and Uncertainty.....	32
9	Innovation and Service Development.....	38

1 Introduction

1.1 Smart Meter Communication Licence

The Government's vision is for every home in Great Britain to have smart energy meters.

Smart DCC Ltd (Smart DCC), a wholly owned subsidiary of Capita plc, was granted the Smart Meter Communication Licence (the Licence) by the Department of Energy and Climate Change (DECC) on 23rd September 2013, pursuant to sections 7AB(2) and (4) of the Gas Act 1986 and sections 6(1A) and (1C) of the Electricity Act 1989.

The Licence sets out the conditions under which Smart DCC will implement and manage a data and communications service that enables smart meters within domestic and non-domestic premises to communicate with the business systems of authorised Service Users.

The Licence will remain in force until 22nd September 2025.

The Licence was granted following the DCC Licensing Competition, an application process run by DECC, as outlined in Section 2.1 below.

Smart DCC will operate within the framework of the DCC Commercial Model, which is described in Section 8 of the Consultation on New Smart Energy Code Content (Stage 2) published by DECC on 17th October 2013.¹

1.2 The Purpose of the Licence Application Business Plan

The Licence Application Business Plan (LABP) covers the 12 year Licence period. This plan reflects the scope, outputs, requirements, tasks, assumptions and Smart DCC solution as understood as a result of the Licence Application process.

The LABP is defined within Condition 37 of the Licence as:

37.14 For the purposes of this condition:

Licence Application Business Plan means the plan of that name that:

(a) was submitted by the Licensee in the course or as a consequence of the Licence Application Process;

(b) contains the Licensee's estimates (which may be estimates that have been modified by the Licensee as a consequence of the Licence Application Process) of its revenues, costs, capital investments, and cashflows for each Regulatory Year of the Licence Term;

1

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/251280/A_Consultation_on_New_Smart_Energy_Code_Content_-_SEC2.pdf

(c) was taken into account by the Secretary of State in determining the grant of this Licence to the Licensee,

and to which the Licensee committed itself as a condition of that grant.

In accordance with Condition 37.14(a) of the Licence, Smart DCC provided the LABP to the Authority on 24th December 2013.

Following the conclusion of each regulatory year, Smart DCC will provide the Authority with a report comparing costs actually incurred against:

- those estimated as being likely to be incurred within the LABP
- all updated forecasts of expenditure as submitted under Condition 32 of the Licence.

These comparisons are split between:

- Comparison 1: a comparison of External Costs
- Comparison 2: a comparison of Internal Costs

as defined in Condition 35 of the Licence.

The report will include an explanation of any material divergence in these costs. It will also include a statement of any material divergence against the remaining years of this LABP.

2 Background to the grant of the Licence

2.1 DCC Licensing Competition

The Smart Meter Communication Licence was awarded following the DCC Licensing Competition, an application process run by DECC. A summary of the process is provided below in Table 1.

Stage	Date
OJEU announcement (12/S 169-280051/EN)	31/08/12
Pre Qualification Questionnaire (PQQ) response submitted	26/10/12
Invitation to Apply (ITA) response submitted	21/01/13
Dialogue	19/02/13 – 21/03/13
Invitation to submit Best and Final Offer (ISBAFO) response submitted	05/06/13
Preferred applicant announced	14/08/13
Final ISBAFO pricing response submitted	19/09/13
Licence Award	23/09/13

Table 1 - DCC Licensing Competition stages

The Capita ISBAFO response included operational service delivery proposals, a statement of commercial positions and a Price Response.

The Price Response for the competition was based upon the scope defined within the ISBAFO, and upon the assumptions detailed within the response. This scope was defined by a combination of:

- The draft Licence
- The draft Smart Energy Code (Stage 1)
- The ISBAFO version of the DCC Operational Service Requirements (OSRs)
- The ISFT (Invitation to Submit Final Tender) versions of the Service Provider Contracts.

2.2 DCC Service Provider Procurements

In parallel to the DCC Licensing Competition, DECC ran two procurements for the provision of Fundamental Service Capability; specifically the provision of data services and the provision of communications services (with three contracts covering three regions of Great Britain).

From December 2012, DECC allowed limited engagement between DCC Applicants and Fundamental Service Provider bidders. Whilst this engagement was useful for all parties, the two competitions remained separate, and the Capita response to the ISBAFO was based purely on the ISBAFO documentation, which included standard ISFT versions of the majority of the Service Provider contract documentation.

The preferred bidders for these services were announced on 14th August 2013 as:

- Data Service Provider – CGI IT UK Limited
- Communication Service Provider (North region) – Arqiva Smart Metering Limited
- Communications Service Provider (Central and South regions) – Telefónica UK Limited.

The costs of these Fundamental Service Providers are defined as External Costs.

2.3 Finalisation

Following the announcement of Smart DCC as the successful applicant, and the announcement of the preferred bidders on 14th August 2013, DECC facilitated a period of finalisation in order to:

- Agree amendments to the Licence with Smart DCC
- Agree amendments to Service Provider contracts with Smart DCC, including:
 - changes proposed by and agreed by Service Provider bidders and by DECC
 - the definition of an approach to finalising the Direct Agreement proposed for the financing of the first tranche of Communications Hubs
- Identify amendments to the DCC OSRs.

Contracts between Smart DCC and the Service Providers were signed on 9th September (CGI IT UK Limited), 12th September 2013 (Telefónica UK Limited) and 20th September 2013 (Arqiva Smart Metering Limited).

This period concluded with the granting of the Licence on 23rd September 2013.

3 Internal Costs

3.1 Smart DCC's Outputs

3.1.1 General Objectives and Authorised Business

Smart DCC is tasked within Condition 5 of the Licence (General Objectives of the Licensee) to discharge its duties to achieve the following General Objectives²:

- Interim General Objective – achievement of a full, timely, efficient, economical, and secure Completion of Implementation
- General Objective 1 – development, operation and maintenance of an efficient, economical, coordinated, and secure system for the provision of Mandatory Business Services
- General Objective 2 – deliver Mandatory Business in a manner that is most likely to facilitate:
 - a. effective competition between persons engaged in, or commercial activities connected with, the Supply of Energy
 - b. innovation in the design and operation of Energy Networks
 - c. reduction (by virtue of benefits arising from the provision of Value Added Services) of the charges payable for Mandatory Business Services.

To enable achievement of the General Objectives, Condition 6 of the Licence (Authorised Business of the Licensee) sets out the Authorised Business activities that Smart DCC is permitted to deliver:

- Mandatory Business – comprising the provision of Core Communications Services, Elective Communications Services and Enabling Services (including Enrolment, Communications Hub and Other Enabling Services) for and on behalf of SEC Parties
- Permitted Business – comprising the provision of Value Added Services and Minimal Services.

3.1.2 Smart DCC design through the Licence Application

The structure of Smart DCC was designed during the DCC Licensing Competition, taking into account a wide range of inputs. These include:

- The Licence
- The DCC Operational Service Requirements

² General Objectives and Authorised Business definitions have been paraphrased from Licence Conditions 5 and 6 respectively.

- The draft ISFT Service Provider Contracts
- The draft text of Stage 1 of the Smart Energy Code.

The relationship between these inputs is outlined in Figure 1 below.

