Baseline Margin Adjustment Application

Price Control RY22/23

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1   Executive Summary

The Baseline Margin adjustment (BMA) mechanism allows DCC to apply for an adjustment ("Relevant Adjustment") to the Baseline Margin values specified in Appendix 1, Condition 36 of the Licence. The mechanism was included in the Licence with the aim of recognising and acknowledging the level of risk and uncertainty that DCC was facing over the course of the Licence term. The adjustment mechanism is intended to ensure that DCC is compensated for material changes in certain activities that are part of our Mandatory Business i.e., a change in the volume, characteristics, risks, or timescales of these activities.

During Regulatory Year 22/23 (RY22/23), DCC continued to deliver its vital role in facilitating Government's goal of net zero carbon by 2050. We added 7.3m meters, (38% growth) to the network, meaning over half of homes and small business are now connected to our smart secure network. 2.5m of these were SMETS 1, with two further cohorts completing migration. We have closed the Initial Operating Capability (IOC) and are focused with customers on resolving any issues, maximising the return of smart functionality, and completing migration of Middle Operating Capability (MOC) and Final Operating Capability (FOC).

We successfully launched the Central Switching Service (CSS) in July 2022, which managed over eight million switches. This is a significant addition to the DCC services, outside the scope of our original remit. While we do not apply for BMA on Switching Services, it has added significant complexity to DCC's operations. To ensure we do not cross-subsidise between SEC mandated activities and REC mandated activities we adopt complete accounting separation.

We have delivered several key system releases throughout the year providing enhanced performance and functionality. For example, we delivered the SEC Systems Release in June 2022 and November 2022 on time and under budget. These are vitally important aspects of DCC's operational activities, ensuring that systems remain up-to-date and secure. We have worked hard across a range of initiatives to improve the service. Our unwavering focus on improving DCC's operations has resulted in strong performance against Ofgem's OPR regime in RY22/23 and we have also reduced planned maintenance outages by 85% and reduced pre-payment top up failures by 50%.

DCC has made significant progress towards delivering the future SMIP infrastructure needed for the decades to come through the Network Evolution programme. With five sub-programmes having made significant progress into and beyond the Strategic Outline Case phase, including contract awards for the Communications Hub and Network (CH&N) sub-programme procurement process, DCC continues to focus on delivering this mandated programme at the most efficient cost.

Following a full replan in RY21/22 of the Enduring Change of Supplier (ECoS) programme DCC delivered the service on the planned 'Go-Live' date of 30 June 2023. Successful delivery of the programme marked the culmination of huge effort and expertise on DCC's part to deliver the system separation required for full compliance with the "Trust model" security requirements. ECoS was a government-mandated programme.

The security and technology environment in which DCC operates has significantly changed since licence award. The Enterprise IT programme completed in RY21/22 and in RY22/23 is now embedded within DCC's core operations, allowing us to adopt a higher security standard than Capita's tenant. This has been necessary as we continue to see significant and ever more sophisticated cyber threats targeting critical national infrastructure. This has imposed additional costs on DCC, which appear in several cost centres, but is vital in protecting the highly sensitive data and systems we operate. We provide a full description of the variances and their reasons in the relevant cost centre chapters.

As DCC has grown in response to changes to its mandated business, our planning, forecasting and reporting capabilities need to be improved. Ofgem and customers have continued to ask DCC to improve its cost forecasting and reporting and we have responded by delivering the Business Accuracy Programme (BAP). BAP was largely complete in RY22/23 except for some work-off activities. BAP is designed to significantly strengthen our capabilities in business planning and governance and increase DCC's ability to drive value for money through its decision-making. This will allow greater cost transparency and customer engagement,

providing confidence we are spending our customers' money wisely. Our estimate is that these activities will result in a net benefit to customers of £2.3m before the end of the licence term.

Overall, DCC considers that these activities have led, and will continue to lead, to material changes in our Mandatory Business. We also consider that these activities add significant value to our customers and end consumers for the following reasons:

- **Delivery of Smart Metering Implementation Programme (SMIP)**: the activities upon which this application is based are integral to the delivery of the Programme, and fully in scope of the Licence Application Business Plan (LABP). We note that the additional costs relate to activities that were part of DCC's remit at the time of the Licence bid, but not fully scoped or costed nor within the remit of the overhead charge.

- **Value for Money** for energy consumers: the incurred and forecast costs of the associated activities upon which this application is based, are economic and efficient, and justified as part of the RY22/23 price control submission.

- **Incentives on DCC**: this application is predicated on DCC demonstrating that it has acted in a manner that is economic and efficient. Where we do incur costs that are additional to those within our core scope of activities, the incentive is to deliver requirements which are to the long-term benefit of energy consumers.

As per previous years, this year's application is based on these assumptions:

- **Internal Costs**: the costs underpinning this application are those defined as Internal Costs. DCC is applying for resource related internal costs (payroll, non-payroll and recruitment[1]) as well as non-resource costs, such as accommodation, IT, IS and external services. Where we refer to non-resource costs, these have been justified and explained elsewhere in this submission, insofar as these exceed the materiality threshold. Note that because the obligation is on DCC to return margin claimed on costs from previous submissions that have not been incurred, some activities within the application are a combination of positive and negative costs – for example, positive costs in the incurred year that drive margin, and negative costs (money to be returned to customers) in a forecast year. There are more than 1,650 rows of resource data this year, and because of that volume we refer Ofgem to the accompanying model for further information. We have included the non-resource BMA values for each driver in this document for each activity.

- **Grounds applied for in previous years**: these activities were justified and allowed by Ofgem in previous years. Subsequently, either additional costs have been incurred and/or the required level of certainty for inclusion has now been met. We refer to these throughout the document as having incurred "**increased levels of certainty**".

- **New Grounds**: as we increasingly evolve into a multi-Programme business, additional grounds are being identified. We are of the view that some of these grounds formed part of the original LABP but were not fully scoped nor costed at the time. Other activities stem directly from the reuse of our platform for either Government or industry led initiatives, for example Market-wide Half-hourly Settlement (MHHS) which was approved by Ofgem in RY/20/21.

- **Switching costs**: internal costs for the Central Registration Service are excluded from this application. For that reason, the BMA model does not take into account switching costs. To avoid any form of overlap, and where no clear and eligible ground exists, we have also excluded any baseline costs

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[1] Note DCC only applies for payroll variances given materiality but may apply for non-payroll and recruitment should there be material and economically justifiable variances.

belonging to roles that primarily sit under the Switching programme. Separate arrangements were put in place for the Switching Programme.

- **Identifying those costs which are excluded or ineligible for the application (No Grounds):** historically, DCC has not always applied for margin for all new costs incurred within a regulatory year. In those instances, unless new grounds can be identified, DCC has missed the window in which we could have applied. In other cases, DCC has not attempted to apply because we could find no new grounds. As is the case with rejected grounds, roles that either missed the "window of opportunity" or are deemed not eligible for additional margin, are labelled in the BMA model as "**No Grounds**".

- **Materiality and negative costs:** Ofgem's Price Control Processes and Procedures document makes clear that DCC should only apply where there is a material change to the company's activities. This materiality can be either as a result of a large individual activity or a number of smaller incremental activities. We have applied this principle in the submission where we consider appropriate. We have also applied the principle that where we have previously had the benefit of BMA being awarded for forecast years but the costs that generated this forecast have not fully arisen, we are returning the costs by applying for a negative adjustment. This does result in DCC needing to apply in some cases for a small amount of margin in the incurred year, to allow for overpaid margin to be returned.

- **Rejected Grounds in previous years**: the table below lists the grounds that were rejected by Ofgem in previous years. Costs associated with these grounds – both resource and non-resource – are excluded from the RY22/23 application. The bold items were rejected in the RY21/22 application.

Drivers / Activities excluded from the RY22/23 BMA
Performance Reporting and Price Control
Regulatory Change – REC
Broader Regulatory Change
Ops - Operating Model
Ops – Moving Beyond ITIL
Operational Resilience – Early Life Support
Ops Scope of Support
Support - Compliance volume increase
Risk and Issue Management
Ready to Scale
Strategic Procurements
Increased Demand for Customer and Stakeholder Engagement
Investing in Business Process Volume Management
Supplier Relationship Management dashboard
Black Swan Crisis Management
Production Proving
ESME Noise Rise Study
Emulators
Facilitating and Supporting Future Releases
Order Management System
DNO Transformation Programme
Comms Hub Programme mandated GBCS update

The following sections specifically set out and explain the drivers for cost variations that have either previously been used by DCC and approved by Ofgem, and new drivers.

2   Drivers of Cost Variances

The proposal for the adjustment is based on variations to DCC's Mandatory Business, which either occurred over the course of RY22/23 or are likely to take place in the future as they are "committed" in DCC's internal forecast. The completion of this application is in accordance with Ofgem's most recent guidance[2], and fulfils the requirements[3] as set out in Appendix 2 of Licence Condition 36. The cost variations that support this application stem from activities which relate to Mandatory Business[4] and are associated with additional requirements placed on DCC.

The BMA mechanism was set out in the Licence with the specific purpose to recognise the level of uncertainty associated with the nature, risk and scope of DCC's mandatory business over time. It is intended to ensure that DCC is compensated for when material changes emerge to the scope, timescales and/or volumes of the mandatory business as envisaged at the time of the LABP. The LABP recognised that throughout the duration of the SMIP, changes to the scope, timescales and volumes were likely to take place, and would lead to a consequential change to resources and costs. For that reason, the LABP included a list of potential activities i.e., risks and uncertainties, which are material in nature, and which were excluded from the baseline costs, due to these costs being uncertain at the time. Ofgem has historically approved DCC's BMA applications where we have demonstrated that the costs for some of these LABP uncertainties had materialised.

As referred to in our introduction, we are fully aware of our customers' concerns about increasing costs. It is important to note that these costs are largely due to the expansion of our remit where we have been asked to undertake new activity. DCC continues to focus on delivering as efficiently as possible and seeking to reduce the cost to serve customers over time. We are putting in place a range of improvements to allow us to analyse our costs, benchmark them, and ultimately drive efficiencies.

An overview of these variations is provided in this document together with a justification and rationale for the inclusion of each specific relevant activity. The justification of costs and evidence of economic and efficient spend however is included in the relevant documents of DCC's RY22/23 Price Control submission.[5]

In summary, this year's application includes:

- Five continuations of drivers for variances included in previous years' BMA applications where activity has continued into RY22/23 and/or beyond

- One new ground was raised in RY22/23 within an existing driver: Increase in Customer Service Expectations

For the grounds that continue in the RY22/23 BMA, the certainty levels for the relevant activities have increased compared to last year as DCC has a more accurate view of the required level of resource and costs for that activity – essentially the result of forecast costs becoming incurred costs. Items of spend for RY22/23 of our application are based on what DCC has actually spent above previously awarded baselines. Most of these Certainty-related grounds relate to the programmes DCC was awarded after Go-Live in September 2013 and constitute a large variance in DCC's activities for the programmes themselves, but also for all of DCC's corporate and support functions, such as Finance, Strategy and Regulation, People team and Legal.

