Data Communications Company

Baseline Margin Adjustment Application

Price Control RY23/24

Table of Contents

1 Executive Summary....3
2 Drivers of Cost Variances....10
2.1 Driver – Increased Levels of Certainty....11
2.1.1 SMETS1....11
2.1.2 Network Evolution....15
2.1.3 Enduring Change of Supplier (ECoS)....19
2.1.4 Facilitating Additional Relevant Services....21
2.1.4.1 Brabazon House / Test Lab Operator....21
2.1.4.2 Other accommodation....22
2.1.5 Other activities facilitating additional relevant service capability....23
2.1.6 Market-wide half-hourly settlement (MHHS)....24
2.1.7 People Transformation....26
2.2 Driver: Supporting a Changing Business....27
2.2.1 Resource Planning and Management....27
2.2.2 Increase in Customer Service Expectations....29
2.3 Driver: Technology Driven Change....31
2.3.1 Security Driven Change....31
2.3.2 Technology Transformation - General....33
2.4 Driver: Operational Change - Ops Service Standard Expectations....34
2.5 Driver: Change to DCC's Supply Chain structure....35
2.5.1 Increase in Commercial Activity....35
3 Proposed Adjustments to the BMA....38

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.

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. In RY23/24, our total costs fell by 1.7% vs RY22/23 in real terms due to our strong focus on cost management during the year. In addition to inflationary pressure, our costs were impacted by the:

- increased numbers of meters and communications hubs connected to our network, and
- growth across our SMETS programmes in our fundamental service capabilities.

Over RY23/24, DCC has focused on the delivery of a stable, reliable and secure system, while continuing to improve how we operate and ensure we prepare for future requirements.

As part of the 4G communications hubs and network (CH&N) programme, we are delivering a solution that enables suppliers to use up their existing 2G/ 3G meter inventory to connect new customers to smart meters during the sunsetting of these older communications technologies, driving value for money for our customers. In RY23/24, we have designed and built our solution and have now moved into the testing phase. Crucially, we have competitively appointed a service provider to manufacture the new communications hubs, and remain on track for Go Live in 2025, a critical milestone to provide industry with as much time as possible for swap out of the old equipment.

We are continuing with our SMETS1 programme to migrate more than 15 million first generation meters onto the DCC network where they will become fully interoperable between energy suppliers. We have migrated all meters made available by suppliers. In RY23/24, we focussed our efforts on working closely with suppliers to stabilise our platform, complete further migrations and close any completed phases. This service has extended the operation of first-generation metering assets at a much lower cost than the cost of replacing these meters early, all with a service performance of 99.5% "Right First Time".

The Market-wide Half Hourly Settlement (MHHS) programme will mandate energy suppliers to settle all consumers with capable meters on a half-hourly basis, enabling consumers and industry to gather near real-time information on energy consumption and support the uptake of new service propositions, such as Time-of-Use Tariffs. The programme expenditure has delivered changes to our SMETS2 and Switching systems to enable the settlement capability and are currently progressing through testing before starting to support migrations.

Our network is delivering exceptional operational performance, having achieved 100% performance against our smart metering system performance targets in RY23/24 through the Operational Performance Regime (OPR), reflecting our work to build, maintain and operate a stable and secure system.

We challenge ourselves to continually improve performance, and have developed additional Key Performance Indicators (KPIs) with our customers for monthly reporting on customer journeys. We have also invested to respond more quickly to incidents and are able to escalate resolutions to match the needs of an individual customer or stakeholder.

We introduced 3,743 changes to our systems to maintain service reliability across SMETS1 and SMETS2 in 2023/24 and have seen an 85% reduction in Planned Maintenance outages, which means an extra 76 hours of service availability compared to the previous year. There has also been a reduction of 137 hours' downtime related to major incidents when compared to 2022/23.

As part of improving how we work, like any responsible large business – including many networks regulated by Ofgem and Ofwat – we are building an Enterprise PMO capability. In the second half of RY23/24, we created a single EPMO to oversee, assure, support, and report on delivery of DCC's Change Portfolio, merging three existing teams. This will set standards for how we operate under the new regulatory frameworks, by driving consistency in approach along with transparency and robust governance.

In RY23/24, we have continued our commercial transformation by implementing new standard processes and ways of working to improve how we manage and procure contracts. Historically, DCC has taken on new licence obligations one-by-one and procured new service providers as individual pieces into its business over time, with each contract managed for the specific new scope. The shift to an ex-ante price control regime means DCC needs to revise how it procures and manages its portfolio of contracts to adapt to any changes in service requirements during a price control period, as more risk will sit with the DCC to manage costs within a multi-year regulatory period. We are also reviewing and redeveloping our procurement strategy to streamline and modernise how we scope and procure services using a risk-based approach.

We are automating how we work to drive reliability and value for money. For our Test Automation Framework (TAF) programme, we incurred almost £6m on finishing the build of a dedicated test lab facility and our testing solution to enable us automate testing across a greater number of customer devices and at greater volumes. Testing is an integral part of all our programmes, whether delivering recurring Smart Energy Code (SEC) or maintenance releases or developing key new functionalities. By increasing the speed of regression and User Integration Testing, we can drive cost savings for our customers. We will be testing and assuring our TAF during RY24/25, ready for go-live in January 2025.

The security of our systems is always of paramount importance. We have invested in broadening our monitoring capabilities, beyond our own systems and into our supply chain, to identify and respond to cyber threats more readily. In March 2024, our Security Operations Centre (SOC) successfully achieved CREST accreditation, becoming one of the only 10 internal SOCs worldwide to hold this certification. The accreditation recognises the quality of our processes and the team within our SOC.

More meaningful engagement with SEC and REC

Each year, we work closely with the SEC and the Retail Energy Code Company (RECCo) to develop new solutions and roll-out regular releases of updates/ new capability for our systems. To improve our engagement with our customers and code members, we have:

- Developed new engagement and assurance guidelines for SEC and RECCo. SEC members can understand how and when to be involved in solution design, and we are providing more channels for targeted engagement. We have formalised peer to peer engagements and forums with RECCo. DCC have been proactive in using feedback from our customers at the December 23 shareholder meeting to update the Terms of Reference for our Quarterly Finance Forum.
- Improved our transparency with SEC members and SECAS by sharing business cases for review while managing confidential and commercially sensitive information. In addition, we are piloting a project to enable sharing of updates during live procurement to improve customer visibility and transparency.

These initiatives allow greater opportunities for DCC to have informed discussions with our customers, and therefore ensure that our customers' views are taken into consideration when making decisions.