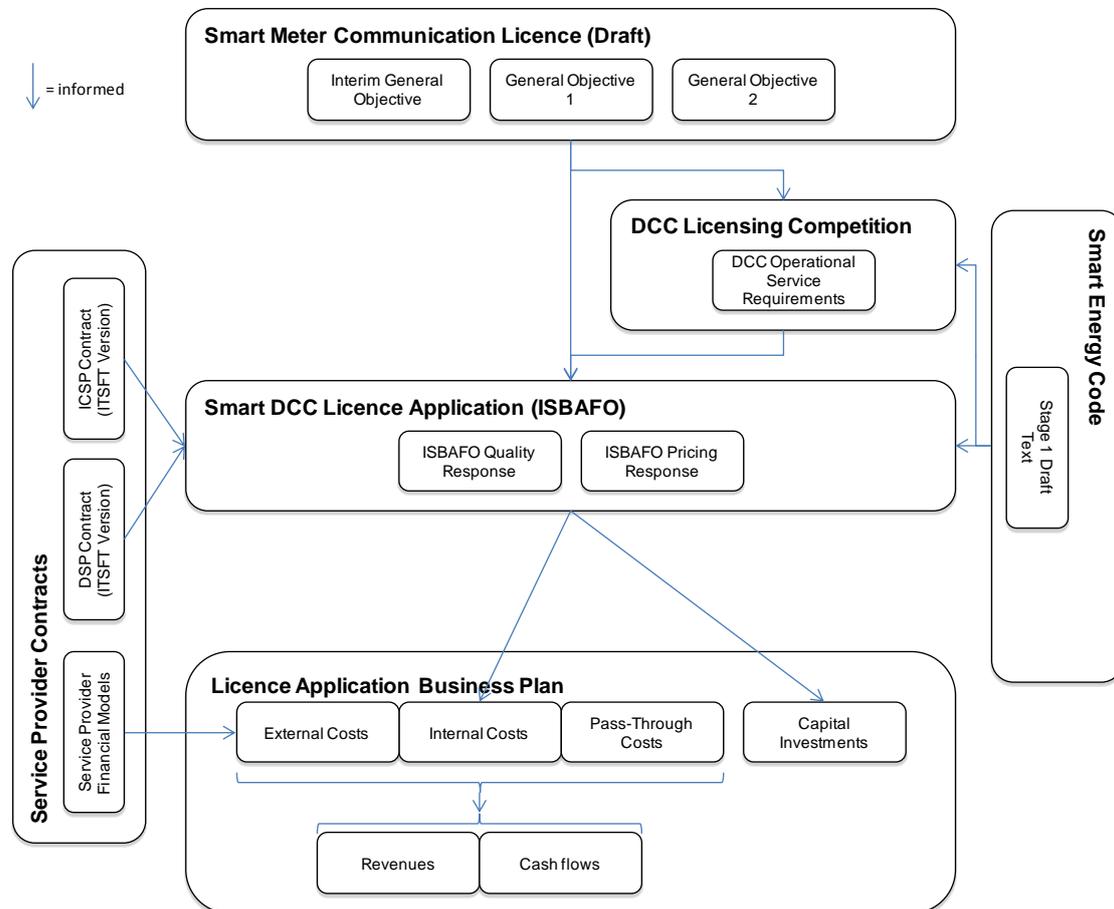


Figure 1 - Licence Application Business Plan derivation

The LABP is derived directly from the outputs of the DCC Licensing Competition and the Service Provider Procurements.

3.2 Operational Service Requirements

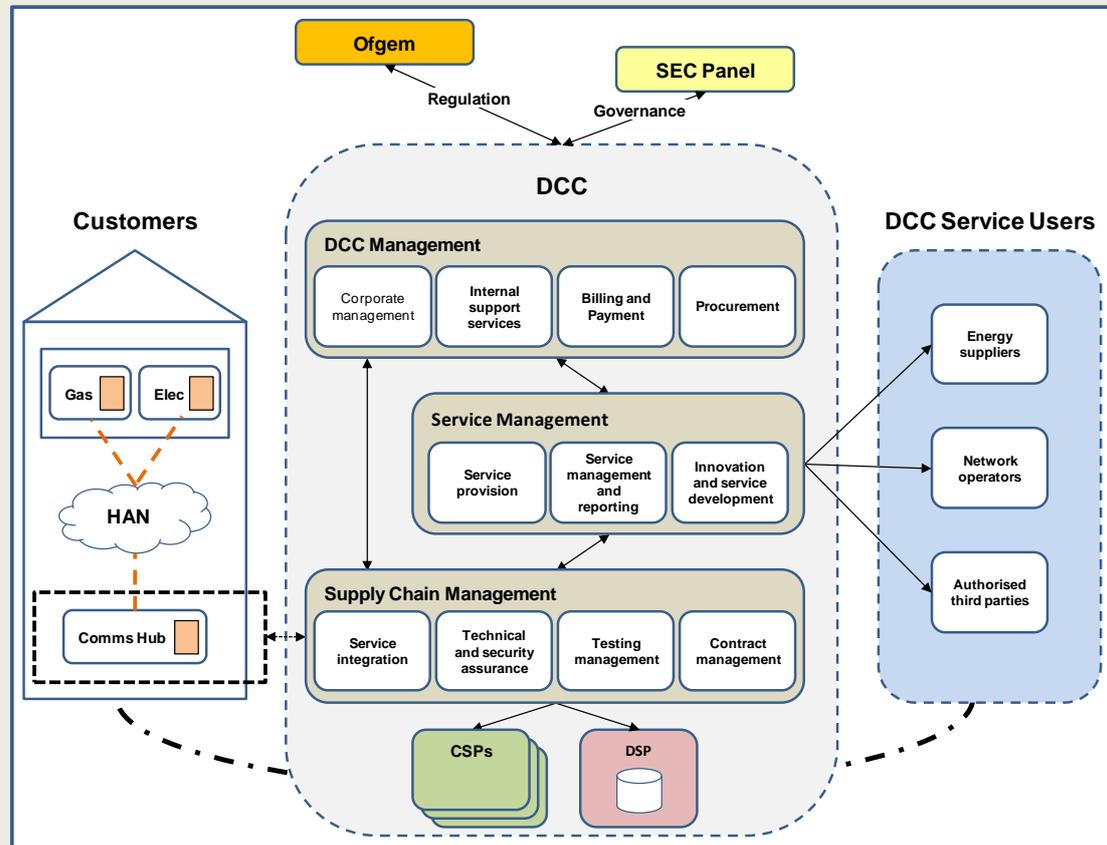
The following text is as defined within the DCC Licensing Competition's ISBAFO.

The DCC Licensing Competition's Operational Service Requirements are organised into areas of key delivery capability required for the delivery of an effective operational service. It splits these capabilities into the following three main groups:

- **Service Management:** Management of services DCC has to deliver to its customers, the DCC service users
- **Supply Chain Management:** Activities that DCC has to perform to manage the operational capabilities delivered from its Fundamental Service Providers (the DSP and CSP(s)) in order to deliver services to its customers

- DCC Management: Activities DCC has to undertake as an entity to manage itself as a regulated entity and in order to support and facilitate the management and delivery of its services to DCC service users and management of the services delivered to it from External Service Providers.

This is represented in the diagram below.



The second level operational service capabilities are outlined below:

SM1 Service Provision

Delivering core, elective, enabling and value added services to DCC service users including energy suppliers, network operators and authorised third parties via the systems provided by the DSP and CSP(s).

