

Decision

DCC Review Phase 2 Decision: Centralised Registration Service Arrangements

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This decision document responds to our consultation published in May 2024, which set out our proposed future arrangements for the Centralised Registration Service. This document summarises the responses to that consultation and outlines our policy decision on the proposal we sought views on.

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Executive Summary

The Data Communications Company (DCC) is responsible under the Smart Meter Communication Licence ('SMCL') for establishing and operating a secure national communications network for smart metering in Great Britain. Smart DCC Ltd¹ currently operate the Licence which was granted by the Government in 2013 for 12 years. The Licence was extended by Ofgem² for a further 24 months in September 2024 and will expire in September 2027.³ We are reviewing the regulatory arrangements to be put in place for the Successor Licensee.

In May 2024 we consulted on our first phase of proposals as part of the second (detailed design) phase of our ongoing review of the regulatory arrangements for the Successor Licensee.⁴ This included proposals relating to future governance arrangements, incentivisation, and the provision of the Centralised Registration Service (CRS or 'switching').⁵

This decision sets out our conclusions in relation to the provision of the CRS. Our decisions in relation to the other questions consulted on in May will follow in due course.

Centralised Registration Service ('Switching')

We consulted on two options for the future of the CRS:

- Option 1 proposed transferring the CRS to Retail Energy Code (REC) to be delivered by Retail Energy Code Company (RECCo),
- Option 2 proposed for the CRS to remain within the SMCL and be delivered by Data Communications Company (DCC).

A plurality of respondents expressed preference for Option 1. The key benefits included streamlining governance arrangements, facilitating faster delivery of improvements and changes to the Switching program, and eliciting potentially cost savings. However, some participants noted concerns regarding the transfer of the relevant security arrangements, which DCC is obligated to provide under the SEC, to RECCo. A few also felt that they lacked details of the specific proposals to endorse either option.

Following the consultation, we issued a survey of targeted questions and concerns via REC and Smart Energy Code (SEC) channels. This was produced with input from RECCo and DCC prior to circulating. We also conducted further

¹ A wholly owned subsidiary of Capita Plc

² References to the "Authority", "Ofgem", "we", and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work.

³ Ofgem (2024) Decision on the continuation of the Smart Meter Communication Licence and the rate of Shared Service Charge and Baseline Margin | Ofgem. www.ofgem.gov.uk/decision/decision-continuation-smart-meter-communication-licence-and-rate-shared-service-charge-and-baseline-margin

⁴ Ofgem (2024), DCC Review Phase 2: Governance and Centralised Registration Service arrangements. www.ofgem.gov.uk/consultation/dcc-review-phase-2-governance-and-centralised-registration-service-arrangements

⁵ The CRS is a service that manages electricity and gas registrations to enable consumers to switch energy suppliers more quickly and efficiently

engagement with DCC and RECCo, where we received quantifiable evidence on the benefits of both policy options as well as transitional costs.

From analysing the responses to the survey and engaging with RECCo, SEC Security Sub Committee (SSC) and DCC on these concerns, we developed a greater understanding of the materiality and probability of the risks associated with a potential transfer. We subsequently conducted an analysis of the costs and benefits. This demonstrated that there is not sufficiently robust evidence that the benefits of option 1 will outweigh the risks involved.

Therefore, we have decided to retain responsibility for the CRS with DCC in the Smart Meter Communication Licence (option 2).

Ofgem reserves the right to keep the provision of CRS arrangements under review.

Introduction

- 1.1 This document is a response to our consultation on the proposals for the provision of the Centralised Registration Service (Switching). The consultation was published on 21 May 2024 and closed on 17 July 2024.
- 1.2 DCC is the term used to refer to the holder of the Smart Meter Communication Licence ('the Licence').⁶ It operates under the conditions of its Licence and is regulated by Ofgem. Smart DCC Ltd is the legal entity that holds the Licence, following a competitive tender process that took place in 2013. The Licence will expire in September 2027.
- 1.3 DCC is responsible for establishing and operating a secure national communications network for smart metering in Great Britain, which connects smart meters in people's homes and small businesses. Its key role is to effectively manage large contracts with communication and data service providers to derive value for money and ensure a stable and secure service. We are reviewing the regulatory arrangements for DCC ("DCC review") to put in place a new framework following the expiry of the current Licence and to appoint a Successor Licensee.
- 1.4 As part of this review, we asked for views on whether the Centralised Registration Service (CRS) should continue to be delivered by DCC after the end of the initial licence term (September 2025).
- 1.5 The CRS is a service that aims to enable a reliable, fast and cost-effective service for British consumers to allow them to switch energy suppliers. DCC was instructed by Ofgem to take on responsibilities for the delivery of the new arrangements to support faster, more reliable switching.⁷ These responsibilities, which were set out through consultation with industry and are additional to the scope of DCC's role at the time of the original licence award in 2013, were added to the remit of DCC's Mandatory Business in the Licence in two phases.
- 1.6 Following this, in 2018, we introduced the Retail Energy Code and modified the SMCL to obligate DCC to become a party to RECCo. This resulted in the move of switching governance responsibilities from the SEC to RECCo.⁸

Context and related publications

- 1.7 In 2022, we consulted on the first 'scoping' phase of the DCC review. We subsequently published our phase 1 consultation response in August

⁶ Throughout this decision document, we refer more broadly to "DCC", meaning the holder of the Licence (in its generic sense) and the organisation currently carrying on the Authorised Business, and our references should be interpreted in accordance with the context to which they relate, whether that be the current licensee or the future DCC.

⁷ LC 6.5(d) and LC 15

⁸ Ofgem (2018), Switching Programme: Regulation and Governance.

<https://www.ofgem.gov.uk/consultation/switching-programme-regulation-and-governance-way-forward-and-statutory-consultation-licence-modifications>

2023⁹ in which we decided to adopt a set of key features to form the basis of the new regulatory model:

1. The company Board should be majority stakeholder or independent controlled and include consumer representation;
2. The Core Mandatory Business should be conducted on a not-for-profit basis;
3. Costs of activities deemed to be sufficiently stable should be subject to an upfront approval by Ofgem via an ex-ante price control or a budget-setting process. In addition, we concluded we would retain the following features of the current model;
4. The operational model will remain primarily outsourced with key contracts procured competitively on the market (decisions made by the Board subject to Licence limitations);
5. DCC's Core Mandatory Business will remain funded by charges on users.

1.8 As part of this work, we recognised that in our original consultation in 2018¹⁰ on CRS (or 'switching') we stated it was our intention to keep under review whether the Smart Meter Communications Licence holder should remain the responsible party. We said that the end of the current licence term would provide the opportunity for review.

1.9 In May 2024 we published our consultation on Governance and Switching arrangements.¹¹

1.10 In July 2024, we consulted on whether to seek legislative changes to have more flexibility in the appointment process of the Successor Licensee.¹² We published our conclusions in September 2024.¹³ Also in September 2024 we published our decision to extend the Licence by 24 months to September 2027.¹⁴

⁹ Ofgem (2023) DCC review: Phase 1 Decision(www.ofgem.gov.uk/decision/dcc-review-phase-1-decision)

¹⁰ Ofgem (2018), Switching Programme: Regulation and Governance. <https://www.ofgem.gov.uk/consultation/switching-programme-regulation-and-governance-way-forward-and-statutory-consultation-licence-modifications>

¹¹ Ofgem (2024), DCC Review Phase 2: Governance and Centralised Registration Service arrangements [DCC Review Phase 2: Governance and Centralised Registration Service arrangements](#)

¹² Ofgem (2024), DCC review: Process for appointing the Successor Smart Meter Communication Licence holder. www.ofgem.gov.uk/consultation/dcc-review-process-appointing-successor-smart-meter-communication-licence-holder

¹³ Ofgem (2024), DCC review: Process for appointing the Successor Smart Meter Communication Licence holder - conclusions and next steps. www.ofgem.gov.uk/decision/dcc-review-process-appointing-successor-smart-meter-communication-licence-holder-conclusions-and-next-steps

¹⁴ Ofgem (2024), Decision on the continuation of the Smart Meter Communication Licence. www.ofgem.gov.uk/decision/decision-continuation-smart-meter-communication-licence-and-rate-shared-service-charge-and-baseline-margin

Decision-making stages

1.11 This consultation process has followed the below four key steps

Date	Stage description
21/05/2024	Stage 1: Consultation open
17/07/2024	Stage 2: Consultation closes (awaiting decision), Deadline for responses
02/12/2024	Stage 3: Responses reviewed and published
02/12/2024	Stage 4: Consultation decision/policy statement

Next steps

1.12 Following the publication of this conclusion document, we intend to publish:

- The decisions relating to the governance arrangements.
- The remaining two consultations of Phase 2 of the review:
 - (i) Determination of Allowed Revenue (“price control”)
 - (ii) Future role of DCC, objectives and operational model

1.13 We will give effect to our policy decisions through subsequent drafting of a new Licence and necessary code changes in 2025.