The above initiatives and others have augmented our existing engagement processes and materials used across our programmes. Under the OPR customer engagement measure, we have improved on our results from a score of 2.25 out of 3 in RY22/23 to 2.4 out of 3 in RY23/24. We have also started reporting our customer engagement with RECCo as part of our first year under the Switching Incentive Regime.

Improving data quality

This year's price control submission is a major step forward in addressing Ofgem's feedback on our RY22/23 submission, particularly on our data quality and management. For example, we have developed new data models to better reconcile our regulatory reporting under the price control with the costs and forecasts used for our charging statement and SEC/ REC engagement. These models also improve our allocation of costs

across our service lines and the RIGs cost categories, which improves the accuracy of our RIGS reporting. More information is available in our Data Process and Assurance Report.

The introduction of a new tool for time sheets enables us to better track actual time spent against our programmes and our wider business, such as maintenance and technical refresh activities, enduring operations and any internal initiatives. We will see further benefits from RY24/25 as the process becomes embedded across our staff and we are able to build a reference base for workforce forecasting.

We have also improved our business planning and forecasting approach for our costs and revenues. We have achieved a 96% accuracy of our actual costs compared to our RY23/24 charging statement forecasts (compared to 87% in RY22/23). This means our customers have more certainty over their costs to support their own business planning.

Improving our legacy systems

Many of our systems were designed and built five or even ten years ago. They were conceived for a much narrower range of activities and obligations than we now undertake. Technology solutions continue to evolve at a significant pace. Consequently, legacy technology choices made during the infancy of smart metering provide challenges as we plan how to upgrade or replace these without service downtime for customers. For example, our systems handled circa 115 million messages per month in 2019. By the end of RY23/24, we handled over 2.5 billion messages per month. As several of our legacy systems are reaching the end of their useful lives, we must invest in their replacements.

A key requirement is a new Data Service Provider (DSP) and supporting services to ensure the continuity of the integral systems and services that connect DCC users to devices at their consumers' premises, enabling critical functions, such as prepayment meter top-up and billing/ settlement, to take place. The DSP programme will provide greater resilience, reduced service downtime, ability to cope with increased volumes, and self-serve data access. The current DSP is integral to all our services, In total, we spent £58m in External Costs across all our DSP activities in RY23/24 of which an increase of £18m in cost was driven by the new scope to support our SMETS2 operations and interfaces with our ECoS, MHHS and SMETS1 programmes.

To drive value for money in the DSP going forward, we have disaggregated the service allowing us to be more targeted in what we buy and from whom. Further, we have sought to bring technical expertise in-house, to undertake procurement of this scale and complexity, to minimise our costs. Where the right technical experts have not been available even after several recruitment rounds, we have made use of external temporary support.

We are preparing to replace the security system that underpins our smart metering services, through our Public Key Infrastructure Enduring (PKI-E) programme. In RY 23/24, our focus has been on the Full Business Case for DESNZ on which we have spent £3m, so that we are ready to commence the design and build of the solution from December 2024. We are developing a platform with our stakeholders that can not only work with the existing key infrastructure solutions but also has the capability to be extended. This will enable DCC to evolve the solution in response to emerging cyber threats or customer requirements.

Future regulatory frameworks

During RY23/24, we have started the work to support the transition to a new ex-ante price control regime, engaging collaboratively with Ofgem to support their design decisions. We are also adopting the necessary changes required to operate within an ex-ante regime successfully. As expected, for a transition of this scale, we required expert advice on developing the regulatory and business processes involved in restructuring DCC's services, manage contracts across these services, along with aligning reporting and upskilling our staff for their roles under the new operating environment.

Over RY23/24, we have focused on supporting Ofgem with the range of activities needed to extend the current licence, design the Successor Licence, run an RFP and prepare for Business Handover. We are expecting the complexity and range of activities to increase throughout RY24/25 as we move closer to September 2025 when DCC's current licence period comes to an end and as Ofgem's activities to support the design and transition to the new arrangements increase including the launch of the RFP for the Successor Licence and implementation of ex-ante price control regime.

Cost control initiatives

In RY23/24, we have focused more than ever on cost control across our resourcing, use of consultants and our governance to ensure we drive value for money for customers, and ultimately GB consumers.

Overview of BMA drivers

As set above, 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:

- **Delivery of Smart Metering Implementation Programme (SMIP)**: the activities upon which this application is based are integral to the delivery of SMIP, 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 neither fully scoped or costed, nor included 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 RY23/24 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.

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, 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.

  We have briefed Ofgem that our Financial Planning Tool allows us to report more accurate programme level spend than ever before. In prior years where a colleague has worked on a programme for more than 50% of their time, we have assigned all of their costs to that programme. This means that where we are applying for BMA on their resource costs in the model there is one application row per role – this was the case in RY22/23. Because we are now using our more granular data, we could potentially have more than a dozen entries per role if a colleague had worked on multiple programmes. We have simplified this by assigning the costs of roles to each of the sub-programmes we reported to Ofgem last year (i.e. BMA core, BMA core – SMETS1, BMA Core - Net Evo etc). This has allowed us to show last year's and this year's data in a common format.

  In practice this also means that rather than populating all grounds in columns BV to BX of the BMA model with individual grounds in all cases, we have applied rules to assign grounds to our sub-programmes as 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
Baseline Margin Core - SMETS1	Certainty - SMETS1
• Baseline Margin Net Evo - CH&N • Baseline Margin Net Evo - Core • Baseline Margin Net Evo - DSMS • Baseline Margin Net Evo - DSP • Baseline Margin Net Evo - PKI • Baseline Margin Net Evo - TAF	Certainty - Network Evolution
Baseline Margin Project 2 – EcoS	Certainty - ECoS
Baseline Margin Project 3 – MHHS	Certainty - MHHS

For 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**: 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 neither fully scoped nor costed at the time. We are proposing one new ground this year which relates to the extensive support we have provided to Ofgem and will continue to provide in future years on the multiple activities that form the Licence Renewal programme. None of these activities

were costed in the original LABP, nor were any of the costs of an extension. Because of this, these costs meet the basic definition of a BMA adjustment as they were not fully scoped in the LABP and they have been economically and efficiently incurred following extensive engagement with Ofgem on the activities and our plans to use consultants and contractors.

- **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 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.

  We note that Ofgem rejected all DCC's applications for expenditure items below £150k in RY22/23, citing immateriality. This contradicts Ofgem's own guidance, and the Licence. Therefore, we have applied for margin on certain items of expenditure that are below the £150k 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 ABP 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.
- **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 RY23/24 application. The bold items were rejected in the RY22/23 application.

