Data Communications Company



DCC Price Control RY25/26 – Proposal for Relevant Adjustment to the BM values

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1. Executive Summary

Summary

What is this and why is it important?

The Baseline Margin Adjustment (BMA) mechanism allows DCC to apply for additional Baseline Margin each year to reflect additional work undertaken, or forecast to be undertaken, by DCC.

RY25/26 application

This year, our application reduces the BMA previously awarded by -[redacted] over the period between April 2025 and October 2026. For RY25/26 the adjustment is -£[redacted] and we propose that the adjustment date is 1 April 2027 (therefore returned to customers from RY27/28 charges). This application reflects the changes in DCC activity since 1 April 2025 until the business transfer date, including reduction in resource costs compared to forecast and some projects no longer being required.

As reported elsewhere in this submission, our strong focus on driving cost efficiency has led to a reduction of internal costs of 16% compared to RY24/25, with total cost efficiencies of £[redacted] exceeding our target of £[redacted] These efficiencies included headcount reductions in our DBR business (Project Jupiter) and the closure of our Ruddington office. This has reduced our incurred costs below our forecasts in some areas, leading to a return of margin previously award. This is a clear demonstration that the strong focus on delivering sustainable cost savings for our customers has taken precent over short-term margin for our shareholder.

It is also important to note that the margin reductions previously determined by Ofgem came into effect in April 2025, with Baseline Margin Adjustment (BMA) reduced from [redacted] to [redacted] and Shared Service Charge (SSC) from [redacted] to [redacted]

This application should be reviewed alongside the BMA model which is included as part of this submission. We ran through the methodology applied in the BMA model with Ofgem colleagues on 11 June 2026. The model has also been independently assured by [redacted] with the findings summarised in the Data Assurance Report provided to Ofgem alongside our submission.

Future activities and costs

For RY26/27 our application delivers an adjustment in BMA of [redacted] (as for RY25/26, this reflects an adjustment to the forecast submitted last year). We propose that the adjustment date is 1 April 2027 for all years – therefore recovered from RY27/28 charges.

2. Background and context

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.

A Baseline Margin (BM) was only included in the Licence Award Business Plan (LABP) until September 2025, when the Licence period was expected to end. However, the Licence has been extended to September 2027, with the business operations on which margin is eligible continuing until Business Handover on 2 November 2026. The BM between September 2025 and November 2026 is therefore zero, with the full margin earned on costs over this period, included in our BMA application.

The costs we incur are a key driver of the revenue we recover from customers and ensuring value for money is therefore a critical objective for the business.

2.1. Overview of BMA drivers

DCC has achieved a significant amount over the last reporting year and has a strong pipeline for the forecast years. These activities have led, and will continue to lead, to material changes in our Mandatory Business. We also believe that these activities add significant value to our customers and end consumers for the following reasons:

This year's application is based on the following 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 (AC), IT, internal services (IS) and external services (ES). All materially variant non-resource costs have been justified and explained in the main price control submission. It should be noted 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.
- Our systems allow us to allocate margin across different programmes. For example, where a role has worked on multiple programmes which attract different BMA grounds, we are able to spread the cost, and hence margin, correspondingly. We ran through the methodology applied in the BMA model with Ofgem colleagues on 11 June 2026 where no concerns were raised around this approach.
- This year, the model has also been independently assured. The Data Assurance report is provided alongside the Price Control submission and concluded that governance mechanisms were effective, models and data flows well structured, and no issues are outstanding which represent a material risk of error to the accuracy of data for the RY25/26 submission.

We have assigned the following grounds to our sub-programmes (see Table 1 below).

[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.

Sub-programme	Grounds
Baseline Margin Core	Certainty - Facilitating Additional Relevant Service Capability
	Certainty - People Transformation
	Change to DCC's Supply Chain Structure - Increase in Commercial Activity
	Increase in Customers
	Operational Change - Ops - Service Standard Expectations
	Regulatory Requirements
	Supporting a Changing Business - Support - Resourcing Planning and Management
	Technology Driven Change - Security Driven Change
	Technology Driven Change - Tech Trans – General
	Certainty - SMETS1
Baseline Margin Net Evo - Core **Baseline Margin Net Evo - CH&N (P4)** **Baseline Margin Net Evo – DSP (P5)** **Baseline Margin Net Evo – PKI (P6)** **Baseline Margin Net Evo – FSM[2] (P7)** **Baseline Margin Net Evo – TAF**	Certainty - Network Evolution
Baseline Margin – ECoS (P3)	Certainty – EcoS
Baseline Margin – MHHS	Certainty – MHHS
Baseline Margin – Future Connectivity	Certainty – Future Connectivity
Baseline Margin – vWAN	Certainty – vWAN

Table 1 – Sub-programmes mapped to grounds

- **Non-resource data:** we have included the BMA values for each driver for each activity in this document. Please note that there are several identically named activities in some of the tables below. This is because the tables are grouped by ground rather than cost centre. If two cost centres have an activity with the same name, applied for under the same ground, it will appear as if it is a duplicate – this is not the case and are different transactions.

- **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**: no new additional grounds, that formed part of the original LABP but were neither fully scoped nor costed at the time have been identified.
- **Switching costs**: internal costs for the Central Registration Service are excluded from this application. For that reason, the BMA model does not take account of switching costs. To avoid any form of overlap, and where no clear and eligible ground exists, we have also excluded any baseline costs 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

[2] Formerly known as DSMS

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 for margin 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.
- **Materiality thresholds:** We have applied for margin on certain items of expenditure that are below the £0.150m threshold as the general principle of the BMA is that it is designed to remunerate DCC's expenditure on activities that are within scope of the licence but not funded through the LABP or prior BMA applications. Failing to apply for margin in the first available window puts us at risk of Ofgem rejecting margin in future years because of "missing the window". Given this possibility, our application is entirely appropriate.