1.14 We will also continue to work with DCC on reviewing its Business Handover Plan, so that a compliant version can effectively support the Licence re-tender and business transfer.

1.15 We have commenced work on the selection of Successor Licensee through market engagement and a webinar in November 2024. We are planning to publish another Prior Information Notice (PIN) in due course and to commence the selection process. This work forms the basis of Phase 3 (appointment process for a Successor Licensee) of our review programme. Subject to any changes, we are working towards the conclusion of Phase 4 (Business Handover to the new Licensee) in 2027.

General feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this report. We’d also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?

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5. Did it make reasoned recommendations?
6. Any further comments

Please send any general feedback comments to DCCregulation@ofgem.gov.uk

Centralised Registration Service (Switching)

We consulted on two options for the future of the Centralised Registration Service (CRS). Option 1 was the potential transfer of the CRS obligations to the Retail Energy Code (REC) to be delivered by the Retail Energy Code Company (RECCo). Option 2 proposed that the CRS obligations would remain within the Smart Meter Communication Licence (SMCL) and be delivered by the Data Communications Company (DCC).

A plurality of respondents expressed preference for Option 1 (10 of 15). The potential key benefits put forward by RECCo included streamlining governance arrangements, facilitating faster delivery of improvements, speeding up the delivery of change, and eliciting potential cost savings. However, some respondents noted concerns regarding the transfer of the relevant security arrangements and ability of RECCo to replicate the same level of security assurance, which DCC is obligated to provide under the SEC. A few respondents also commented that they lacked sufficient details of the specific proposal under Option 1 to endorse either option.

Following the consultation, we decided to issue a survey of targeted questions and concerns to both the RECCo and SEC channels. We also further engaged with DCC and RECCo to obtain further details of the mechanics and quantifiable evidence of both policy options as well as transitional cost estimates.

From analysing the responses to the survey and engaging further with RECCo, SEC Security Sub Committee (SSC) and DCC on the concerns raised and the above points, we developed a greater understanding of the materiality and probability of the risks associated with a potential transfer of the CRS, in this timeframe. We also conducted a costs and benefits analysis of both policy options. This demonstrated that there was insufficient evidence available that the benefits would outweigh the risks involved.

Therefore, we have **decided to retain responsibility for the CRS in the SMCL, whilst supporting a review of CRS Governance and operating model to be undertaken by RECCo and DCC with a view to addressing the performance concerns raised by RECCo and industry stakeholders and delivering required service improvements.**

Questions posed at consultation:

Do you agree with our proposal that it would be appropriate to remove provision of Centralised Registration Service (CRS) from the DCC Licence and transfer the obligation to the Retail Energy Code (REC) to be delivered by Retail Energy Code Company (RECCo)?

What are your views on the considerations we have identified under option 1?

Background

1.16 We identified two potential options in the consultation for the future of the Centralised Registration Service (CRS or 'Switching'):

- Option 1: CRS to be transferred to Retail Energy Code (REC) and delivered by Retail Energy Code Company (RECCo). We did not consider that the creation of a separate licence for the delivery of Switching would be necessary. Instead, we proposed that the obligation for RECCo to provide Switching could be delivered through changes to the REC. For the avoidance of doubt, under this option the full scope of the CRS, including the Central Switching Service (CSS) and Switching Operator, would be transferred. Please see Appendix 1 for an overview of the component parts of the Centralised Registration Service, which under this option would be in scope of a proposed transfer.
- Option 2: CRS to remain within Smart Meter Communication Licence and delivered by DCC. The provision of CRS would remain within DCC's Licence. This would mean that any Successor Licensee would be responsible for delivering the CRS.

1.17 In the consultation, we sought views on whether respondents agreed with our preferred proposal - ie option 1.

1.18 We also sought stakeholder views on the following key considerations of a potential transfer of the CRS:

- Assurance of the CRS under RECCo
- Economies of scale under the current arrangements
- Contract novation and procurement timeline
- Knowledge retention under a potential transfer
- Impacts of transition

Summary of stakeholder responses

1.19 We received 15 responses to the questions on CRS.

1.20 Ten respondents expressed a preference for Option 1 and one respondent expressed a preference for Option 2. Other respondents were either indifferent as to the exact option, or said that they needed further information.

- 1.21 Some respondents noted the challenges posed to the security arrangements of a potential transfer and of ensuring appropriate oversight and assurance mechanisms are in place.
- 1.22 Several respondents asked for a cost-benefit analysis to be conducted. One stakeholder stated that “the process for a technical transition and its potential impacts, including the time, cost and security implications, must include a full cost benefit analysis to enable robust assessment and decision-making, ahead of any approval to proceed.”
- 1.23 Another stakeholder mentioned that they would like to see the technical requirements to deliver a potential transition included in a cost benefit analysis.
- 1.24 One stakeholder mentioned that an impact assessment should be published to industry “which justifies the proposed CRS transfer and details the benefits and associated risk transfers.”
- 1.25 Below we have presented the key feedback in support of each option, irrespective of whether the respondent noted that model as their preference.

Option 1 (transfer responsibility for the CRS to REC and delivered by RECCo) – potential benefits and risks

- 1.26 Key feedback received in support of Option 1 were as follows:
- (i) **Streamline governance arrangements:** By transferring the provision of the CRS to REC, it could potentially make governance and performance management clearer and more effective due to RECCo having direct management over CRS service providers. The assurance of CRS service providers may be improved, as there would be clearer lines of accountability, and it may allow industry to have greater influence over costs.
 - (ii) **Allow DCC to focus on its core functions:** There is a lack of synergies between CRS activities and communication with smart meters. Transferring the CRS could enable DCC to focus on smart metering and enable better alignment with other services that RECCo delivers.
 - (iii) **Less duplicated efforts:** Economies of scale derived from utilising RECCo's existing role, resources and capabilities and the role that REC Code Manager already plays in the management of Switching. This reduced duplication may speed up the resolution of outages and issues and elicit cost savings.

- (iv) **Unified control of data:** RECCo may be able to realise synergies between the delivery of the CRS and other retail market services under RECCo by bringing the control of Switching data under one organisation. This may reduce data fragmentation and potentially improve validation and more efficient use of the services through making greater use of multiple, related data sets. This could be further explored to improve consumer outcomes.
- (v) **Improved communication and incident management:** RECCo already has in place established channels of direct engagement with industry, for example the REC Issues Group, which could be well placed to provide effective communication and management of incidents.
- (vi) **Faster delivery of change:** RECCo could use the Design Authority function embedded within REC Technical services, which could remove additional steps from the current process and reduce layers of complexity due to RECCo not having to work through a third party.

