

Expression of Interest Questionnaire for the new Smart Meter Communication Licence

Contents

Part 1. Purpose of the Expression of Interest Questionnaire (EOIQ)	1
Part 2. Licence application background.....	2
Smart Meter Communication Licence (SMCL) overview	2
The role of the Successor Licensee	3
The Applicant's critical role in the business handover process.....	7
Selection process overview.....	9
Part 3: Instructions for completion of the questionnaire	10
Part 4: FAQ	10

Part 1. Purpose of the Expression of Interest Questionnaire (EOIQ)

The purposes of this EOIQ are:

1. For prospective licence applicants to express interest in the new licence.
2. For prospective applicants to provide Ofgem with information about their intended application so Ofgem can assess their suitability to apply for and hold the new licence
3. To inform Ofgem's route and design of the process for identifying, selecting and granting the next licence.
4. To obtain information about prospective applicants that will assist Smart DCC Ltd and industry's preparedness for the business handover process.

This EOIQ is the final chance for applicants to express interest in the licence before Ofgem decides on the route for selecting the successor licensee.

The information provided as part of this EOIQ will not render an organisation ineligible to participate in the formal selection process. If an organisation does not complete the EOIQ, it can still apply for the licence. However, the information will be used by Ofgem to determine appropriate next steps regarding the selection route which may include the decision to pursue a direct award.

Ofgem notes that as this process is for the grant of a government licence, it is not subject to procurement legislation or regulations.¹

Part 2. Licence application background

Smart Meter Communication Licence (SMCL) overview

The SMCL provides the framework and conditions for establishing and operating the secure national communications network for smart metering in GB. The Data Communications Company (DCC) is the term used to refer to the holder of the SMCL. The DCC operates as a monopoly company which is regulated by Ofgem. The current Licensee is Smart DCC Ltd, a wholly owned subsidiary of Capita Plc.

The current SMCL is due to expire on 22 September 2027.² In preparation for granting the next licence, this EOIQ will provide Ofgem with specific information about the suitability of parties interested in applying for the Successor Licensee role.

The core business of the new licence will continue to be split into two principal areas:

1. to provide a centralised, secure data and communications service for the purpose of sending and receiving messages between smart metering systems installed in premises and energy suppliers, network operators and authorised third parties in GB, and
2. to provide other services enabling the core communication services, including the provision of compliant smart metering communications hubs in domestic premises and certain non-domestic premises in GB, or the Centralised Registration Service allowing faster 'switching' of energy supplier.

The licence holder will deliver this role primarily by procuring and managing communications and data services subcontractors. The licence holder must also deliver the level of service to its users as defined in the licence and in relevant regulated industry codes, eg the Smart Energy Code (SEC) and Retail Energy Code (REC).

Some of these contracts will start to expire over the period 2027-2031, necessitating their extension and/or re-procurement in some cases. Equally, new contracts may need to be negotiated to support new capabilities. It is crucial that the Successor Licensee

¹¹ The process for selecting the Successor Licensee is currently governed by the [Electricity and Gas \(Competitive Tenders for Smart Meter Communication Licences\) Regulations 2012](#)

² Ofgem (2024), Decision on the continuation of the Smart Meter Communication Licence and the rate of Shared Service Charge and Baseline Margin, <https://www.ofgem.gov.uk/decision/decision-continuation-smart-meter-communication-licence-and-rate-shared-service-charge-and-baseline-margin>

carries out these procurements with a long-term strategic vision and is able to derive value for money from these contracts.

The role of the Successor Licensee

The changed role under the new framework

Ofgem is in the process of reviewing the regulatory arrangements for the Successor Licensee. Ofgem is proposing that the new model be underpinned by the following key features:

1. The company Board will be majority independently controlled and include consumer representation.³
2. The Core Mandatory Business will be conducted on a not-for-profit basis, and this is proposed to be extended to the entirety of the Authorised Business (subject to Ofgem decision following a public consultation).⁴
3. All costs will be subject to an upfront approval by Ofgem via an ex-ante cost process (the details of this are subject to Ofgem decision following a public consultation).⁵
4. The operational model will remain primarily outsourced with key contracts procured competitively on the market.⁶
5. The core business will remain funded by charges on user.⁷

These features mean that the any parent company will have a significantly smaller role than the current parent company as it will not have control of the company Board.