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.

3. Proposed Relevant Adjustments to the BM values

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. This year we are applying for the following BM adjustment:

	BMA 25/26 (£m)	BMA 26/27 (£m)	Total (£m)
Baseline Margin Core			
Baseline Margin Project 2: SMETS1			
Baseline Margin Project 3: ECoS			
Baseline Margin Project 4: Net Evo – CH&N			
Baseline Margin Project 5: Net Evo – DSP			
Baseline Margin Project 6: Net Evo – PKI			
Baseline Margin Project 7: Net Evo – FSM			
Baseline Margin: Net Evo – TAF			
Baseline Margin: MHHS			
Baseline Margin: Future Connectivity			
Baseline Margin: vWAN			
Total			
Adjustment date			

Table 2 – Summary of relevant adjustment to the BM values (2026 application) – in 25/26 prices

We are proposing that both years are recovered in the RY27/28 charging statement i.e. an adjustment date of 1 April 2027. The BMA applied for in RY26/27 covers the period from 1 April 2026 to 31 October 2026 i.e. up to the expected Business Transfer Date.

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[3] either through:

- a discrete material change.
- an aggregation of non-material incremental changes.

Consistent with our approach in previous years, we have applied for expenditure below the £0.150m materiality threshold. We consider it is entirely appropriate for DCC to apply for smaller amounts given the potential for them to become larger in future and given the potential for Ofgem to reject applications for DCC missing the application window.

In line with Ofgem's September 2024 decision to reduce the margin rate from 1 April 2025, we have applied a [redacted] margin rate. We have also reduced the shared service charge rate from [redacted] to [redacted] to reflect that same decision.

DCC confirms that this notice is being served on or before 31 July 2026, which is consistent with the requirement to serve the Notice at any time during the month of July ("the Application Window").

The tables in Appendix 1 provide a summary of the BMA for the RY25/26 Relevant Adjustment[4] based on the relevant activities included in this document. Detailed calculations are contained in the accompanying BMA model provided to Ofgem this year as part of the submission.

4. Drivers of Cost Variances

This BMA application is based on variations to DCC's Mandatory Business[5], which either occurred over the course of RY25/26 or are likely to take place in the future. The completion of this application is in accordance with Ofgem's most recent guidance[6], and fulfils the requirements as set out in Appendix 2 of Licence Condition 36.

The BMA mechanism in the Licence has the purpose of recognising 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 when material changes emerge to the scope, timescales and/or volumes of the mandatory business compared to those 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 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 these LABP uncertainties had materialised.

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

[3] As required by Licence Condition 36, Appendix 2, Part A, A3
[4] As required by Licence Condition 36, Appendix 2, Part A, A5(a)
[5] For definition see Paragraph 1.4 of the Licence.
[6] See https://www.ofgem.gov.uk/publications-and-updates/dcc-price-control-guidance-processes-and-procedures-0

efficient spend however is included in the relevant documents of DCC's RY25/26 Price Control submission.[7]

In summary, this year's application includes:

- Fifteen drivers for variances included in previous years' BMA applications where activity has continued into RY25/26 and/or beyond.

For the grounds that continue in this year's application, 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 RY25/26 of our application are based on what DCC has actually spent above Ofgem's previously awarded baselines. Most of these 'certainty' grounds relate to the programmes DCC was awarded after the start of the Licence 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. The table below lists the drivers and Relevant Activities that form part of the RY25/26 BMA application.

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

Change driver	Grounds	Ground first raised
Certainty	Facilitating Additional Relevant Service Capability	RY18/19
	People Transformation	RY17/18
	SMETS1	RY16/17
	ECoS	RY18/19
	Network Evolution	RY19/20
	MHHS	RY20/21
	Future Connectivity	RY24/25
	vWAN	RY24/25
Technology Driven Change	Security Driven Change	RY17/18
	Technology Transformation – General	RY17/18
Supporting a Changing Business	Support - Resourcing Planning and Management	RY17/18
	Increase in Customer Service Expectations	RY17/18
Operational Change	Ops Service Standard Expectations	RY18/19
Change to DCC's Supply Chain structure	Increase in Commercial Activity	RY18/19
Regulatory Requirements	Regulatory requirements	RY23/24

Table 3 – Summary of change drivers and grounds used in RY25/26 BMA application

The following sections set out 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. Where appropriate, we have reapplied for items for which the forecast may have been previously rejected – this is because we consider there are good reasons to apply.

[7] As required by Licence Condition 36, Appendix 2, Part A, A5(c)

4.1. Driver: Certainty - Facilitating Additional Relevant Service Capability

We are applying for a BM adjustment of £[redacted] for this ground. £[redacted] for resource and £[redacted] for non-resource. This is a gross view and is offset by reductions where spend was lower than forecast.

4.1.1. 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[8], 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.[9] As DCC transitioned from a single to a multi-Programme delivery partner, it became apparent that, as per original assumptions in the LABP[10], this approach to testing needed to change in order 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.