Drivers / Activities excluded from the RY22/23 BMA
Black Swan Crisis Management
Broader Regulatory Change
Comms Hub Programme mandated GBCS update
DNO Transformation Programme
Emulators
ESME Noise Rise Study
Facilitating and Supporting Future Releases
Increase in Customer Service Expectations
Increased Demand for Customer and Stakeholder Engagement
Investing in Business Process Volume Management
Operational Resilience – Early Life Support

Ops – Moving Beyond ITIL
Ops - Operating Model
Ops Scope of Support
Order Management System
Performance Reporting and Price Control
Production Proving
Ready to Scale
Regulatory Change – REC
Risk and Issue Management
Strategic Procurements
Supplier Relationship Management dashboard
Support - Compliance volume increase

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 proposed BMA adjustment is based on variations to DCC's Mandatory Business[2], which either occurred over the course of RY23/24 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[3], and fulfils the requirements[4] 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 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 these LABP uncertainties had materialised.

As referred to in our introduction, we are fully aware of our customers' concerns about 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 RY23/24 Price Control submission.[5]

In summary, this year's application includes:

- Thirteen drivers for variances included in previous years' BMA applications where activity has continued into RY23/24 and/or beyond.
- There is one new driver this year, reflecting the costs DCC has incurred supporting Ofgem in delivering the multiple activities necessary for:
    - Extension of the current licence
    - Move to an ex-ante Price Control
    - Business Handover

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 RY23/24 of our application are based on what DCC has actually spent above Ofgem's 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

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

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 in respect of mandatory business activities. However, it is **not** DCC's cost forecast, and is a methodology imposed by Ofgem. The table below lists the drivers and Relevant Activities that form part of the RY23/24 BMA.

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

Change driver	Grounds	Ground 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 Customers	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	Licence Renewal	RY23/24

Table 1 – summary of change drivers and grounds used in RY23/24

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. DCC will continue to incur SMETS1 costs and will therefore apply for margin for as long as the requirements of the Transitional Migration Approach Document are in effect – which currently is until 31 December 2024.

The BAU suite of operational projects are currently assigned to DCC's Operations function.

Maximising Migrations.

The Maximising Migrations workstream aims to deliver significant benefits to our customers by addressing the risk that a significant number of SMETS1 meters will not be migrated without further action and regulatory change, resulting in SMETS2 swap outs and delays to active migrations. In RY22/23, the team unblocked 800,000 meters through the Maximising Migrations service with a budget of £1m. This saved industry up to £280m through avoiding the costs of replacing these meters with SMETS2+ meters.

At the time of the original SMETS1 business case, DCC agreed the strategy with DESNZ to focus on the DMCs with the largest volume of meters that could be migrated as quickly as possible. In FY23/24, with a Maximising Migration Budget of £700k, the DCC unblocked approximately 18,000 additional devices though 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 Business Case cost to Swap to SMETS2 this is a benefit to industry of circa £16.7m for this workstream.

The acceleration of these initiatives also provides the opportunity for closure of the Requesting Party contracts. The Contracts for FOC [redacted] and MOC [redacted] cost DCC approximately £[redacted] per month each combined, meaning their closure represents a net saving for DCC (which ultimately benefits our customers) when compared to running all Cohorts until the SMETS1 Backstop (the DESNZ-set date by when Service Users must fulfil their active migration obligations). Had DCC not adopted this approach it would have imposed significant additional costs on customers.

Maximising Migrations initiatives for RY23/24 have been:

- GT01 pt2 (Secure): Migration of the GSME in the Secure Cohort where there are repeated GT01 failures seen upon Migration
- Partial Migration (All Cohorts): Partial Migration of the EMSE & CH where the GSME has repeatedly failed Upgrade
- Deregister Dormant PPMID: Regulatory changes to allow DCC to deregister Dormant PPMID Devices to enable further migrations for a given cohort
- Removal of Certs prior to Migration: Removal of required administrative checks prior to migration to allow for further migration attempts and increased migration success/exclusion
- Consultations to close All SMETS1 Requesting Parties: Regulatory consultations to implement unblocking and Exclusion initiatives with the agreement of industry and DESNZ. This was achieved for the MOC MDS and FOC [redacted] cohorts in FY23/24
- Service Closure of the Requesting Party: Delivery of the plan to track all closure activities with the Requesting Party, ensuring an auditable process to confirm DCC has met its obligations
- Reporting Improvement Project: The DCC's pre-migration and exclusion reporting processes were excessively resource-intensive, manual, and error-prone, preventing accurate reporting on unmanageable installation volumes, leading to potential delays and additional industry costs. The Maximising Migration workstream delivered the reporting improvement project to address these issues. Enhancements were made to the SDMR to ensure it was fit for purpose, eliminated manual processes, and accurately reported exclusions. Since implementation, the burden of manual processes and exclusion reporting has significantly reduced, leading to more accurate, faster, and reliable reporting.
- [redacted] SMSO: FOC [redacted] is a small cohort. Implementation of a Migration solution was previously de-coupled from FOC ([redacted] and FOC ([redacted] in 2020. Under Maximising Migrations in RY23/24, DCC explored solution options for a Migration service for FOC ([redacted] and discussed these matters with the Department for Energy Security and Net Zero (the Department).

These changes require Operational, Architectural and Regulatory SMEs with Domain knowledge to be consistently available to meet DCC's ambitions.

Device Swap Out

Device Swap Out allows for swapping a SMETS1 meter for another SMETS1 meter in certain circumstances. This is a SEC obligation established as part of the SMETS1 mandate. DESNZ confirmed in writing that this service benefits consumers and must be delivered where there is demand. DCC Legal reviewed and agreed that DCC must provide this service to avoid potential damages or liabilities.

The principal energy suppliers responsible for installing meters within the IOC and MOC releases elected not to require a device swap out service. However, one of the principal suppliers within FOC confirmed they need this service. DESNZ indicated that there is a positive business case for DCC providing this service.

The SMETS1 Device Swap Out aimed to fulfil DCC's SEC obligation by delivering the following:

- Detailed Design: Full Change Delivery Model (CDM) and Cross Functional Design Authority (CFDA) wrap to ensure detailed business, system, and operational requirements are met without unduly impacting the existing SMETS1 solution.
- Technical Changes: Loading of prerequisite data, Self Service Interface (SSI) engineering PIN retrieval, SRV processing, International Mobile Subscriber Identity (IMSI) status changes, and reuse of the 6.21 SRV.
- Regulatory Consultations: Formal confirmation of demand for the service, regulatory changes to remove DCC obligation where there is no demand, and SEC Subsidiary Document (SSD) updates to align with the technical/regulatory landscape.
- Solution Testing: B-Stream testing of data load migration and SMETS1 Service Provider (S1SP) solution implementation to confirm DCC has delivered a compliant solution suitable for industry use.
- Hypercare: Post-Go-Live support to industry and DCC operations to ensure the solution meets DCC license obligations and complies with the SEC.