³ Ofgem (2024), DCC Review Phase 2: Governance arrangements – conclusions ('Governance decision') <https://www.ofgem.gov.uk/decision/dcc-review-phase-2-governance-arrangements-conclusions>

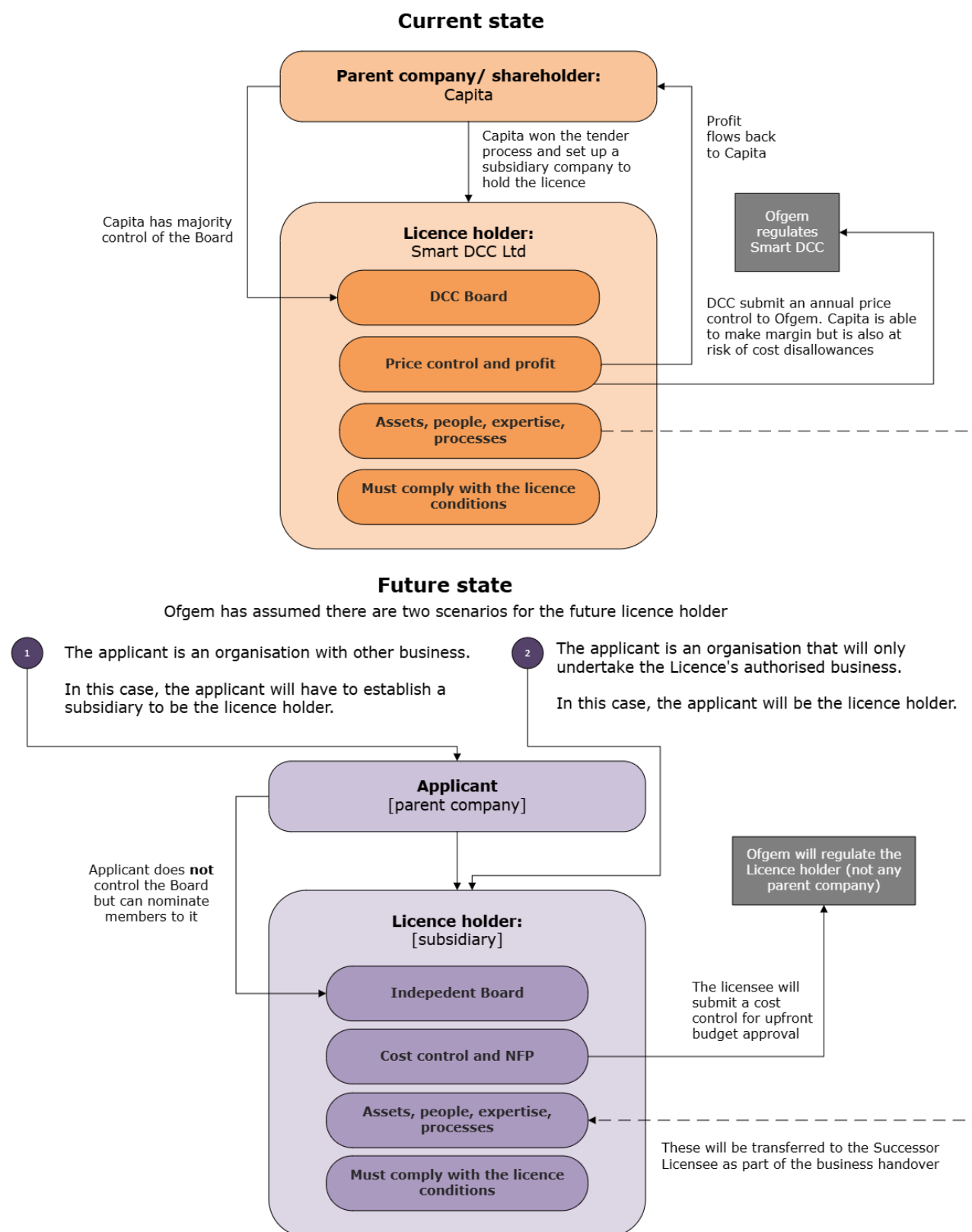
⁴ Ofgem (2024), DCC Review Phase 2: Determination of Allowed Revenue ('Allowed Revenue consultation') <https://www.ofgem.gov.uk/consultation/dcc-review-phase-2-determination-allowed-revenue>