For forecast years we include only items that are "committed" – which means the activity is significantly more likely than not to occur. This is in line with DCC's Licence which recognises the level of uncertainty that exists

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[2] See https://www.ofgem.gov.uk/publications-and-updates/dcc-price-control-guidance-processes-and-procedures-0
[3] See the supporting information in Section 8.5.
[4] For definition see Chapter 1, Part A, and Paragraph 1.4 of the Licence.
[5] As required by Licence Condition 36, Appendix 2, Part A, A5(c)

in respect of mandatory business activities and the difficulties DCC faces in accurately forecasting resources and costs. The table below lists the drivers and Relevant Activities that form part of the RY22/23 BMA.

The table below summarise the drivers that are being used in this year's application:

Change driver	Grounds	Driver first raised
Certainty	SMETS1	RY16/17
	Network Evolution	RY19/20
	ECoS	RY18/19
	Facilitating Additional Relevant Service Capability	RY18/19
	MHHS	RY20/21
	People Transformation	RY17/18
Technology Driven Change	Security Driven Change	RY17/18
	Tech Trans – general	RY17/18
Supporting a Changing Business	Support - Resourcing Planning and Management	RY17/18
	Increase in Customer Service Expectations	RY22/23
Operational Change	Ops - Service Standard Expectations	RY18/19
Change to DCC's Supply Chain structure	Increase in Commercial Activity	RY18/19

Table 1 – summary of change drivers and grounds used in RY22/23

2.1 Driver – Increased Levels of Certainty

The following section lists the grounds presented in previous applications which DCC considers are also relevant for this year's BM application. Further explanation has been provided for these grounds in this application where there has been a significant increase in activity and drivers of change.

Please note that DCC has **not** reapplied for margin, as part of this submission, where the grounds have previously not been granted. However, where a particular role has been reallocated or reassigned to a different activity, we may apply for margin against that role, subject to the associated activity being a ground or driver that Ofgem has historically approved, or where DCC considers it is eligible under the BMA.

2.1.1 SMETS1

The SMETS1 service was formally closed during RY21/22. As part of RY22/23 Business Planning, SMETS1 became part of Business-As-Usual (BAU), restructuring into three workstreams. Despite its formal closure in RY21/22, Ofgem has required that DCC reports the finalisation of SMETS1 migration operations as a separate activity. This implies that, although reported as having a zero-baseline, activity under the SMETS1 service is expected and approved to continue under BAU until March 2024. Note that BAU is a suite of operational projects delivered on behalf of DCC operations.

1. **Maximising Migrations.** There is a risk that a significant number of SMETS1 meters will not be migrated without further solution and regulatory change, resulting in SMETS2 replacements and delays to migrations into the DCC System. As a result, DESNZ (formerly BEIS) mandated DCC to maximise the number of installations for industry for a given cohort, exclude via regulatory consultation where there is persistent failure, and ultimately seek closure of the Requesting Party for each cohort. In RY22/23, the team unblocked approximately 44,500 additional devices. Without the Maximising Migrations workstream in place, industry would need to replace these devices to SMETS2, resulting in a reduction in SMETS1 benefits at £390 per installation, (this is the figure DESNZ has suggested we use) incurring

industry an additional cost for unnecessary replacements. Against the DESNZ Business Case cost to Swap to SMETS2, this is benefit to industry of c £13.8m for this workstream. To close down SMETS1 cohorts, DESNZ requires DCC to provide analysis of whether it is in the interests of industry and consumers to close the cohort. This includes analysis of the economic details (e.g., costs of keeping the cohort open vs replacement cost to industry) related to closure of the cohort. If this service of work is not delivered, DCC will be unable to close the Requesting Parties for SMETS1 as it will not be economic to do so. This will in turn require an extension of the SMSO contracts open beyond their planned end dates which will result in additional costs.

2. **Device Swap Out.** Smart Energy Code (SEC) mandates that DCC must support energy suppliers in replacement of a SMETS1 device with another SMETS1 device. This regulatory requirement is referred to as Device Swap Out for which DCC had a Joint Industry Plan (JIP) milestone to deliver against. It was agreed that this functionality should be excluded from the initial DCC solution when the functionality to migrate SMETS1 devices into the DCC System went live. However, DCC was required to investigate whether the functionality was required. Through a consultation process, DCC established that this functionality was required for PPMIDS and the FOC cohort. To date DCC has only provided a Device Swap Out solution for PPMIDs across its cohorts (IOC, MOC, & FOC). DCC developed a solution that would provide for the Device Swap Out of Comms Hubs, gas, and electricity meters for the FOC cohort. Service Users expect this service to be delivered and have provisioned assets for this mandated service.

3. **FOC Stabilisation.** Following delivery of SMETS1 FOC Service, DCC has been working to complete the remaining activities with regards to work off, tech refresh, enduring requirements, and ultimately the end-of-life service for SMETS1. DCC Operations in parallel have been migrating FOC Installations in BG and Npower SMSOs, but in doing so, have encountered unforeseen challenges in the migration process. As such, DCC Operations have analysed the total portfolio of issues within the FOC solution evaluating their impact. Given the size, complexity, and challenge in resolving these issues, Service Delivery have been requested to manage a total FOC Stabilisation plan on behalf of DCC Operations. This includes ensuring that there is a Service Delivery team and CTO SMEs in place to control the quality, scope, and pace of Service Provider Delivery. Without this service in place, DCC Operations will not have the correct SMEs and resources to deliver the required changes and DCC will not have taken all reasonable steps to ensure the best possible delivery for the identified work in an economic and efficient manner.

At the start of RY22/23, the key objectives, and deliverables for the three workstreams were:

Maximising Migrations

- Technical Unblocking Initiatives: Technical delivery to unblock the maximum number of Migrations for a given cohort (i.e., Partial Migration – Secure, implemented in the February Maintenance Release)

- Regulatory Exclusion/Unblocking Consultations: Mandated requirement from DESNZ to maximise the number of Migrations for a given cohort or exclude (as per defined category consulted with industry) in order to enable Requesting Party shutdown

- Reporting Improvement Project: Provide Clear Auditable Exclusions Reporting to Industry on RP Closure Volumes to ensure DCC have taken 'All Reasonable Steps' to Migrate All Devices

- RP Shutdown/MCC Closure: Closedown of the Requesting Party and ultimately MCC Shutdown/Transformation following Completion of Migrations for a given Cohort [MOC(MDS), FOC(NP) and IOC]

- Trilliant SMSO: Determination of the Trilliant SMSO capability and either unblocking/Exclusion of the Installations

Device Swap Out

- Delivery of a Device Swap Out Solution for FOC (BG)

- Meeting the SEC Requirement related to Device Swap Out

- Ensure compliance against requested Service where FOC (BG) have all relevant Data and the Technical Solution to Swap Out a SMETS1 GSME, ESME or CH with another equivalent SMETS1 Device

FOC Stabilisation

- Deliver any outstanding items from the FOC Release 2 work-off plan not completed by March 2022

- Deliver the backlog of priority production defects and fixes as agreed in February 2022

- Agree and deliver any new changes or incidents identified as necessary to achieve business targets relating to FOC migrations against a path to green agreed service scope

- Support the Active meter migration end dates as stipulated in the TMAD

The costs associated with the Programme include resource and non-resource costs for RY22/23. Most of the non-resource costs that are in this year's BMA application relate to grounds and drivers that were first identified in RY19/20. In summary, and as described above, the focus of these activities was on the continued support to the Programme as well as the technical build of the capability to support the testing and migration of the cohorts. The full detail on the level of resources that are driving variances are set out in the associated BMA model. As SMETS1 did not have a baseline, the majority of the items below are explained in detail in the main Price Control submission.

There is also an accommodation-related entry below that relates to additional testing requirements linked to SMETS1. It is categorised as accommodation because it is linked to the Test Labs rather than primarily a SMETS1 activity.

There are resource and non-resource costs in the application. The non-resource costs relevant to this ground are:

GL	Activity	BMA RY22/23 (£m)	BMA RY23/24 (£m)	BMA RY24/25 (£m)	Total BMA Value (£m)
ES	Consultancy Regs Framework Review - Design and Implement				
ES	ECoS Connectivity to Capita ITES				
ES	Interop Checker				
ES	Migration Testing				
ES	Migration Testing				
IS	S1MRS & SDMR				
ES	SMETS1 - ███				
ES	SMETS1 - ███ Support				
ES	SMETS1 – ███				
ES	SMETS1 - TEST DEVICES (Elster Honeywell)				
ES	SMETS1 BMPPA audit				
ES	SMETS1 E2E Health Check				
ES	SMETS1 End of Life Project – ███				
ES	SMETS1 Engineering Support				
ES	SMETS1 migration				
ES	SMETS1 migration - ███				
ES	SMETS1 Requesting Party – ███				
ES	SMETS1 Technical Assurance				
ES	Testing				
ES	Testing				
AC	Test Lab Operator				

Table 2

Basis for application

The criteria and basis for our application in respect of SMETS1 activities are largely in line with those in previous years:

- **Complexity** and **Volume**: the level of complexity of the Programme stems from the significant number of variations that exist amongst the wide range of devices, firmware configurations, service providers'

systems and business designs, the compliance of meters to the original design specification, as well as the commercial challenges that exist with existing and new service providers in the SMETS1 supply chain. These complexities also manifested themselves in the migration phase of the Programme whereby unexpected device behaviour led to delays in the completion of testing phases and the overall delivery timescales.

- **Timelines**: as per the case in previous years, DCC is subject to extremely strict timescales which are set out in the SMETS1 delivery plan (LC13), as consulted on with industry and approved by Government. Also of note is that energy suppliers have had their deadlines for migration of SMETS1 meters extended by one year. This has resulted in suppliers not bringing forward meters for migration in line with their original forecasts and has resulted in DCC's migration capability needing to be in place for longer than was anticipated.