RY25/26 was the seventh year of operation for the test labs. In this year's application the test lab related non-resource items are:

GL	Activity	BMA RY25/26 (£m)	BMA RY26/27 (£m)	Total BMA Value (£m)
AC	Test Lab Operator	[redacted]		
	Total			

Table 4 – Certainty - Facilitating Additional Relevant Service Capability- test lab operator BMA (non-resource)

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 TOC with an integrated 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 and 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

[8] Schedule 6.2 of the FSP contracts (Testing and Acceptance)
[9] Enduring Testing Approach Document (ETAD)
[10] Section 8, Risks and Uncertainty

five 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.

4.1.2. Other accommodation

DCC's other accommodation costs (i.e. non-test lab-related) in RY25/26 are predominantly activities funded in the LABP and for which DCC has already been awarded margin.

GL	Activity	BMA RY25/26 (£m)	BMA RY26/27 (£m)	Total BMA Value (£m)
AC	Test Lab Refurbishment	[redacted]		
	Total			

Table 5 – Certainty - Facilitating Additional Relevant Service Capability – accommodation (excl. test lab operator) BMA (non-resource)

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.

- **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.

Added Value to Industry / Energy Consumers

The activities above relate to the costs of maintaining DCC's operational capability at its sites. 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.

4.1.3. 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 RY25/26 (£m)	BMA RY26/27 (£m)	Total BMA Value (£m)
ES	Multimedia content	[redacted]		
IT	Responsible Business Framework Consultancy & Tooling			
ES	CTO Consultancy			
ES	Interoperability Testing			
IT	Posit Software Suite			
ES	Future Connectivity Legal Advice			
	Total			

Table 6 – Certainty - Facilitating Additional Relevant Service Capability – (excl. accommodation) BMA (non-resource)

4.1.4. Basis for application

The basis for the application in RY25/26 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 e.g. the extended use of the SMETS1 migration service and regulatory requirements such as the development of green book treasury business cases.

4.1.5. 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 run 'business as usual' activities that are significantly greater and more complex than envisaged at licence award.

4.2. Driver: Certainty – People Transformation

We are applying for a BM adjustment of £[redacted] for this ground. £[redacted] for resource and £[redacted] for non-resource. This is a gross view and is offset by reductions where spend was lower than forecast.

Historically, DCC has been awarded margin for the People Transformation ground. In RY25/26, we have underspent on certain areas of costs relative to last year's award. In RY26/27, we expect to incur additional costs on HR consultancy and pay and reward. The People team 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 offset by some negative non-resource costs for RY25/26. The full detail on the level of resources that are driving variances under this activity are set out in the associated BMA model. 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 RY25/26 (£m)	BMA RY26/27 (£m)	Total BMA Value (£m)
ES	ICO	[redacted]		
ES	Legal Advice - Employment Law			
ES	Pay and Reward			
ES	People - HR consultancy			
ES	Legal Advice – Employment Law			
	Total			

Table 7 – People transformation BMA (non-resource)

4.2.1. 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.

4.2.2. 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.

4.3. Driver: Certainty - SMETS1

We are applying for a BM adjustment of £[redacted] for non-resource. This is a gross view and is offset by reductions where spend was lower than forecast. The net view of the BM adjustment i.e. gross application less reductions where spend was lower than forecast is -£[redacted]

The SMETS1 programme was formally closed during RY21/22. As part of RY22/23 Business Planning, SMETS1 became part of BAU (business as usual). The BAU suite of operational projects is currently assigned to DCC's Operations function. Despite its formal closure in RY21/22, Ofgem has required that

DCC reports the finalisation of SMETS1 migration operations as a separate activity. DCC will continue to incur SMETS1 costs and will therefore apply for margin for as long as migration continues. Enrolment activities concluded in September 2025.

4.3.1. Non-resource

The non-resource costs applied for under this ground are:

RIGs GL	Activity	BMA RY25/26 (£m)	BMA RY26/27 (£m)	Total BMA Value (£m)
ES	Legal Advice - SMETS1 Charging	[redacted]		
IT	Software			
ES	SMETS1 Capacity Decommissioning			
	Total			

Table 8 – SMETS1 BMA (non-resource)

4.3.2. 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.

4.3.3. 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 when the supplier changes. 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.

4.4. Driver: Certainty - ECoS (Enduring Change of Supplier)

We are applying for a BM adjustment of -£[redacted] for this ground – all of which is associated with non-resource. This is a gross view and is offset by reductions where spend was lower than forecast. The net view of the BM adjustment i.e. gross application less reductions where spend was lower than forecast is -£[redacted]

The objective of the ECoS programme was to build a new ECoS solution and migrate all existing Transitional Change of Supply (TCoS) devices on the DCC network to the new ECoS solution. The ECoS service went live on 28 June 2023 as planned. Migrations completed on 26 January 2024. In RY25/26, DCC successfully delivered the decommissioning of the TCoS solution. The ECoS programme closed in November 2025, with the remaining activity to deliver the installation of new devices via an updated manufacturing pack (containing the new ECoS security certificates) being delivered as part of in-life change. This is on track to be complete in RY26/27. We have not applied for any non-resource costs associated with ECoS this year.

4.4.1. 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[11] 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.

4.4.2. Added Value to Industry and Energy Consumers

The direct benefit from this programme is that it enables 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.

