Data Communications Company

Proposal for a Relevant Adjustment to the External Contract Gain Share term ($ECGS_t$) (RY23/24)

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1. Executive Summary

External Contract Gain Share (ECGS) is a mechanism to incentivise DCC to identify and secure reductions in the costs of the External Service Provider contracts for the benefit of its customers. This is achieved by DCC being able to apply for an upward adjustment to its Allowed Revenue that reflects a share of the reduction in External Costs. The terms and conditions through which DCC can apply for an adjustment under the ECGS is set out in Condition 39 of the Smart Meter Communication Licence[1].

Since the Licence was granted in 2013, DCC has built up a substantial amount of experience in driving down External Service Provider costs. Over the course of those years, DCC has initiated, led, and successfully secured, a series of contractual changes with its Fundamental Service Providers[2] (FSPs) which involved a significant reduction in interest rates for the financing of the various components of the Smart Metering Implementation Programme (SMIP). The savings that are realised as a result accrue over the remaining term of our Licence. The primary beneficiaries are our customers who will see a reduction in charges, as well as our FSPs who are able to immediately draw-down the value of achieved milestones and free-up cash to be able to continue to deliver current and future DCC programmes.

Prior to this year, DCC has submitted eight applications to Ofgem to adjust the ECGS in the Allowed Revenue formula as set out in our Licence. The first two applications were undertaken in RY15/16 and RY16/17 and related solely to the refinancing of the DSP's (Data Service Provider) set-up costs. Building on that expertise, DCC managed to secure further reductions in the financing rates of the DSP as well as both CSPs (Communication Service Provider) since RY17/18. In RY20/21, we also began to realise savings against our in-house test lab service.

- **Continuation of refinancing of set-up costs**: previously renegotiated and approved interest rates have generated a further ECGS saving of **£0.09m** across both CSPs from RY23/24 to the end of the contracts
- **Financing of tranche 2 Communication Hubs** (**"Comms Hubs")**: as per the case in RY19/20-21/22, DCC successfully managed to secure alternative, value for money, funding arrangements for the financing of Tranche 2 Comms Hubs (CH). A reduction in interest rates for both VMO2 (formerly known as Telefonica) and Arqiva have resulted in **£6.63m** savings in RY23/24
- **Test Labs:** the design, build and operation of an in-house test lab service in 2018 has made it possible for DCC to provide a fully integrated end-to-end test facility that better meets our customers' needs - as per the requirements in the Smart Energy Code (SEC) - at a cost cheaper than the testing services that were originally provided by the CSPs. In RY23/24, this generated **£6.56m** of savings.

2. DCC's ECGS strategy and risk management

2.1. ECGS strategy and approach

Since the granting of our Licence in 2013, DCC has continued to seek opportunities to drive down costs and provide the best value service to our customers. The two main drivers behind these savings to-date are:

- **The reputation we have built up with banks:** This stems, not only from meeting payment obligations on schedule, but also from our ability to demonstrate the level of savings we have subsequently been able to return to customers. This has strengthened DCC's position in the market, built market confidence, and established our reputation amongst potential future financiers
- **The robust governance surrounding our negotiation process with FSPs for all change requests (CRs):** Once the scope of any CR has been agreed, the associated costs are subject to due diligence; this ensures resources are optimised against projects, and that value for money is targeted across the supply-chain. DCC achieves this by using comparable resourcing and cost data from across our different programmes, as well as external

[1] Ofgem, 09 February 2017, 'Smart Meter Communication Licence': https://epr.ofgem.gov.uk/Content/Documents/Smart%20DCC%20Limited%20-%20Smart%20Meter%20Communication%20Consolidated%20Licence%20Conditions%20-%20Current%20Version.pdf
[2] These include the regional CSPs and DSP.

commercial benchmarks which ensure that we are in-line with market rates

There are three mechanisms DCC has used to drive down costs over the past few years:

- **The renegotiation of interest rates:** A major cost of the delivery of the overall SMIP has related to the financing of DCC programmes delivered by our FSPs. Financing rates were historically agreed between the FSPs and the Department of Energy and Climate Change (DECC) in 2013 and were included in their tender documents prior to being appointed as External Service Providers to DCC. To drive improvements and secure value for money, DCC has successfully renegotiated and secured alternative finance arrangements for various components of the SMIP. The realisation of these deals has already delivered substantial levels of savings to our customers, and by extension, end consumers who ultimately pay for the implementation and roll-out of the SMIP
- **Alternative funding through contractual frameworks:** Another route that has successfully been explored and initiated during RY19/20 stems from the contractual framework that we have in place with our CSPs to secure alternative means for the funding of Comms Hubs. This has generated ongoing savings as set out below
- **The acquisition of in-house test lab services**: Since RY20/21, we have started to generate savings through the acquisition of the in-house test lab service. Test facilities were originally provided as a temporary service through the FSP contracts but the consolidation of these test facilities - through DCC as opposed to both CSPs - is providing a more cost-effective service that better responds to the increasing and differentiated needs of our customers