Following a successful proof of concept conducted by the main supplier and approved by CFDA in RY22/23, DCC maintained the project team in RY23/24 to continue progressing the plans to deliver this capability.

However, in July 2023, the Single Service User for whom DCC was delivering this service formally declared they were no longer interested in a Device Swap Out solution. Consequently, DCC halted the project. By this point in FY23/24, DCC had completed the detailed design and PIT testing and was partway through SIT test preparations and building a feature switch. The decision to stop the project required removing code branches from supplier environments to eliminate unwanted device swap out code and revert to the baseline code branch.

In RY23/24, DCC committed £2.9 million on external supplier costs (CR/PRs) for the Device Swap Out project.

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 [redacted] and [redacted] 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.

The costs associated with the Programme include resource and non-resource costs for RY23/24. 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.

The non-resource costs relevant to this ground are:

GL	Activity	BMA RY23/24 (£m)	BMA RY24/25 (£m)	BMA RY25/26 (£m)	Total BMA Value (£m)
ES	Legal Advice – [redacted]	[redacted]			
ES	Migration Testing				
IS	S1MRS & SDMR				
ES	SMETS1 – [redacted]				
ES	SMETS1 - TEST DEVICES ([redacted]				
ES	SMETS1 Device Swap Out				
ES	SMETS1 Maximising Migrations				
ES	SMETS1 Migration				
ES	SMETS1 Migration - [redacted]				
ES	SMETS1 Requesting Party - [redacted]				
ES	SMETS1 Requesting Party - SEC Releases				
ES	SMETS1 Tscheme				

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.

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, DCC Service Management System (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 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 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:** The original DSP contract was signed in 2012 and opportunities to extend this have been exercised by DCC on several occasions. The final opportunity to extend the contract (which has already been exercised in Q1 2024) falls in Q4 2024. Additionally, the current solution is approaching end-of-life and we propose to disaggregate the future solution from the single supplier solution operated today.

  The DSP programme will deliver this disaggregation and is critical in providing a modern, reliable, and stable service for customers offering the very best value for money. Five options for the future DSP service were identified in the Strategic Outline Case submitted to the department in May 2022, as outlined below. The preferred way forward is Option 4

  1. Continue current DSP service with as-is architecture, operated by CGI.
  2. Continue current DSP service with limited, specific changes, operated by CGI.
  3. Phased transformation from current DSP to target DSP architecture, delivered by CGI.
  4. Competitive procurement and development to target DSP architecture, optional re-use of code.
  5. Competitive procurement and development of a new DSP to target architecture with no re-use of code.

  In RY23/24, we begun the commercial procurement activities focusing across three workstreams:

  - Extension of the existing DSP contract to ensure continuity of service through the re-procurement, design, build, test, and implementation. Given the criticality of the DSP, we need to run dual systems until we are certain the new system is operating to specification and all migrations are completed.
  - Re-procurement of DSP Data Systems platform.
  - Procurement of a DSP Systems Integrator (SI) service.

  Our work for RY24/25 is to complete our three procurement workstreams and start the design and build of the new DSP. We plan to move to the test phase by the end of RY25/26.

- **DSMS**: At the beginning of RY23/24, the Department made its "non-objection" to the DSMS business case contingent on Ofgem confirming the procurement process DCC followed was compliant with the rules in the licence. DCC wrote to Ofgem in May 2023 setting out why the process was fully compliant and would deliver an economic and efficient outcome. Ofgem responded in June 2023 stating that DCC's process did not meet licence obligations regarding Fundamental Service Capability (FSC) procurements.

  Respecting Ofgem's judgement, we subsequently stopped the procurement and revisited our plans. In October 2023, DCC committed to go back to the market with a full competitive Request for Proposal (RFP) under a new programme called Future Service Management (FSM).

  Our revised approach was set out in our Strategic Outline Case on 21 December 2023 and received non-objection from the Department on 2 February 2024. DCC held an unrestricted market warming briefing on 9 February 2024 to explain the objectives of the procurement, and that it was product-agnostic. This meant that DCC would not specify any tools for the potential bidders to include in their proposals. It was made clear to all bidders that DCC would ask them to nominate a Service Management tool that they considered would best meet the DCC requirements. Of the 13 who expressed an interest to bid, 10 formally suggested ServiceNow, 1 verbally suggested ServiceNow (but subsequently withdrew) and 2 withdrew before tool recommendation.

  The FSM programme timeline was included within and published through the DSP LC13b Consultation process which concluded on 26 January 2024. On 5 March 2024, having developed our plans in detail, DCC submitted its Outline Business Case (OBC) for FSM to the Department for its consideration.

  At the time of writing, we have assessed five formal bids, with two offering materially better technical and financial value to customers. These have been down-selected, which will enable us to facilitate a robust collaborative approach to develop a quality solution that minimises "surprises" after contract signature. We are now in detailed negotiations with these two bidders ahead of

planned contract award on 2 September 2024. The objective remains to commission the new capability in October 2025.

Costs are forecast to steadily decrease from RY23/24 to RY25/26 by £1.2m. As always, we will continue to seek value for money during the programme's life.

- **CH&N**: In RY23/24, the 4G CH&N programme has been through the design, build, and some of the test phases required to deliver 4G services. 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. During RY23/24, the CH&N programme has successfully completed Product Integration Testing (PIT) and Component Integration Testing (CIT) and has started System Integration Testing (SIT). It remains on track to deliver the initial roll out in December 2024.

  The CH&N programme of work has seen an increase in resources this year and will continue to be a key focus area as we progress through the joint industry implementation plan over the coming year. Despite the 4G CH&N representing an essential element of DCC's future service provision to consumers, Ofgem set a zero-cost baseline for this work in the last price control, which means all costs are categorised as a variance.

- **PKI Enduring Services:** For 2023/24, we have followed the Government's Green Book process and, to date, DESNZ has approved the Strategic Outline Case and Outline Business Case.

  In RY23/24 we spent £3.0m on PKI-E, where the driver of material variance has been our payroll costs incurred against a zero Ofgem baseline. Our material payroll costs of £400k relate to our Service Delivery team, who are responsible for managing the programme through the Green Book process, DCC and service provider coordination, stakeholder forums, and also internal and external governance.