1.27 Respondents identified disadvantages or key reasons against option 1:

- (i) **Potential loss of corporate memory and knowledge:** DCC runs the Switching service as an integrated operation with Smart Metering, which provides considerable resilience in terms of knowledge retention. DCC staff currently working on the Switching service have developed expertise in the area. For instance, technical knowledge to triage incidents and service requests or identifying resolutions to recurring switching incidents. DCC can also look across DSP, ECoS and CRS in resolving issues. Separating systems would remove this benefit and may introduce the need for cross-organisation resolution. There are also concerns that employees may not be able to TUPE over to RECCo due to the blended nature of the team.
- (ii) **Assurance:** REC Performance Assurance Board (PAB) may not provide an equivalent level of assurance. The shift from DCC to REC governance could impact the oversight and assurance mechanisms currently in place, which are crucial to maintaining industry confidence in the reliability of the switching service. Ofgem may need to develop a new performance management regime.
- (iii) **DSP/CRS misalignment:** Interface issues between CRS and DSP may result in them becoming misaligned, resulting in major rectification.
- (iv) **Impact CRS service:** Concerns that there will be a temporary reduction in quality of CRS service standards during a potential transition. DCC may

need to consider a standstill on releases for Switching, the DSP and ECoS and other systems to ensure a stable environment for transfer.

- (v) **Overburden industry:** Concerns over the constrained bandwidth of industry parties to manage too much change at any given time, particularly with other industry programmes such as MHHS which are delivering in the same time limit. Respondents were keen that there is not an overlap between Market Half-Hourly Settlement (MHHS) programme and Code Reform.
- (vi) **Challenging timeline:** Concerns about the timelines being challenging to meet and resulting in unnecessary costs incurred by industry. Several respondents did not consider that the transfer date of September 2025 would be achievable due to the technical, service and security complexities of a transfer.

- 1.28 A significant risk raised with option 1 was security concerns. This included the concern that a transition could weaken the operational security mechanisms that protect end-to-end smart metering services. DCC has established and maintained an Information Security Management System underpinned by a set of security controls supported by security policies and procedures to mitigate security risk. DCC also delivers 24/7 protective monitoring, quarantine, anomaly detection and reporting supported by the Technical Operations Centre (TOC) and Security operations Centre (SOC) and delivers a Private Key Infrastructure (PKI) solution to protect the integrity of the data provided to CSS and passed through to the Smart Metering Data Services Provider (DSP) and Enduring Change of Supplier (ECoS) Provider. It fulfils the roles of Registration Authority (RA), Policy Authority (PA), Issuing Authority (IA) and Certificate Authority (CA), where it provides certificates between the CRS and DSP/ECoS.
- 1.29 RECCo would need to develop capabilities to take on all these roles and agree how reporting under the SEC would work. Industry testing would also need to be undertaken, as all current certificates would need to be revoked and RECCo would need to issue new certificates. RECCo would also need to procure a Competent Independent Organisation (CIO) audit and put in place robust security controls to prevent contamination of data passing through the Gamma network. Due to the degree of uncertainty surrounding the detailed security policies, standards and obligations that need to be met, there is a concern that the level of security assurance may be impacted. Additional work could be needed to maintain this security standard. This creates a material risk that additional costs may be incurred by industry.

- 1.30 Several respondents highlighted the need for any potential transition of services and technology to be risk free and ensure that ongoing operational activities are not affected.
- 1.31 Respondents were also concerned about the potential costs of a transition and reiterated that a cost-benefit analysis must be conducted to understand potential impacts, including how the cost savings under option 1 compared with the cost of the transition and the additional costs that may need to be borne by RECCo.

Option 2 (CRS remains within DCC Licence) – potential benefits and risks

1.32 Key arguments received in support of option 2 were as follows:

- (i) **Economies of scale:** DCC provides an additional wraparound service management function which is associated with the three main switching contracts. For example, DCC is responsible for the switching service desk, switching portal, and the switching service management system which provides service management capabilities covering end-to-end switching arrangements. It is also responsible for the switching change advisory board, which governs the implementation of operational change by switching data service providers. By DCC retaining responsibility for the CRS, these service provider contracts would continue to benefit from economies of scale arising from DCC's role in providing smart metering.
- (ii) **DCC is already driving cost reductions:** Through re-procurement and operational efficiencies, DCC delivered the service for RY 23/24 at 11.3% below budget and have identified potential improvements to yield further cost reductions.
- (iii) **Streamlined governance and accountability:** Several changes have been proposed for the future regulatory framework for the next DCC Licensee, such as an ex-ante price control process and an independent Board with industry experience. This aims to enhance industry's influence over the service.
- (iv) **Platform for the future:** The co-delivery of Switching and Smart Metering services provides a stable platform for the future evolution of the CRS, including the potential move to next day switching.

1.33 Respondents identified disadvantages or key reasons against option 2:

- (i) **Slow delivery of change:** DCC as the Switching Operator represents an additional management and triage layer, which results in the current speed of delivering change to be slow. In this process, DCC consolidates impact

assessments from the CRS Service Providers before passing them into the change process managed by the REC Code Manager Technical Services. This slow delivery of change causes difficulty and frustration for end users.

- (ii) **Issues with incident management and communication:** There have been incidents where switches have failed and delays in understanding the root cause and development of solutions to the incidents. This has led to industry feeling ill-informed, affecting what they could do to help their customers.
- (iii) **Issues with address management:** There have been issues with missing messages and registrations for extended periods of time, with concerns raised that DCC is not incentivised to drive improvements in this area.

Our view

- 1.34 Having considered all the responses, we recognised the concerns that were raised surrounding option 1, to transfer responsibility of the CRS to REC, and engaged with RECCo and DCC to understand the materiality and probability of potential risks and mitigation approaches.
- 1.35 We subsequently decided to seek further feedback by issuing a survey via REC and SEC channels. The survey was prepared considering feedback from both parties prior to circulating. The purpose was to receive views on the relevant security arrangements if provision for the CRS was transferred to the REC, as well as the potential benefits under each policy option. Please see the Appendix 2 for the list of questions outlined in the survey and summary of responses.
- 1.36 Through further engagement with DCC and RECCo, we also received quantifiable evidence on the benefits of both policy options as well as transitional costs.
- 1.37 From analysing responses to the survey, substantial concerns were raised about the ability to replicate the technical and security expertise which is gained from wider exposure to systems design and maintenance. Some respondents raised concerns about incurring additional unnecessary costs in order to mitigate against the security risks identified under option 1. Others stated that further performance assurance would be needed to ensure a robust framework if responsibility for the CRS was transferred to REC and delivered by RECCo. Further feedback stated that greater clarity would be needed on the proposed mitigation approaches to determine whether they were sufficient.

- 1.38 We subsequently engaged with RECCo and SEC Security Sub Committee (SSC) on this matter to understand and discuss how RECCo would meet the SEC security obligations and assurance under option 1.
- 1.39 This did not resolve our concerns surrounding the level of uncertainty of the existing security model and elements which could be taken on by RECCo under option 1, as well as the elements and security provisions which may need to be developed in terms of RECCo's own monitoring and reporting capability within the timescale envisaged. RECCo would need to further engage with the SSC during a potential transition to understand the existing security measures, develop robust security controls to prevent contamination of data passing through the Gamma network, and create processes to ensure independent assurance, anomaly detection and reporting, certificate management resources and processes. RECCo would need to procure a Competent Independent Organization audit and understand the existing specification to replicate monitoring and reporting provided currently under DCC's TOC and SOC. RECCo would also need to agree to a mechanism for ongoing engagement with SSC. There is a potentially high risk that this activity may result in a reduced level of security obligations and assurance as well as additional costs incurred by industry.
- 1.40 There are additional concerns surrounding potential minor changes in requirements and contracts with IT programmes which could generate disproportionate costs if provision for the CRS was transferred to REC during the proposed timescale, particularly if any internal processes or systems would require adjustments even if the technical solution does not.

Cost-Benefit Analysis

- 1.41 As aforementioned, some respondents to our consultation stated that these policy options necessitated a full cost-benefit analysis. Please see Table 2.1 for a full summary of the benefits and risks considered for both policy options.
- 1.42 Following receipt of further qualitative and quantitative information provided by RECCo, DCC and SSC, responses to our consultation and subsequent survey as well as engagement with RECCo, SSC and DCC, we have carried out a qualitative and where possible, quantitative cost-benefit analysis. The aim was to ensure relevant evidence was provided, and the benefits, costs and risks of the policies included estimates of monetised benefits for two policy areas are outlined. Please see Appendix 3 for a detailed cost-benefit analysis, which demonstrates the quantitative figures provided by both DCC and RECCo.