4.5. Driver: Certainty - Network Evolution

We are applying for a BM adjustment of £[redacted] for this ground (gross), all of which is for non-resource. The net view of the BM adjustment i.e. gross application less reductions where spend was lower than forecast is -£[redacted]

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: CH&N (Communications Hubs and Network), DSP (Data Services Provider), PKI-E (Public Key Infrastructure – Enduring), FSM (Future Service Management)[12] and TAF (Test Automation Framework). 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:

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

[12] Previously referred to as DSMS

- The contract for the provision of the DSP service with [redacted] is coming to an end. DCC has now procured 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.
- [redacted] contract for the Smart Metering Key Infrastructure (SMKI) security service, also known as Trusted Service Provider (TSP), has come to an end. The service has been re-platformed and the DBT (design, build, test) phase for this new PKI-E service was completed as per the plan by March 2026.
- 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.

4.5.1. NEP Resource

CH&N

We are applying for a BM adjustment of £[redacted] for this ground. £-[redacted] for resource and £[redacted] for non-resource. This is a net view and reflects reductions where spend was lower than forecast.

In December 2024, the 4G CH&N programme went live as planned – and in April 2025 we began manufacturing 4G hubs at volume. To support this, DCC required a team of highly experienced programme and project managers to plan, co-ordinate, and manage the outputs from each of the supplier delivery partners. In addition to project and programme management, we had a significant role to play in assuring all designs, developing test plans, and working with suppliers to ensure that their work is of the expected level of quality. We built a team of cross functional specialists to be heavily engaged with the delivery partners.

In May 2025, the programme formally closed and handed a small amount of work (and programme budget) to in-life teams to complete during RY25/26 which are now complete. While there are no further activities or costs planned under the current programme phase, two key workstreams are progressing as part of the programme's next steps – Device Manager Re-procurement and 4G and Beyond.

DSP

We are applying for a BM adjustment of £[redacted] for this ground. £[redacted] for resource and £0.038m for non-resource. This is a net view and reflects reductions where spend was lower than forecast.

The original DSP contract was awarded to [redacted] in September 2013 and has been extended until 2028. Following a full competitive procurement we have signed contracts to deliver a new, more disaggregated and higher quality DSP service, in March 2025. In RY25/26 we moved to the mobilisation phase, and in

RY26/27, the programme focuses on progressing the transition to DSP2.0. The new service will go live in 2028, with the decommission of the [redacted] service taking place in 2029.

Delivering on the programme's purpose required significant internal resource and external support. A team of dedicated SMEs covering each of the core functional areas has been assembled to lead on this project. Given the complexity of the procurement and internal resource constraints at the time leading up to the time of commencing the procurement, DCC has sought external legal, commercial and assurance expertise to assist with the DSP procurement.

PKI-E

We are applying for a BM adjustment of £[redacted] for this ground. -£[redacted] for resource and £[redacted] for non-resource. This is a net view and reflects reductions where spend was lower than forecast.

The PKI-E programme was created to competitively re-procure the system which protects the cyber security of DCC's smart metering services, known as the Trusted Service Provider (TSP). The TSP is fundamental service that maintains and generates key certificates such as the root, devices, users.

In RY25/26 DCC successfully rolled out the Enduring program that re-platformed the TSP platform in cloud. The programme completed by March 2026 as per initial plan with some clean up and residual tasks to be performed in early RY26/27.

FSM

We are applying for a BM adjustment of [redacted] for this ground. [redacted] for resource and [redacted] for non-resource. This is a net view and reflects reductions where spend was lower than forecast.

The DCC Service Management System (DSMS) is a critical part of the DCC's infrastructure, used to track and resolve issues across the smart metering network. Customers use DSMS to request DCC services, raise incidents, and access reporting and diagnostics information. The purpose of the FSM programme is to procure and implement a replacement capability for the DSMS.

In RY25/26 the programme focused on completing design, build, testing and implementation readiness. This included progression through pre-integration testing, system integration testing, business acceptance testing and user acceptance testing. FSM successfully transitioned into live service in May 2026.

Remaining activity in RY26/27 is focused on programme closure and governance completion, post-implementation support, final operational handover and transition into BAU service management arrangements. The programme is expected to conclude by end of July 2026.

TAF

We are not applying for any BM adjustment for TAF.

4.5.2. NEP Non resource

In terms of non-resource costs, most of the BMA application for NEP relates to specialist procurement resource, legal assurance of the multi-billion-pound procurements in this space, specialist resource to support with the economic and financial business case modelling and assessment of bids. It also includes legal advice and general assurance for the various procurements. The list of non-resource activities in the RY25/26 BMA are as follows:

GL	Activity	BMA RY25/26 (£m)	BMA RY26/27 (£m)	Total BMA Value (£m)
ES	CH&N CIO Assurance	[redacted]		

GL	Activity	BMA RY25/26 (£m)	BMA RY26/27 (£m)	Total BMA Value (£m)
ES	CH&N Legal Advice	[redacted]		
ES	[redacted] - IPV Go-Live			
ES	[redacted] 4g Assurance			
ES	DSP CIO Assurance			
ES	DSP Programme Assurance			
ES	DSP Legal Advice			
ES	FSM CR5261			
	Total			

Table 9 – NEP BMA (non-resource)

4.5.3. Basis for application

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.

4.5.4. 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.

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. The business cases we have developed provide Government, Ofgem and customers with comprehensive evidence of the benefits to energy customers and consumers from DCC's investment. DESNZ has provided its 'non objection' to those business cases which demonstrates that we have satisfied government's challenging standards on the costs and benefits of new projects.