  In 2024/25, work continues on the Full Business Case. Following successful completion of the Request for Information (RFI) procurement stage, DCC is currently reviewing shortlisted bids to down select the most suitable supplier. Our PKI-E programme is on schedule to go-live, as planned, in March 2026.

  Our forecast costs increase as we transition towards delivery of the solution, which involves a wider scope of activities, a new supplier and testing, with ongoing oversight to ensure that our new solution meets our security requirements.

- **Test Automation:** DCC developed the Test Automation Framework (TAF) programme to improve its testing capability and deliver better system solutions at lower cost for customers. The programme will support DCC's commitment to increase the speed of Regression and User Integration Testing (UIT) and so deliver cost savings, while increasing test scope and device model combination coverage. This will be achieved through utilising enhanced, automated testing capabilities, which will provide greater value for money when testing SEC releases, maintenance releases and firmware releases. Testing is an integral part of every change to DCC's network, big or small, and a mandatory part of specific types of changes.

  By automating testing, DCC can run more tests, across more types of devices and therefore better identify plus resolve any issues before a system change is rolled out to a customer. Given the criticality of DCC's system, we must ensure any changes cannot compromise our reliability or security before they released into the production environment.

  We have been developing the TAF since 2021 in response to results from our programme audits and feedback from customers. We submitted our business case to DESNZ (then BEIS) in 2022 setting our proposal for solution components under TAF and development of a test lab, including meters, comms hubs and robotics capability.

  In 2023/24, we have been finalising the design and build of our TAF infrastructure ready for use by any programme, SEC release or in-life programmes. Our costs reflect our team working with our suppliers to complete the projects to schedule and within our governance requirements.

Over the remainder of 2024 we are testing and assuring our TAF with our service providers, and plan to go live in January 2025. 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.

The costs associated with the Network Evolution sub-programmes include resource and non-resource costs for RY23/24 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 the assurance of the programme's design of systems and processes.

In terms of non-resource costs, most of the variance of the programme in RY23/24 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 various procurements, 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 RY23/24 BMA are as follows.

GL	Activity	BMA RY23/24 (£m)	BMA RY24/25 (£m)	BMA RY25/26 (£m)	Total BMA Value (£m)
ES	CH&N - [redacted]	[redacted]			
ES	CH&N - Test Lab Operator Support				
ES	CH&N CIO Assurance				
ES	CH&N Legal Advice				
ES	CH&N Meter Noise Testing				
ES	[redacted] - CHAPS Financing Consultancy				
ES	[redacted] - Test Assurance				
ES	DSMS Resource Support				
ES	FSM Impact Assessments				
ES	[redacted] - Test Assurance				
ES	DSP - [redacted]				
ES	DSP - [redacted]				
ES	DSP Commercial Partner - [redacted]				
ES	DSP Design Partner - [redacted]				
ES	DSP External Support - [redacted]				
ES	DSP Legal Advice				
ES	[redacted] - Centre of Excellence				
ES	[redacted] - Test Assurance				
ES	[redacted] - Test Assurance				
ES	Smart Metering Key Infrastructure (SMKI)				
ES	[redacted] - Test Assurance				
ES	TAF - DUIS Upgrade				
ES	TAF - Test Labs Uplift ([redacted]				
ES	Test Labs Design Assurance				
I	Test Labs Fibre Link				

Table 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.

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[6] 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 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

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

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[7].

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.

The ECoS programme successfully delivered the first objective to build the new ECoS solution and went live on 28th June 2023 as planned. Migrations completed on 26th January 2024.

During 2022, the Department asked DCC to determine options for mitigating a risk associated with objectives 2 & 3. DCC, with support from the Department and SEC parties, proposed a change request to provide a backstop solution to allow customers to continue to install the residual TCoS meters after October 2024. This solution is known as Private Key Transfer (PKT).

DCC has discussed PKT with its customers via SEC Governance and the solution is fully endorsed by our customers. In her letter to DESNZ, the SEC Panel Chair made the implementation of PKT one of the requirements to achieve Live Service Criteria (LSC) acceptance for ECoS Go Live in June 2023.

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 arose from test assurance activities and change and project requests for the relevant service providers. The list of non-resource activities in the RY23/24 BMA are as follows.

GL	Activity	BMA RY23/24 (£m)	BMA RY24/25 (£m)	BMA RY25/26 (£m)	Total BMA Value (£m)
ES	ECoS Security Code Review	[redacted]			
ES	[redacted] - Pen Testing				
ES	[redacted] - SITB Testing for CSS				
ES	PR7446 - [redacted]				
ES	PR7557 - [redacted]				
ES	PR7671 - [redacted]				
ES	[redacted] - Test Assurance				

Table 4

Basis for application

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

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[8] 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 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.

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[9], 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.[10] As DCC transitioned from a single to a multi-Programme delivery partner, it became apparent that, as per original assumptions in the LABP[11], 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.

RY23/24 was the fifth year of operation for the Test Labs. The cost variance in RY23/24 is negative.

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

GL	Activity	BMA RY23/24 (£m)	BMA RY24/25 (£m)	BMA RY25/26 (£m)	Total BMA Value (£m)
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:

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

- **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 / 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 four 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 RY23/24 are predominantly activities funded in the LABP and for which DCC has already been awarded margin.

There are three historically applied for grounds, Ruddington Facilities, Ruddington Rent, and Project Gold which have incurred additional costs relative to the baseline. The SMETS1 – Test Devices item and SMETS2 GEO have historically been part of our cost base but under different table 2 categories.

GL	Activity	BMA RY23/24 (£m)	BMA RY24/25 (£m)	BMA RY25/26 (£m)	Total BMA Value (£m)
AC	Ruddington Facilities	[redacted]			
AC	Ruddington Rent				
AC	Project Gold - Refurbishment Project				
AC	SMETS1 - TEST DEVICES ([redacted]				
AC	SMETS2 – GEO				
AC	TSP Maintenance				

Table 6

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.

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.