As we continue to transition from being a single programme delivery partner, to a strategic partner offering multiple programmes and solutions to industry, we will continue to explore different options that provide value for money across all our programmes and outputs.

2.2. Risks to DCC

This year, as in previous years, DCC has exposed itself to several risks in securing savings for customers. These risks are:

- **Termination of the Funding Addendum**: As a key principle, DCC is responsible for making payments to the Assignee irrespective of any difficulties which DCC may encounter. In the instance of a termination of the funding addendum (which could be triggered by e.g. late payments, insolvency, change of control of DCC or changes to policy which prevent DCC operating), the remaining payments may have to be repaid within timescales that are shorter than those set out in the original FSP contract
- **Retaining payment liability in the event of a default by the FSP**: For example, if DCC terminated an FSP contract because of a default, DCC would continue to be liable for the payments to the Assignee under the Funding Addendum. Under the original FSP contract, if the FSP was to fail to fulfil an obligation under its contract, DCC would have had the ability to pause payments until the obligation was fulfilled. This had the advantage of DCC being able to retain funds where service was poor or non-existent, and incentivised the FSP to cooperate so that payments would be resumed
- **Reputational Risk and Price Control Risk**: DCC's requirement to continue to make payments to its CSPs, irrespective of any difficulties which it may encounter, would make it harder for DCC to ensure its CSPs deliver a particular activity as it no longer has the option to withhold payments. This leaves DCC at risk of having less leverage over its service providers, which carries a reputational risk (such as negative publicity that adversely impacts our reputation) and a price control risk (that cost is disallowed under the annual price control)

DCC is currently of the opinion that each of these risks has been significantly outweighed by the savings that were realised for our customers and service providers, as well as the gainshare opportunity for DCC.

3. Set-up charges refinancing

3.1. Overview

As was the case last year, this year's application includes, in part, savings that stem from adjustments that were previously proposed by DCC and approved by Ofgem. These savings represent a continuation, and come as a direct result, of DCC's continued effort to reduce the financing costs across the various components and FSPs relating to the SMIP.

Payment milestones associated with financing of milestones that are yet to be achieved are not within scope of this year's application. The exact level of saving associated with these future milestones will only be known at the time that they have been achieved. In accordance with Ofgem's guidance document[3] on DCC's price control processes, ECGS applications only include savings for milestones that have been achieved and therefore where the interest rate at the time of achievement was known.

In RY23/24 the total ECGS saving was **£0.09m**. DCC has assumed a basic uplift to the original financing rates in line with the Average Specified Rate (ASR) compared these against this years' ASR to ensure that this application remains cost reflective.

The savings realised can be summarised as follows:

3.2. Achieved and future estimated savings for CSP (North) – Arqiva

As part of the refinancing arrangement agreed in RY17/18, DCC has managed to negotiate and secure funding rates ranging between [redacted]-[redacted] per cent, which was a significant reduction from the [redacted] per cent funding rate originally set for Arqiva. Between RY17/18 and RY23/24, a total milestone value of approximately **£**[redacted] has been refinanced, yielding total savings of **£34.07m**.

In aggregate, the total value of the refinanced milestones over the course of RY23/24 for Arqiva was circa **£**[redacted] representing a total ECGS saving of **£0.09m**, of which we propose **£0.0.5m** is returned to customers.

The achievement of this milestone over the course of RY23/24 was evidenced by the issuance of Payment Milestone Achievement Certificates. The funding rates for each financed tranche and associated saving is set out in Annex 1, Tab 'Arqiva'. The breakdown of each tranche by CR/PR reference can be found in the RIGs supplementary schedules.

3.3. Achieved and future estimated savings for CSP (Central & South) – VMO2

There was no milestone refinancing over the course of 2023/24 within CSP Central and CSP South.

