

Consultation

Statutory Consultation on interim modifications to the SMCL (May 2025)

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We¹ are consulting on proposed modifications to the Smart Meter Communication Licence to:

- Implement our conclusions on the transition to an *ex-ante* cost control arrangements
- Account for the end of the Licence as pertains to Price Control and other regulatory reporting, including the Baseline Margin and External Contract Gain Share mechanisms
- Introduce a small number of housekeeping changes

We would like views from people with an interest in smart metering. We particularly welcome responses from DCC customers, including energy suppliers, distribution network operators, customer groups and other current or potential future users of the DCC network. We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly

¹ The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority

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mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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Executive Summary

DCC is the central communications body licenced to provide the communications, data transfer and management required to support smart metering. It has a pivotal role in ensuring the successful rollout and ongoing operation of smart metering in the GB energy market. As a monopoly service provider, it is vital that appropriate controls are in place over its costs to ensure good quality service and value for money for its customers and energy consumers.

DCC operates under the Smart Meter Communication Licence (the "Licence") which is due to expire in September 2027. We are running a programme of work (DCC review) to put in place a new regulatory regime under a Successor Licence and to appoint a holder of that licence ("Successor Licensee"). We are proposing to modify the Licence in four areas.

First, we are proposing modifications to give effect to our conclusions on the process for determination of the Successor Licensee's Allowed Revenue – in particular to place obligations on DCC to prepare and submit a costed Business Plan to Ofgem to cover the first Price Control Period of the Successor Licensee. We are consulting on the Licence modifications alone.

Secondly, we are proposing to modify the Licence dates of Price Control and other regulatory reporting in the final Regulatory Year (commencing on 1st April 2026) to account for the fact that Transfer Date² is unlikely to occur on the same date as a Regulatory Year ordinarily finishes (31st March). We are consulting on the policy proposals as well as the Licence modifications.

Thirdly, we are proposing modifications to the Baseline Margin Adjustment and External Contract Gain Share mechanisms to account for the Licence Term coming to an end. We are seeking stakeholder views both on the underlying policies we are minded to implement, and on the proposed licence modifications to facilitate those policies.

Finally, we are proposing a small number of housekeeping changes.

This consultation will be open for four weeks and will close on **6th June 2025**.

² Transfer Date has the meaning given to that term in LC 43.7

Introduction

What are we consulting on

We are consulting on Licence amendments in four areas:

- Giving effect to our conclusions on the implementation of the *ex-ante* process for determination of DCC's Allowed Revenue under the Successor Licence
- Amending the dates in respect of certain reporting requirements, including the Price Control submission, in the Licence to account for the Transfer Date
- Amending the Baseline Margin Adjustment and External Contract gain Share mechanisms
- A small number of housekeeping changes

Consultation questions

Question 1: Do you agree with our proposals to modify Licence deadlines for regulatory submissions in the Licence after 31st July 2026?

Question 2: What are your views on our proposals to amend the Baseline Margin Adjustment and External Contract Gain Share mechanisms in the remainder of the Licence Term?

Question 3: What are your views on the proposed Licence modifications? How well do they support our policy intent across the consulted areas? Do you have any views on the proposed housekeeping changes?

Consultation assessment process

This is a consultation on both policy and licence changes. With the exception of the implementation of the first *ex-ante* Business Plan, for which we have set out our conclusions in our accompanying decision document,³ we are seeking stakeholder views both on the underlying policies we are minded to implement, and on the proposed Licence modifications we feel appropriately facilitate those policies in the Smart Meter Communication Licence. The consultation combines both the policy and statutory Licence modification consultation aspects in the interests of efficiency.

We will carefully consider all responses we receive on both the policy and Licence modifications. We will then decide on the policy aspects and, in turn, assess and decide on whether the proposed Licence modifications as consulted on remain appropriate in terms of reflecting those policy decisions.