SM2 Service Management and Reporting

Managing service delivery to service users through a central service management tool alongside a self-service portal (including the following: authenticating service requests, providing first line service desk, managing and resolving incidents including by referral to the DSP and CSP(s), and ensuring that service levels are met).

SM3 Innovation and Service Development

Working with the DSP and CSP(s) to optimise the delivery of existing services, respond to requests for new services from service users, develop new service propositions, and safely introduce new services into the operational environment in such a way as to avoid negatively impacting the provision of existing services.

SC1 Service Integration

Ensuring that the DSP and CSP(s) work together to deliver a seamless service to service users, including assuring the DSP's system integration role.

SC2 Technical and Security Assurance

Assuring the data and communication system technical solutions; assuring the delivery of end-to-end security accreditations; and assuring that the DSP fulfils its security responsibilities.

SC3 Testing and Trialling Management

Programme and project management of solution testing of the data and communication systems, user integration testing with service user business systems and trials of the operational system following system changes.

SC4 Contract Management

Managing the DSP and CSP contracts (including: developing collegiate ways of working, applying incentive mechanisms, and managing contract changes).

DM1 DCC Corporate Management

Internal management of the corporate entity holding the DCC Licence, including compliance with corporate governance and reporting standards and managing the relationship with the Regulator.

DM2 DCC Internal Support Services

Effective delivery of the back office functions necessary for the Licensee to operate as a corporate entity.

DM3 Billing and Payment

Apportioning service charges appropriately to service users in a manner consistent with the charging methodology adjustments and paying the DSP and CSP(s) for the services provided.

DM4 Procurement

Procuring additional services where new requirements are not met internally or by the DSP and CSP(s) as well as undertaking the procurement of the second generation of providers for the data and communication services in due course.

Smart DCC internal costs are presented against these second level categories in Section 3.3.7.

The OSRs were used for the purpose of the DCC Licensing Competition and will not be updated to reflect the changing demands on the DCC. These demands will be defined by the Licence and the developing SEC. As the SEC develops in due course, the OSRs will play a reducing role in documenting the requirements on the DCC.

3.3 Smart DCC Functions

3.3.1 Resource Costs

The Smart DCC team is divided into functional areas, as shown in Figure 2.

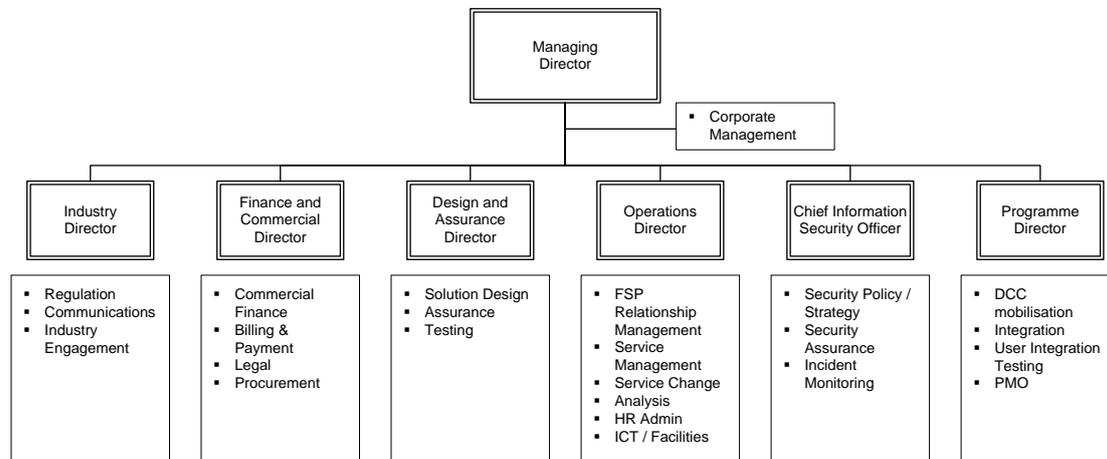


Figure 2 - DCC Functional Areas

This is the structure that was designed through the DCC Licence Competition.

Corporate Management

The Corporate Management team will provide direct support to the Managing Director and the Senior Management Team in discharging the Licence obligations.

Industry

The Industry team will lead Smart DCC engagement with Service Users, the SEC Panel and other industry bodies as the primary external 'face'. This will include leading the DCC relationship with the Authority and the SEC Panel, ensuring that DCC Services are compliant with Licence and SEC obligations.

Finance and Commercial

The Finance team will develop and apply the charging methodology, and will manage the budgeting, forecasting and billing aspects of the Smart DCC operation. They will also prepare Price Control and Annual Performance Reporting. The Commercial team will lead the contract and commercial management of the FSPs and run procurements.

Design and Assurance

The Architecture team will lead development and maintenance of DCC technical architecture and service design working closely with the FSPs. The Assurance team will take responsibility for technically assuring DCC Services. The Testing team will oversee the delivery and implementation of the Test Strategy and Test Approach.

Operations

The Operations function will ensure that DCC Services meet the needs of all Service Users. The Service Management team will provide the day-to-day operational interface for Service Users and deploy the discipline of ITILv3. The Analysts will support the delivery of DCC Services, including the consolidation of demand

forecasting from Service Users. The Service Change team will manage change processes and authorisations.

Security

The Security team will assure the security of all DCC systems. They will establish an Information Security Policy, including security assurance standards, processes, procedures and implementation timescales. The team will also maintain Information Security Standards and certification throughout the Licence term.

Programme Management

The Programme Management team exists during the implementation phase to coordinate delivery across the whole DCC ecosystem. It will ensure that the services, systems, resources and assets are all in place in accordance with the programme plan to allow the appropriate design and build activities to be completed to facilitate integration testing and subsequent User Integration Testing (UIT).

Support Services

Internal support functions will be provided by existing Capita shared services, ensuring the Licensee can respond rapidly and flexibly to changes in demand. These services include:

- Enterprise SAP solution for accounting/general ledger
- HR shared service, including:
 - HR Business Partner support
 - Capita Manager guidance and support
 - Payroll, pensions and personnel record management
 - Workforce and succession planning
 - Recruitment and selection
 - Learning and development
- Facilities management
- IT shared service, including:
 - Desktop hardware and support
 - Networks
 - Hosting
- Security.

3.3.2 Resource development over the Licence

DCC resource requirements will evolve over the Licence term, reflecting a changing service portfolio, growing Service User base and fluctuating short-term demands.

Resource Model

Capita provided full visibility of the model that fed into (and was submitted with) the Financial Template completed for the DCC Licensing Competition. This model identifies when each role would start and when (if applicable) the roles will end. Each of these assumptions is linked to a 'Licence Event'. The date assumptions for these Licence Events are replicated below in Table 2.

Licence Event	Event Date
Preferred Applicant	Aug - 2013
Licence Award / Pre integration Phase Start	Sep - 2013
Initial Data Systems and Comms Design Finalised	Apr - 2014
Initial Service Management design finalised	Jul - 2014
Pre-Integration Phase Complete / System Integration Phase Start	Oct - 2014
System Integration Phase Complete/ User Integration Phase Start	Apr - 2015
DCC Go Live / Initial Mass Roll Out Phase Start	Oct - 2015
User Integration Phase Completed / Initial Mass Roll Out Phase Complete / Unconstrained Mass Roll Out Start	Apr - 2016
Service Stabilisation	Oct - 2016
DSP Re-Procurement Start	Feb - 2020
DSP Re-Procurement Award	Apr - 2021
End Of Mass Roll Out	Jan - 2021
Licence End	Sep - 2025

Table 2 - Licence Event assumptions for Resource profiling

Figure 3 and Figure 4 below detail the planned Full Time Equivalent (FTE) profile by function. Figure 3 shows the full Licence term and Figure 4 shows only the initial period up to December 2016, as this period has the most fluctuation. We have highlighted the Service Desk resources separately from the wider Operations function.