⁵ Ibid.,

⁶ Ofgem (2023), DCC review: Phase 1 Decision <https://www.ofgem.gov.uk/decision/dcc-review-phase-1-decision>

⁷ Ibid.,

Figure 1. Diagram on how the corporate and governance structure will change under the new licence



Ofgem is seeking to identify the Applicant of the new licence. In both scenarios⁸ outlined in Figure 1, the Applicants will need to establish the new majority independent Board of the company that will be licence holder and responsible for delivering the Authorised Business. If the Applicant is an organisation which undertakes other business, they must establish a subsidiary in order to sit at arm's length of the parent company. In this scenario, beyond the transition period (explained at 2.4 below), any parent company will have minimal to no role.

The role of the successor licensee

The Successor Licensee's role **in operating and maintaining** a secure and reliable communications network for smart metering will be vital. The licensee should also **build and improve** on the past licence.

The transition to Net Zero will change how consumers use and access energy and how market participants serve consumers. Likewise, the technology behind the smart metering systems will continue to evolve, bringing new opportunities but also potential threats. These challenges will together require the Successor Licensee to **adapt, evolve and manage change**.

The Business Handover process is intended to ensure that the critical assets, people and processes established by the current licence holder are effectively transferred to the Successor Licensee to ensure a smooth transition of operations. Therefore, the capabilities sought from the Applicant will be different from the original tender process in 2012/2013. For example, the 2012 qualification questionnaire asked for evidence of contract management expertise; however, as these functions are now embedded into DCC's operations and should be transferred over, it is unlikely we would require this evidence in applications for the successor licence.

The not-for-profit nature of the licence

A key change of the new licence is the fact that there will be limited to no opportunity to gain profit from the operation of, at a minimum, the Core Mandatory Business but potentially⁹ the entirety of the Authorised Business. This includes that a parent company cannot make profit by contracting services to the licensee. This change means that a

⁸ These scenarios are (1) the applicant is an organisation with other business and therefore must set up a subsidiary to hold the licence, (2) the applicant is an organisation only undertaking the Licence's authorised business and therefore it can hold the licence

⁹ Depending on the outcomes of the Allowed Revenue consultation

parent company or licensee will not need to put margin at risk (as is currently the case) and any parent company will not be expected to take on financial risk.

As part of pre-market engagement, participants asked about the ability for the Successor Licensee to earn profit through innovation or returns on investment in the DCC. Our 'Determination of Allowed Revenue' consultation confirmed our intention that the entirety of DCC's Authorised Business should be conducted not-for-profit.¹⁰

The proposed framework will allow for the exploration of re-use of licensee's infrastructure to drive innovation and offset costs to customers or consumers. These Value-Added Services (VAS) are already available under the current licence.

However, we do not propose to allow the Successor Licensee to earn profit on any re-use of assets or VAS. The Licensee's revenue comes from charges on its users and the Licence prohibits cross-subsidy between Mandatory and Permitted Business, as well as between DCC's Authorised Business and any Affiliate or Related Undertaking.¹¹

Nevertheless, Ofgem does not want to stifle the possibility of innovation and, therefore, we are proposing that the Licensee will be able to apply through its cost control for additional ringfenced revenue which can be used to develop innovative proposals or attract third party investors. The proceeds from any commercially viable services would flow back to licensee's customers (not to any parent company) or, where a third-party investor co-funds their development, we would expect the proceeds to be shared fairly. The co-investor could be the parent company but it would have no more opportunities to access this than any other third party, and it may be precluded from participating in some opportunities where there is a risk of cross-subsidy.

Therefore, the Successor Licensee can be considered a facilitator for innovation and investment but will not derive profits from this.

The Applicant's role in governance and strategy

The Applicant will have a role in the strategic decision making of the Successor Licence and the future of smart metering through its or its subsidiary company's Board members. Although the Successor Licensee will be required to ensure that the Board is majority independent, the Applicant will still be able to nominate representatives to the Board.¹² The Applicant will be able to hire new or transfer existing employees¹³ to senior

¹⁰ Ofgem, Allowed Revenue consultation, para 4.11

¹¹ Licence condition 11.4

¹² Governance decision, paras 2.16, 2.30 and 2.57

¹³ Any parent company should not be the employer of the successor licensee's staff

executive positions in Successor Licensee and thereby have influence over the management and operations it.