- 1.43 As detailed in the cost-benefit analysis, there are benefits with retaining responsibility for the CRS in the DCC License than transferring to REC, due to the service benefitting from DCC's established capabilities and economies of scale arising from DCC's role in providing smart services. Under the current arrangements, DCC runs a blended team via managing both Smart and Switching services, which results in the system benefiting from DCC's established capabilities in areas such as security management, 24/7 operation and major incident pre-emption and management. DCC employees can look across the Data Service Provider, Enduring Change of Supplier and CRS to resolve address management issues. From engagement with DCC, we are concerned that due to the blended nature of the team, employees may not be able to TUPE over to RECCo. Whilst RECCo would be able to build these capabilities, there is considerable resilience of the service being retained within the DCC License in terms of knowledge retention and economies of scale.
- 1.44 Furthermore, through further engagement with both parties and SEC as well as responses to the survey and consultation, we have been able to identify the materiality and probability of the risks associated with a transfer of the provision of the CRS to RECCo. From analysing the responses to the survey, there were concerns raised surrounding a potential transfer regarding retaining the knowledge and expertise provided under the current arrangements, the requisite security requirements and assurance may not be met to a satisfactory level as required under the SEC and Licence, and timelines to transfer responsibility for the CRS be delivered by RECCo by September 2025 could be challenging to meet, which may incur disproportionate costs from both parties.
- 1.45 We have engaged with RECCo and SSC regarding these concerns, where we understand that RECCo would need to build adequate security controls and assurance into the SEC and REC codes and develop robust working practices and arrangements between RECCo and the SSC. However, it would only be during any potential transition period that RECCo would gain detailed insight into the level of security obligations, standards, controls, alerts, monitoring, and expertise required as well as develop robust working practices and arrangements with SSC. This uncertainty increases the likelihood and probability of these risks materialising, which could subsequently result in potentially disproportionate costs being incurred by industry.
- 1.46 We have therefore not received robust evidence that the potential cost savings outweigh the risks identified and have concluded that it would be more

proportionate to retain responsibility for the CRS in the DCC Licence. A more detailed assessment of our decision can be found in the Appendix.

- 1.47 Ofgem reserves the right to keep the provision of CRS arrangements under review.

Table 2.1: Summary of Potential Benefits and Risks of Policy Options

Option	Benefits	Key considerations (Risks, assumptions, distributional impacts)
<p>Option 1: Transfer responsibility of the CRS to REC to be delivered by RECCo.</p>	<ul style="list-style-type: none"> • Streamlining of governance and decision making to remove the existing issues caused by DCC's dual role as a Licensed entity and service provider under the REC • Economies of scale derived from utilising RECCo's existing role, resources and capabilities and the role that REC Code Manager already plays in the management of Switching • Faster delivery of change due to direct engagement between REC Code Manager and Switching Service Providers • Improved communication between RECCo as the Switching Operator and industry parties by using the existing communications mechanisms • Improved management of incidents 	<ul style="list-style-type: none"> • There is a risk that the scale, complexity and operational impact of transfer will disrupt BAU RECCo and the continued operation of the CRS • There is a risk of potential disruption to the DCC resource on their priority focus of delivering Smart metering • The current contracts with the CRS service providers do not adequately reflect the SLAs for the service under the REC • There is a reduced level of security assurance and obligations placed under RECCo for the delivery of the CRS • There is a risk that DCC employees do not wish to transfer to RECCo or are not applicable to TUPE, if this is the most appropriate strategy for transition of services • There is a risk that the cost of operating the CRS increases because of the transfer to RECCo • REC Performance Assurance Board (PAB) may not provide an equivalent level of assurance and additional assurance may be necessary

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	<ul style="list-style-type: none"> • Improved address quality because of a focus on collaborative working with industry 	<ul style="list-style-type: none"> • The timeline for Licence and code changes is challenging and may overrun
<p>Option 2: Retain responsibility of the CRS in the DCC Licence</p>	<ul style="list-style-type: none"> • Retention of economies of scale – e.g. DCC help desk currently provides services for both Switching and smart metering • Retention of corporate memory and expertise • No changes to the governance framework which holds service providers to account • Continuation of existing strategy to achieve cost savings and operational efficiencies • Coordination and prioritisation of change to the switching and smart metering services that impacts the DSP • Provision of security integrated with smart metering • A single platform for future evolution 	<ul style="list-style-type: none"> • Concerns remain regarding unclear lines of authority for Switching • Concerns regarding DCC's communication during Switching Incidents • Improvements to address quality not being realised

Performance of CRS

- 1.48 As identified in the consultation, we are aware that issues with the performance of the CRS under the current arrangements have been raised by stakeholders.
- 1.49 We understand from stakeholder feedback that there have been issues with communication and incident management, particularly delays in understanding the root cause and development of solutions to these incidents. This has resulted in suppliers feeling ill informed thereby affecting what they could do to help their customers, and unable to meet their Licence requirements. They have also incurred resource, time, and financial costs.
- 1.50 Through their business case, RECCo identified ways in which the service desk can be used more effectively in incident management such as improvements in quality of self-serve information to resolve incidents alongside improvements in communication via changes in the Switching Operators Forum and improved reporting to industry. We consider that these improvements can be implemented under the current arrangements and will facilitate a collaborative approach between DCC and RECCo to devise a plan to achieve this.
- 1.51 We also understand from stakeholder feedback that there has been missing registrations since Go Live of the CRS, which has led to erroneous, delayed, or failed switches. In their business case, RECCo states that it has identified improvements to be implemented within this area such as via running data cleanse sprints and utilising the service provider's resources. We again consider that these improvements must be implemented by DCC. Ofgem can facilitate collaborative working between both parties to achieve this.
- 1.52 Under the current arrangements, the REC governs the provision of the CRS by DCC, particularly monitoring the performance of the switching arrangements. The service levels are defined in the REC and any performance charges DCC incurs due to missing these service levels, as assured by the REC Performance Assurance Board (PAB), are levied directly by RECCo and reflected through DCC reducing its charges to RECCo in a monthly invoice. These charges levied against DCC are then reported to Ofgem the following regulatory year under the Switching Incentive Regime and are subsequently considered as part of the Price Control determination process. We require the REC PAB to consider how to suitably incentivise DCC, specifically in terms of implementing efficiencies within the service provider contracts, which RECCo has stated it has identified within its business case, as well as the highlighted areas of improvements in communications, incident management and the address management process. It