³ Ofgem (2025), DCC Review Phase 2: Determination of Allowed Revenue – conclusions, see esp. chapter 6. www.ofgem.gov.uk/publications/dcc-review-phase-2-determination-allowed-revenue-conclusions

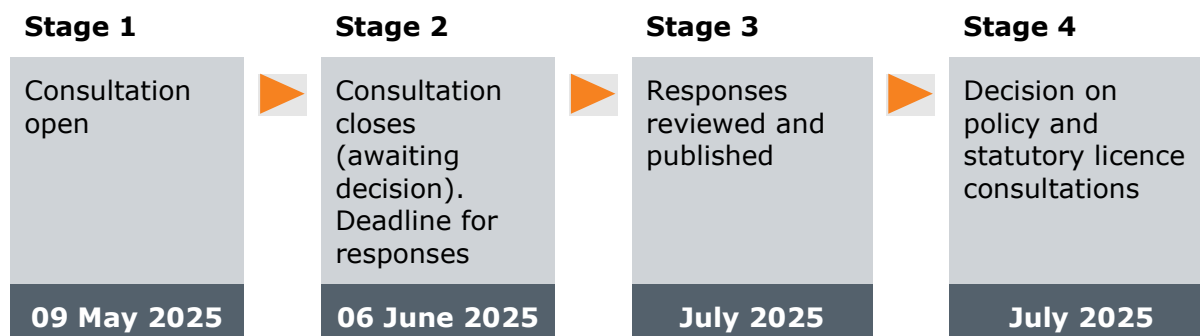
Related publications

Document	Published	Link
Decision to extend the Term of the DCC Licence by 24 months	September 2024	www.ofgem.gov.uk/decision/decision-continuation-smart-meter-communication-licence-and-rate-shared-service-charge-and-baseline-margin
Consultation on the <i>ex-ante</i> process for determination of the Successor Licensee's Allowed Revenue	December 2024	www.ofgem.gov.uk/consultation/dcc-review-phase-2-determination-allowed-revenue
Decision on the detailed design and implementation of the <i>ex-ante</i> cost control arrangements	May 2025	www.ofgem.gov.uk/publications/dcc-review-phase-2-determination-allowed-revenue-conclusions
Consultation on draft guidance documents to help DCC prepare the first Business Plan and <i>ex-ante</i> cost control submission	May 2025	www.ofgem.gov.uk/publications/draft-terms-reference-customer-challenge-group-and-draft-business-plan-guidance
The DCC Licence	-	www.ofgem.gov.uk/licences-and-licence-conditions

Your response, data and confidentiality

Consultation stages

The figure below sets out the timeline that we expect to follow. This timeline allows the Licence changes to be in force by end-August 2025.



How to respond

We want to hear from anyone interested in this consultation. Please send your response to Jakub Komarek at DCCRegulation@ofgem.gov.uk.

We have asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, your data and confidentiality

You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and

Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 2.

If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
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. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

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

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Choose the notify me button and enter your email address into the pop-up window and submit.

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Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

1. Implementation of the first *ex-ante* Business Plan

Section summary

We are proposing modifications to give effect to our conclusions on the process for determination of the Successor Licensee's Allowed Revenue – in particular to place obligations on DCC to prepare and submit a costed Business Plan to Ofgem to cover the first Price Control Period of the Successor Licensee. We are consulting on the Licence modifications alone.

Background

- 1.1 DCC is subject to an annual *ex-post* price control by Ofgem. By 31st July following the end of each Regulator Year DCC is required to submit to Ofgem Price Control Information in line with Ofgem-published Regulatory Instructions and Guidance (RIGs).⁴ Alongside its annual Price Control Information, DCC must also submit to Ofgem a report on cost performance to Ofgem to assess costs associated with the provision of Mandatory Business Services in order to determine whether they were economically and efficiently incurred.⁵ Ofgem has the power to remove from DCC's Allowed Revenue any costs deemed to be Unacceptable.⁶
- 1.2 This form of *ex-post* price control has been in place since the commencement of the Licence Term. In December 2024 we published a consultation⁷ on a transition and detailed design of a full, multiannual *ex-ante* cost control regime to be introduced under the Successor Licence. Under the new regime all of the Successor Licensee's Allowed Revenue will have to be approved by Ofgem *upfront* before costs are incurred and the Allowed Revenue will be set for a period longer than one Regulatory Year.
- 1.3 In the consultation we proposed to start implementing some of the changes during the remaining term of the current Licence. The consultation closed in early February 2025. Through this consultation we have reached several conclusions in relation to the implementation impacting the current Licensee, which are listed below. The complete details are set out in our decision document published alongside this consultation.⁸