Added Value to Industry and Energy Consumers

The Programme's benefits to industry stem from the integration of SMETS1 meters into the DCC network. This enables SMETS1 meters to operate in a 'smart mode' and allows consumers to maintain the smart functionality of their meter on a change of supplier. In practical terms, this removes the risk and cost for the new energy supplier, on a change of supplier event, to replace the existing SMETS1 meter with a SMETS2 meter to maintain interoperability. Over the years, the planning of the SMETS1 migration has often been interrupted, for reasons outside of DCC's control – for example unexpected meter behaviour, customers not bringing forward meters for testing, incorrect assurances regarding firmware compatibility etc, as per prior submissions. To minimise any disruptions to our customers, SMETS1 meters are migrated onto the DCC network 'over the air', and the work was able to continue despite the disruption caused by the pandemic. Because of these great strides forward on migrating SMETS1 to DCC's secure network, we are delivering net benefits to customers of more than £500m.

In RY21/22, DCC unblocked 800,000 meters, preventing industry from swapping out these devices and saving customers £280m. In RY22/23, DCC unblocked approximately 18,000 additional devices through partial migration, 1,500 devices through a solution to deregister the PPMID, and circa 25,000 additionally migrated devices through continuing to attempt migration to a regulatory exclusion with inherited Active Installations. Against the DESNZ Business Case cost to Swap to SMETS2 this is benefit to industry of circa £13.8m for this workstream.

2.1.2   Network Evolution

The Network Evolution Programme (NEP) was first raised in RY19/20 as a new BMA ground that had led to a material change in scope of DCC's core business activities. NEP is specifically aimed at supporting the long-term enhancement of our platform, simplify network design with greater resilience and enable faster and more cost-effective change. Since the first application the programme has been disaggregated into five activities: DSP, CH&N, DSMS, PKI-E and Test Automation. However, for legacy reasons, we will continue to call the activities Network Evolution in certain situations where it aids clarity – such as in relation to historical BMA applications.

NEP is driven by advances in digital technology which continue to reshape the energy landscape. We must make sure that the DCC Network keeps pace with and prudently anticipates that change, while also maintaining continuity of service to the energy industry as contracts with service providers expire. These issues are being addressed urgently for a variety of reasons:

- The contract for the provision of the Data Services Provider (DSP) service with CGI is coming to an end and is currently due to expire by October 2024. DCC have an option to extend this contract for a further year until October 2025. DCC are currently in the process of procuring new services to replace the ones in the current contract to ensure that there is no interruption to service which would impact consumers.

- The existing 2G/3G networks, in use in the South and Central regions, have been superseded by the introduction of 4G networks, with 5G on the horizon. In December 2021 the Department for Digital, Culture, Media and Sport (DCMS) announced that 2G and 3G services will not be offered in the UK after 2033 at the latest, so the DCC will therefore need to modernise its communications provisions accordingly. More recently, the urgency with which we need to upgrade to 4G has increased due to suppliers bringing forward the closure of 2G/3G services. We are working closely with our service providers on how to mitigate this for our customers in the most cost-effective way.

- SMETS1 and SMETS2 assets have a 15-year life, so the earlier enduring technology can be made available in the ecosystem, the lower the amount of scrappage and the longer the economic life of assets.

- BT's contract for the Smart Metering Key Infrastructure (SMKI) security service, also known as Trusted Service Provider (TSP), expires in March 2025 with an option to extend by one year to March 2026. The service is being re-platformed under a programme (TSP Tactical Programme) that delivers in September 2022. A longer-term TSP Enduring Programme has been set up to re-procure all TSP Services by April 2025.

- There is a continuing need to drive competition within the supply chain to reduce costs, improve service and accelerate continuous improvement by, for example, adopting a future testing strategy which provides automated set up.

- The Network Evolution Programme focuses on the future of DCC operations in the smart metering environment. It explores how new processes, systems, and technologies can improve the live service, reduce the operating costs of the DCC system, and above all, secure the continuity of a critical part of the UK's national infrastructure.

Network Evolution aims to ensure that customers can always obtain value for money and opportunities for competition are integral, such that all service providers are continually subjected to effective competitive pressures. The 4G Communication Hubs & Networks (CH&N) Full Business Case (FBC) has been accepted without objection by DEZNZ, the SEC Panel, and SEC sub-committees. The programme has now completed low level design and is due to go live in June 2025.

Programme Structure

The Network Evolution programme has no baseline for the three years covered by this submission. As a result, all expenditure qualifies as variances. As at the end of March 2023, the status of the sub-programmes was as follows:

- **DSP** is nearing the end of the OBC phase, following a period to define what the future business, technology and security landscapes, opportunities and challenges look like over the next 10+ years and has consulted with industry on the future services to be delivered. The programme is planning a competitive procurement phase as part of the FBC phase. An extension to the existing CGI contract is anticipated to ensure that there is no interruption when the current contract expires in October 2024.

- **DSMS** is also nearing the end of the OBC phase following detailed market research to fully understand the Technical Service Management software market to inform a Request for Information which was issued in December 2022. DCC applied to DESNZ for an exemption from completing a Treasury Green Book Business Case. Written authorisation was received on the 14th of February 2023. The exemption placed an obligation on DCC to demonstrate to its customers that it is compliant with the license conditions in seeking a best value contract award. DCC also produced an OBC which went through a Gate review in December 2022. Over the following RY23/24, DCC will seek to award a contract to an implementation partner, commence detailed design, and build of the new DSMS solution.

- **CH&N** is now in its delivery stage. The programme has completed low level design and is currently in the build and test phase. It will pilot at the end of 2024 and move to the mass manufacture of 4G Communication Hubs in June 2025.

- The **PKI Enduring Services** Programme has completed a Strategic Outline Case (SOC) and is working towards delivering an OBC by November 2023. DCC plans to extend the current BT contract until

March 2026 and conclude the re-procurement (including any transition to a new service) by the 31st of January 2026.

- The **Test Automation** Programme is currently completing detailed design and infrastructure build ahead of its target implementation in Q1 2024. This will enable 24/7 working and a significant reduction in the time and cost to complete regression testing.

Timescales for next-generation Communication Hubs, re-platforming of the TSP services, and Test Automation are relatively well established. Precise timescales are yet to be confirmed for all outcomes and more work is required on the approach to be adopted in each area.

The costs associated with the Network Evolution programme include resource and non-resource costs for RY22/23 and beyond. The full detail on the level of resources that are driving variances are set out in the associated BMA model. With such a complex programme with customers' money at stake, a significant proportion of DCC's costs have been on ensuring that the deliverables, including any forthcoming procurements, conform to the relevant regulatory obligations in our Licence and offer strong value for money. Resource was also dedicated to support the gathering of technical, operational and security requirements and the12 assurance of the programme's design of systems and processes.

In terms of non-resource costs, most of the variance of the programme in RY22/23 related to specialist procurement resource, legal assurance of the multi-billion procurement in this space, specialist resource to support with the economic and financial modelling of the LC16 business case and assessment of bids, as well as a number of technical studies and advice on the structure, functionality and detailed design of the major components of DCC's system. It also includes legal advice to support the procurement of the CH&N programme, and the cost of bank fees associated with securing savings to customers through the financing of 4G Comms Hubs. As per prior Price Control submissions, Bank Fees are considered internal costs. The list of non-resource activities in the RY22/23 BMA are as follows.

GL	Activity	BMA RY22/23 (£m)	BMA RY23/24 (£m)	BMA RY24/25 (£m)	Total BMA Value (£m)
ES	Business Case Centre of Excellence				
ES	CHN Consultancy Support				
ES	CH&N Financing				
ES	Deloitte Commercial Strategy				
ES	Deloitte Tech Strategy				
ES	HMT Business Case Development				
ES	Legal advice/support - Net Evo (CH&N)				
ES	Legal advice/support - Net Evo DSP				
ES	NE - DSP, DSMS and SI Procurement Support				
ES	Net Evo DSP High Level Design				
ES	Network Evolution - 4G DBCH Plan Assurance				
ES	Network Evolution - ▮▮▮▮ (CH&N)				
ES	Network Evolution - ▮▮▮▮				
ES	Network Evolution - ▮▮▮ (CH&N)				
ES	PKI Advice[6]				
ES	PKI Advice				
ES	Smart Metering Key Infrastructure (SMKI)				
ES	Smart Routing Gateway High Level Design				
ES	SMKI Advice				

Table 3

Basis for application

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[6] Note there are two PKI pieces of advice but they relate to different cst centres.

The changes introduced by the NEP represent a material change to the scope of DCC's work, as envisaged and set out in the LABP. More specifically, the criteria and basis for application are:

- **Complexity:** DECC's original bid documentation from 2011-2013 did not envisage DCC would take a leading role in designing, procuring and delivering evolution and redesign of all of DCC's original Legacy Procurement Contracts. It also did not envisage the rapid and large change in the nature and size of the messages the system must be capable of delivering. It did not provide for the expiry of ageing technology such as the Remedy system, nor the industry standard move towards cloud computing and away from on-site storage.

- **Timescales** and **Volume**: DCC is accountable for the delivery of the Programme's deliverables in accordance with challenging and strict timescales as set out in the LC13 delivery plan. The requirements and deliverables agreed with Government through the NEP delivery plans represent material changes to the architecture of DCC's systems, process and network.

Added Value to Industry and Energy Consumers

The key benefit of the Programme ultimately stems from safeguarding the Government's SMIP business case by strengthening the system against future technology changes, including the sunsetting of 2G and 3G technology. The NEP is driven by digital technology which continues to reshape the energy landscape. We must make sure that the DCC Network keeps pace with and prudently anticipates that change, while also maintaining continuity of service to the energy industry as contracts with service providers expire. For the CH&N Programme alone, the Government has calculated that the overall net benefit, until 2039, to industry of taking forward the recommended option[7] is approximately £5,360m.

DCC's disaggregation of critical aspects of the services provided by the original Legacy Procurement Contracts will allow a less monolithic structure, more competition, lower cost of change, more dynamic contract provisions and an improved service to customers. DESNZ has approved DCC's OBC for Comms Hub and Network and meaning we have satisfied government's challenging standards on the costs and benefits of DCC's main area of expenditure in RY22/23. Through our business cases, we have provided government, Ofgem and customers with comprehensive evidence of the benefits to energy customers and consumers from DCC's investment.

2.1.3   Enduring Change of Supplier (ECoS)

Enabling energy consumers to change supplier securely and easily is one of the fundamental purposes and benefits of the smart metering rollout. The ability to switch supplier is underpinned by DCC's change of supplier process requiring the replacement of certificates on devices (primarily meters), identifying the responsible supplier.

When the original technical and security architecture for DCC was developed within the government's Smart Metering Implementation Programme, it was decided that DCC should implement a temporary solution, or Transitional Change of Supplier (TCoS). The rationale was to avoid requiring additional change from energy suppliers during the mass roll-out of smart meters. While designed and successfully operated at a very high standard of security, TCoS is not fully aligned with the Trust Model for smart metering, primarily because TCoS functionality is provided by the Data Service Provider (DSP). It was always intended that TCoS should be replaced as soon as practicable by an Enduring Change of Supplier (ECoS) process, so as to introduce a greater degree of separation.