4. Tranche 2 Comms Hubs financing

4.1. Overview

Over the course of RY19/20, DCC successfully secured a substantive reduction in interest rates for the financing of Tranche 2 Comms Hubs which has continued to generate savings in each RY since. This was achieved through a competitive process with complex negotiations with both CSPs which allowed us to secure the most economically advantageous arrangement for the financing of Tranche 2 CHs. As previously submitted in evidence to Ofgem, these savings were sought in line with the financing arrangements as set out in the original CSP contracts i.e. Schedule 7.1[4] (Charges and Payment).

4.2. Achieved and future estimated savings

For our **Arqiva** arrangements, a reduction in interest rates for Tranche 2, resulted in an estimated savings to industry of **£**[redacted] For our VM02 arrangements, the reduction in interest rates resulted in estimated savings to industry of **£**[redacted] in RY23/24.

[3] Ofgem, DCC Price Control Guidance: Processes and Procedures 2022, June 2022.
[4] Schedule 7.1. Charges and Payment, Clauses 11.9-11.16.

These estimates are based on a comparison between the financing rates in the original contracts (adjusted in line with ASR for cost reflectivity) compared to the new rates negotiated by DCC. The associated savings are summarised in the tables below with more detail available in the accompanying model.

Table 1: CH financing savings profile, ARQ (RY19/20 – RY25/26), £m

	Total Realised Savings – ARQ CH Tranche 2 (£)							
	RY19/20	RY20/21	RY21/22	**RY22/23**	**RY23/24**	RY24/25	RY25/26	**Total**
Savings	[redacted]							

Table 2: CH financing savings profile, ARQ (RY19/20 – RY25/26), £m

	Total Realised Savings – VM02 CH Tranche 2 (£)							
	RY19/20	RY20/21	RY21/22	RY22/23	**RY23/24**	RY24/25	RY25/26	**Total**
Savings	[redacted]							

5. DCC Test Labs

5.1. Overview

Since 2018, DCC has worked to design, build, and operate an in-house test lab service, as we believed this had the potential to deliver significant savings. The provision of testing services originally sat within the FSP contracts[5], making such services only available for a temporary period of 12 months, extendable monthly. Prior to DCC's Test Labs going live, these payments were made every month following the expiration of the original 12-month term. Following an assessment by DCC, we concluded these costs should be reduced.

As DCC transitioned from a single to a multi-programme delivery partner, it became apparent that, as per original assumptions in the Licence Application Business Plan (LABP)[6], this approach to testing needed to change to accommodate the range of services and solutions that are being offered to industry.

The approach to making these service available to testing participants in house and on an enduring basis directly responds to the regulatory requirement within the SEC and has multiple additional benefits and service offerings as set out in previous applications to Ofgem.[7]

5.2. Achieved and future estimated savings

The lifetime savings generated from the consolidation of business and testing activities via our test lab, together with the closure of the old Preston Brook office, is expected to generate a total saving of approximately **£80.42m** between RY20/21 and RY27/28.

The total cost of the DCC test lab (as calculated for the DCC gainshare application[8]) for RY23/24 was **£** [redacted]

[5] Schedule 6.2 of the FSP contracts (Testing and Acceptance)
[6] Section 8, Risks and Uncertainty
[7] Enduring Testing Approach Document (ETAD)
[8] These will differ from the test lab costs set out in the Price Control submission document because a) the gainshare application covers a July – June year rather than an April – March year; and b) the costs lines set out in the application have been selected so as to present a like-for-like comparison to the original business case for bringing test lab services in-house and as such may differ from the categories presented in the Price Control submission. This has likewise been the case in all test lab gainshare applications to-date.

In comparison, the original UIT (Unit Integration Test) testing service charges for the same year would have cost our customers approximately **£**[redacted] This estimate is based on the 'do-nothing' cost breakdown presented in the original business case which has been indexed to RPI to ensure that it remains cost reflective.

This resulted in an actual gross savings for the year of approximately **£6.56m**.

Table 3: DCC Test Lab savings profile (RY23/24), £m

[redacted]

6. Proposed Changes to ECGS Term for RY23/24

The purpose of the ECGS mechanism is to incentivise lowering the costs of DCC's FSPs. In the spirit of our Licence, we consider that most of these savings should firstly be returned to our customers, but with a proportion retained by DCC, for example to:

- Incentivise DCC to actively explore all new opportunities to save money for our customers as well as the end consumer over the term of our Licence.
- Compensate DCC appropriately for our efforts in negotiating the refinanced arrangements as well as the additional financial risk that it has incurred as a result of implementing these new arrangements.