There will be the opportunity for the executive leadership and staff to gain remuneration for good performance through a financial incentive mechanism. The remuneration policy will be developed by a committee of the Board comprising of only independent non-executive directors.¹⁴ The policy will link remuneration to the successful delivery of the company's long-term strategy¹⁵ and key performance indicators, including customer satisfaction, performance and delivery, business planning, and cost management.¹⁶

Therefore, this licence is an opportunity to have a level of impact and influence on the future of smart metering without financial risk.

The Applicant's critical role in the business handover process

The Successor Licensee will have a critical role in the Business Handover process and the transition to the new regulatory model. Therefore, the Applicant's ability to meet qualifying criteria in this area will be a key part of the future selection assessment.

Business handover process

Ofgem has been working with Smart DCC Ltd on the Business Handover Plan that will be in place during the licence transfer period. The purpose of this plan is to ensure the orderly and successful transfer of the Authorised Business to the Successor Licensee without disruption to the services and operation of the Authorised Business. This includes managing the transfer or novation of:

- External Service Provider contracts
- critical staff (and plans for staff retention)
- relevant assets, information and knowledge, including funds in bank accounts, licences for software, leases to occupy buildings, data pertaining to DCC's business activities
- intellectual property rights
- shareholder services (eg HR, billing, IT, etc) and transitional service agreements (where requested by the Successor Licensee)

The Business Handover process will commence on the award of the new licence. It is expected that the handover will take 6 months upon which time the Successor Licensee is expected to begin delivering the Authorised Business. During the business handover

¹⁴ Ibid., 4.54

¹⁵ Ibid., para 4.44

¹⁶ Allowed Revenue consultation para 4.44

period the Successor Licensee and DCC must work together to transition the services and contracts.

There will be a Joint Handover Steering Group (JHSG) overseeing the process and the delivery of the Business Handover Plan. Therefore, the Applicant must be able to appoint a suitable person to actively participate in the JHSG. This person would be expected to have significant experience in project management and business transitions.

As a result of the Handover commencing on the award of the licence, the Applicant must have the **capability to begin receiving the Authorised Business**. This will include having bank accounts in place to receive bank transfers, and or an HR system to receive the staff that are transferred. We assume that the Transfer of Undertakings (Protection of Employment) Regulations ('TUPE') will apply for the purposes of employee transfer. The Successor Licensee should also have secure systems in place to receive confidential and sensitive information that meet data regulation and related legislation requirements.

The Applicant must ensure the Successor Licensee is established by the Business Transfer Date in order for it to begin carrying out the entirety of the Authorised Business.

The Applicant will need to have a **plan and resources in place for engaging with the outgoing licence holder and the ability to resource transitional arrangements**.

DCC currently receives a number of shareholder services from its parent company, Capita. For example property leases, people/HR (recruitment, benefits, pension, H&S), payroll, IT systems, billing and invoices. The Applicant will be expected to have a plan during the business transfer period for either transitioning to their own services, reprocurring the services or establishing a transitional service agreement with Capita.

Transition to new regulatory model

During the transition period, the Applicant's first responsibility will be to **establish and recruit for the new Board or to restructure its Board** to become compliant with the new governance conditions. In the first instance, this means identifying a relevant person to act as the independent Chair who has proven board-level experience in an organisation of a comparable size and standing as DCC.¹⁷ Once the independent Chair is in place, the Applicant must have **the capability to establish the Nomination Committee** to recruit the rest of the Board Members. We expect the initial Nomination Committee will consist of the independent Chair, a shareholder representative and a DCC customer representative.

¹⁷ Governance decision, para.3.63

The Applicant must also have the capability to identify senior executives for positions in the licensed organisation for any vacant executive positions.

Once the Successor Licensee is established with its new Board, all of DCC's assets transferred over and beginning to undertake the Authorised Business, any parent company will no longer have a role in the licence framework other than through its representatives on the Board.