On 1 August 2019 DCC received a Direction from BEIS for the purposes of Condition 13A of the Smart Meter Communications Licence (the DCC Licence), to produce an implementation plan for the ECoS arrangements. The plan was required to set out the activities which DCC and its external Service Providers needed to

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[7] Option 3 seeks to extend SMETS1 and SMETS2 contracts as long as commercially viable.

undertake, and the deliverables required, to deliver the ECoS arrangements, including reaching a position where the TCoS arrangements would be discontinued.

It is a requirement of Condition 13A of the DCC Licence that DCC consult the SEC Panel and all SEC Parties regarding the proposed content of the plan before submitting it to BEIS for approval. That consultation took place between 23 January 2020 and 21 February 2020. DCC received five submissions on the content of the plan and responded to all comments, accordingly, publishing the final document on the Smart DCC website[8].

DCC received Secretary of State approval on the 30th March 2020 to progress delivery of the following requirements:

- To design and build an IT solution to manage the activities relating to Change of Supply – notably the validation of an 'Update Security Credentials' (CoS) SRV6.23 from the Gaining Supplier, the co-ordination of related messaging with the Access Control Broker and ultimately efficient replacement of Losing Supplier security credentials with ones provided by the Gaining Supplier, on the devices within the end consumers' smart metering system.
- Procurement of a hosting platform to support the ECoS solution – a hosting platform and relevant infrastructure required to independently host the ECoS solution.
- Implementation of a managed service agreement for ECoS – a managed service which will maintain, monitor and evaluate the service on behalf of the DCC, in order to ensure the continuity of the Service Management framework for the ECoS Service.

The initial procurement process resulted in the same supplier being awarded both the second and third requirements, hosting and service management. In order to leverage better value, it was therefore decided to combine these two requirements into one procurement phase for the latter stages.

From April 2020, DCC commenced work to enact the agreed delivery plan.

Key achievements in RY22/23 included:

- Pre-Integration Testing - DCC's Service Providers undertook Pre-Integration Testing (PIT) of individual systems and components prior to their integration in SIT. PIT was assured by DCC test assurance teams and subject to Test Assurance Board (TAB) approval before commencement of SIT. The approval to proceed certificate was issued on 28 September 2022.

- Systems Integration Testing - SIT consisted of a set of tests undertaken by DCC and DCC Service Providers collectively, to verify that each of the individual systems and components (the Modified DCC Total System), could operate and interoperate with User Systems, Smart Metering Systems comprising Smart Metering Equipment Technical Specifications (SMETS) 1 and SMETS2+ Devices, the ECoS Party Solution, CSS Interface, DCSE (the DCC migration and reporting tool), as well as the Hosted and Infrastructure solution to support the ECoS Party Application. SIT functional testing was completed and approved by the TAG on 29 March 2023, and we have therefore successfully completed SIT in line with the requirements of the ECoS Test Approach Document (TAD).

- System Capacity Testing - System Capacity Testing demonstrates that the operational performance of the modified DCC Total System is not adversely affected by the introduction of ECoS Services and that the ECoS Services will operate at the requisite performance levels. This testing finished on 28 April 2023 and was successfully presented to the TAB on 15 May 2023 and was (re)presented to the TAG for information only on 31 May 2023.

- Business Acceptance Testing - BAT was undertaken to prove the end-to-end Service Management processes and procedures, that will be carried out to support the Services launched or updated as part of the ECoS service across DCC. BAT was completed on 21 April 2023 and the test completion report was issued on 12 May 2023.

- Operational Process Testing - Operational Process Testing verified the ECoS operational functions and processes and ensured the operational readiness of the ECoS service.

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[8] The consultation conclusion documents is available on the Smart DCC website: Consultation on the Delivery Plan for Enduring Change of Supplier

- User Integration Testing - UIT comprises end-to-end testing by testing and commenced on 15 May 2023. UIT ran for a period of six weeks prior to Go Live (30th June 2023). This allowed Users to test the interoperability of its User Systems and Devices with the new ECoS service prior to ECoS Go Live.

Programme resource levels are drawn from a range of cost centres including technical and operational input as well as support from programme management, commercial, customer engagement and regulatory support. The full detail on the level of resources that are driving variances are set out in the associated BMA model.

In terms of non-resource costs, the bulk of the variances this year arise from design and test activities necessary to build a comprehensive set of requirements for the service and to ensure that tenderers' bids fully meet DCC's requirements. The list of non-resource activities in the RY22/23 BMA are as follows.

GL	Activity	BMA RY22/23 (£m)	BMA RY23/24 (£m)	BMA RY24/25 (£m)	Total BMA Value (£m)
ES	ECoS CIO Audit				
ES	ECoS Delivery Assurance				

Table 4

Basis for application

This application is based on a continuation of last year's ECoS-related grounds. The changes introduced by the ECoS Programme represent a material change to the scope of DCC's work, as envisaged and set in the LABP. More specifically, the criteria and basis for application for the ECoS Programme are:

- **Complexity** and **Volume:** the complexity and volume of the deliverables set out in the final ECoS LC13 delivery plan[9] constitute a material change to DCC's systems.

- **Timelines**: DCC is held responsible for the delivery of the Programme's deliverables in accordance with the timescales agreed in the LC13 delivery plan.

Added Value to Industry and Energy Consumers

The direct benefits from this Programme are the enabling of energy customers to change supplier securely and easily. An essential component of this is the replacement of certificates on devices (primarily meters) that identify the responsible supplier.

2.1.4 Facilitating Additional Relevant Services

2.1.4.1 Brabazon House / Test Lab Operator

The set up and maintenance for facilitating both the Technical Operations Centre (TOC) and the new test lab facilities were first raised in the RY18/19 price control submission. In that same year, DCC also justified for the first time the grounds for adjusting its margin levels based on the costs associated to this.

The provision of testing services originally sat within the FSP contracts[10], making such services only available for a temporary period of 12 months, extendable on a monthly basis. The approach to making these service available to testing participants on an enduring basis also directly responds to the regulatory requirement within the SEC.[11] As DCC transitioned from a single to a multi-Programme delivery partner, it became apparent that, as per original assumptions in the LABP[12], this approach to testing needed to change in order

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[9] The consultation conclusion documents is available on the Smart DCC website: Consultation on the Delivery Plan for Enduring Change of Supplier
[10] Schedule 6.2 of the FSP contracts (Testing and Acceptance)
[11] Enduring Testing Approach Document (ETAD)
[12] Section 8, Risks and Uncertainty

to accommodate the range of services and solutions that are being offered to industry. Following a rigorous impact assessment, we concluded that the costs of the FSP-led testing service should be reduced and replaced by an integrated end to end test facility, run by DCC. Brabazon House was identified as a suitable location in mid-2018, with the fit out of the building being completed and first employees moving in during June 2019.

RY22/23 was the fourth year of operation for the Test Labs. Most of the cost variances during RY22/23 were driven by a rationalisation of the categories of costs associated with the Test Labs, allowing for more transparency on the costs that were historically aggregated into Brabazon Rent (which in prior years had included service charges, facilities management, rates and fit out). The cost categories in table 5 reflect the changes that were made in RY21/22 to rationalise the activity ("Table 2") entries and simplify the submission.

In this year's application the Test Lab related non-resource items are:

GL	Activity	BMA RY22/23 (£m)	BMA RY23/24 (£m)	BMA RY24/25 (£m)	Total BMA Value (£m)
AC	Brabazon Facilities				
AC	Brabazon Rates				
AC	Brabazon Rent				
AC	Brabazon Service Charge				
AC	Brabazon Sundry				
AC	Test Lab Operator				

Table 5

Basis for application

The criteria in support of this activity remain the same as last year, and are based on complexity and volume:

- **Volume**: Brabazon House delivers a consolidated industry test facility, with the ability and flexibility to scale capacity to operate 24/7 and 365 days a year.

- **Complexity**: Brabazon House accommodates the Technical Operations Centre (TOC) with an integrated Security Operations Centre (SOC). This enables the end-to-end monitoring of the smart metering ecosystem, thereby enabling proactive intervention where required and ensuring continuous operations. This facility will operate under very strict security rules which is part of DCC's strategic security approach: Secure by design, Secure by assurance, Secure by proactive monitoring/management.

Added Value to Industry / Energy Consumers

The key benefits of this project remain the same as in previous years and are (i) long-term costs savings to industry (and by extension to end consumers) and (ii) provision of a consolidated test facility that will allow for critical programme testing, in-life testing, new feature development testing and fault triage testing. The ability for industry to carry out this level of testing ultimately reduces the risks of defects in a live environment thereby reducing the risk of consumers experiencing problems. As explained in the previous three years, the monetary benefit of the new test facility, the associated consolidation of business and testing activities, together with the closure of the Preston Brook office, is expected to reduce ongoing operational costs and generate cost savings of more than £96m, over the course of a ten-year period.

2.1.4.2 Other accommodation

DCC's other accommodation costs (i.e. non Test Lab-related) in RY22/23 are predominantly activities funded in the LABP and for which DCC has already been awarded margin. There is one new activity, DCC's refurbishment and workspace experience improvements under Project Gold incurring costs (there was no committed forecast for RY22/23 last year). As set out in our main submission, Project Gold is a variant item,

and was initiated to encourage return to DCC's offices post Covid-19 pandemic, as well as to make a number of improvements that could not be made during the pandemic.

There are three historically applied for grounds, Ruddington Rent, Ibex rent and Ibex Rates which have incurred additional costs and were not forecast last year – i.e. this reporting year constitutes the first application window.

GL	Activity	BMA RY22/23 (£m)	BMA RY23/24 (£m)	BMA RY24/25 (£m)	Total BMA Value (£m)
AC	Ibex Facilities				
AC	Telepresence				
AC	Conferencing Services				
AC	Ibex Service Charge				
AC	Ruddington Rent				
AC	Preston Brook				
AC	Ibex Sundry				
AC	Ibex Working Capital				
AC	Ibex Rent				
AC	Ruddington Facilities				
AC	Ibex Rates				
AC	Project Gold - Refurbishment Project				

Table 5

Basis for application

As above, where DCC has either been awarded margin in the LABP or through a prior BMA award but we have not incurred the full expenditure, we are required to adjust our subsequent BMA application. The bulk of the activities above relate to this requirement. In three cases the basic costs of DCC's accommodation have increased beyond prior approved baselines, creating additional costs and eligibility for applying for additional margin. The details of a further activity, Project Gold – Refurbishment Project, is set out in detail in the Corporate Management cost centre.