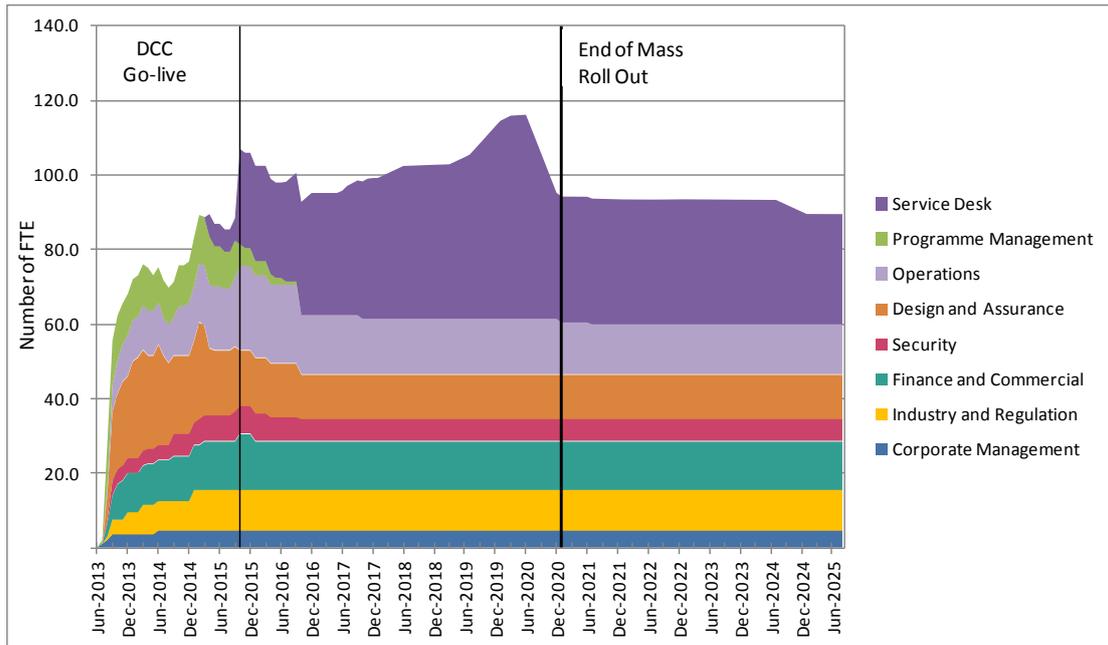


Figure 3 - FTE profile over Licence term

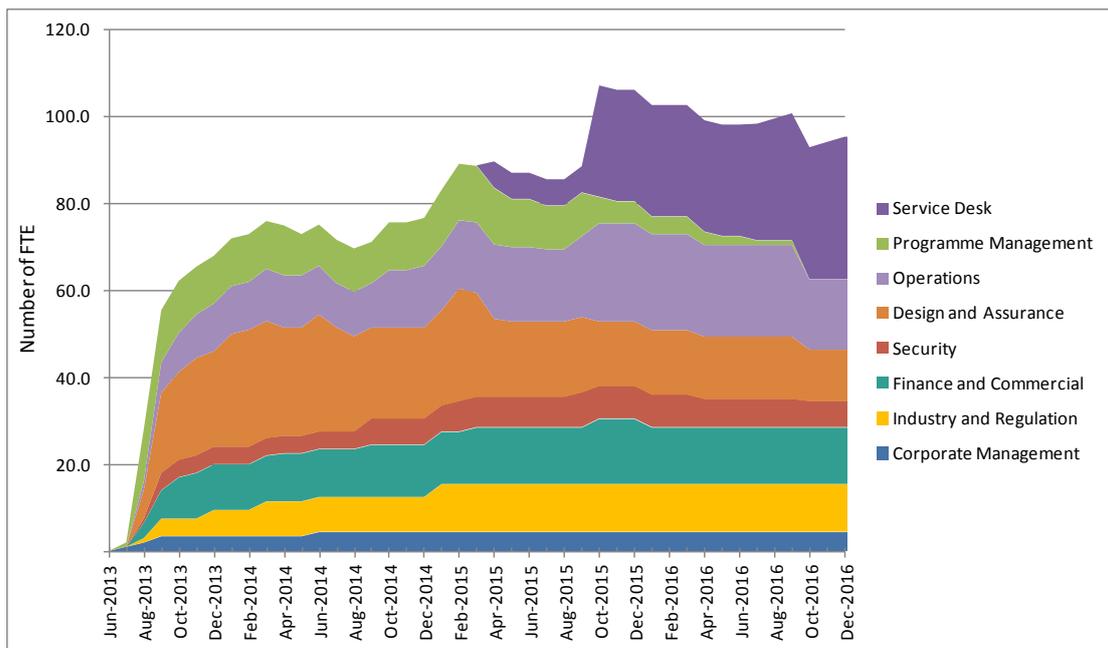


Figure 4 - FTE Profile up to December 2016

The organisation structure that will be required to meet the needs of the DCC will flex over time.

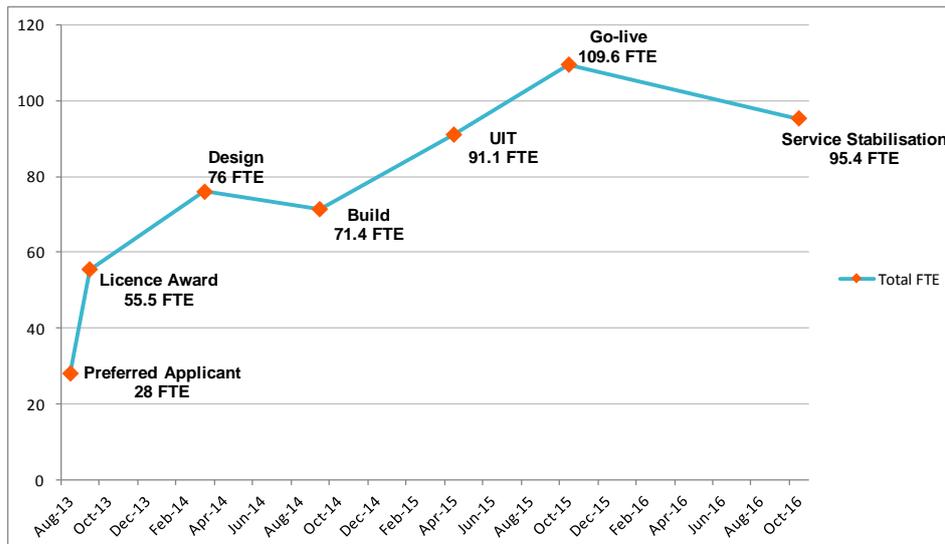


Figure 5 - Evolving Organisation Structure 'Snapshots'

Flexibility during Implementation

During implementation there will be unanticipated changes in activity volumes, requirements, timing changes (requiring a re-profiling of resources, but not necessarily resulting in a change in total resource requirements) or unexpected events occurring (e.g. major issues arising during testing requiring additional work).