4.6. Driver: Certainty - MHHS (Market-wide half-hourly settlement)

We are applying for a BM adjustment of [redacted] (gross) – all of which is associated with resource. This is a gross view and is offset by reductions where spend was lower than forecast. The net view of the BM adjustment i.e. gross application less reductions where spend was lower than forecast is [redacted]

Market-wide Half-Hourly Settlement (MHHS) is an Ofgem initiated industry-wide reform designed to enable more accurate and timely settlement, ultimately facilitating the move to a smarter and more flexible energy system (e.g. by enabling greater provision of time of use tariffs).

The programme was closed in RY25/26, with activities now managed as BAU for the remaining migrations. All remaining MHHS capacity uplifts have now been completed.

We have not applied for any non-resource costs associated with MHHS this year.

4.6.1. Basis for application

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,[13] 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.
- **Complexity:** As described above DCC has been asked to undertake additional activities to support the MHHS programme, which have created costs for the organisation. This added complexity has manifested in additional resource and non-resource costs, including costs with our external service providers through change requests and project requests.

4.6.2. 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.

4.7. Driver: Certainty – Future connectivity

We are applying for a BM adjustment of £[redacted] for this ground, all of which is for resource. This is a gross view and is offset by reductions where spend was lower than forecast. The net view of the BM adjustment i.e. gross application less reductions where spend was lower than forecast is £[redacted]

4.7.1. Resource

In RY25/26, resource costs were predominately in the Operations, CTO, and Service Delivery teams. The programme is largely made up of two key areas which are the 4G Future Connectivity (4G FCN) and Long-Range Radio Committed Term (LRRCT). The Future Connectivity programme is tasked with scaling connectivity in the North Region from 5 million to 10.5 million premises by 2035. The purpose of the LRRCT team is to produce a business case to resolve the issue of the Arqiva contract expiry in 2028 and a solution is required to maintain continuity of Service in the North Region.

This 4G FCN project successfully concluded in RY25/26 with handover to DCC operations to support the 4GCH rollout. In RY25/26 the LRRCT team focused on development of the full business case. In RY26/27 the objective is to finalise the business case.

4.7.2. Basis for application

The changes delivered by the future connectivity teams are material in nature. More specifically, the criteria and basis for application for the Future Connectivity Programmes are:

- **Volume, Risk** and **Timelines:** the overall extent of DCC's roles and responsibilities in the implementation of the Future Connectivity 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 resolving the challenges associated with limited capacity of the network.
- **Complexity: T**he conceptual design work for this programme is complex in nature, as it seeks to assess new ways to deliver capacity in the North region. This complexity has manifested in additional resource and non-resource costs.

4.7.3. Added Value to Industry and Energy Consumers

The chosen approach to scale DCC's network in the North Region from 5 million to 10.5 million premises by extending the existing 4G solution from the Central and South regions, delivers the best value for money, being the most economic and efficient option once the current 5 million limit is reached. This will enable Energy Suppliers to install 4G Communication Hubs (CHs) in the North giving improved value over Long-Range Radio (LRR) CHs and provides parity with the Central & South Regions. 4G at scale can deliver up to 30% savings when compared to LRR directly. The Long-Range Radio Committed Term (LRRCT) programme will address the issue that in the North Region the LRR service contract with Arqiva expires in 2028 and will ensure continuity of service to DCC customers.

4.8. Driver: Certainty – vWAN (virtual WAN)

We are applying for a BM adjustment of £[redacted] for this ground. £[redacted] for resource and £[redacted] for non-resource. This is a gross view and is offset by reductions where spend was lower than forecast. The net view of the BM adjustment i.e. gross application less reductions where spend was lower than forecast is £[redacted]

vWAN will provide an alternative to the traditional Smart Metering WAN by allowing premises to connect via their home internet service, enabling a fully capable Smart Meter service experience. This can use used by the c.0.328m homes which cannot currently connect to the DCC network. DESNZ has asked DCC to undertake this activity.

4.8.1. Resource

Resources for this programme are developing the conceptual designs, conducting industry engagement and running commercial and procurement activities. This activity has enabled the programme to begin the design, build and testing phase of the programme.

In RY25/26 DCC completed the activities necessary for a successful soft launch in January 2026. In RY26/27 the soft launch will be completed with handover of the service to BAU operations.

4.8.2. Non resource

The non-resource costs we include in this year's application are:

GL	Activity	BMA RY25/26 (£m)	BMA RY26/27 (£m)	Total BMA Value (£m)
ES	Smart Metering Key infrastructure (SMKI)	[redacted]		
	Total			

Table 10 – vWAN BMA (non-resource)

4.8.3. Basis for application

The changes delivered by the vWAN programme are material in nature. More specifically, the criteria and basis for application for the programmes are:

- **Volume, Risk** and **Timelines:** the overall extent of DCC's roles and responsibilities in the implementation of vWAN 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 and will impact various components of the DCC network.
- **Complexity:** The conceptual design work for this programme is complex in nature, as it seeks to assess new ways to deliver connectivity to those homes which would never have been able to connect to DCC. This complexity has manifested in additional resource and non-resource costs.

4.8.4. Added Value to Industry and Energy Consumers

At present those living in No WAN premises are not able to benefit from the functionality of a smart meter. Subject to consumer consent, the Virtual WAN Service (VWS) will connect these premises via their home internet service, enabling a fully capable Smart Meter service experience. This will enable consumers with No WAN premises who want a smart meter to have one and to start benefiting from functionality of a smart meter, such as Time of Use (ToU) tariffs and accurate billing.

4.9. Driver: Technology Driven Change - Security Driven Change

We are applying for a BM adjustment of £[redacted] for this ground. £[redacted] for resource and £[redacted] for non-resource. This is a gross view and is offset by reductions where spend was lower than forecast.