- **Volume**: the scope of the relevant service capability DCC now provides was not funded in the original LABP. As DCC has grown as an organisation it has had to expand its capability in several areas, as well as respond to changing obligations on the business arising from material changes to the licence, the SEC and the introduction of the REC.

- **Complexity**: the complexity of the relevant service capability that DCC must now provide is significantly higher than envisaged in the LABP. DCC was not provided ex ante funding allowances to recognise the complexity of running a multi-programme business. DCC was also not funded for investing in taking analytical and remedial action arising from significant changes in the expectations on the system, and specifically message size and patterns in CSP North, which has resulted in extra costs as DCC proactively takes steps to improve performance for customers.

Added Value to Industry / Energy Consumers

The majority of the activities above relate to reducing margin that customers will ultimately benefit from. The additional grounds relate to the costs of DCC providing effective working environments for DCC staff, ensuring it is able to deliver effectively, its staff operate efficiently, and greater utilisation of the offices is achieved which will enhance the security of DCC's operations.

2.1.5   Other activities facilitating additional relevant service capability

As DCC has been asked to perform new functions over time, and new or amended Relevant Service Capability is required, the costs of running the business have increased. The additional resource and non-resource activities not previously fully funded in the LABP or prior BMA applications include the following:

- Significant increase in the demands on project, programme and portfolio management activities arising from DCC providing a range of new capability and Programme services

- Work to analyse potential cost savings on resources within DCC through piloting Managed Service Provider activities and offshoring of certain functions

- Material changes to the nature of the testing activities that DCC is now required to perform

- System engineering and other technical device on the design of amendments to DCC's systems

- Additional obligations on DCC arising from BEIS taking powers under LC13 to require DCC to develop HMT Green Book compliant business cases

- Additional activities to manage capacity on the network arising from a significant increase in the size and type of messages traversing DCC's systems, that were not provided for in the original Licence Application Business Plan, or in prior BMA applications.

This year's application includes resource and non-resource activities, with the latter set out in the table below.

GL	Activity	BMA RY22/23 (£m)	BMA RY23/24 (£m)	BMA RY24/25 (£m)	Total BMA Value (£m)
ES	Business Case Centre of Excellence				
ES	HMT Business Case Green Book Advice				
ES	Network Traffic Management				
ES	OPR - Customer Engagement				
ES	Project Sky				
ES	Brabazon - test lab				
ES	▮▮▮ - Ops Capacity Review				
ES	Capacity Management - ▮▮▮				
ES	Legal Advice/Support				
ES	Network Economics - ▮▮▮				
ES	Network Economics - ▮▮▮				
ES	Sundry				
ES	System Engineering - ▮▮▮				
ES	System Engineering - ▮▮▮				
ES	Project Diamond				
ES	▮▮▮ - Risk Assessment				
ES	CSP-N Scaling and Optimisation				
ES	Printing, stationery, telephones				
ES	Project Dynamo/CSPN Scaling				
ES	Project Stones Advice				
ES	Switching - Address Matching				
ES	Business Analysis Service Manager				
ES	Enduring Change of Supplier (ECoS)				
ES	ICR0486 - PMS Project Online				
ES	Managed Service Provider - ▮▮▮				
ES	▮▮▮ Portfolio/PMO Transformation				
ES	▮▮▮ Spring 2023 Support				
ES	SMETS1 Consultancy				
ES	Software				
ES	Sundry				
ES	Switching Support				
ES	Test Automation Framework				
ES	Ibex Facilities				
ES	Media Subscriptions				
ES	Photocopiers and Printers				
ES	Resource management				
ES	Strategic Business Planning Tool				
IS	Other				

IS	Photocopiers and Printers	
IS	Stakeholder engagement	
IS	Workspace Agility	
IT	Omniscope MCC IT	
OS	Photocopiers and Printers	

Table 6

Basis for application

The basis for the application in RY22/23 is the same as prior years as below:

- **Volume**: the scope of the relevant service capability DCC now provides was not funded in the original LABP. As DCC has grown as an organisation it has had to expand its capability in several areas, as well as respond to changing obligations on the business arising from material changes to the licence, the SEC and the introduction of the REC.

- **Complexity**: the complexity of the relevant service capability that DCC must now provide is significantly higher than envisaged in the LABP. DCC was not provided ex ante funding allowances to recognise the complexity of running a multi-programme business. DCC was also not funded for investing in taking analytical and remedial action arising from significant changes in the expectations on the system, and specifically message size in CSP North, which has resulted in extra costs as DCC proactively takes steps to improve performance for customers.

Added Value to Industry / Energy Consumers

The range of activities undertaken within the scope of this driver is critical to deliver the government's business case for SMIP and other programmes that make up DCC's mandated business. Failing to invest in these areas would have led to inefficiencies and poor service from poorly ran and managed business as usual activities that are significantly greater and more complex than envisaged at licence award.

2.1.6 Market-wide half-hourly settlement (MHHS)

Market-wide half-hourly settlement (MHHS) is an Ofgem-led programme, with Elexon as its key programme delivery partner. MHHS will be achieved by mandating that electricity suppliers settle all customers with capable meters (or equivalents) in a half-hourly (HH) capacity. Domestic customers will retain the option to opt out of this for import settlement data but not for export. Any Third-Party Intermediaries (TPIs) would also need to access the meter independently for data.

To achieve this and deliver a full solution for MHHS, it was necessary that changes were made to the Smart Energy Code (SEC) and to the DCC systems. A number of obligations have been imposed on the various stakeholders of the programme by Ofgem, including DCC. One obligation was that the DCC raise a SEC modification to progress the delivery of the programme.

DCC is a delivery supplier to the wider MHHS Programme, building enabling changes to facilitate the new Meter Data Retrieval (MDR) role as well as supporting customers to successfully access half-hourly data. We have worked in collaboration with the MHHS Programme team in discussing and agreeing dependencies. We have provided delivery support in presenting material to customers on the overarching programme as well as the specific changes which DCC are building.

Customer consumption is currently profiled - a profile represents the pattern of electricity usage for a customer within a segment of the electricity supply market. In April 2021, the MHHS decision and full business case was published by Ofgem.[13] This confirmed the proposed Target Operating Model and therefore proceeds with giving energy suppliers access to the exact half-hourly costs of customer consumption patterns, rather than being profiled as they are now for Non-Half Hourly (NHH) customers.

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[13] **Ofgem's publication** Electricity Retail Market-wide Half-hourly Settlement: Decision and Full Business Case | Ofgem

This will make it easier for electricity suppliers to offer Time of Use (ToU) tariffs, which in turn will incentivise customers to shift load patterns. Customer load shifting will benefit intermittent generation, balancing and reduce network infrastructure investment. Ofgem estimate that their chosen option for MHHS will deliver net benefits to GB energy consumers in the range of £1,559m-£4,509m over the period 2021-2045. This is set against a cost of around ██████ to implement.[14] MHHS will also increase overall settlement accuracy.

The changes to be implemented by DCC will be an integral part of a much wider industry change programme, largely based on the Balancing and Settlement Code (BSC), but also impacting the Retail Energy Code (REC) and Distribution Connection and Use of System Agreement (DCUSA).

Key events and objectives driving activity and cost

A high-level summary of the Ofgem decisions in RY22/23 and their interaction with DCC activity is as follows:

- July 2022 - SEC Parties vote to reject MP162

- August 2022 - Ofgem write to DCC asking that the creation of new Meter Data Retrieval role is separated from the capacity uplift costs in order that customers can fully understand the investment requirements

- September 2022 – Ofgem send back MP162 for review and is instruct the modification be presented under the instructions issued in their letter dated 31 August 2022

- October 2022 – Ofgem ran an RFI to assess the impact of capacity constraints across the DCC network because of MHHS

- October 2022 – SEC parties approve MP162

- November 2022 – Authority decision received for MP162 endorsing the industry decision to approve MP162

- January 2023 – DCC host a customer summit alongside industry experts and Ofgem

- April 2023 – Final capacity costs supporting MHHS presented to industry and Ofgem

DCC's key activities in RY22/23

- Ofgem wrote to DCC requesting the separation of the functional requirements, for the creation of the new Meter Data Retrieval (MDR) role from the capacity uplift in order that customers could fully understand the investment requirements. DCC requested Service Providers to separate out the costs to implement the MDR. Further engagement at sub-committees took place and the modification was approved by SEC parties in July 2022.

- Following the agreement with industry of the MDR requirement within MP162, DCC engaged with prospective MDR parties on the integration testing requirements. There are several companies signed up who will be adopting the new role.

- DCC ran a customer summit which focused on the impact of the introduction of MHHS on DCC's smart metering and central switching services. This was attended by industry parties including Ofgem. It emphasised the importance of working with the DCC to support new service offerings which may arise following the retrieval half-hourly data.

- Impact Assessments were received from Service Providers supporting the required capacity uplift to facilitate the increase in message volume because of August mandating MHHS. The assumptions underpinning the capacity uplifts were agreed with Ofgem in RY2022/21 and validated again in September 2022. Final capacity costs were presented to Ofgem on 04 April 2023.

Basis for application

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[14] Elexon's publication https://www.elexon.co.uk/documents/operations-settlement/market-half-hourly-settlement/market-wide-half-hourly-settlement-mhhs-programme-budget/

There are no MHHS non-resource items in DCC's BMA application. The only expenditure recorded for MHHS relate to resources.

The changes introduced by the MHHS Programme are material in nature. More specifically, the criteria and basis for application for the MHHS Programme are:

- **Volume, Risk** and **Timelines:** the overall extent of DCC's roles and responsibilities in the implementation of MHHS, as set out in Ofgem's Decision and Full Business Case,[15] represent a material variance to the scope of our work, as originally set out in the LABP. DCC is also taking on an increased level of risk throughout the delivery of the Programme as it delivers the role of cross-industry lead on the development work to implement the required SEC modifications. In partnership with SECAS, DCC is tasked with the responsibility of managing the SEC modifications through to completion, and to ensure the modification process keeps to the Programme's timelines.

Added Value to Industry and Energy Consumers

Access to half-hourly data is expected to increase competition in the energy market by enabling electricity suppliers to build and bring new offerings to consumers, differentiating themselves and providing the consumer with increased choice. The supply of differentiated products through Time of Use (ToU) tariffs is likely to incentivise customers to move their demand from peak hours to off-peak hours of the day i.e., customer load shifting. This shift in demand will support intermittent generation-balancing and reduce network infrastructure investment. Cost benefits are expected in the range of £1,559m-£4,509m (NPV) from 2026 -2045.