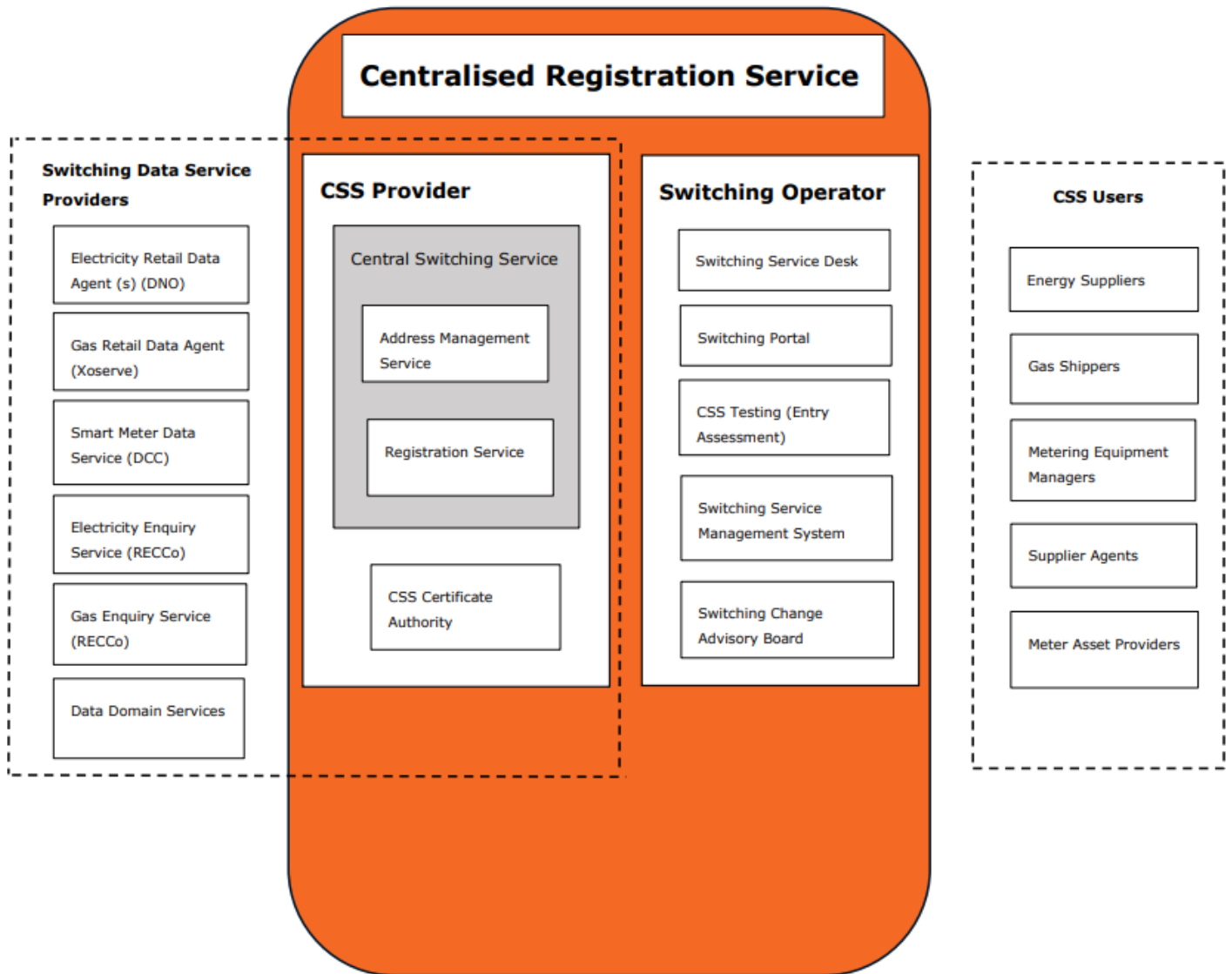
is the responsibility of both parties to undertake to improve these processes within this year. Ofgem will support a review of CRS Governance and operating model to be undertaken by RECCo and DCC with a view to addressing these concerns.

- 1.53 As part of the Switching Incentive Regime, DCC's customer engagement performance is measured in delivering its switching roles via a survey. We also encourage REC parties to provide constructive feedback on additional areas where efficiencies can be realised by DCC within their survey responses and for DCC to address these adequately, under its licence obligations.
- 1.54 Overall, we require DCC to work towards and report back to us on realising efficiencies in contracts, and implementing improvements in communications, incident management and address management, as identified by RECCo in their business case. We consider that these efficiencies by DCC requires collaborative working between DCC and RECCo to devise a forward-looking plan to achieve improvements in the services and report back to Ofgem, which supports the facilitation of this plan.
- 1.55 Ofgem reserves the right to keep the provision of CRS arrangements under review. As mentioned, we will support a review of CRS Governance and operating model to be undertaken by RECCo and DCC with a view to addressing the performance concerns raised by RECCo and industry stakeholders, and delivering required service improvements.

Appendices

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Appendix 1 – Overview of the Centralised Registration Service (CRS)



This figure shows the structure of the Centralised Registration Service. At its core we have Switching Operator, consisting of Switching Service Desk, Switching Portal, CSS Testing, Switching Service Management System, Switching Change Advisory Board, and CSS Provider, which provides Central Switching Service. This service consists of Address Management Service and Registration Service. The CSS Provider also provides the CSS Certificate Authority. The Switching Data Service Providers include the Electricity Retail Data Agent, Gas Retail Data Agent (Xoserve), Smart Meter Data Service (DCC), Electricity Enquiry Service (RECCo), Gas Enquiry Service (RECCo) and Data Domain Services. CSS Users include the Energy Suppliers, Gas Shippers, Metering Equipment Managers, Supplier Agents and Meter Asset Providers.

Appendix 2 – Industry Survey

- A2.1 We published a survey to industry via REC and SEC Channels to understand the views of stakeholders regarding the Switching Programme being transferred from DCC to RECCo. We did this to consider stakeholder feedback on some of the implications of the transfer which has informed the final decision. In total, we received 16 responses from REC and SEC parties which included a range of energy suppliers. The survey was representative of all key players who would be potentially impacted from Licence changes. The questionnaire covered their assessments of material change for industry systems and processes, timelines if Switching was transferred to RECCo, cost estimates of changes to IT systems, re-testing and security risks, and mitigation approaches. There was also a multiple-choice section to understand stakeholders' views regarding the extent to which they agree with the benefits of both retaining and transferring Switching from DCC. The survey concluded with their views on several risks we identified.
- A2.2 Most of the respondents said that the Switching service would not require redesign and material change would not be required for industry systems and processes. Most of the respondents either strongly agreed or agreed that there would be benefits realised if Switching were transferred to RECCo. There were neutral views on the benefits surrounding the retention of corporate memory and expertise and whether there would be improved address quality. Some respondents expressed concerns with the level of risk associated with the Switching programme with a view that the transfer could potentially add costs to the RECCo management. A small proportion of respondents did not have enough information to comment.
- A2.3 Additional comments included that consideration should be given to making the novation process as simple as possible to minimise the impact on participants. Stakeholders expressed that the costs of any transfer must be managed carefully as customer affordability is vital and they would like to avoid the industry incurring unnecessary costs associated with changes that do not directly improve the consumer experience. There were clear stated benefits on moving responsibility for the Switching service from DCC to RECCo, but care must be taken to not over-burden market participants with another round of extensive industry change immediately following Market-wide Half Hourly Settlements.

Summary of Questions

Q1. Name of Organisation

Q2. Based on initial work by DCC and RECCo, DCC's contracts with service providers performing key roles in the provision of Switching, such as Systems Integrator, Registration Services and Service Management, ought to be capable of novation and the overall technical solution of the Switching service, including interfaces to other systems, would not require redesign. Hence industry systems and service functions would be able to interact with the Switching service as now and material change would not be required for industry systems and processes.

Do you agree with our assessment? Please comment on any implications for your organisation.

Q3. Based on initial work by DCC and RECCo, we are assuming that RECCo may need to fulfil the security roles for Switching. This would require RECCo to establish these security capabilities to provide anomaly detection and reporting to the SEC, for DCC to revoke all relevant certificates and for RECCo to re-issue. This would involve some industry testing.

Do you agree with our assessment? Please comment on any implications for your organisation.

Q4. Based on your experience of previous industry transition programmes, please provide an overall view of the timescale required for the change, if that decision is taken.

Q5. For any change which you have identified under Q2 above, please provide indicative estimates for:

Changes to your IT systems to enable industry to access RECCo environments and associated re-testing

Industry costs to stand up relevant environments and test systems through RECCo and associated re-testing

Q6. For any change which you have identified under Q3 above, please provide indicative estimates for:

Changes to your IT systems to enable industry to access RECCo environments and associated re-testing.

Industry costs to stand up relevant environments and test systems through RECCo

Q7. Following our assessment of consultation responses, we seek your views regarding the extent to which you agree with the benefits which may be realised if Switching was transferred to the REC.

Note, the survey asked respondents to select 'strongly disagree', 'disagree', 'neutral', 'agree', 'strongly agree' or 'don't know/ can't comments' in relation to the following benefits:

1. Streamlining of governance and decision making to remove the existing issues caused by DCC's dual role as a Licensed entity and service provider under the REC
2. Economies of scale derived from utilising RECCo's existing role, resources and capabilities and the role that the REC Code Manager already plays in the management of Switching

3. Faster delivery of change due to direct engagement between REC Code Manager and Switching Service Providers
4. Improved communication between RECCo as the Switching Operator and industry parties by using the existing communications mechanisms, including the Operational Account Managers
5. Improved management of incidents
6. Improved address quality as a result of a focus on collaborative working with industry to address long-standing problems with address data quality which lead to erroneous or failed switches

Q8. Are there any additional benefits you believe could be realised if responsibility for Switching were removed from the DCC Licence and transferred to the REC?