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 RY23/24 (£m)	BMA RY24/25 (£m)	BMA RY25/26 (£m)	Total BMA Value (£m)
ES	Communications	[redacted]			
ES	Core Communications Strategy				
ES	Customer Journey MVP				
ES	Media Training				
ES	[redacted] - Centre of Excellence				
ES	[redacted] - Customer Engagement - OPR				
ES	[redacted] - PRINCE2				
AC	Project Gold - Refurbishment Project				
ES	Regulation Consultancy - Design & Implement				
ES	[redacted] Design Work				
ES	[redacted] Engineering Support				
IT	[redacted] Licensing				
ES	[redacted] Systems Engineering				
ES	[redacted] - Capacity Management				
ES	Critical SMETS2 Harmonised Support including P&C				
ES	DCC Boxed				
ES	[redacted] Research				
ES	Memberships & Accreditations				

ES	Meter Scrappage Charge	[redacted]
ES	Networkology - Architecture Service	
ES	[redacted] - Consultant Resource	
ES	[redacted] Consultant Resource	
ES	[redacted] - Test Assurance	
ES	SMETS1 L&G	
ES	SMETS2 - L&G	
ES	Source Code Process Implementation	
ES	[redacted] - Capacity Consultancy	
ES	Training	
ES	Zigbee	
ES	FSM Legal Advice	
ES	Legal Advice - Service Desk	
ES	Legal Advice - [redacted]	
ES	SMETS1 Legal Advice	
ES	SMETS2 Legal Advice	
ES	[redacted] - Capacity Management	
ES	Capacity & Demand Management	
ES	CSPN Scaling & Optimisation	
IT	Omniscope MCC IT	
ES	[redacted] - Demand and Capacity Management	
ES	[redacted] - Network Traffic Management	
ES	SMETS1 Legal Advice	
ES	SMETS2 Legal Advice	

Table 7

Basis for application

The basis for the application in RY23/24 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 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.[12] 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.

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 £90m to implement.[13] MHHS will also increase overall settlement accuracy.

During RY23/24, we mobilised functional and programme teams to follow the standard SEC Release approach for the new MDR Industry role. We have licence obligations to support the System Integration Testing (SIT) and Migration phases of the MHHS Programme. As part of this, we planned the delivery of the additional requirements for the Elexon MHHS Programme.

We completed all our elements of preparation, and the programme entered SIT as planned on 11 March 2024. These phases ensure that the end-to-end MHHS Operating Model works across all systems before any decision is taken to go live, and that DCC is positioned to support the managed migration of suppliers onto the half-hourly settlement arrangements.

The new role was introduced into Production in June 2024 in readiness for the MHHS Go-live, which is planned for April 2025.

Our cost variances for RY23/24 are due to MHHS being a new programme and having baselines of zero. Costs are forecast to increase for RY24/25 in line with DCC's support on contract management, programme, and supplier management, and testing of the new MDR role and the transition to enduring operations.

The focus for RY24/25 is now testing support and Migration (Go-LIVE) planning, which includes Operational readiness. We will ensure that DCC systems are right-sized and able to support the expected increase in information passing through its systems.

We have used our experience over the last seven SEC Releases to scrutinise and reduce the costs being estimated by our Service Providers to ensure the overall delivery is within the estimate envelope of £20m. The ongoing costs have been absorbed within the SEC Release Management Team.

Our incurred costs on which we are applying for margin are set out in full in the accompanying BMA analysis and relate to both resource and non-resource costs. The non-resource costs are set out below:

[12] Ofgem's publication Electricity Retail Market-wide Half-hourly Settlement: Decision and Full Business Case | Ofgem
[13] Elexon's publication https://www.elexon.co.uk/documents/operations-settlement/market-half-hourly-settlement/market-wide-half-hourly-settlement-mhhs-programme-budget/

GL	Activity	BMA RY23/24 (£m)	BMA RY24/25 (£m)	BMA RY25/26 (£m)	Total BMA Value (£m)
ES	CR4672 - [redacted]	[redacted]			
ES	CR4672 - [redacted]				
ES	CR4813 - [redacted]				
ES	PR7651 - [redacted]				
ES	PR7651 - [redacted]				
ES	PR7651 - [redacted]				
ES	[redacted] - Test Assurance				

Table 8

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,[14] 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.

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

Historically, DCC has been awarded margin for the People Transformation ground. In RY23/24, we have underspent on certain areas of costs relative to last year's award. In forecast years, we expect to incur additional costs on HR consultancy relative to a zero baseline. 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.

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

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 RY23/24. 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 RY23/24 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 RY23/24 (£m)	BMA RY24/25 (£m)	BMA RY25/26 (£m)	Total BMA Value (£m)
ES	Pay and Reward				
ES	People - HR consultancy				

Table 9

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, 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 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 RY23/24 (£m)	BMA RY24/25 (£m)	BMA RY25/26 (£m)	Total BMA Value (£m)
IT	DCC Website	[redacted]			
IS	Group recharges				
ES	Market intelligence				
ES	Multimedia content				
IS	Printing, stationery, telephones				
ES	Audit/assurance				
IT	AWS Hosting costs				
ES	Business Accuracy Transformation				
ES	Communications				
ES	DCC Operating Model				
ES	[redacted] Consultant Resource				
ES	EIT Roadmap Consultancy				
ES	Enterprise Change Management				
ES	Enterprise Planning - [redacted]				
ES	Enterprise Planning - [redacted]				
ES	EXL Onedata Support				
ES	Finance Transformation Consultant Resource				
ES	Legal Advice				
ES	Legal Advice - New MSA				
ES	New MSA Legal Advice				
ES	NIST Assessment				
ES	[redacted] - Consultant Resource				
ES	[redacted] - Consultant Resource				
IT	Operational Change Management				
IT	Printing, stationery, telephones				
ES	Supplier Risk Management Consultancy				
ES	Change Management Audit				
ES	Conferences, forums, events				
ES	Printing, stationery, telephones				
ES	Audit/assurance				
ES	Conferences, forums, events				
ES	[redacted] - Consultant Resource				
ES	[redacted] - Consultant Resource				
ES	[redacted] Resource				
ES	Prince2 Business Change Consultancy				

Table 10

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 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 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 our increasing need to host systems on the cloud, and specifically on AWS. The activities that are increasingly relying on the cloud include EDAM, CEDAR, DCSE, Data Storage and Retention, Security Operations Centre and test environments.

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.

2.2.2 Increase in Customers

Over RY23/24, DCC has delivered work to both improve the process by which customers onboard and offboard to and from DCC's systems, as well as how to charge the growing range of customer types more cost effectively.

The main activities on which additional expenditure was incurred in RY23/24 or forecast to be incurred as a result of an increase in customers are as follows:

- Onboarding new customers
- Undertaking work on behalf of SECAS on how to charge "Other Users"

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 RY23/24 (£m)	BMA RY24/25 (£m)	BMA RY25/26 (£m)	Total BMA Value (£m)
ES	[redacted] - Customer Onboarding Support	[redacted]			
ES	Strategy consultancy				
ES	CRM Management Fee				
ES	[redacted] [redacted] - Customer Charging Mechanism				

Table 11

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. 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.

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] [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.