2.1.7   People Transformation

RY22/23 saw incremental spend is however projected in future years, based on the same drivers that were first presented to and approved by Ofgem in RY17/18. In summary, the transformation of this function since RY17/18 has been based on the requirement to (i) proportionally increase the level of resourcing in light of DCC's overall headcount increase, and (ii) to define and maintain DCC's culture and ways of working. These changes were specifically introduced to increase staff retention, ultimately with the view of reducing recruitment costs and reducing the risk of lost 'corporate memory.'

Further variances relate to enhancing the capability of DCC's People function in line with the variables set out above. More specifically, the People team's function is set to support the development of functional and cross-functional people capability in DCC, as well as manage recruitment and talent acquisition, in such way that DCC continues to be a great place to work. This year there are costs associated with additional pay and reward work, as well as welfare and additional staff training. Given the significant increase in the size of DCC and the complexity of its operations, we are applying on largely the same basis as prior years' approved applications.

The costs associated with this area include resource and non-resource costs for RY22/23. The full detail on the level of resources that are driving variances under this activity are set out in the associated BMA model. Non-resource costs in RY22/23 specifically focused on reviewing and adjusting our reward processes with the view of making it more robust and aligned to the external market and offering enhanced staff training support commensurate with the significant expansion in DCC's responsibilities. The resource costs are set out in detail in the accompanying model. The non-resource costs we include in this year's application are:

GL	Activity	BMA RY22/23 (£m)	BMA RY23/24 (£m)	BMA RY24/25 (£m)	Total BMA Value (£m)

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[15] The Decision and Full Business Case can be found on the Ofgem website

ES	Recruitment	
ES	Training	
ES	Leadership Development	
ES	Pay and Reward	
ES	People	
ES	People - health, safety and wellbeing	
ES	People - HR consultancy	
ES	People - recruitment	
ES	People - recruitment - CRM	
ES	Software	
ES	Staff Training	
ES	Welfare	

Table 7

Basis for application

The criteria and basis for the application remain the same as those referred to in previous years' submissions, and are as follows:

- **Volume**: the growing number of staff in DCC and the increased people requirements of a larger organisation delivering more complex Programmes requires a corresponding increase in the People team.

- **Complexity**: the work of the People team has increased in complexity as it looks to develop a strategic workforce plan for the future and a culture and employee value proposition that will enable DCC to attract and retain the talented staff that it needs and reduce the cost of recruitment over time.

Added Value to Industry and Energy Consumers

DCC's ability to deliver for its customers and stakeholders is largely down to the quality of its staff. As a maturing business, it is critical to have a workforce that is engaged, well-supported and motivated. This is of immense value to support and respond to the demands of the rapidly changing and complex nature of the Programmes we run. Recruiting and retaining talent is therefore paramount to the success of our business. This has required DCC to invest in and improve its recruitment processes, enhance its people management capability and to ensure continuous development and improvement of staff. The development of a strong culture within DCC allows the organisation to attract and retain high quality staff whilst reducing the actual costs of recruitment.

2.2 Driver: Supporting a Changing Business

2.2.1 Resource Planning and Management

DCC has grown significantly over the years, having taken on a range of activities that were not fully costed in the Licence Application Business Plan (ECoS, SMETS1, Network Evolution, MHSS), as well as entirely new activities such as the Switching programme. This has fundamentally changed the nature of DCC and the requirements for its systems, processes and methodologies. It is critical that DCC continues to deliver accurate and transparent plans to our stakeholders and easy to use and clear processes to our people. DCC is maturing its capability, fortifying its ways of working by establishing and improving key processes focused on the delivery of greater business accuracy, controls, and compliance.

During the year we mobilised a strategic Business Accuracy programme to improve and streamline our planning, forecasting and reporting processes. This programme will allow greater cost transparency and customer engagement, providing confidence we are delivering value for money. We set out in detail in the Finance cost centre narrative the activities that have been undertaken by the programme over the last year.

The costs associated with the Programme are predominantly non-resource costs arising from the use of external experts to review our systems, processes and methodologies, make recommendations for improvements and to deliver them.

The application also includes an important cost benchmarking study that DCC commissioned and has reported against in the main submission.

The full detail on the costs that are driving variances under this programme are set out in the associated BMA model. The non-resource activities we include in this year's application are:

GL	Activity	BMA RY22/23 (£m)	BMA RY23/24 (£m)	BMA RY24/25 (£m)	Total BMA Value (£m)
ES	4G CH Lessons Learnt[16]				
ES	Audit/assurance				
ES	▮ Regs Support				
ES	Benchmarking				
ES	Business and Development Plan Support				
ES	Carbon Offset				
ES	Consultancy Support				
ES	Deloitte – Strategy				
ES	Deloitte Strategy Development				
ES	Develop Transformation Roadmap				
ES	Media Monitoring				
ES	Media Relations Support				
ES	Media Subscriptions				
ES	Multimedia content				
ES	PA Capability Maturity Assessment				
ES	Reputation Tracking				
ES	Responsible Business Framework Review				
ES	SEO Subscription				
ES	Social Media				
ES	Social Platform				
ES	Sundry				
ES	Business Accuracy Transformation				
ES	Business and Development Plan Support				
ES	Conferences, forums, events				
ES	Contractor Benchmarking				
ES	Cost Benchmarking				
ES	DCC Culture Project				
ES	DCC Operating Model				
ES	Financial Modeller - Deloitte				
ES	Integrated Activity Planning				
ES	▮ - FP&A resource				
ES	Multimedia content				
ES	Sundry				
ES	Survey Platform Subscription				
ES	Training				
ES	Training - coaching				
IS	Group recharges				
IS	MSA				
IS	Other - Finance - IS				
IT	Printing, stationery, telephones				

Table 8

Basis for application

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[16] This project related to how to pass back the lessons learnt from 4G CH&N to the wider DCC rather than specifically Net Evo sub-programmes. As such it is assigned to Baseline Margin Core.

The criteria underpinning our application for additional margin for these activities are the same as in previous years:

- **Volume**: in aggregate, the material level of increased activity involved with and actors engaging with the DCC, places a clear requirement for DCC's resource planning and management activities to be upgraded.

- **Complexity**: the added complexity stems from DCC's evolving role into a multi-Programme business over the years. Whilst the systems, processes and procedures were suitable for a single programme organisation with a budgetary envelope of around £100m to £200m, DCC's business requirements are now significantly more complex. Managing the budgets, plans, governance and assurance of a multi-programme business with annual allowed revenue of in excess £600m requires a large overhaul of the fundamental toolset to perform as our customers and stakeholders require.

Added Value to Industry and Energy Consumers

We forecast that the Business Accuracy programme alone will deliver net benefits of around £2.3m before the end of the licence period. This arises from improvements in our forecasting and data capture, allowing us to reduce our internal resource requirements and develop superior systems and processes to negotiate better deals with our external service providers. Improving our internal processes and procedures also allows DCC to respond to the requirements of our customers, stakeholders and our internal staff to forecast costs more accurately, manage within-year variances better and ensure improved budgeting for future years. This will avoid over or under-recruitment and the negative impacts that this creates.

2.2.2 Increase in Customer Service Expectations

The Customer Engagement team ensures DCCs customers have a clear and common understanding of DCCs strategy, the changes we're delivering and ensuring customers have sufficient opportunity to input and shape how these changes are delivered. The team also manage DCCs input to the SEC governance arrangements and delivery of key customer meetings such as the Quarterly Finance Forum.

The main activities for the Customer Engagement team in RY22/23 were as follows:

- Supporting engagement on 16 programmes within DCCs portfolio, ensuring customers' views are taken in to account in DCCs decision making
- Leading the implementation of the Programme Assurance Policy, a jointly agreed policy between DCC and SECAS, as a mechanism for consistent engagement and transparency of programme lifecycle with customers
- Managing DCCs input to all SEC governance forums, ensuring all DCC agenda items have a clear purpose and are accompanied by material which meets customers' quality expectations
- Leading various DCC led engagement meetings such as the Quarterly Finance Forum (QFF) and arranging customer events such as the MHHS summit in February 2023
- Broadening our reach of engagement to previously under-represented customer segments such as through the Small Supplier Forum
- Designing and implementing a new customer performance framework which aims to track and measure DCCs delivery against customer commitments, both operational (e.g. incident comms) and change related (e.g. business case sharing)

A new operating model was implemented in May 2022 which formally brought together Strategic Customer Engagement, Customer Portal staff and Regulatory Stakeholder Engagement into a central Customer Engagement function. This was outlined in last year's Price Control submission.

DCC conducted work during the year on devising a customer engagement performance framework through which we could gain a clear understanding of customers' trust in DCC. This was designed to:

- Allow DCC to track achievement of good customer engagement, focusing on both hard and soft measures (e.g., sentiment)

- Implement a method of tracking against these measures with information available and establish a monitoring approach
- Implement a reporting process which enables DCC to proactively manage any engagement performance issues and which feeds the annual OPR report

The BMA model includes applications for both resource and non-resource activities. The table below summarises the BMA application for non-resource, as set out in the accompanying model.

GL	Activity	BMA RY22/23 (£m)	BMA RY23/24 (£m)	BMA RY24/25 (£m)	Total BMA Value (£m)
ES	▮ Customer Engagement				
ES	Customer Engagement Performance Framework				

Table 9

Basis for application

The criteria and basis for the application relates to the increasing complexity and number of customer engagement activities DCC now undertakes. The criteria are as follows:

- **Complexity:** the expectations of our customers have become more ambitious with each passing year. The highly complex environment with multiple non-SEC users and a large and variable cadre of energy suppliers, combined with the higher standard of communication required on LC16 business cases, has put huge pressure on DCC's staff, processes and procedures. As set out above, we cannot improve our activities without first having high quality information on customers' attitudes and perceptions, and have a well developed way of measuring and reporting on it so we can take action.

Added Value to Industry and Energy Consumers

DCC is subject to increasing expectations from customers on our engagement activities. We have responded to these expectations over the last three years by making incremental improvements to the headcount and skillset of the Customer Engagement team. While this has paid dividends with customers rating our engagement as having improved over this period, we believe there is clear evidence that better intelligence on customer attitudes, and a framework to measure changes to these attitudes will allow us to deliver significant improvements to customers.

2.3 Driver: Technology Driven Change

2.3.1 Security Driven Change

As explained in last year's price control submission, RY19/20 marked a strategic restructure of DCC's security function so that it is able to improve capabilities and effectiveness and to achieve alignment to the National Institute of Science and Technology (NIST) Cyber Security Framework (CSF). The shift was driven by the need to transform DCC's cyber security approach into a threat-led security operation rather than a project-based compliance operation. The previous structure of the security function was appropriate for DCC in its early start-up phase. However, over the last few years, DCC has matured into a fully operational organisation, with a network connecting millions of devices, offering a range of different services across different programmes.

The main activities in the Security function over the year are split into specific Security-related activities and Enterprise IT.