- Where the timing of activities is adjusted, DCC will adjust resource requirements to align by either delaying the deployment of resources to the DCC or onboarding resources early.
- Unexpected events will be addressed by leveraging Capita's resources, or externally if required. The Internal Costs include a Risk Mitigation Fund over the implementation period to cover the cost of these smaller changes, so that resource deployment is not delayed by additional authorisation procedures. This cost is not assigned to a particular resource type as it is not possible to predict which part or stage of the Programme may require additional support. If this Fund is not used during the implementation period, the costs will not be included within Internal Costs for the year.

BAU Delivery – Service Desk

The Service Desk will be a dedicated team within a Capita shared service centre. The resource requirements for Service Desk Agents are calculated separately as they are currently based on a potentially volatile set of parameters such as volume of calls and average call handling time. For the purpose of the Licence Application and this plan, these resource requirements have been calculated on the basis of:

- Volume Scenario B, 'Expressed Demand', within the Demand Estimate volumes provided by DECC as part of the Service Provider Procurements (and made available to DCC Applicants) and
- Capita assumptions (e.g. the number of related calls, average call handling time, etc).

BAU Delivery – Other Service Areas

All roles will be regularly reviewed by the Senior Management Team (SMT) to test whether they remain required and are sufficiently scoped for the delivery of Mandatory Business. Where the volume of Mandatory Business in one area is less than forecast, the SMT will initially look to redeploy within the DCC to areas where the volume of activities is higher than anticipated, ensuring knowledge is retained within the organisation. Alternatively these resources will be released back to Capita. Where additional resources are required, DCC will apply an internal change approval process, and highlight to the Authority through regular dialogue.

We have maintained a number of roles within the organisation to manage the anticipated volume of change. These roles include those directly managing the Change Process (e.g. the Service Change Manager), and those where part of their role is assigned to assessing Change Requests or Elective Service Requests from a design (e.g. E2E Service Architect) or commercial (e.g. Commercial Manager) perspective.

This inherent Change Capacity is outlined below in Figure 6 below.

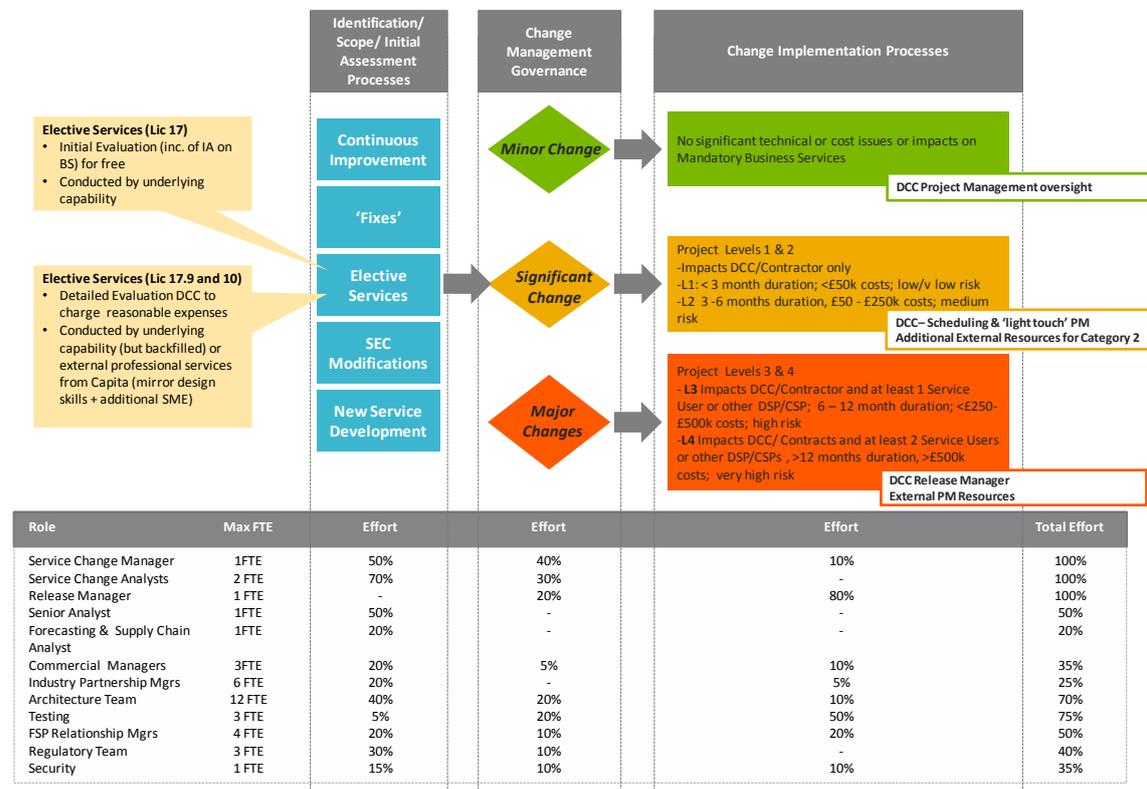


Figure 6 - Inherent Change Capacity

Note that this applies to the assessment of an assumed volume of Change Requests related to the existing services and Elective Service Requests, but does not include the assessment of completely new services.

3.3.3 Non-Resource Costs

The DCC team will be supported by a number of non-resource costs, including IT Costs and Other Costs.

IT Costs

IT costs include the desktop services, infrastructure, applications and support required to deliver the DCC service.

The application portfolio within our solution is outlined in Table 3 below, including those applications provided specifically to meet DCC requirements and the shared service applications that are provided from Capita.

Category	Purpose	Application(s)
DCC-specific functional requirements	Billing system	Oracle BRM
	Business/Management Information system	Cognos
	Enterprise Security Monitoring	LogRhythm Event Correlation
	Collaboration	Huddle, WebEx, IM, SharePoint
	Document Management	SharePoint
	Architecture	Casewise, Abacus
	Credit Management	Experian, D&B
	Public Website	Magnolia/SDLA
Capita shared service functional requirements for DCC	Finance	SAP via Capita Desktop
	PMO	Project EPMO
	Workflow	Microsoft Workflow
	Security Monitoring	LogRhythm Log Monitoring
	Security Tools	McAfee, IDS, PointSec, Sanctuary
	HR	SAP (Payroll), HartLink (Pensions), PeopleFluent (Recruitment), DevelopMe (Learning & Development)
	Intranet	Capita Connections
	Procurement	E-evaluation
	Facilities Management	FM Hub

Table 3 - DCC Internal Application Portfolio

Other Costs

Other costs include a wide range of costs including facilities management, ad hoc procurement activity and legal services.

3.3.4 Adjustment of Internal Costs and Baseline Margin

Following the award of the Licence, Smart DCC identified a discrepancy with the Financial Template. The Capita Financial Model assumed that the Licence would be awarded in September, however the Financial Template assumed that the Licence would be granted in August 2013. As a result, all internal costs within the Financial Template were brought forward by one month. These numbers were then used to define the Baseline Margin contained within Appendix 1 to Condition 36 of the Licence,

Following discussions with DECC and the Authority, Smart DCC has amended the Internal Costs and Baseline Margin figures contained within the LABP to align with a September start date.

At the time of submission of the LABP, Smart DCC understands that DECC will be consulting on making the associated change to the Baseline Margin within the Licence.

3.3.5 Total Internal Costs by year

Table 4 below shows the total estimated Internal Cost expenditure along with the Baseline Margin as calculated on the basis outlined in Section 3.3.6 above. All figures are shown in '£ millions' and exclude indexation.