DCC reaffirms that the previously agreed new financing arrangements have not resulted in a reduction in scope of these contracts (in the case of test labs, there was in fact an increase in scope i.e. we are providing more for less); nor has any associated activity in establishing these new arrangements lead to an increase in costs.

The table below provides a consolidated overview of the RY23/24 savings by (FSP):

Table 4: Summary of savings by provider contract (RY23/24 application), £m

[redacted]

6.1. Proposed split of benefits

This section sets out our proposed split of gainshare benefits between customers, FSPs, and DCC.

DCC's default position is that the largest share of the savings should be returned to our customers, with a proportion to be retained by DCC. Depending on the type of ECGS arrangement it may also be appropriate for a smaller but proportionate amount to be shared with the FSP. That proportion typically follows either one or a combination of the following criteria:

- **Continuation of previously agreed refinancing arrangements:** The proposed split of ECGS savings among customers, service providers, and DCC aligns to the weighted split that was agreed by Ofgem for each of the respective service providers in previous RYs
- **Risk undertaken by DCC and an incentive to renegotiate:** As in the refinancing deals that were made in previous RYs, DCC is of the view that this would have not been secured without the determination and significant efforts undertaken by DCC. DCC has played a pivotal role driving the negotiations which ultimately led to securing a successful and satisfactory outcome for all parties involved. As well as achieving savings for our customers, an opportunity to earn gainshare was part of what incentivized this behavior. That also applies to the extensive level of effort and risk taking that DCC went into in securing the significant amount of savings realized under DCC test labs and the financing and refinancing of both CH tranches
- **Benchmarking of other gainshare arrangements:** DCC notes that the proposed apportionment of the ECGS savings is substantially lower than the agreed gain sharing arrangements in other regulated industries where customers receive as little as 30 per cent of any savings, and where 40 – 50 per cent for industry is the norm

A summary of the proposed apportionment for the different ECGS types included in this year's application is set out below:

Table 5: Proposed savings split by ECGS type and provider contract (RY23/24)

ECGS Type	Customer	FSP	DCC	Comment
Set-up Refinancing	[redacted]			
T2 Comms Hubs Refinancing				
Test Labs				

Appendix A Cross references to the Licence

Licence reference	Information requirement
Condition 39, Appendix 1, Part A, A3 (a)	Must take account of any Relevant Adjustments previously determined under this Appendix 1.
Condition 39, Appendix 1, Part A, A3 (b)	Must detail the change (or changes) to the ECGS value (or values) that are proposed and the Regulatory Year (or Years) to which the change (or changes) would relate.
Condition 39, Appendix 1, Part A, A3 DCC	Must set out the particular activities that are the subject of the proposal under the relevant External Service Provider Contract (or Contracts).
Condition 39, Appendix 1, Part A, A4 (a)	Must set out how the costs associated with the activities that are the subject of the proposal were included in the original External Service Provider Contract (or Contracts).
Condition 39, Appendix 1, Part A, A4 (b)	Must describe how such activities are to be, or are being, more efficiently carried out, and provide assurance that costs will not be, or have not been, increased for any other activity as a result.
Condition 39, Appendix 1, Part A, A4 DCC	Must describe the collaborative process associated with negotiation of the relevant contractual amendment, the amount by which External Costs are to be (or are expected to be) reduced by virtue of the amendment, and the amount of the gain that has been (or is expected to be) derived by the relevant External Service Provider (or Providers) as a consequence of the process.
Condition 39, Appendix 1, Part A, A4 (d)	Must set out the basis of the calculation of proposed changes to the amount of the $ECGS_t$ term and justify them in relation to the amount of the reduction that has been, or is expected to be, achieved in External Costs.
Condition 39, Appendix 1, Part A, A4 DCC	Must explain why, in the Licensee's opinion, the Relevant Adjustment is justified in all the circumstances of the case.
Condition 39, Appendix 1, Part A, A5 (a)	May be served at any time in the month of July ("the Application Window") in any Regulatory Year (excluding Regulatory Years 2013/14 and 2014/15) provided that it complies in all respects with the provisions of this Part A.
Condition 39, Appendix 1, Part A, A5 (b)	Must be served within the first Application Window after the date on which the grounds for proposing the Relevant Adjustment first arose.
Condition 39, Appendix 1, Part A, A5 DCC	Must contain an Adjustment Date (being the date on which it is proposed that the Relevant Adjustment should take effect), which may not be earlier than 1 April of the Regulatory Year immediately following the Regulatory Year in which the Notice has been served.