Security

- Completion of the Security Operations Centre (SOC) capability, threat led security monitoring and breach readiness testing within DCC systems. This is ahead of wider deployment in the Total System in RY22/23.

- Security compliance was enhanced with more automation and use of the DCC Governance Risk and Compliance (GRC) tooling that now forms the basis for audit evidence gathering, security test reporting and assessment of the wider critical supply chain.
- A move towards a Zero Trust model was started with new architecture artifacts and early adoption of new configurations within DCC and new requirements for DCC Programmes. The central driver has been the adoption of the new DCC Security Architecture Framework which is based on the Cloud Security Alliance (CSA) Cloud Controls Matrix (CCM) documentation (this was done with the approval of CSA as a member of that alliance).
- Enhanced employee security awareness training and testing has been delivered through new controls available via the DCC Microsoft 365 platform, this has also allowed the implementation of enforced document classification labelling functionality.
- A new initiative was set in motion to enhance information management within DCC with a new network of DCC Information Champions nominated to take ownership of information asset registers and support moves to reinforce classification, disclosure, and disposal of all types of information held and processed by the DCC.

The cost variances are comprised of resource and non-resource costs for RY22/23. The full detail on the costs that are driving the variances are set out in the associated BMA model. The non-resource activities we include in this year's application are:

GL	Activity	BMA RY22/23 (£m)	BMA RY23/24 (£m)	BMA RY24/25 (£m)	Total BMA Value (£m)
ES	Audit/assurance				
ES	Workspace Agility				
IT	BAU				
IT	BAU - ITES - Laptops				
IT	BAU - ITES - WAN				
IT	BAU - ITES - WIFI				
IT	Enterprise IT				
IT	IT Service Desk				
IT	Office 365				
IT	Printing, stationery, telephones				
IT	Servers				
OS	Sundry				
ES	Penetration Testing				
ES	Software				
ES	▮▮▮▮▮ Benchmarking				
ES	Audit/assurance				
ES	CIS Benchmark				
ES	Cloud Security Alliance Membership				
ES	Computerland Charges - in line with trends				
ES	Data Maturity Assessment				
ES	Extension to TSP Tactical CIO assessment				
ES	Gartner Executive Programme				
ES	ICO				
ES	KPI				
ES	Mobile phones				
ES	SC Clearances (Electranet)				
ES	Security consultancy				
ES	Skurio Threat Intelligence				
ES	Smart Metering Key Infrastructure (SMKI)				
ES	SMETS1 Oracle Data Encryption				
ES	SMKI Advice				

ES	SOC service
ES	SOC SIEM
ES	Software
ES	Training
ES	TSP Support
ES	X-ways
IS	LAN Switches
IS	RDS Charges
IT	Mitre Attack
IT	Penetration Test
IT	Software
IT	Web hosting server - Azure
OS	Mobile phones

Table 10

Basis for application

The criteria underpinning our application for additional margin for these activities remain similar to previous years:

- **Volume**: in aggregate, the material level of increased activity involved with and actors engaging with the DCC, places a clear requirement for security to be scaled up and enhanced accordingly.

- **Complexity**: the added complexity stems from DCC's evolving role into a multi-Programme business over the years. Whilst the security architecture was fit for purpose in the initial years of the SMIP, the growth of the business and the recent introduction of new services, together with the increased variety of devices, has led to the development of a more elevated set of requirements that is needed to accommodate the future of the business and the national infrastructures we run.

Added Value to Industry and Energy Consumers

In terms of benefits to the end consumer, security remains one of the key foundations on which the smart metering programme is built. It is vital to the success of the programme that the data of smart meters, households and industry is not compromised at any time. The restructure of the function significantly enhances DCC's security model and allows it to operate in an agile and proactive way, focusing on preventing threats from turning into incidents. These benefits are no different to the ones set out in previous years and are absolutely paramount to support a national infrastructure that remains secure at all times.

2.3.2   Technology Transformation - General

As the technology environment in which DCC operates has changed significantly since licence award, our technical expertise has needed to keep pace.

The volume of public cloud-based services continue to grow across DCC FSP's and there is an increasing lack of consistency in the adoption of Private and Public cloud solutions increasing the design and compliance complexity across the DCC Ecosystem. DCC and its Service Provider partners require core cloud architecture compliant to NCSC best practice and the Security Assessment Framework. The technology function has completed its full analysis against our SEC Obligations and License Obligations as applied to the use of public and Private Cloud. Our work in 23/24 will continue with a consistent cloud-based design principles and policy compliance to drive consistent use of cloud solutions over the next 5 years. We plan to facilitate increased use of technologies what are optimised for use in a cloud environment (Cloud Native), and to ensure that DCC and its Customers benefit from the increased capability that these provide. Within DCC, there are increasing

and calls for cloud skills being developed or sourced to support commercial, legal, regulatory and technology developments.

The formation of a Cloud Centre of Excellence is key to supporting core business activity and ensuring cloud solutions are fit for purpose, secure, and demonstrate value for money. Engagement with the market to seek intelligence and a potential partnership was undertaken for this purpose.

The full detail on the level of resources that are driving variances under this activity are set out in the associated BMA model. The non-resource spend we include in this year's application is as below.

GL	Activity	BMA RY22/23 (£m)	BMA RY23/24 (£m)	BMA RY24/25 (£m)	Total BMA Value (£m)
ES	2G/3G Sunset Study				
ES	Aclara				
ES	Architectural Resources CTO Engineering				
ES	CH&N Design Assurance				
ES	Cloud Adoption Framework				
ES	Cloud Procurement Support				
ES	DCC Cloud - Strategy and Engagement Support				
ES	DCC Cloud Support				
ES	Deloitte CSPN Document Review				
ES	EDIFIT Annual Subscription				
ES	HHT Zigbee Radio Emulator				
ES	Legal advice/support - CSP N				
ES	Meraki HW and Licences				
ES	Professional memberships				
ES	Project Budapest FTTP PoC				
ES	SMETS2 - L&G				
ES	Technical Advisory Committee				
ES	Technical Training				
ES	Training				
ES	Zigbee				
ES	Zigbee Membership				
IS	Other				
IT	Integrated Design Tool				
ES	Gartner Logistics Insight				
ES	Ops Demand Planning				
ES	SMDA Test House[17]				

Table 11

Basis for application

The criteria underpinning our application for additional margin for these activities are as follows

- **Volume**: in aggregate, the material level of increased activity places a clear requirement for targeted and focused resources with expertise in specific device types to be scaled up and enhanced accordingly.

- **Complexity**: the added complexity stems from DCC's evolving role into a multi-Programme business over the years. Whilst the technology architecture was fit for purpose in the initial years of the SMIP, the growth of the business and the recent introduction of new services, together with the increased

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[17] This activity was in the Operations driver last year.

variety of devices, has led to the development of a more elevated set of requirements that is needed to accommodate the future of the business and the national infrastructures we run.

Added Value to Industry and Energy Consumers

The activities support the delivery of the SMIP plus other mandated programmes by giving DCC the expertise to accommodate relevant devices onto our network as quickly and efficiently as possible. Failure to apply device specific knowledge could result in abortive costs from incorrectly specifying systems to interact with these devices. This could both impact individual customers whose devices may lose functionality as well as the performance of the wider system. The activities therefore support achievement of the business case benefits of SMIP and DCC's other mandated programmes.

2.4   Driver: Operational Change - Ops Service Standard Expectations

As in previous years, our Operations and Design and Assurance functions play a central role in the overall implementation of the smart metering programme. It is critical in helping us to understand our customers' needs, optimise the strategy in response and bring service capabilities closer to customers. As a function, it is accountable for the governance of the technical design authority for DCC enterprise and total systems. It works with industry and service providers to address and deliver future capabilities and efficiencies. It also provides a single point of contact for all our customers, supporting their onboarding to the service, the incident management of issues through to resolution and the support for smart meter rollout planning. In summary, it has a key role in identifying improvements to our processes and our ways of working with customers.

Over the course of RY21/22 and beyond, the size and capabilities of the operations function will grow. The incremental growth of the function over the years is explained by the introduction of the new services i.e., Network Evolution, ECoS and MHHS, and the challenges and complexities that these bring in terms of operational requirements that are different to those for the existing services i.e., SMETS2, SMETS1 and Switching. Also, because of these complexities, customers are encountering more technical aspects that require bespoke help and clarification. As a result, engagement between DCC and its customers has become much more frequent; the increasingly technical nature of the queries from customers, has driven the demand for the engagement to be more technical and bespoke. In parallel, increased effort and incremental resource was assigned to our service operations capability that delivers the service to our customers, with specific focus on managing incident and problems, as well as logistics and capacity/environment management.

Similarly, we incur testing costs arising from the need to use SMETS1 and SMETS2 emulators to model device-specific behaviour without impacting the live system. We have also seen cost variances associated with purchasing and testing Landys and Gyr meters, which constitute two areas of spend below.

The costs associated with this area include resource and non-resource costs for RY22/23. The full detail on the level of resources that are driving variances under this activity are set out in the associated BMA model. The non-resource spend we include in this year's application is as below.

GL	Activity	BMA RY22/23 (£m)	BMA RY23/24 (£m)	BMA RY24/25 (£m)	Total BMA Value (£m)
ES	HAN Assurance				
ES	ITSM Tech Strategy				
ES	Operational Performance Dashboard				
ES	OPR Review				
ES	Stakeholder engagement				
SM	Service Desk - Ruddington Desks				

Table 12

Basis for application

The criteria underpinning our application for additional margin for these activities remain similar to last year:

- **Volume** - the additional resources required to reinforce the Operations and Design and Assurance functions in RY22/23 and forecast resources in future years, over and above what was originally envisaged in the LABP. The LABP always foresaw that Operational Service Requirements (OSR) would vary in time and would need to be updated to reflect the changing demands on the DCC. The LABP also acknowledged that this could result in an increase to Internal Costs.

- **Complexity** – the level of customers' requests has not only increased in volume; the complexity has significantly increased as DCC is being asked to assist its customers with operational testing and provision of data insight. This complexity is further compounded by the fact that new services are being scoped and developed in parallel with the operational running of live services. In part, these new services need operational service requirements that are inherent and bespoke to the nature of these programmes.

Added Value to Industry and Energy Consumers

The added value to customers, and consumers more widely, stems from DCC's central role in the smart metering system. By taking central responsibility for the delivery of operational services that were previously spread across industry, DCC is able to realise economies of scale and ultimately cost savings that are then passed to its customers and ultimately consumers. The data that DCC is collecting on operational activity by customer is also invaluable, as customers are using that information and making changes to their operational activity as a result of improved efficiency.