Q9. We are also keen to seek your views regarding the extent to which you agree with the benefits of retaining Switching in the Smart Meter Communication Licence?

Note, the survey asked respondents to select 'strongly disagree', 'disagree', 'neutral', 'agree', 'strongly agree' or 'don't know/ can't comments' in relation to the following benefits:

1. Retention of economies of scale – e.g. DCC help desk currently provides services for both Switching and smart metering services
2. Retention of corporate memory and expertise
3. No changes to the governance framework which holds service providers to account
4. Continuation of existing strategy to achieve cost savings and operational efficiencies
5. Coordination and prioritisation of change to the switching and smart metering services that impacts the DSP
6. Provision of security integrated with smart metering
7. A single platform for future evolution

Q10. Are there any additional benefits you believe could be realised if responsibility for Switching were retained in the Smart Meter Communication Licence?

Security

We understand from the responses to our consultation that there are concerns/risks surrounding how smart metering security risks will be mitigated and how security assurance will be met if Switching was transferred from the DCC Licence to REC. This is due to DCC being subject to SEC security obligations under the Smart Meter Communications Licence and hence providing the key security roles of: Registration Authority (RA), Policy Authority (PA), Issuing Authority (IA) and Certificate Authority (CA), with associated functionality such as anomaly detection. Following further engagement with RECCo and DCC, RECCo has proposed the following mitigation approaches. We are keen to receive your views on whether this approach addresses any concerns you may have on security.

Q11. **Concern/Risk:** The CRS provisions using the Switching Infrastructure Key Infrastructure (SWIKI) are aligned to Public Key Infrastructure (PKI) policies and standards that apply to smart metering under the Smart Energy code (SEC) to ensure a common standard across the interface between CRS and DCC Total System. This ensures authenticity, integrity, confidentiality, and non-repudiation of data transfer. Concerns were raised over how RECCo would be obligated to build this capability as Registration

Authority, Policy Authority, Issuing Authority and Certificate Authority and issue new certificates to all industry parties.

RECCo Approach: RECCo believes that the CSS certification policy and standards may not need to align to the DSP/ECoS policies due to CSS not falling under Critical National Infrastructure. RECCo further believes that the SEC should not need to have control over the SWIKI keys if these keys are governed under the REC in a comparable way that the Data Integration Platform (DIP) has its own mechanism of security certificates for sharing data with DSP and ECOS.

Please let us know your views on the risk and if RECCo's suggested approach sufficiently addresses this risk. Please also include any other suggestions to manage the risk.

Q12. Concern/Risk: There is an obligation under the DCC Licence Schedule 5 Annex 2 that requires a Competent Independent Organisation ("the CIO") to undertake security assessments during the design and build and test of the Licensee's systems. This provides security assurance of all new components, including CRS, that are developed. Concerns were raised over how RECCo could retain this functionality and meet this obligation.

RECCo Approach: RECCo believes that this requirement can be placed under the Code or within the CSS Service Definition if needed. However, RECCo wants to confirm if this requirement also applies for live operations.

Please let us know your views on the risk and if RECCo's suggested approach sufficiently addresses this risk. Please also include any other suggestions to manage the risk.

Q14. Concern/Risk: DCC is subject to SEC security provisions that are not replicated under the REC. Concerns have therefore been raised that this could reduce the level of security assurance for Switching.

RECCo Approach: The obligations for RECCo to be subject to SEC security provisions could be replicated under the REC or RECCo could be given responsibilities under the SEC in a comparable way that RECCo has responsibilities under the BSC through Data Integration Platform (DIP) obligations.

Please let us know your views on the risk and if RECCo's suggested approach sufficiently addresses this risk. Please also include any other suggestions to manage the risk.

Q15. Concern/Risk: The DCC Security and Technical Operations Centre (SOC and TOC) provides Anomaly Detection to detect any anomalies affecting the integrity of data in the transfer of registration data and alerts would alerts the DCC Security Team if any anomalies are identified. These functions provide further service such as prioritisation to avoid issues being quarantine, hence enabling switching times to be met and protective monitoring, aiming to identify and pre-empt potential issues.

RECCo Approach: RECCo currently does not have comprehensive information about the role that the TOC undertakes, however it believes that it will build it into its Service Delivery Model and ensure that it is not lost once the requirements are understood in more detail.

Please let us know your views on the risk and if RECCo's suggested approach sufficiently addresses this risk. Please also include any other suggestions to manage the risk.

Q15. Do you have any additional comments?

Appendix 3 – Cost-Benefit Analysis

- A3.1 This detailed cost-benefit analysis is intended to provide stakeholders with a concise view of our decision to retain responsibility for the Centralised Registration Service (CRS) otherwise known as Switching,¹⁵ with the Data Communications Company licensed and operated by Smart DCC Ltd. (DCC). The analysis includes considering of our objectives, evidence analysis and expected impacts following our recent consultation.
- A3.2 In the consultation, we set out that our proposal would be to transfer responsibility for the CRS to REC to be delivered by RECCo. We identified in the consultation the potential benefits of removing the CRS from the DCC Licence through potentially streamlining governance and decision-making of delivery of the CRS, providing operational improvements and efficiencies, and eliciting potential cost savings for participants and consumers.
- A3.3 Having analysed the responses, we issued a survey via REC and SEC channels, where we considered the benefits and risks raised by the consultation and met with the DCC and RECCo on several occasions after which we could quantify the benefits, as evidenced below. At the same time, we developed a greater understanding of the risks associated with a potential transfer.
- A3.4 Concerns were raised by respondents around the specific capabilities which RECCo would need to build to undertake DCC's role within the TOC and SOC in terms of 24/7 service support and anomaly detection and reporting. DCC also undertakes the roles of Registration Authority (RA), Policy Authority (PA), Issuing Authority (IA) and Certificate Authority (CA), where it provides certificates between the CRS and DSP and ECoS. RECCo would therefore need to develop capabilities to take on all these roles and agree how reporting under the Smart Energy Code (SEC) would work. Industry testing would need to be undertaken, as all current certificates would need to be revoked and RECCo would need to issue new certificates.
- A3.5 In addition, RECCo would need to procure a Competent Independent Organisation (CIO) audit and put in place robust security controls to prevent contamination of data passing through the Gamma network. Due to the confidential nature of the security requirements of the CRS, it would only be during a potential transition period that RECCo would be able to work with the

¹⁵ In this analysis, the term 'Switching' refers to the core switching services provided by DCC to achieve the design designated by the Authority and set out within the REC, as provided in accordance with LC 17 and a direction from the Authority in accordance with LC 15.

SSC to define the security policies and standards and understand the full set of security obligations that need to be met as well as the security architecture and processes which need to be built. This may result in timelines to transfer responsibility for the CRS to RECCo by September 2025 being challenging to meet.

- A3.6 These risks could result in unnecessary additional costs being incurred by industry and subsequently consumers. Whilst RECCo identified that some of these risks could be mitigated, we have not received evidence that other risks can be mitigated to a standard that gives us reasonable assurance, which is further explained below. From reviewing the risks collectively, it is now clear that the risks of transferring Switching to RECCo outweighs the benefits of any such transfer.
- A3.7 Our proposal follows Ofgem's strategic priority to establishing an efficient, fair, and flexible energy system, with the objective of enabling consumer-focus flexibility.