⁴ LCs 32 and 33

⁵ LC 37 Part A

⁶ LC 37 Part B

⁷ Ofgem (2024), DCC Review Phase 2: Determination of Allowed Revenue.

www.ofgem.gov.uk/consultation/dcc-review-phase-2-determination-allowed-revenue

⁸ Ofgem (2025), DCC Review Phase 2: Determination of Allowed Revenue – conclusions.

www.ofgem.gov.uk/publications/dcc-review-phase-2-determination-allowed-revenue-conclusions

Policy conclusions

- 1.4 Firstly, we concluded that the first *ex-ante* cost control period under the Successor Licence (the First Price Control Period of the Successor Licensee) will commence on Transfer Date⁹ and will last until 31st March 2028.
- 1.5 Secondly, we concluded that the current Licensee will be responsible for preparing and submitting to Ofgem a costed business plan on the basis of which Ofgem will calculate and set the Allowed Revenue for the Successor Licensee in the First Price Control Period.
- 1.6 Thirdly, we concluded that DCC will have to engage with a Customer Challenge Group (CCG) for at least 4 months prior to the Business Plan and cost submission to Ofgem, and seek its views on the draft Business Plan.
- 1.7 Fourthly, we concluded that the CCG will be established under the Smart Energy Code (SEC).
- 1.8 **To implement these conclusions we propose to introduce two new Licence Conditions 34A and 34B, further details of which are set out in Chapter 4.**

Clarifications

- 1.9 Alongside this statutory consultation and our policy conclusions, we are publishing a consultation on the draft Terms of Reference for a Customer Challenge Group to be established under the SEC as per our policy conclusions. Our new proposed Licence Condition 34A.12 would place an obligation on DCC to issue the Business Plan Report in draft to the *SEC Panel* and consult with the *Panel* about the proposed content of the Business Plan Report. However, we expect that the Panel will establish the CCG and delegate this function to it, adopting the Terms of Reference (subject to our consultation) to make the CCG operationally independent.
- 1.10 We are also consulting on draft Business Plan Guidance to be used by DCC in preparing its draft Business Plan to be consulted on with the CCG and submitted to Ofgem.

⁹ We will formally set the Transfer Date using powers under LC 43.7(b). We expect to designate the Transfer Date in summer 2025. Our current best assumption is that the Transfer Date will occur before or in November 2026

2. Price Control and other regulatory reporting in the final Regulatory Year

Section summary

We are proposing to modify the Licence dates of the Price Control and other regulatory reporting in the final Regulatory Year (commencing on 1st April 2026) to account for the fact that Transfer Date is unlikely to occur on the same date as a Regulatory Year ordinarily finishes (31st March). We are consulting on the policy proposals as well as the Licence modifications.

Consultation questions:

Question 1: Do you agree with our proposals to modify Licence deadlines for regulatory submissions in the Licence after 31st July 2026?

Background

- 2.1 DCC Licence is due to expire on 22 September 2027 but we expect Business Handover to the Successor Licensee to occur in 2026.
- 2.2 Following the award of the Successor Licence to the Successor Licensee, the current Licensee will carry out handover of the Authorised Business in line with an Ofgem-approved Business Handover Plan. Business Handover will conclude on Transfer Date whereafter only the Successor Licensee will continue to carry out the Authorised Business under the Successor Licence.
- 2.3 Under LC 43 Part B, we expect to bring a Handover Period in force in summer 2025 (at the commencement of our selection process for the Successor Licensee). As part of this, we will also specify the Transfer Date under LC 43.7(b). Our current best estimate is that the Transfer Date will occur in or before November 2026.
- 2.4 After the Transfer Date the current Licensee will continue to hold its Licence until 22 September 2027 and be subject to a number of Licence requirements, including complying with Licence conditions for Price Control and other regulatory reporting.
- 2.5 The Licence requires DCC to submit its Price Control Information for the past Regulatory Year, as well as other regulatory reporting, no later than 31st July.¹⁰