2.5 Driver: Change to DCC's Supply Chain structure

2.5.1 Increase in Commercial Activity

The Commercial function is responsible for the commercial management of DCC's strategic External Service Providers including contract and supplier relationship management, contractual frameworks and procurement of new service contracts. This critical function ensures that DCC receives value for money on the services procured and that service providers fully support the DCC and meet wider energy industry needs.

Procurement

The following procurement-related activities drove additional costs in RY22/23:

- Procurement activity related to DCC's major programmes, including CH&N, DSP, PKI Enduring Services, Test Automation Framework, DSMS
- Specialist consultancy resource required to support Project Diamond activity
- Increased levels of tactical / operational procurement (c. 50), driven by an increase in professional consultancy
- Increased levels of HMT business cases (creation and subsequent redaction)
- Increased levels of DESNZ and Ofgem engagement – particularly related to the commercial pipeline and continuity of service

Commercial Transformation

Following the restructuring of our Commercial Leadership team in September 2021, and the appointment of a new Chief Commercial Officer, DCC has continued the process of maturing our Commercial Function and augmented the leadership team with the appointment of a Director of Contract Management in September 2022. As part of DCC's transformation journey, DCC appointed our commercial partners to strengthen our strategic commercial processes, drive process changes to deliver a strategic expansion of skills across the organisation and incorporate technology to support the business, and, importantly, our customer needs. We

have also adjusted our activities to align with the National Audit Office (NAO) framework to meet the new contract management aspect of the Operational Performance Regime (OPR).

Our commercial transformation workstream, initiated in January 2022, continues through additional workstreams to build upon the following strategic goals:

- A new designed "To–Be" organisation structure and operating model
- New senior leadership and oversight across Supplier Relationship Management, Contract Management and Procurement
- Adoption of new technology that supports our people and core processes

Recognising our Commercial function is becoming even more critical to our success as DCC operates at scale, in the next few years, we will need to:

- Manage an increasing number of in-life contracts
- Renew a significant number of high-value contracts
- Procure new technology as old technology retires
- Strategically manage new and existing suppliers

This volume of activities and increased number of stakeholders requires a professional Commercial function that can plan and evaluate risk more reliably than ever. To prepare for this, the maturity of our Commercial function will improve through the adoption of new processes for the future and automating as much as possible to drive efficiencies.

Automation and Continuous Improvements

Our existing processes, reporting and technology need to effectively align with our ways of working and continuously improve at pace. As a result:

- The function has reviewed and redesigned its Procurement processes which are being implemented in RY23/24 as part of our wider Commercial Transformation.
- As part of the Commercial Transformation, DCC's commercial pipeline is being reviewed and redesigned, to automate notifications and reporting, to drive improved visibility of contract expiry and plans for re-procurement which will be consulted on and implemented in RY23/24. This will drive the wider Business engagement to enable workstreams to commence before expiry and enhance DCC's drive for value for money.
- As part of the Commercial Transformation, through our Strategic Partners, DCC has initiated several initiatives to build upon our previous improvements.
  - o Recognising DCC has multiple tools and methodologies for recording contracts, we have initiated the Jeopardy Programme to centralise our reporting and collaboration for all contracts, with the aim of incorporating the information within our future Commercial Toolset, known as iValua. The iValua design has begun to build a cross functional commercial tool capable of managing the workflows and contract processing for our Commercial Function.
  - o Through the engagement with Efficio, DCC has redesigned and built a series of Commercial Processes, with the core objective of centralising our commercial function, to enable the sharing and collaboration of information between functions as part of our Lifecyle Contract Management Programme (LCM) programme.
  - o Introduction of the Lifecycle Contract Management (LCM) programme, to evaluate the core delivery phases within the three phases of a contract's lifecycle
    - Concept to Contract
    - Contract to Market
    - Market to Retire
- The function has also sought to improve relationships with external stakeholders and aligned its processes with customer engagement and focused on closing the feedback loop to further support OPR.

The table below summarises the BMA application for non-resource, as set out in the accompanying model.

GL	Activity	BMA RY22/23 (£m)	BMA RY23/24 (£m)	BMA RY24/25 (£m)	Total BMA Value (£m)
ES	CH&N Financing				
ES	CMS Upgrade				
ES	Commercial Transformation				
ES	Consultancy Support				
ES	Cost Benchmarking				
ES	Deloitte Service Provider Assurance				
ES	Net Evo – DSP				
ES	OPR Contract Management				
ES	Procurement				
ES	Procurement Best Practice				
ES	Service Provider Assurance				
IT	Staff Training				
ES	Strategic Consultancy				
ES	Sundry				
ES	Supplier management				

Table 13

Basis for application

The criteria and basis for application remain the same as previous years, noting that the certainty level of this activity has materially increased. The criteria are as follows:

- **Volume**: additional expenditure has been incurred as a result of the increase in both internal procurements, and the significant amount of additional work associated with the various Network Evolution sub-programmes. We estimate more than 50 new procurements have had Commercial team support in the past year.

- **Complexity:** the complexity stems from negotiating and managing contracts across a range of service providers across all our Programmes. The different nature of these new services in combination with more parties becoming dependent on one another for the timely delivery of services, has added to the complexity and interdependencies of DCC's Programmes. As we have demonstrated that significant cost savings and performance improvements can be achieved through the disaggregation of the monolithic legacy procurement contracts, our strategy is to split the services and procure smaller sub-lots. While this will have huge benefits, it does also impose some additional resource requirements for the Commercial function.

Added Value to Industry and Energy Consumers

DCC is managing an increasing number of material service provider contracts on behalf of customers and end consumers. DCC's ability to manage these contracts and changes to these contracts in the most economic and efficient way ensures value for money for customers and consumers.

3   Proposed Adjustments to the BMA

DCC considers that the activities included in this application are in scope of the LABP, and that the additional costs relate to elements and activities that were part of DCC's remit at the time of the Licence bid, but not fully scoped or costed. In accordance with our Licence, the relevant activities that form the basis of this application meet the Materiality Threshold[18] either through:

- a discrete material change.

- an aggregation of non-material incremental changes.

In line with previous years' applications, we are proposing that a 15% margin is applied to all internal costs that are associated with the relevant activities that form the subject of this application. We are of the view that a 15% margin is acceptable given the nature and level of risk and uncertainty that is associated to the activities we carry over the course of our Licence term. A 15% margin also represents the same level of margin that was agreed at the time of the Licence bid, which was established through a competitive tender.

DCC confirms that this notice is being served on or before 31 July 2023, which is consistent with the requirement to serve the Notice at any time during the month of July ("the Application Window"). In order to ensure that the margin is placed at risk against the relevant year that is the closest to that of delivery of the activity, we are proposing the following adjustment dates to the previously baselined profile of margin:

- **RY22/23** - Adjustment Date of 1 April 2024.
- **RY23/24** - Adjustment Date of 1 April 2025.
- **RY24/25** - Adjustment Date of 1 April 2026.

The tables below provide a summary of the calculations for the RY22/23 Relevant Adjustment[19] based on the relevant activities included in this document. Detailed calculations are contained in the accompanying BMA models provided to Ofgem this year as part of the submission.

The Relevant Adjustment for RY22/23 is as set out in table 14 below. Tables 15 and 16 break the submission down into the resource and non-resource components.

Note that this year we have split the Network Evolution activities into their various sub-programmes. Where it has not been possible to apply a split, or where the expenditure is not directly assigned to an individual programme, we have assigned it to "Net Evo – Core"; for example, the Business Case Centre of Excellence works across all Net Evo sub programmes and has been assigned to this category.

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[18]As required by Licence Condition 36, Appendix 2, Part A, A3
[19] As required by Licence Condition 36, Appendix 2, Part A, A5(a)

	BMA application summary - total			
	BMA 22/23 (£m)	BMA 23/24 (£m)	BMA 24/25 (£m)	Total (£m)
Baseline Margin Core	4.949	4.204	8.033	**17.186**
Baseline Margin Core - SMETS1	1.852	0.400	0.405	**2.656**
Baseline Margin Net Evo - CH&N	0.507	0.050	0.029	**0.586**
Baseline Margin Net Evo - Core	0.904	0.736	0.678	**2.318**
Baseline Margin Net Evo - DSMS	-0.016	0.009	0.031	**0.024**
Baseline Margin Net Evo - DSP	0.323	0.047	0.018	**0.388**
Baseline Margin Net Evo - PKI	0.093	0.000	0.000	**0.093**
Baseline Margin Net Evo - TAF	0.000	0.000	0.000	**0.000**
Baseline Margin Project 2 - ECoS	0.219	0.275	0.276	**0.770**
Total	8.829	5.721	9.470	**24.021**

Table 14 – BMA application values for RY22/23

	BMA application summary - resource			
	BMA 22/23 (£m)	BMA 23/24 (£m)	BMA 24/25 (£m)	Total (£m)
Baseline Margin Core	1.536	3.396	6.325	**11.257**
Baseline Margin Core - SMETS1	0.326	0.296	0.301	**0.924**
Baseline Margin Net Evo - CH&N	0.026	0.050	0.029	**0.105**
Baseline Margin Net Evo - Core	0.740	0.736	0.678	**2.154**
Baseline Margin Net Evo - DSMS	-0.016	0.009	0.031	**0.024**
Baseline Margin Net Evo - DSP	0.093	0.047	0.018	**0.158**
Baseline Margin Net Evo - PKI	0.000	0.000	0.000	**0.000**
Baseline Margin Net Evo - TAF	0.000	0.000	0.000	**0.000**
Baseline Margin Project 2 - ECoS	0.188	0.275	0.276	**0.739**
Total	2.892	4.811	7.659	**15.361**

Table 15 – resource component of BMA application values for RY22/23

	BMA application summary - non-resource			
	BMA 22/23 (£m)	BMA 23/24 (£m)	BMA 24/25 (£m)	Total (£m)
Baseline Margin Core	3.413	0.807	1.708	**5.929**
Baseline Margin Core - SMETS1	1.525	0.103	0.103	**1.732**

Baseline Margin Net Evo - CH&N	0.481	0.000	0.000	**0.481**
Baseline Margin Net Evo - Core	0.164	0.000	0.000	**0.164**
Baseline Margin Net Evo - DSMS	0.000	0.000	0.000	**0.000**
Baseline Margin Net Evo - DSP	0.230	0.000	0.000	**0.230**
Baseline Margin Net Evo - PKI	0.093	0.000	0.000	**0.093**
Baseline Margin Net Evo - TAF	0.000	0.000	0.000	**0.000**
Baseline Margin Project 2 - ECoS	0.031	0.000	0.000	**0.031**
Total	5.937	0.911	1.811	**8.659**

Table 16 – non-resource component of BMA application values for RY22/23