Analysis of Monetised Benefits

Option 1: Centralised Registration Service to be transferred to REC and delivered by RECCo

- A3.8 The consultation stage set out our analysis of the benefits which would be realised if responsibility for the CRS were transferred to RECCo for both industry and consumers.
- A3.9 Following on from this consultation, we received quantifiable estimates of the cost savings to industry from RECCo over a 10-year period, which has been summarised below.
- A3.10 Under option 1, RECCo identified six sources of direct, tangible cost savings to industry:
- a) Savings arising from RECCo rather than DCC resource the Switching Operator
 - b) The removal of DCC's margin
 - c) The reduced cost of change
 - d) The reduced cost of address management
 - e) The reduction of CRS Service Provider costs
 - f) More effective use of the Switching Service Desk in incident management

A3.11 RECCo based its calculations from DCC’s budgeted resources for FY 2024/25 and assumptions underlying the number of FTE eligible to transfer to RECCo, the number of staff that RECCo would require as well as DCC’s per staff cost for the CRS.

A3.12 RECCo has also stated that there are four sources of intangible benefits to industry which can be achieved. These areas are detailed below:

- a) The removal of waste from the change process
- b) Improvements in the address management process to deliver benefits to industry and consumers
- c) Improvements in communications and ways of working with industry
- d) Improvements in incident management

Cost Savings Estimated by RECCo

Benefit	Contribution over 10-year period (£m)
RECCo resourcing of the Switching Operator to remove roles and efforts in DCC which are duplicated by those in RECCo and REC Code Manager	£14m
Removal of margin	£3m
Reduced cost of change through removing DCC’s internal change approval process	£6.3m
Reduced cost of address management	£1.1m
Removal of duplication of CRS service providers by identifying inefficiencies and duplication of effort between Service Providers and Switching Operator and negotiating changes	£5.4m
Remove the need for the Service Desk to triage incidents and identify as well as implement improvements to the process	£1.3m
Removal of waste from the change process by replacing DCC’s role in the change delivery process and expanding the role of the REC Code Manager	£8m

Improvements in address quality process to address issues that lead to erroneous, delayed, or failed switches in consultation with industry	£7.5m
Improved communications and ways of working with industry	£5m
Improved communications in incident management	£5m
Total over a 10-year period (£m)	c£55m

Option 2: Centralised Registration Service to remain within DCC Licence and delivered by DCC

A3.13 Under Option 2, DCC stated that cost reductions are already being driven through re-procurement and operational efficiencies. DCC has completed a re-forecasting round and identified variations from its original budget submission to RECCo. DCC stated the key variations are removal of contingency, confirmation of headcount reductions, confirmation of cost reductions through contract re-procurements and some cost increases for activities relating to Market Half-Hourly Settlement (MHHS).

A3.14 For RY23/24, DCC submitted evidence that the service was delivered at a cost of £13.5m, which was below budget and has identified potential improvements to yield an overall cost reduction of 23% below the 24/25 budget by end of 28/29. This would yield a cost reduction of £15.4m overall, as set out below:

RECCo Submission – November 2023

Area	24/25	25/26	26/27	27/28	28/29
Service Management	4.60	4.90	5.20	5.30	5.30
Hosting/2 nd line support	9.50	10.00	10.50	11.10	11.40
Total	14.40	15.20	16.10	16.80	17.10

Reforecast Summary

Area	24/25	25/26	26/27	27/28	28/29
Service Management	3.30	3.20	3.10	3.00	3.10

Hosting/2 nd line support	9.90	9.70	9.70	9.50	9.60
Total	13.20	12.90	12.80	12.40	12.60

Analysis of Non-Monetised Benefits

Option 1: Centralised Registration Service to be transferred to REC and delivered by RECCo

- A3.15 Stakeholder feedback raised concerns regarding unclear lines of authority for the CRS. Under option 1, there was an identified benefit that governance and decision-making could be streamlined, allowing industry to have greater influence on the delivery of the service.
- A3.16 Currently, the roles and responsibilities of the Switching service providers are set out in the REC and all service providers are subject to performance assurance, which is provided through a defined Performance Assurance Framework (PAF) and overseen by the REC Performance Assurance Board (PAB). Any performance charges DCC incurs due to missed service level agreements, as assured by PAB, are levied directly by RECCo and reflected through DCC reducing its charges to RECCo in a monthly invoice. These charges levied against DCC are then reported to Ofgem the following regulatory year and are subsequently considered as part of the Price Control determination process. As a result, RECCo is limited in its powers to hold both DCC and service providers to account for any poor performance since the scope of what the REC PAB can enforce is restricted to DCC's margin as stated in the Licence¹⁶. Under option 1, RECCo would therefore be able to directly hold service providers to account for their performance via both the PAB and its contract management process.
- A3.17 Under option 1, RECCo believes that unified control of data will make it possible to make greater use of multiple, related data sets for wider consumer benefit. For example, the efficient, and combined, data management and utilisation of the CRS in combination with the Electricity and Gas Enquiry Services (EES and GES) will provide a centralised viewpoint and ability to create a central Registration Model which they believe will avoid data fragmentation and improve validation and efficient use of the services.

¹⁶ LC 36 (Determination of the Licensee's Allowed Revenue)

- A3.18 Under Option 1, we also expect RECCo would be able to speed up the delivery of change. In particular, RECCo stated it could use the Design Authority function embedded within REC Technical services, which could remove additional steps from the current process and reduce layers of complexity due to RECCo not having to work through a third party. This could be important if the level of change requests increases due to increased switching volumes.
- A3.19 Under existing arrangements, we are aware that concerns have been raised by industry regarding operational incidents such as missing messages and registrations remaining unresolved for extended periods of time. We expect under Option 1 that RECCo would be well placed to provide effective communication and management of incidents due to the organisation already having in place established channels of direct engagement with industry, such as the REC Issues Group.

Option 2: Centralised Registration Service to remain within DCC Licence and delivered by DCC

- A3.20 Under the current arrangements, DCC runs the Switching service as an integrated operation with Smart Metering, which enables 24/7 support and provides considerable resilience in terms of knowledge retention. DCC employees working on the Switching service have developed expertise in the area; for instance, technical knowledge to triage incidents and service requests or identifying resolutions to recurring switching incidents, which are important for the efficient operation of services.
- A3.21 DCC currently provides the CRS as part of its Licence obligations and is also required to become a party to and comply with the REC. Under option 1, if the CRS is no longer provided for in the DCC Licence, then by extension, the potential remedies in the event of the licensee's non-compliance or potential breach of the conditions relating to the CRS would no longer be available. An assurance regime may therefore need to be set up by Ofgem to provide an equivalent level of incentivisation.
- A3.22 Switching is a complex suite of systems and processes, which includes security management, 24/7 operation and major incident pre-emption. There is a degree of benefit deriving from DCC's established capabilities in these areas, as DCC has developed an Information Security System underpinned by a set of security controls supported by security policies and procedures to mitigate security risk. It delivers 24/7 protective monitoring, quarantine, anomaly detection and

reporting supported by the TOC and SOC and delivers a Private Key Infrastructure (PKI) solution to protect the integrity of the data provided to CSS and passed through to the Smart Metering Data Services Provider (DSP) and Enduring Change of Supplier (ECoS) Provider. It undertakes the roles of Registration Authority (RA), Policy Authority (PA), Issuing Authority (IA) and Certificate Authority (CA), where it provides certificates between the CRS and DSP/ECoS. These capabilities would need to be developed by RECCo.

A3.23 In addition, DCC provides an additional wraparound service management function which is associated with the three main switching contracts. For example, DCC is responsible for the switching service desk, switching portal, and the switching service management system which provides service management capabilities covering end-to-end switching arrangements. It is also responsible for the switching change advisory board, which governs the implementation of operational change by switching data service providers. By DCC retaining responsibility for the CRS, these service provider contracts will continue to benefit from economies of scale arising from DCC’s role in providing smart metering.

A3.24 There may be future a policy objective to implement next day switching. Therefore, DCC’s knowledge and the provision of a stable platform is important for the future evolution of the Switching Programme.