Regulatory Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Internal Costs	11.5	18.1	15.4	11.6	11.4	11.7	13.8	11.1	10.6	10.6	11.5	10.4	4.3
Baseline Margin	1.8	3.2	2.7	2.0	2.0	2.1	2.4	2.0	1.9	1.9	2.0	1.8	0.8
TOTAL COSTS	13.3	21.3	18.1	13.6	13.4	13.8	16.2	13.1	12.5	12.5	13.5	12.2	5.1

Table 4 - Total Internal Costs by Regulatory Year

3.3.6 Internal Costs by Service Requirement output

Table 5 below shows the estimated Internal Cost expenditure by second level operational service capability (see Section 3.2 above). All figures are shown in '£ millions' and exclude indexation.

Regulatory Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
SM1 Service Provision	0.2	0.4	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.2
SM2 Service Management and Reporting	0.4	0.9	1.8	2.2	2.2	2.3	2.5	2.3	2.0	2.0	2.0	1.9	0.8
SM3 Innovation and Service Development	0.6	1.0	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	0.4
TOTAL SERVICE MANAGEMENT	1.2	2.3	3.6	3.8	3.8	3.9	4.1	3.9	3.6	3.6	3.6	3.5	1.4
SC1 Service Integration	1.2	1.1	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.3
SC2 Technical and Security Assurance	0.5	0.9	1.1	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.4
SC3 Testing and Trialling Management	0.5	1.2	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.1

Regulatory Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
SC4 Contract Management	0.4	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.3
TOTAL SUPPLY CHAIN MANAGEMENT	2.6	3.9	3.3	3.0	2.7	1.1							
DM1 DCC Corporate Management	4.9	3.8	3.4	2.0	1.8	1.8	1.8	1.9	1.7	1.7	1.6	1.7	0.8
DM2 DCC Internal Support Services	2.5	4.7	3.2	2.3	2.6	2.8	2.6	2.1	2.1	2.1	2.3	2.0	0.8
DM3 Billing and Payment	0.1	3.3	1.8	0.4	0.4	0.4	2.5	0.4	0.4	0.4	1.2	0.4	0.2
DM4 Procurement	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
TOTAL DCC MANAGEMENT	7.7	11.9	8.5	4.8	4.9	5.1	7.0	4.5	4.3	4.3	5.2	4.2	1.8
TOTAL COSTS	11.5	18.1	15.4	11.6	11.4	11.7	13.8	11.1	10.6	10.6	11.5	10.4	4.3

Table 5 - Internal Costs by Service Requirement output by Regulatory Year

3.3.7 Internal Costs by Smart DCC Function

Table 6 below shows the estimated Internal Cost expenditure by function, split into resource and non-resource costs as outlined in Section 3.3.1 and Section 3.3.3. All figures are shown in ‘£ millions’ and exclude indexation.

Regulatory Year		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Resource	Corporate Management	0.4	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.3
	Industry	0.4	1.0	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	0.6
	Finance & Commercial	0.9	1.5	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	0.7
	Design & Assurance	1.8	2.8	2.2	1.8	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	0.7
	Operations	0.7	1.2	2.2	2.5	2.5	2.6	2.8	2.6	2.3	2.3	2.2	2.2	0.9
	Security	0.3	0.7	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.2
	Programme	1.2	1.5	1.0	0.1	-	-	-	-	-	-	-	-	-
Non-resource	IT Costs	1.8	5.8	3.6	1.3	1.5	1.8	3.7	1.1	1.1	1.1	2.0	1.0	0.4
	Other Costs	4.0	2.9	1.9	1.7	1.6	1.5	1.5	1.6	1.4	1.4	1.5	1.4	0.5
TOTAL COSTS		11.5	18.1	15.4	11.6	11.4	11.7	13.8	11.1	10.6	10.6	11.5	10.4	4.3

Table 6 - Internal Costs by Smart DCC Function by Regulatory Year

3.3.8 Internal Costs excluded from the LABP

Following Licence Award, in undertaking the Mandatory Business of the Licence, Smart DCC may identify changes in expenditure from that laid out in the LABP, as outlined in Condition 36 of the Licence (Determination of the Licensee's Allowed Revenue).

A number of changes were identified, and discussed with DECC, prior to Licence Award, however were excluded from the final ISBAFO Pricing Response and consequently the LABP.

These changes include, though are not limited to:

- The cost of providing and supporting the SMKI service following a Smart DCC procurement exercise. The costs currently included within the Internal Costs of the LABP cover the activity required to procure an SMKI service, and then indicative resources for overseeing the implementation by way of project management and testing resources. These costs were based on the limited information contained within the OSR as to the nature and scope of the SMKI service.
- The cost of providing and supporting Parse and Correlate software following a Smart DCC procurement exercise
- The change in definition for the Competent Independent Organisation (CIO) and the resulting choice of organisation to fulfil this role
- The cost of a Performance Auditor for later milestones
- The cost of providing the Financial Security. During the Licence Application process. Applicants were required to provide indicative costs of providing their proposed Financial Security. However, as the format of this Financial Security had not been agreed with the Authority at the time, this cost was excluded from the evaluation price and therefore was not considered as part of the LABP (or considered in the calculation of Baseline Margin).
- The cost of working capital necessary to cover initial costs incurred prior to the recovery of sufficient funds from SEC Parties.

These changes, and any identified in the future, will be included within the updated forecasts provided to the Authority in accordance with Condition 32 of the Licence (Reporting of Price Control Information).

4 External Costs

External Costs are the service provider costs for the DSP and the CSPs. Costs agreed between Service Providers and DECC were not known to Smart DCC prior to Licence Award due to the parallel procurement undertaken by DECC.

Consequently DECC provided these costs to Smart DCC in the form of the DSP and CSP Contracts and associated Financial Models.

In each case, the costs driven by volumes are based on Volume Scenario B, 'Expressed Demand', within the demand profile provided by DECC during the procurement process.

4.1 Service Providers

The Data Service Provider is CGI IT UK Limited and the Communication Service Providers are Arqiva Smart Metering Limited (North region) and Telefónica UK Limited (Central and South regions).

4.1.1 Included Costs

The DSP Financial Model assumes that the Contract Start Date is 27th August 2013 and the Contract End Date is 27th August 2021.

The CSP North, CSP Central and CSP South Financial Models assume that the Contract Start Date is 27th August 2013 and the Contract End Date is 27th August 2028.

Costs are split into:

- Set-up costs
- Operational costs
- Termination Assistance.

The Service Provider contracts include a provision for Incentive Payments to be made to each Service Provider on condition of the achievement of Shared Milestones by all Service Providers.

Table 7 below shows Service Provider costs by Regulatory Year, using costs mapped using the months in which costs fall in the DSP and CSP Financial Models. All figures are shown in '£ millions'.