Selection process overview

Ofgem's objective is to design a tender process which is transparent and fair to all applicants. We recognise that a not-for-profit organisation wishing to participate in the process may need to raise funds which, in the case of energy sector not-for-profit bodies, may ultimately be charged to GB energy bill payers. Therefore, pursuant to Ofgem's consumer duty¹⁸, we intend to design a process which will not require disproportionate resourcing to participate in. Ofgem's current thinking is that the process is likely to be similar to what Ofgem has proposed for the Code Manager reform selection process:¹⁹

- The 'eligibility assessment' or 'qualification stage' may seek:
 - basic organisational information and confirm expression of interest,
 - information about applicant's suitability to hold a licence (including disclosures of convictions or insolvency),
 - confirmation of an undertaking to comply with licence requirements and resolve conflicts of interest
 - high-level evidence of relevant capability and expertise
- The 'licensing assessment' or 'proposal stage' will seek:
 - proposed arrangements for complying with the licence, including the independent governance, conflicts of interest and not-for-profit status
 - responses to the detailed evaluation questions, and evidence that the applicant possesses the necessary capability and expertise for the role

If enacted, powers under the Data (Use and Access) Bill²⁰ would allow us to make regulations to provide for a competitive or non-competitive selection route. Information gathered under this EOI Questionnaire will inform our decision on the most suitable selection route.

¹⁸ Paragraph 1.5 <https://www.ofgem.gov.uk/publications/our-powers-and-duties>

¹⁹ Ofgem (2024), Draft Guidance on Code Manager Selection, <https://www.ofgem.gov.uk/consultation/energy-code-reform-consultation-code-manager-selection>

²⁰ Available at: <https://bills.parliament.uk/bills/3825>

Part 3: Instructions for completion of the questionnaire

Complete Forms A, B, C and D with all the requested information. Answers must be in English, stating nil or not applicable where appropriate. Applicants must only provide information requested for in this EOIQ. Applicants are not to include non-requested information.

Information must be accurate and current. The Applicant has a duty to update Ofgem in the event of any change of the information provided as part of this EOIQ. If any error, omission, false statement or misrepresentation is discovered, Ofgem may use this information to inform the next steps of the licence selection process.

If completing on behalf of a consortium, or if work is to be subcontracted, relevant information about partners, subcontractors and their experience should be given. Details include names, company numbers, addresses and compliance officers.

No payment will be made or required for completing this EOIQ.

No information contained in this EOIQ or in any communication made between Ofgem and any applicant in connection with this EOIQ shall be relied upon as constituting a contract or agreement.

Ofgem reserves the right, subject to the appropriate considerations and regulations, to change without notice the basis of, or the procedures for, the competitive or non-competitive tendering process or to terminate the process at any time. Under no circumstances shall Ofgem incur any liability in respect of this EOIQ or any supporting documentation.

All information provided will be treated in strict confidence.

Part 4: FAQ

1. Is this the last opportunity to express interest in the next licence?

Yes, after this point there will be no further market engagement before a decision on the selection route is taken. The next step will be for Ofgem to formally launch the selection process.

2. If I don't respond to the EOIQ and express interest now, am I able to participate in the process later on?

Yes, your organisation will still be able to participate in a later process but Ofgem would want to understand whether your organisation meets the qualification requirements and why you did not engage in the process earlier. Ofgem needs to take a decision about the most appropriate route for selecting the successor licensee that is effective and efficient

in delivery benefits for industry and consumers. This decision will take into consideration speed of delivery, value for money and the suitability of potential applicants. Therefore, it is important for interested organisations to engaged in this process so the information about their potential eligibility, experience and capability can inform that decision.

Examples of why your organisation did not engage in this process could include that it did not have the resources or capability to respond, or the organisation did not exist.

3. Does my organisation have to meet all the eligibility criteria at this point in time?

No, as per Form C, if you do not satisfy the expected eligibility criteria you should have a plan for how to become compliant in time for the evaluation of your licencing/ proposal application. This is expected to take place in summer 2025.

4. What are the next steps?

Ofgem will review the information provided as part of this EOI and determine the most appropriate selection process route. This may mean deciding to follow the current [The Electricity and Gas \(Competitive Tenders for Smart Meter Communication Licences\) Regulations 2012](#) or, if the new powers are available, creating new regulations for the process.

In order to ensure a transparent process, Ofgem also intends to publish the selection criteria against which an organisation will be evaluated irrespective of whether the process is competitive or non-competitive.

Therefore, given these activities, it is likely that the selection process will not be formally launched before summer 2025.