4.9.1. Resource

The Security function continued to ensure successfully running of the DCC network security in RY25/26, against a volume of service commands and alerts reaching 2.6bn messages a month. Threats to Critical National Infrastructure (CNI), and related national networks such as DCC's systems remain high in the current geopolitical climate. New and sophisticated threat vectors, such as the application of Artificial Intelligence by state and criminal actors, mean it remains crucial we continue to invest in cyber defences that are sufficiently robust and proportional to the levels of threats now and into the future.

During the year we have made meaningful progress to address Post Quantum Computing threats, which are industry leading. We have also overhauled DCC's Crisis Management planning including a new message cascade capability. We have seen continued development of the Security Operation Capability with more visibility of the Total System. A new Competent Independent Organisation contract with cost benefits through the combination of annual assessments and change assessments avoids unnecessary re-procurement activities and increases consistency in reporting.

The full detail on the costs that are driving the variances are set out in the associated BMA model.

4.9.2. Non resource

The non-resource activities we include in this year's application are:

GL	Activity	BMA RY25/26 (£m)	BMA RY26/27 (£m)	Total BMA Value (£m)
ES	[redacted] – Customer Charging Mechanism	[redacted]		
IT	BAU - ITES – Laptops			
IT	Office 365			
ES	Penetration Testing			
AC	TSP Maintenance			
ES	[redacted]			
ES	Penetration Testing			
	Total			

Table 11 – Technology Driven Change - Security Driven Change BMA (non-resource)

4.9.3. 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 stakeholders engaging with the DCC, places a clear requirement for security to be scaled up and enhanced accordingly. We have already added the ECoS service to our event logs and intend to add further services to the SOC in the coming years.
- **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 infrastructure we run.

4.9.4. 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 team 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.

4.10. Driver: Technology Driven Change - Technology Transformation – General

We are applying for a BM adjustment of £[redacted] for this ground. £[redacted] for resource and £[redacted] for non-resource. This is gross view and is offset by reductions where spend was lower than forecast.

4.10.1. Resource

As the technology environment in which DCC operates has changed significantly since licence award, our technical expertise has needed to keep pace. In RY25/26, we maintained core design, assurance, and testing capability while supporting key priorities, including DSP procurement, 4G service improvements, SMETS1 activities (ANSO and DCO), Device Manager optimisation, service continuity, and resolution of production issues (e.g. non-communicating meters and SMETS1 stability). We also continued to deliver mandated obligations such as SEC modification assessment, testing services, and technical assurance across the supply chain.

In RY26/27 we will continue to:

- Support licence and regulatory change
- Deliver new data and consent capabilities
- Maintain testing services efficiently
- Strengthen governance and assurance to reduce rework and demonstrate value for money

The full detail on the costs that are driving the variances are set out in the associated BMA model.

4.10.2. Non resource

The non-resource activities we include in this year's application are:

GL	Activity	BMA RY25/26 (£m)	BMA RY26/27 (£m)	Total BMA Value (£m)
ES	[redacted] - Licence Renewal support	[redacted]		
ES	[redacted] SMETS2 Harmonised Support including P&C			
ES	DCC Boxed			
ES	Engineering Support – [redacted]			
ES	[redacted]			
ES	PIT/SIT Testing			
ES	Zigbee			
IS	Capita MSA - CR4772 Brabazon Fibre Link			
ES	Customer Satisfaction Surveys			
IT	AWS Hosting costs			
IT	Ominiscope MCC IT			
IT	Power BI Licences			
	Total			

Table 12 – Technology Driven Change - Technology Transformation – General BMA (non-resource)

4.10.3. 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 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.

4.10.4. 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.

4.11. Driver: Supporting a Changing Business - Resource Planning and Management

We are applying for a BM adjustment of £[redacted] for this ground. £[redacted] for resource and £[redacted] for non-resource. This is a gross view and is offset by reductions where spend was lower than forecast.

4.11.1. Resource

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, MHHS), 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 activity has included work on Capita separation. Capita currently provides DCC with a number of critical corporate systems and processes, as well as the resources to support their effective operation. Ensuring that these are either transitioned effectively to the successor licensee or replacement services procured where the successor licensee does not have a specific capability will be crucial and a critical success factor of the Business Handover Plan.

The full detail on the costs that are driving variances under this programme are set out in the associated BMA model.

4.11.2. Non resource

The non-resource activities we include in this year's application are:

GL	Activity	BMA RY25/26 (£m)	BMA RY26/27 (£m)	Total BMA Value (£m)
ES	DCC2 HR & Finance Systems Implementation	[redacted]		
ES	Memberships & Accreditations			
ES	Strategy consultancy			
IS	Licence Renewal – Capita Separation			
IS	Printing, stationery, telephones			
AC	Outsourced Workplace Experience			
IS	Workspace Agility			
IT	Penetration Testing			
IT	Printing, stationery, telephones			
ES	[redacted] WAN Audit			
ES	CIO			
ES	Security Risk Tool			
	Total			

Table 13 – Supporting a Changing Business - Resource Planning and Management BMA (non-resource)

4.11.3. Basis for application

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 stakeholders engaging with 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 in excess of £600m requires a large overhaul of the fundamental toolset to perform as our customers and stakeholders require. A significant amount of variant expenditure under this ground comes from the requirements to manage a large volume of change whilst delivering large programmes and upgrading software.