Analysis of Costs

Option 1: Transfer responsibility for the CRS to REC to be delivered by RECCo

<p>Estimated transitional costs</p> <p>These costs would cover:</p> <ul style="list-style-type: none"> ○ Staff in both parties to deliver the transition ○ Management of TUPE ○ Agree transition contracts and novation terms with service providers to novate contracts ○ Transfer of security strategy, knowledge, tools, processes, and certificate responsibilities ○ Feasibility and high-level design plan 	<p>Estimated cost from RECCo: £1.5m</p> <p>Estimated cost from DCC: £2.6m</p> <p>Total ≥ £4.1m</p> <p>NB. DCC has provided a core estimate of £2.661m for transition costs. DCC notes this cost may vary during the detailed design process - the cost may decrease, or, importantly, the cost could breach</p>
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<ul style="list-style-type: none"> ○ Transfer of service knowledge, tools, and process transfer ○ Transfer of address management knowledge, tools, and process transfer ○ Decommissioning unneeded IT, processes, role changes etc ○ Establish contract with RECCo for interface ○ RECCo establish capabilities for the service and security ○ Monitor industry adherence and test with industry ○ RECCo issue new certificates to all industry parties 	<p>the £2.661m estimate if any new substantive technical work is identified.</p>
<p>Estimated costs of investment for Security Operation Centre (SOC) and Technical Operation Centre (TOC) from DCC</p> <p>This works under the assumption that there is a provider who already has core SOC and TOC capabilities which can be built upon. The estimate includes:</p> <ul style="list-style-type: none"> • Establishing physical environment for the team • Establishing virtual environment for the team • Acquire and establish tooling • Establish use cases, processes, any tool tailoring, etc. • Train team • Test and rollout processes and tools 	<p>£0.5m</p>

NB. Does not include running costs for SOC and TOC	
Total Net Costs	≥£4.74m

Option 2: Centralised Registration Service to remain within DCC Licence and be delivered by DCC

A3.25 Whilst both parties have made extensive efforts to make sure these costs are understood and accurate as far as possible, there is concern that certain costs have been difficult to obtain and verify due to the complexity of the technical, service and security transition. Once these complexities are understood with greater certainty, there is a concern that costs will increase and be untenable and more work will be needed to build RECCo capabilities, particularly in security and service support.

A3.26 Under Option 2, the above concern would be mitigated and these transitional costs as well as any potential additional costs would not be incurred by industry.

Risks

Option 1: Centralised Registration Service to be transferred to REC and delivered by RECCo

Risks and Mitigation Approaches

A3.27 Through analysing the responses to the consultation, respondents highlighted concerns surrounding how the smart metering security risks will be mitigated, given that the security requirements and assurance required for the CRS are placed on the DCC under the SEC, and there is risk this could be reduced if responsibility for the CRS was transferred to REC. Concerns were also raised around the complexity and time implications of developing, testing and implementing any new interfaces between the REC and the DCC and the risk that the CRS system migration would directly conflict with MHHS programme activities.

A3.28 Following this, we met on several occasions with DCC and RECCo to gain further details on the security obligations and issued a survey via REC and SEC Channels, which considered feedback from RECCo and DCC prior to circulating. The survey covered estimates of timelines if responsibility for the CRS was transferred to RECCo, cost estimates of changes to IT systems and re-testing, security risks and mitigation approaches if the CRS was transferred to RECCo as well as the benefits of both options.

- A3.29 From analysing responses to the survey, concerns were raised about RECCo’s capability to deliver these security requirements, particularly the technical and security expertise which is gained from wider exposure to systems design and maintenance. Some respondents raised concerns about the risk of incurring additional unnecessary costs because of RECCo’s proposed mitigation approaches, whilst others stated that further performance assurance would be needed to ensure a robust framework if responsibility for the CRS was transferred to REC and delivered by RECCo. Further feedback stated that greater clarity would be needed on the proposed mitigation approaches to determine whether they were sufficient.
- A3.30 As part of the survey, we also asked respondents about the extent to which they agree with the benefits under each option. From analysing the responses, only 47% of respondents either strongly agreed or agreed with the benefits being realised if responsibility for the CRS was transferred from DCC to RECCo. In comparison, 42% of respondents either strongly agreed or agreed with the benefits being realized if responsibility for the CRS was retained within the DCC License.
- A3.31 We subsequently engaged with RECCo and SSC on this matter to discuss the materiality and probability of risks, concerning how RECCo would meet the SEC security obligations under option 1 and ensure there is not a reduced level of security assurance.
- A3.32 For reference, DCC is subject to SEC security obligations under the Smart Meter Communications Licence (SMCL) and hence provides the key security roles of Registration Authority, Policy Authority, Issuing Authority, and Certificate Authority, with associated functionality such as anomaly detection. RECCo would need to develop capabilities to take on all these roles. It is likely that all current certificates will need to be revoked and RECCo would need to issue new certificates.
- A3.33 We have remaining concerns surrounding the level of uncertainty of the existing security model and elements which could be inherited by RECCo under option 1 as well as the elements which may need to be developed in terms of RECCo’s own monitoring and reporting capability. RECCo would need to further engage with the SSC during a potential transition to understand the existing security measures, develop robust security controls to prevent contamination of data passing through the Gamma network, and create processes to ensure independent assurance, anomaly detection and reporting, certificate management resources and processes. RECCo would need to procure a

Competent Independent Organization audit and understand the existing specification to replicate monitoring and reporting provided currently under DCC's TOC and SOC. They would also need to agree to a mechanism for ongoing engagement with SSC. There is a risk associated with this activity that it may result in a reduced level of security obligations and assurance as well as additional costs incurred by industry.

- A3.34 We have identified a range of additional risks of a potential transfer in addition to the above security risks, including the risk of a transfer disrupting the continued operation of the CRS as well as DCC resource on their focus of delivering Smart Metering. A range of mitigation approaches have been proposed to address these risks such as RECCo carrying out change impact assessments across cultural, operational and delivery impacts and engaging early with DCC to ensure an orderly transition. However, stakeholder feedback from the consultation raised concerns regarding the complexity and time implications of option 1, with subsequent responses to the survey estimating between six months to two years for a potential transfer to take place. There is therefore considerable risk that any timeline could overrun once further information is provided on the relevant capabilities which RECCo would need to build as well as industry testing and changes needed to be undertaken to test new security and service environments.
- A3.35 Under option 1, if the CRS is no longer provided for in the DCC Licence, then by extension, the potential remedies in the event of the licensee's non-compliance or potential breach of the conditions relating to the CRS will no longer be available. Instead, governance of Switching would need to be catered for within the REC and the REC arrangements. Whilst this assurance can be provided to an extent through the REC PAB, stakeholder feedback from our consultation raised concerns that this will not provide an equivalent level of incentivisation, and a new performance assurance regime would need to be set up.
- A3.36 We recognise that DCC staff currently working on the Switching service have developed expertise in the area and are concerned about the likely risk that DCC staff may not wish to transfer to RECCo or may not be applicable to TUPE. As a result, the experience and technical knowledge developed by DCC staff, which is important for the efficient operation of the services, may not be retained.
- A3.37 DCC also has several major procurements in progress currently and may need to consider a standstill on releases for Switching, the DSP, ECOS and potentially other systems to enable a stable environment under option 1. There is a risk

that this could also over-burden industry and code parties at a time of notable change with the MHHS programme.

Conclusion

- A3.38 Overall, from analysing the responses to the consultation and survey as well as engagement with RECCo, DCC and SSC, we have identified that the significant materiality and probability of the risks occurring outweigh the potential benefits of option 1, for provision of the CRS to be transferred to REC to be delivered by RECCo.
- A3.39 These risks are that knowledge retention and economies of scale may not be retained, the requisite security requirements and assurance may not be met to a satisfactory level as required under the Smart Energy Code (SEC) and Licence, and the timeline to transfer responsibility for the CRS to REC to be delivered by RECCo by September 2025 could be challenging to meet. The uncertainty surrounding these risks could subsequently create an additional risk that disproportionate costs could be generated for both industry and subsequently, consumers.
- A3.40 We do not consider that these risks outweigh the savings identified by RECCo which could be realised under option 1 and therefore conclude that option 2 to retain responsibility for the CRS in the DCC License is our decision.