Regulatory Year	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23	2023/ 24	2024/ 25	2025/ 26	2026/ 27	2027/ 28	2028/ 29
SET-UP COSTS	0.0	0.0	41.8	23.7	23.8	14.8	13.0	5.4								
Fixed Operational Charges	0.0	0.0	18.0	37.0	43.7	54.6	64.4	71.0	69.1	64.4	63.5	63.6	61.8	58.6	53.2	20.3
Transaction Charges	0.0	0.0	0.0	0.2	0.3	0.5	0.6	0.7	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Comms Hub Charges	0.0	0.0	2.7	19.6	40.2	63.4	88.4	114.5	121.4	123.2	129.1	137.6	139.8	127.7	96.9	11.4
OPERATIONAL COSTS	0.0	0.0	20.7	56.8	84.2	118.5	153.4	186.2	190.9	187.8	192.8	201.4	201.8	186.5	150.3	31.8
Incentive Payments	0.0	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL COSTS	0.0	2.6	62.5	80.5	108.0	133.3	166.4	199.2	203.9	200.8	205.8	214.4	214.8	199.5	163.3	37.2

Table 7 - Service Provider Costs by Regulatory Year

4.1.2 Excluded Costs

Termination Assistance

The costs in Table 7 above exclude Termination Assistance. This has been excluded as there is an option to extend the DSP and CSP contracts.

Rate Card

The DSP and CSPs provided resource rate cards for any future project work (impact assessments, etc).

Catalogue Services

The DSP and CSPs provided details of catalogue services in separate Schedules. These services include:

- Testing Services
- Integration Consultancy Service
- Self-Service Interface Report Service
- Service Management System Services
- Service Desk Support Services
- DCC User Gateway Connections
- Enrolment Feasibility Report
- Meter Manufacturer Support.
- Wide Area Network Services
 - Test Lab Services
 - Test Lab Connection Service
 - Service Desk Support Services
 - OTA SIM Transfer Service
 - Support Staff Services
- Communications Hub Services
 - Communications Hub Test Assets
 - Communications Hub Installation Assets
 - Communications Hub Testing and Accreditation Services
 - Communications Hub Installation and Maintenance Training Services.
 - SMWAN Field Unit Assets.

These costs have also been excluded from Table 7.

Contract Changes

No costs relating to contract changes have been included in Table 7.

Indexation

No indexation has been applied to costs shown in Table 7.

5 Pass-Through Costs

Pass-Through Costs are:

- The amount of any annual fee paid by Smart DCC to the Authority as outlined in Condition 4 of the Licence
- The costs incurred by SECCo Ltd for purposes associated with the governance and administration of the SEC.

The value of these costs was not known to Smart DCC prior to Licence Award.

6 Smart DCC Revenues and Cash Flow

Smart DCC will charge Service Users in accordance with the Charging Methodology as incorporated within Section K of the Smart Energy Code and in accordance with Condition 18 of the Licence (Charging Methodology for Service Charges).

Smart DCC will charge Service Users on the basis of a Charging Statement which is issued each year, based on a prudent estimate of Allowable Revenue for the regulatory year. The prudent estimate will include the sum of Internal, External and Pass-Through Costs, taking cash flow and VAT into account. This approach is consistent with the commercial model for DCC whereby the DCC Licensee is not permitted to face any short-term cash flow risk.

As a result, with no access to information on External or Pass-Through costs during the Application process, a view of Smart DCC revenues and cash flow was not included as part the Capita DCC Licensing Competition response.

7 Smart DCC Capital Investments

All Internal Costs are being charged to SEC Parties in the Regulatory Year in which they are incurred, in accordance with the Licence. As a result Smart DCC is not intending to make any capital investments, consistent with the commercial model for the DCC as a thinly capitalised business.

8 Risks and Uncertainty

The costs included within the LABP were based upon a number of assumptions and the recognised scope at the point of submission of both the DCC Licensing Competition BAFO and the DCC Service Provider Procurements. Throughout the Licence term, and particularly during the implementation period, a number of changes to scope, timescales and volumes are likely to emerge.

The table below provides a summary of some of these potential uncertainties and any mitigating actions as applicable.

Risk	Description	Mitigation
Rollout profiles	DECC provided Communications Hub and Meter rollout profiles during the DCC Licensing Competition and the Service Provider Procurements. These have been used as the basis for a number of cost lines, so if rollout profiles vary from these, the cost profiles will change.	DECC will continue to consolidate rollout profiles from Suppliers and Smart DCC will use these updated profiles to monitor variations against the LABP.
Demand estimates	DECC undertook a demand estimation exercise with Suppliers and Network Operators in order to estimate message demand. DECC provided the output from combining these demand estimates with the rollout profiles during the DCC Licensing Competition and the Service Provider Procurements. If demand varies from these estimates, there will be a variation in Internal Costs (primarily Service Desk) and External Costs (primarily Transaction Costs).	Smart DCC will monitor changes to the rollout profiles and apply the same demand estimates to these profiles, until such time that more robust demand estimates can be ascertained. These will then be used to monitor variations against the LABP.
Service Desk assumptions	As outlined in Section 3.3.2, the Internal Costs for the provision of the Service Desk have been calculated on a number of assumptions including the number of incidents, Average Handling Times, call complexity, intra-day distribution, intra-week distributions and seasonal variations. Any variations to these may lead to changes in Internal Costs.	Smart DCC will refine assumptions through the design phase, and monitor actuals during the delivery phase. This output will then be used to monitor variations against the LABP.
External dependencies	DCC has a number of external dependencies within the implementation programme, including the notification of SMETS2 to the EU and the delivery of the GB Companion Specification (GBCS) by DECC. Any delay to these timescales may result in a delay to the programme, with a potential resulting change to Internal and/or External Costs.	Smart DCC will work closely with those responsible for the delivery of external dependencies through the transitional governance arrangements to ensure that progress in achievement of these dependencies is visible.

Risk	Description	Mitigation
Future changes to technical standards	The introduction of any future changes to technical standards, including SMETS, GBCS and the Communications Hub Technical Specifications may result in changes to anticipated Internal and/or External Costs.	Smart DCC will work closely with DECC and the SEC Panel/SEC Technical Sub-committee to ensure that DCC has advance notification of any proposed change and that recognition of any cost impact is duly considered prior to its approval.
General industry changes	The LABP does not allow for any significant changes to industry processes or standards (e.g. changes to metrology, electrical standards, etc).	Smart DCC will monitor with the appropriate parties.
Service Provider innovations	If the Service Providers propose any innovations that would lead to an increase in service or a reduction in cost, these have not been included in the LABP.	Smart DCC will work with Service Providers to identify innovations, providing maximum transparency in forecasts.
Spectrum allocation changes from Ofcom	Various portions of spectrum are either currently planned, or are being considered, for the SM WAN or the HAN. If Ofcom make decisions that reallocate this spectrum, there may be an increase in External Costs.	Smart DCC will monitor with the appropriate parties.

Risk	Description	Mitigation
Foundation meters	<p>Policy is still developing on the adoption/enrolment of Foundation meters. As a result:</p> <ul style="list-style-type: none"> ▪ The External Costs do not include any allowance for the assessment activity or the enrolment of Foundation meters. ▪ The Internal Costs include limited commercial resource to assess Foundation Communications Contracts, based on the timescales outlined by DECC in the DCC Licensing Competition. They do not include the cost of Adopted Communications Contracts. ▪ The timescales for the adoption/enrolment of Foundation Meters remains unconfirmed. ▪ The charging methodology for foundation meters remains unconfirmed. ▪ The service management model for foundation meters remains unconfirmed. <p>These costs will need to be added within updated forecasts once Foundation policy and approach is defined.</p>	Smart DCC will work with DECC to understand and shape the proposed approach.
Smart Metering Key Infrastructure (SMKI) Service	During the DCC Licensing Competition, the scope of the SMKI service was still being defined by DECC. The actual requirements may require a different level of procurement and implementation resource from Smart DCC. In addition the costs of the SMKI service itself are not currently included.	Smart DCC will review the DECC provided requirements and through the SMKI project will refine estimates for delivery of the full SMKI Service.
Parsing and Correlation Service	During the DCC Licensing Competition, the scope of the Parsing and Correlation service was still being defined by DECC. The actual requirements may require a different level of procurement and implementation resource from DCC. In addition the cost of the Parsing and Correlation service itself are not currently included.	Smart DCC will review the DECC provided requirements and through the Parse and Correlate project will refine estimates for delivery of the full Parsing and Correlation Service.