4.11.4. Added Value to Industry and Energy Consumers

DCC continues to evolve as an organisation, prioritising improved planning, data capture and reporting and cost control. In the longer term this will contribute to reducing internal resource requirements and develop superior systems and processes to deliver better outcomes for our customers. 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. Moving activities to the cloud will decrease costs in the longer run, avoiding having to rely on expensive on-site storage, while improving performance and functionality.

4.12. Driver: Supporting a Changing Business - Increase in Customer Service Expectations

We are applying for a BM adjustment of £[redacted] for this ground. £[redacted] for resource and £[redacted] for non-resource. This is a gross view and is offset by reductions where spend was lower than forecast.

4.12.1. Resource

Throughout RY25/26 our operations teams have provided a single point of contact for our customers, supporting with onboarding to the service, incident management through to resolution, and smart meter rollout planning. We are committed to actively engaging with stakeholders and responding appropriately to our customers' needs. Our customer first project, created with the intension of increasing customer satisfaction, using engagement, insights and data has supported a further increase to our Customer Effort score, with a score of 6.2 out of 7, exceeding target.

The full detail on the costs that are driving variances under this ground are set out in the associated BMA model.

4.12.2. Non resource

The non-resource activities we include in this year's application are:

GL	Activity	BMA RY25/26 (£m)	BMA RY26/27 (£m)	Total BMA Value (£m)
ES	[redacted] _ Licence Renewal	[redacted]		
	Total			

Table 14 – Supporting a Changing Business - Increase in Customer Service Expectations BMA (non-resource)

4.12.3. 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:

- **Volume:** as set out in the Corporate Management cost centre, DCC has seen a significant increase in the number of 'Other Users' wishing to benefit from DCC's systems. DCC has had to respond to this through improvements in the onboarding process and charging methodology. Also, the development of the website and customer surveys reflect an increase in the volume of activity DCC now must undertake. These improvements incur costs that DCC should be entitled to recover and earn margin on as part of its mandatory business.
- **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.

4.12.4. Added Value to Industry and Energy Consumers

Through the above work we are improving the way in which customers experience DCC and its systems. Our SEC-supported work with [redacted] on revisions to make the charging methodology more cost reflective, will result in less free-riding and ensure that energy suppliers and DNOs are not inadvertently funding the costs of other parties. This will result in a more efficient allocation of resources from which customers will benefit.

4.13. Driver: Operational Change - Ops Service Standard Expectations

We are applying for a BM adjustment of £[redacted] for this ground. £[redacted] for resource and £[redacted] for non-resource. This is a gross view and is offset by reductions where spend was lower than forecast.

4.13.1. Resource

The BMA applied for under this ground reflects our need to manage and deliver in-life changes, such as Smart Energy Code (SEC) releases, focused on minimising disruption, improving our efficiency and ensuring service provider performance.

In RY25/26 we continued to achieve very high service availability and exceeded our operational targets, with service availability of 99.95%. We saw an additional 3.3m smart meters connected to the network (bringing the total to more than 37m) and with over 99.8% of SMETS1 migrations delivered 'right first time'. Having retained operation of the Switching service, we delivered exceptional performance with 100% availability and switching success rate.

During the year, we achieved major milestones on our key programmes. This included the closure of the final cohort of SMETS1 migrations, reaching 1 million 4G Comms Hubs installed, delivering the successful 'go live' of the new Service Management System, soft launch of the vWAN solution, and completing the Market Half Hourly Settlement (MHHS) and ECoS programmes.

In RY26/27 we will continue to focus on improving cost efficiency, maintaining operational performance and further enhancing customer experience.

The full detail on the costs that are driving the variances are set out in the associated BMA model.

4.13.2. Non resource

The non-resource activities we include in this year's application are:

GL	Activity	BMA RY25/26 (£m)	BMA RY26/27 (£m)	Total BMA Value (£m)
OS	Office Sundry	[redacted]		
ES	Legal Cost Provision			
ES	[redacted] - SECMP176			
IT	ONS Licences			
IT	IT Software			
	Total			

Table 15 – Operational Change - Ops Service Standard Expectations BMA (non-resource)

4.13.3. 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 (DBR) function in 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 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.

4.13.4. 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.

4.14. Driver: Change to DCC's Supply Chain structure - Increase in Commercial Activity

We are applying for a BM adjustment of £[redacted] for this ground. £[redacted] for resource and £[redacted] for non-resource. This is a gross view and is offset by reductions where spend was lower than forecast.

4.14.1. Resource

As DCC has begun to feel the impact of operating at scale, our commercial teams have had to adapt quickly to meet current and future business needs and, following a review of our Commercial Operating model in 2022, an improvement programme has been implemented to ensure the Commercial function is delivering value for money. These teams support DCC to achieve significant cost efficiencies.

Delivery in RY25/26 focused on Licence renewal and ex-ante regulatory readiness, support for major programmes including ANSO, Switching and Parse & Correlate, and completion of significant sourcing activity across both strategic and tactical procurement demand.

Additional accomplishments include identifying synergies through improved tooling, enhancing the Benefits and Savings process (exceeding savings targets by 8%), and effectively rolling out a comprehensive Third-Party Risk Management process aligned to strategic and financial supplier risks. Additionally, we have embedded Environmental, Social, and Governance (ESG) considerations within our contracts, supporting ongoing reductions in gross tCO2e per meter and promoting sustainability.

In RY26/27 we plan to continue to embed our new standards-based Procurement Strategy and Policy and manage tactical and programme procurement activities, as we prepare for supporting the transition to DCC2.