2.3 Licence Renewal

DCC's licence is set to expire in September 2025. Ofgem has been consulting on the optimum model for the DCC for the next period, taking account of lessons learnt from the last decade, the evolution of the energy landscape over that period and stakeholders' future requirements for DCC.

Ofgem aims to complete this design work by the end of 2024. DCC has worked with Ofgem, providing the benefit of its experience and expertise in supporting these activities. Ofgem has asked DCC to provide more detailed input in four specific areas to support the design process. The areas are:

- **Transition to an ex-ante cost model**: Ofgem has taken the decision that DCC will move to an ex-ante price control model. The DCC has worked closely with Ofgem to provide detailed cost information and input into the design process for uncertainty mechanisms, new RIGS templates, customer engagement forums and appeals mechanisms.
- **Handover plan**: the DCC has a licence requirement to produce a Business Handover plan which sets out how it will transition the Authorised Business to a Successor Licensee. DCC developed and consulted on a first draft of the BHP and submitted it to Ofgem for external review. A key aim of this initial plan is to help Ofgem understand the need for and potential length of any licence extension.
- **Capita dependencies**: understanding DCC dependencies on its shareholder Capita and the various contractual relationships that govern the provision of services from Capita to DCC is a vital activity for informing the Business Handover Plan, but also in enabling Ofgem to prepare the RFP for the Successor Licence. The DCC has mapped all the interdependencies and developed a high-level strategy for transitioning corporate services away from Capita
- **Design of "DCC2"**: we have extensively supported Ofgem in the detailed design of DCC2. This has included thinking on ownership, governance, scope, objectives, customer engagement, operating models and potential reuse. In order to support these activities effectively the DCC required certain skill sets and experience that were not readily available in house. It was also unclear how long these resources would be required for and how long any licence extension and therefore procurement and business handover process might take. Consequently, the decision was taken to seek external support, both immediately via a single source procurement, but also via a competitive RFP.

None of the Licence Renewal activity has previously been funded. Consequently, 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 RY23/24 (£m)	BMA RY24/25 (£m)	BMA RY25/26 (£m)	Total BMA Value (£m)
ES	[redacted] - MEAP	[redacted]			
ES	[redacted] - Licence Renewal				
ES	[redacted] - MEAP				

Table 12

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.

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.

2.4 Driver: Technology Driven Change

2.4.1 Security Driven Change

Operating a secure and resilient service is DCC's core obligation, where we also strive to deliver good customer outcomes. Our Security function ensures we can deliver a secure, reliable, and stable service for our customers and recognises the volume and sensitivity of the data that is transmitted which over the course of this Regulatory Year has reached peaks of 1.5 billion requests per month.

Threats to Critical National Infrastructure (CNI), and subsidiary national networks such as DCC's network and its associated services, remain high in the current geopolitical climate. The UK has seen the new application of Artificial Intelligence by both State and Criminal actors, which is increasing the sophistication of attacks. As a result, we continue to invest in cyber defences across our network that are robust and commensurate with the threat we face. As DCC grows and our supply chain footprint also increase, our network becomes increasingly a potential target for State Actors. Thus far our measures have been very effective, but there is no room for complacency as we become more embedded in homes around the country.

Our costs variances primarily relate to two external services providers: 1) to conduct independent security assessments of our service providers, as required under the Smart Energy Code, and 2) to develop a Governance, Risk, and Compliance (GRC) Tool. We have reorganised our teams around our key roles and transitioned our Business Continuity and Disaster Recovery staff back into our function, however there was an overall reduction in payroll costs.

During the year, we achieved full resourcing to provide 24/7 monitoring of the DCC network for security events and are proud to have obtained CREST accreditation for our SOC which demonstrates it operates at a standard recognised world-wide. This makes the DCC only one of 10 internal SOCs worldwide to hold this certification.

The growing scale and complexity of our network paired with our increasingly disaggregated model for service providers has made it even more important that our SOC can correlate events across various supplier systems to prevent coordinated attacks. In RY23/24, we added our ECoS service provider to the event log feeds. This coordination is essential to identify potential threats as early as possible. We anticipate adding the

Trusted Service Provider, the Dual Control Organisation and Data System Provider in RY24/25 to the event monitoring carried out by our SOC.

We forecast payroll increases because our function (as of June 2024) has around 10 vacant positions against our Annual Business Plan, therefore year-on-year increases can be attributed to those vacancies being filled over the remainder of the year and into RY25/26, as we return to planned resourcing levels. These costs are driving our resource application.

The cost variances are comprised of resource and non-resource costs for RY23/24. 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 RY23/24 (£m)	BMA RY24/25 (£m)	BMA RY25/26 (£m)	Total BMA Value (£m)
IT	BAU	[redacted]			
IT	BAU - ITES - Laptops				
IT	BAU - ITES - WAN				
IT	BAU - ITES - WIFI				
IT	Capita TSS - MSA Small Works				
IT	Enterprise IT				
ES	ICO				
OS	Mobile Phones				
IT	Office 365				
IS	Workspace Agility				
ES	Accreditation				
ES	CIO				
ES	Cyber Risk Reporting				
ES	Extenal Red Team Test				
IT	GRC Tool				
IS	LAN Switches				
ES	Legal Advice				
ES	[redacted] - Crisis Management				
ES	Mitre Attack				
ES	Penetration Testing				
ES	PKI-E Consultancy				
ES	[redacted]				
ES	[redacted] - Test Assurance				
ES	Security consultancy				
ES	Social Platform				
ES	Software				
IS	Software				
IT	Software				
IS	Web hosting server - Azure				
IS	Workspace Agility				
ES	X-ways				
ES	[redacted] SEC Releases				

Table 13

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. As explained above, 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.

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.

2.4.2 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 continued with consistent cloud-based design principles and policy compliance to drive consistent use of cloud solutions over the coming years. We plan to facilitate increased use of technologies that 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 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 RY23/24 (£m)	BMA RY24/25 (£m)	BMA RY25/26 (£m)	Total BMA Value (£m)
ES	Technical Advisory Committee	[redacted]			
ES	CTO Testing				
ES	Design Issue Body				
ES	EDMI Engineering Support				
ES	Engineering Support - Chameleon				
ES	[redacted] - Test Assurance				
IT	Qualtrix Replacement				
ES	SMDA Test House				
ES	Other				

Table 14

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.

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.

2.5 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.

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.

A significant focus of our work this year has been to assess the efficacy of DCC's in-life supplier management processes, and to develop and implement improvements. We have sought expert advice in this area to ensure that we are drawing on best practice from multiple sectors. Project Blue and ISM Transformation are two of the more significant pieces of work we have instigated following feedback from customers that in-life change and management of our suppliers is less efficient than desired.