Appendix B Glossary

Term	Definition
Adjustment Date	Means the date on which it is proposed that the Relevant Adjustment should take effect.
Application Window	Means any time during the month of July in any Regulatory Year (excluding the Regulatory Year 2013/14).
Approved Payment Milestone Certificate	Means a Payment Milestone Certificate that satisfies all of the following conditions, namely: (a) Is approved by the Client in accordance with clause 2.4 as may be adjusted in accordance with clause 2.6; and (b) The Assignee purchases the Assured Charges that are the subject matter of the relevant Payment Milestone Certificate as evidenced by an email confirmation in accordance with 2.5 of the Funding Addendum
Assignee	The third-party funder specified in 7.1.1 of the Funding Addendum (Barclays Bank PLC or SMBC Leasing & Finance).
Assured Charges	Means the assured charges payable by the Client to the Supplier specified as such in an Approved Payment Milestone Certificate and as may be amended in accordance with clause 2.6 of the Funding Addendum.
Communications Service Provider (CSP) Central	means: (a) the entity that shall contract with the DCC further to the selection process for Lot 2 (smart communications services in central GB including Wales) initiated by notice in the Official Journal of the European Union with reference number 2011/S 165-273113 (b) any person(s) providing services in replacement of such CSP, but excluding any direct or indirect sub-contractor, contractor, agent, representative or service provider providing any goods or services to the person that is contracted directly to the DCC; (i.e. Currently VMO2 UK Ltd)
Communications Service Provider (CSP) South	means: (c) means the entity that shall contract with the DCC further to the selection process for Lot 3 (smart communications services in southern GB) initiated by notice in the Official Journal of the European Union with reference number 2011/S 165-273113; (d) any person(s) providing services in replacement of such CSP, but excluding any direct or indirect sub-contractor, contractor, agent, representative or service provider providing any goods or services to the person that is contracted directly to the DCC; (i.e. Currently VMO2 UK Ltd)
Communications Service Provider (CSP) North	means: (a) the entity that shall contract with the DCC further to the selection process for Lot 1 (smart communications services in central GB including Wales) initiated by notice in the Official Journal of the European Union with reference number 2011/S 165-273113; (b) any person(s) providing services in replacement of such CSP, but excluding any direct or indirect sub-contractor, contractor, agent, representative or service provider providing any goods or services to the person that is contracted directly to the DCC;

Term	Definition
	(i.e. Currently Arqiva UK Ltd)
Data Service Provider (DSP)	means: (c) the entity that shall contract with the DCC further to the selection process initiated by notice in the Official Journal of the European Union with reference number 2011/S 165-273114; and (d) any person(s) providing services in replacement of such DSP, but excluding any direct or indirect sub-contractor, contractor, agent, representative or service provider providing any goods or services to the person that is contracted directly to the DCC; (i.e. Currently CGI IT UK Ltd)
Deferred Set-up Charges	Means the monthly amount in Set-up Charges calculated and payable in accordance with Schedule 7.1 (Charges and Payment) following Achievement of the associated Set-Up Payment Milestone.
External Contract Gain Share	Means the component of the Allowed Revenue of the Licensee that is determined in accordance with the provisions of Condition 39 (Determination of External Contract Gain Share) so as to secure the effect set out in Part A of that condition.
External Costs	Means in relation to each Regulatory Year the actual amount of the costs that were economically and efficiently incurred by the Licensee in procuring Fundamental Service Capability during that period.
Financial Model	Means the model developed in accordance with the provisions as set out in Appendix 3 to Schedule 7.1 (Charges and Payment) of the DSP contract.
Financing Agreement	Means all or any of the agreements or instruments entered into or to be entered into by the Contractor or any of its Affiliates relating to the financing of the Set-Up Charges (including any agreements or instruments to be entered into by the Contractor or any of its Affiliates relating to the rescheduling of their indebtedness related to this Agreement or any Refinancing).
Financing Percentage	Is the average percentage financing charge applied in each Payment Month to the then outstanding Set-up Balance, being the difference between the total costs incurred minus total revenues and calculated in accordance with the Financial Model based on the relevant Milestone Value and the profile of the Deferred Set-up Charges.
Fixed Operational Charges	Charges which consist of a fixed monthly charge payable in respect of the provision of the Services after the Achievement by the Contractor of the Commencement of Initial Operational Services for each month during the remainder of the Term in line with the Fixed Operational Charge profile set out in Schedule 7.1 of the DSP contract.
Fundamental Service Capability	Has the meaning given to that term in Part J of Condition 16 of the Licence (Procurement of Relevant Service Capability), as amplified by reference to the particulars set out in Schedule 1 to the Licence (Details of Fundamental Service Capability).
Fundamental Service Provider (FSP)	Means a Service Provider contracted with DCC to deliver Fundamental Service Capability.
Funding Addendum	Means the Funding Addendum relating to the provision of IT Services between the DCC and Contractor dated on or around 08 July 2015 for Barclays and dated on or around 26 September 2016 for SMBC Leasing and Finance.
Funding Rate	Means the actual interest rate used by the Assignee for calculating the Assured Charges.