The full detail on the costs that are driving the variances are set out in the associated BMA model.

4.14.2. Non resource

The non-resource activities we include in this year's application are:

GL	Activity	BMA RY25/26 (£m)	BMA RY26/27 (£m)	Total BMA Value (£m)
ES	[redacted]	[redacted]		
IT	eProcurement Tool - [redacted]			
ES	CRM Management Fee			
ES	Conferences, forums, events			
ES	Change Management System			
ES	Service Provider Contract Assurance			
ES	[redacted] Integration Platform			
	Total			

Table 16 – Change to DCC's Supply Chain structure - Increase in Commercial Activity BMA (non-resource)

4.14.3. 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 have delivered our largest re-procurements to date, including DSP2 award, contract signature across four lots and mobilisation activity.
- **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.

We note that eProcurement Tool - [redacted] was rejected last year, but we have applied for it this year. This enterprise procurement platform is necessary to provide a transparent, controlled and auditable platform

for procurement, supplier management and contract lifecycle activities in line with the approved Procurement Strategy.

4.14.4. 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. This activity has delivered significant cost savings as described above.

4.15. Driver: Regulatory Requirements

We are applying for a BM adjustment of £[redacted] for this ground. £[redacted] for resource and £[redacted] for non-resource. This is a gross view and is offset by reductions where spend was lower than forecast.

4.15.1. Resource

Some of the newer regulatory requirements focus on the Licence renewal activity and the move to ex ante price control. During RY25/26, we have worked closely with Ofgem across key the activities required to deliver Licence renewal and transition. This has included defining the future role of DCC, facilitating a smooth transition to a successor licensee, completing and maintaining the data room to support Ofgem's competitive procurement process, and managing work on separation of services alongside related regulatory and governance policy.

Licence renewal activities will continue in RY26/27, to ensure DCC is prepared to meet forward-looking regulatory requirements.

The full detail on the costs that are driving variances under this programme are set out in the associated BMA model.

4.15.2. Non resource

The non-resource activities we include in this year's application are:

GL	Activity	BMA RY25/26 (£m)	BMA RY26/27 (£m)	Total BMA Value (£m)
ES	Licence Renewal – Joint Handover Steering Group	[redacted]		
IS	Corporate Recharges			
	Total			

Table 17 – Regulatory requirements BMA (non-resource)

4.15.3. 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:

- **Volume:** the work required to support Ofgem was not envisaged in the LABP and is material.
- **Complexity:** the work to design a new regulatory framework is extremely complex, with expert advice required (much as Ofgem has done with bringing in consultants for RIIO-3) to deliver a large number of policy papers and analysis.

4.15.4. Added Value to Industry and Energy Consumers

The work DCC has taken forward has included directly engaging with customers on a range of Licence renewal related activities. DCC has added significant value through its input and has greatly increased the likelihood that the regime will be well designed and robust. Ex-ante price control will bring with it enhanced customer engagement on DCC's planned expenditure – allowing customers to scrutinise spend and hold DCC to account.

Appendix 1: BMA application tables

The tables below set out the BMA application broken down by resource and non-resource.

	BMA 25/26 (£m)	BMA 26/27 (£m)	Total (£m)
Baseline Margin Core	[redacted]		
Baseline Margin Project 2 - SMETS1			
Baseline Margin Project 3 - ECoS			
Baseline Margin Project 4 - Net Evo - CH&N			
Baseline Margin Project 5 - DSP			
Baseline Margin Project 6 - Net Evo - PKI			
Baseline Margin Project 7 - Future Service Mgt			
Baseline Margin Net Evo - TAF			
Baseline Margin - MHHS			
Baseline Margin - Future Connectivity			
Baseline Margin Net Evo - vWAN			
Total			

Table 18 – BM application values for RY25/26: Resource (25/26 prices)

	BMA 25/26 (£m)	BMA 26/27 (£m)	Total (£m)
Baseline Margin Core	[redacted]		
Baseline Margin Project 2 - SMETS1			
Baseline Margin Project 3 - ECoS			
Baseline Margin Project 4 - Net Evo - CH&N			
Baseline Margin Project 5 - DSP			
Baseline Margin Project 6 - Net Evo - PKI			
Baseline Margin Project 7 - Future Service Mgt			
Baseline Margin Net Evo - TAF			
Baseline Margin - MHHS			
Baseline Margin - Future Connectivity			
Baseline Margin Net Evo - vWAN			
Total			

Table 19 – BM application values for RY25/26: Non-resource (25/26 prices)

As required by Licence condition A5(aa) the table below sets out this year's BMA application in 13/14 prices. The value of PIBM used here is 1.388 (as per the main RIGs).

	BMA 25/26 (£m)	BMA 26/27 (£m)	Total (£m)
Baseline Margin Core	[redacted]		
Baseline Margin Project 2 - SMETS1			
Baseline Margin Project 3 - ECoS			
Baseline Margin Project 4 - Net Evo - CH&N			
Baseline Margin Project 5 - DSP			
Baseline Margin Project 6 - Net Evo - PKI			
Baseline Margin Project 7 - Future Service Mgt			
Baseline Margin Net Evo - TAF			
Baseline Margin - MHHS			
Baseline Margin - Future Connectivity			
Baseline Margin Net Evo - vWAN			
Total			

Table 20 – BM application values for RY25/26: Total (13/14 prices)

Appendix 2: BMA model map



Figure 1 – BMA model map