Risk	Description	Mitigation
Design incongruence	The solutions of each of the Service Providers and Smart DCC were created through the respective competitions. There may be potential design incongruence between the Service Providers or between the Service Providers and Smart DCC.	Through the design phase Smart DCC will work with the Service Providers to identify any design incongruence and introduce the relevant changes to ensure a coherent DCC solution is delivered.
Detailed design and the OSRs	There is potential that through the design phase, Smart DCC may identify requirements beyond those specified in the OSRs resulting in increases to Internal Costs. Alternatively, through the design phase Smart DCC may identify solution elements or costs that may not be required in practice resulting in decreases in Internal Costs.	Through the design phase Smart DCC will identify any solution changes to ensure a coherent DCC solution is delivered.
Milestone incongruence between Service Providers	During the contract finalisation period, a high level alignment of Service Provider milestones took place. Detailed planning during the design phase may identify lower level milestone incongruence between Service Providers.	Smart DCC will work with Service Providers to align plans and minimise any impact on costs.
Future stages of the SEC	The SEC drafting in place during the competitions was SEC Stage 1. DECC will introduce future stages of SEC drafting following Licence Award, which may lead to changes to DCC scope. This may lead to a change in Internal and/or External Costs.	Smart DCC will work closely with DECC to understand the implications of proposed SEC drafting and to ensure that cost implications of changes are understood and minimised where possible.
SEC Modifications	The SEC Panel/SEC Change Board may introduce Modifications to the SEC that change DCC scope. This may lead to a change in Internal and/or External Costs. This may include the introduction of completely new services.	Smart DCC will work closely with the SEC Panel / SEC Change Board to understand the implications of SEC Modifications and to ensure that cost implications of changes are understood and included within the decision making process.

Risk	Description	Mitigation
Test Strategy and Test Approach	The DCC Test Strategy and Test Approach will be developed by the DSP and assured by Smart DCC following Licence Award. As a result there may be changes to the Internal Costs in relation to Systems Integration Testing and User Integration Testing.	Smart DCC will work with the DSP to understand implications of the Test Strategy and Test Approach on Internal Costs.
DCC Licensing Competition feedback	Smart DCC received feedback from the DECC procurement team on the Capita BAFO response. Any resulting changes to Smart DCC assumptions may lead to changes to Internal Costs.	Smart DCC will review DECC feedback to ensure all feedback is covered within the first updated forecast after Licence Award.
Communications Hub financing arrangements	<p>There is uncertainty regarding the Communications Hub financing arrangements.</p> <ul style="list-style-type: none"> ▪ For the first tranche of funding, the Direct Agreement will be finalised following Licence Award ▪ For subsequent tranches of funding, the procurement process did not require either of the CSPs to guarantee the financing rate. 	Smart DCC will work with the CSPs to minimise the costs of financing. Forecasts will be updated with further detail as financing arrangements are finalised.
Controlled Market Start Up (CMSU)	Smart DCC has the option of implementing a CMSU in order to throttle demand and minimise risk. The implementation of CMSU may have an impact on Internal and/or External Costs.	Smart DCC will work with the Service Providers to understand the full cost / benefit of implementing CMSU. Forecasts will be updated with further detail as it is available.
Impact assessments	Smart DCC will need to undertake impact assessments relating to changes to existing services, Elective Service Requests and new services. These costs are not included within External Costs. Resources able to undertake an initial number of impact assessments for changes to existing services and Elective Service Requests are included within Internal Costs only.	Smart DCC will include a forecast of costs associated with impact assessments within its forecasts.
Catalogue Services	The External Costs do not include any costs associated with Catalogue Services.	Smart DCC will include a forecast of Catalogue Services costs within its forecasts.

Risk	Description	Mitigation
HAN Variants	The LABP does not include any costs associated with the introduction of Communications Hub HAN variants. This may result in an increase in Internal and External costs.	Smart DCC will work with DECC and the SEC Panel/SEC Technical Sub-committee (as applicable) to provide visibility of potential variance and subsequent cost impacts.
Multiple Dwelling Units (MDUs) and Exempted Properties	The LABP does not include any costs associated with the introduction of any solution for MDUs or Exempted Properties. This may result in an increase in Internal and External costs.	Smart DCC will work with DECC and the SEC Panel/SEC Technical Sub-committee (as applicable) to provide visibility of potential variance and subsequent cost impacts.
Energy Registration Services	The LABP does not include any costs associated with the assessment of, or the incorporation of Energy Registration Services as outlined in Condition 15 of the Licence (Incorporation of Energy Registration Services).	Smart DCC will work with DECC and the Authority to provide visibility of cost impact.
Fundamental Service Provider Re-procurement	The LABP does not include any costs associated with the re-procurement of the Service Providers. The timing of the re-procurements will, in part, be determined by the performance of the Service Providers in the initial contract period.	Smart DCC will monitor Service Provider performance and include plans for Fundamental Service Provider re-procurement in the Procurement Strategy.
Elective Communications Services	The LABP does not include any costs of delivering Elective Communications Services, and Smart DCC currently has no visibility of potential future demand from Service Users.	Smart DCC will work with Service Users to identify and monitor demand.
Changes to Core Communications Services	The LABP does not include any costs for making changes or extensions to existing Core Communications Services.	Smart DCC will work with Service Users to identify and monitor demand.

The DCC's Risk Management Strategy will outline the DCC's approach to managing risk, setting a robust framework for the identification, evaluation and management of risk relating to the provision of Authorised Business Activities in accordance with Condition 7 of the Licence (General controls for the Authorised Business).

9 Innovation and Service Development

The LABP recognises Smart DCC's responsibility to:

- continually deliver and develop economic and efficient Mandatory Business Services
- facilitate innovation that will support sustainable and secure energy supply and enable the transformation of the Energy Industry and associated processes
- identify and deliver additional value to Service Users to reduce the cost of DCC Services and associated energy bills of consumers.

During the term of the Licence Smart DCC will:

- create an innovation and service development culture which will encourage contributions and participation from all parties across the DCC ecosystem
- engage with Service Users and Service Providers to shape and respond to future needs and specific requirements
- provide an environment for collaborative working between Licensee, Service Users, Service Providers and Industry SMEs that fosters trust and enables participants to overcome commercial and confidentiality concerns
- ensure that the DCC Services exploit and enable the use of new technologies that will unlock the future potential of the service as well as drive down costs
- monitor forthcoming changes in industry regulations and technical advancements to ensure the DCC.

Smart DCC's innovation and service development plans will be incorporated into the annual DCC Development Plan which will first be published in 2014. At this stage of the programme, Smart DCC is unable to forecast future innovation and service development plans with certainty. Where updates are made to innovation and service development forecasts, these will be integrated into annual forecasts in accordance with Condition 32 of the Licence (Reporting of Price Control Information).