The costs associated with this area include resource and non-resource costs for RY23/24. 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 RY23/24 (£m)	BMA RY24/25 (£m)	BMA RY25/26 (£m)	Total BMA Value (£m)
ES	[redacted] Consultancy Support	[redacted]			
ES	Benchmarking				
ES	[redacted] - Complaints and High Level Escalations				
ES	[redacted] - Customer Engagement Support				
ES	ISM Transformation				
IT	Operations KPI Dashboard				
ES	[redacted] - OPR Design				
ES	Project Blue				
ES	Service Risk Consultancy				

Table 15

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 RY23/24 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.

2.6 Driver: Change to DCC's Supply Chain structure

2.6.1 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 achieves value for money on the services procured and that service providers fully support the DCC and meet wider energy industry needs.

As DCC has begun to feel the impact of operating at scale, the commercial function has 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 best drive value for money.

As part of our business-as-usual operation, across RY23/24, we have expanded the number of fully managed complex contracts providing Fundamental and Relevant Service Capability to 54, executed c.600 contract changes, over 200 sourcing activities, extended the incumbent DSP contract, concluded the first ITT phase

for the new Data system, embedded our new Third Party Risk Management process and implemented a Source to Requisition tool, iValua.

In addition, during RY23/24, our improvement programme has delivered enhanced digital capabilities, a new Benefits and Savings programme with £15m in benefits recorded for RY23/24, and a Material Controls process to promote best practice with regards to the management of contracts and suppliers performance. These improvements will maximise our operational efficiency, and help to ensure that the function is delivering the best outcomes for DCC and its customers.

We have also incurred additional costs to develop and deploy our new commercial pipeline, which will enable a step-change in our ability to manage DCC's contracts and procurement pipeline, ensuring the timely creation of commercial strategies to deliver optimum value for money.

An additional outcome of the improvement programme was a restructure of the function and the creation of 9 new roles. These were necessary to ensure we have the right capability and drive optimal commercial outcomes for DCC.

The commercial function is currently (RY24/25) operating under-capacity as a result of staff exiting following the restructure, and as we continue to seek highly skilled commercial professionals to fill vacancies. Consequently, the RY24/25 expected incurred cost is lower compared to previous and future forecasted years. However, our RY25/26 forecast shows an increase in expected incurred cost, as a result of filling new roles

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.
    - 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.
    - Through the engagement with [redacted] 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.
    - 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 RY23/24 (£m)	BMA RY24/25 (£m)	BMA RY25/26 (£m)	Total BMA Value (£m)
ES	Change Management System	[redacted]			
ES	Commercial Academy				
ES	Commercial Advisory Support				
ES	Commercial Support Partner - Procurement				
ES	Commercial Transformation - [redacted]				
ES	Contract Obligation Extraction				
ES	Contract Redactions Tool				
ES	DCC Commercial Transformation				
ES	eProcurement Tool - eFlow				
IT	eProcurement Tool - iValua				
ES	Flexible Resourcing Model Support				
ES	Forresters Licencing				
ES	In Life Supplier Management				
ES	iValua Support				
ES	Jeopardy Management and Commercial Pipeline				
IT	Procurement - [redacted]				
ES	Responsible Business Framework Consultancy & Tooling				
ES	Service Provider Contract Assurance				
IT	SRM Reporting				
ES	SSM Third Party Risk				
ES	Consultancy Support				
ES	Staff Training				
ES	Consultancy Support				
ES	[redacted] Supply Chain Service				
ES	Network Benchmarking				

Table 16

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 the Commercial team has instructed more than 600 contract changes and delivered 200 sourcing strategies over the course of the year – a significant increase on prior years and driven in part by DCC's desire to reduce the use of direct award contracts.
- **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[15] either through:

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

As set out earlier in this application document, in rejecting any application for margin unless they relate to items of expenditure above £150k, we believe Ofgem has misdirected itself in relation to its interpretation to Appendix 2 of Licence Condition 36. The condition makes clear that incremental but non-material changes are within scope of the BMA. We are therefore applying the correct interpretation of the Licence in this year's application and are making applications relating to expenditure below the £150k materiality threshold Ofgem. We consider it is entirely appropriate for DCC to apply for smaller amounts given the potential for them to become larger in future, given the potential for Ofgem to reject applications for DCC missing the application window.

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 2024, 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:

- **RY23/24** - Adjustment Date of 1 April 2025.
- **RY24/25** - Adjustment Date of 1 April 2026.
- **RY25/26** - Adjustment Date of 1 April 2027.

The tables below provide a summary of the calculations for the RY23/24 Relevant Adjustment[16] 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 RY23/24 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.

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

	BMA application summary – total			
	BMA 23/24 (£m)	**BMA 24/25 (£m)**	**BMA 25/26 (£m)**	**Total (£m)**
Baseline Margin Core				
Baseline Margin Core - SMETS1				
Baseline Margin Net Evo - CH&N				
Baseline Margin Net Evo – Core				
Baseline Margin Net Evo – DSMS				
Baseline Margin Net Evo – DSP				
Baseline Margin Net Evo – PKI				
Baseline Margin Net Evo – TAF				
Baseline Margin Project 2 – EcoS				
Baseline Margin Project 3 – MHHS				
Total				

Table 14 – BMA application values for RY23/24

	BMA application summary – resource			
	BMA 23/24 (£m)	**BMA 24/25 (£m)**	**BMA 25/26 (£m)**	**Total (£m)**
Baseline Margin Core				
Baseline Margin Core - SMETS1				
Baseline Margin Net Evo - CH&N				
Baseline Margin Net Evo – Core				
Baseline Margin Net Evo – DSMS				
Baseline Margin Net Evo – DSP				
Baseline Margin Net Evo – PKI				
Baseline Margin Net Evo – TAF				
Baseline Margin Project 2 – EcoS				
Baseline Margin Project 3 - MHHS				
Total				

Table 15 – resource component of BMA application values for RY23/24

	BMA application summary – non-resource			
	BMA 23/24 (£m)	**BMA 24/25 (£m)**	**BMA 25/26 (£m)**	**Total (£m)**

Baseline Margin Core	[redacted]
Baseline Margin Core - SMETS1	
Baseline Margin Net Evo - CH&N	
Baseline Margin Net Evo – Core	
Baseline Margin Net Evo – DSMS	
Baseline Margin Net Evo – DSP	
Baseline Margin Net Evo – PKI	
Baseline Margin Net Evo – TAF	
Baseline Margin Project 2 – EcoS	
Baseline Margin Project 3 - MHHS	
Total	

Table 16 – non-resource component of BMA application values for RY23/24