Term	Definition
GB Companion Specification (GBCS)	Means the document of that name set out in Schedule 8 of the SEC.
Licensee	Means Smart DCC Ltd, a company registered in England and Wales under number 08641679, whose registered office is at 17 Rochester Row, London SW1P 1QT, and who is the person that holds the Licence.
Licence Term	Means (subject to the provisions of Part 1 and Part 2 of the Licence with respect to continuation and revocation) the period that begins on Licence Commencement Date and ends on 22 September 2025 during which the Licence remains in force and is held by and applies to the Licensee.
Milestone	Means an event or task described in the Implementation Plan (reference to a specific milestone shall be construed as reference to such milestone as individually listed in Schedule 6.1 (Implementation Planning) Appendix 1), which, if applicable, must be completed by the relevant Milestone Date.
Milestone Value	Is the amount in Set-Up Charges associated with the delivery of the relevant Milestone if paid on the date of the associated Milestone Achievement Certificate.
Milestone Achievement Certificate (MAC)	Means the Milestone Achievement Certificate, as defined in the Services Agreement, in respect to a Milestone.
Payment Milestone Achievement Certificate (PMAC)	Means a certificate delivered by the Supplier to the Client in accordance with Clause 2.2 confirming the Assured Monthly Charges attributable to a Milestone substantially in the form set out in Schedule 1.
Payment Month	Means a calendar month to which a payment obligation in the DSP agreement relates
Refinancing	Means: (a) any amendment, variation, novation, supplement or replacement of any Financing Agreement; (b) the exercise of any right, or the grant of any waiver or consent, under any Financing Agreement; (c) the disposition of any rights or interests in, or the creation of any rights of participation in respect of, the Financing Agreement or the creation or granting of any other form of benefit or interest in either the Financing Agreement or the contracts, revenues or assets of the Contractor whether by way of security or otherwise; or (d) any other arrangement put in place by the Contractor or another person which has an effect similar to any of (a) to (c) above, that will give rise to a Refinancing Gain greater than zero.
Refinancing Gain	Means an amount (which must be greater than zero) being the difference between: (a) the total financing charges relating to the Set Up Charges, as set out in the Financial Model immediately prior to the Refinancing; and (b) the total financing charges relating to the Set Up Charges, as set out in an updated version of the Financial Model which has been revised to take account of the effect of the Refinancing.

Term	Definition
Regulatory Year	Means a period of twelve months beginning on 1 April in any calendar year and ending on 31 March of the next calendar year (and the Licensee's first Regulatory Year is deemed to have begun on 1 April 2013).
Relevant Adjustment	Means an adjustment that is proposed in accordance with the requirements of Part A of the Licence Condition 36, Appendix 2.
Set-up Charge	Means the Charge identified as such and calculated in accordance with paragraph 3 of Schedule 7.1 (Charges and Payment) of the DSP agreement.
Set-up Balance	Means the difference between the total costs incurred minus total revenues and calculated in accordance with the Financial Model based on the relevant Milestone Value and the profile of the Deferred Set-up Charges.
Set-up Payment Milestone	Means those Milestones triggering payment of Deferred Set-up Charges as set out in Paragraph 3.1 of Part B of Schedule 7.1 (Charges and Payment).
Smart Energy Code (SEC)	Means the document of that name, as was designated by the Secretary of State under Condition 22 of the Licence (The SEC), that is maintained for the purposes of that Condition, that is subject to modification pursuant to Condition 23 (Change control for SEC), and that may be referred to in the Licence as "the SEC".
SEC Party	Means, from time to time, a person that has agreed to be bound by the SEC (either pursuant to the Framework Agreement or an Accession Agreement), and (without prejudice to Section M8.14 (Consequences of Ceasing to be a Party)) that has not at that time ceased to be so bound in accordance with Section M8 (but excluding SECCo).