¹⁰ Licence Conditions 32.4(b) and 37.3

Policy proposals

- 2.6 We are proposing several Licence changes to account for the fact that the Business Transfer date is unlikely to coincide with the regular end-date of a Regulatory Year (31st March).
- 2.7 Firstly, we propose to amend the obligation on DCC to submit the Price Control Information for the final RY (lasting from April 2026 up to the Transfer Date) from 31st July to a date which is no later than 3 months following the Transfer Date. The impacted Licence Conditions are LC32.4(b) and LC37.3.
- 2.8 If this modification is not made, DCC will not be required submit its Price Control information for the final Regulatory Year 26/27 until 31st July 2027. As the Additional Term of the DCC Licence is due to expire in September 2027, there would not be sufficient time for Ofgem to conclude its Price Control assessment. We consider 3 months to be a reasonable time for DCC to prepare its Price Control submission following the Transfer Date. The current time available to the Licensee is four calendar months (April, May, June, July); however, as the final year is expected to last no more than 8 months the amount of information DCC would be required to submit would be comparatively less.
- 2.9 To facilitate this change, we also propose to modify the definition of the Regulatory Year in the Licence to specify that the Transfer Date will mark the end of the Regulatory Year 26/27.
- 2.10 In addition to the proposed amendment to the date for final Price Control submission, there are a number of other reporting requirements which fall on 31st July in each RY (set out in table 2.1 below).
- 2.11 For the majority of the reporting requirements, we propose to make the same modification and require DCC to make the final submission no later than 3 months following the Transfer Date. These include documents which we consider important to ensure that DCC has remained compliant to the Licence during the Handover Period, and which support the Price Control submission.
- 2.12 The exception to this proposal are three areas where we do not consider it necessary for DCC to report and which we propose to disapply using powers under LC 43.24. These are:

- Requirement to prepare a Development Plan: In line with our policy conclusions¹¹ the Development Plan will be integrated with the Business Plan to be submitted by end-2025. We therefore do not consider it necessary to require a separate Development Plan in July 2026 or thereafter.
- Due Date in respect of provision of certain certificates under LC 24 (Availability of all necessary resources): These certificates provide assurance that the Licensee at all times has at its disposal all of the necessary resources to enable it carry on its Authorised Business. As we expect the entirety of the Authorised Business to be transferred to the Successor Licensee before or in November 2026, we do not consider it necessary to require these certificates from the outgoing Licensee after the Transfer Date. The final provision of those certificates would be by 31st July 2026.
- Provision of an annual schedule of undertakings. Under LC 25 DCC must procure legally enforceable undertakings from its Ultimate Controller (Capita Plc) that they will refrain from taking any action that might cause DCC to breach or fail to discharge any of the functions required under the primary legislation, SEC or REC. DCC must provide Ofgem with a schedule of all such undertakings by 31st July each year. We do not consider it necessary to require a renewal of this schedule after the Transfer Date as the most up to date undertakings submitted by 31st July 2026 should be capable of covering the remainder of the Licence Term.

2.13 Table 2.1 below sets out the proposed modifications to requirements for regulatory reporting in respect of the final Regulatory Year.

2.14 **The proposed modifications are described in more detail in Chapter 4.**

¹¹ Ofgem (2025), DCC Review Phase 2: Determination of Allowed Revenue – conclusions. Chapter 2, section titled “Interaction Between the Business Development Plan and the costed Business Plan”. www.ofgem.gov.uk/publications/dcc-review-phase-2-determination-allowed-revenue-conclusions

Table 2.1: Overview of regulatory reporting falling on 31st July of each Regulatory Year and our proposals in respect of each

Licence condition	Purpose	Licence change of date required in respect of reporting for RY commencing on 1st April 2026
7.4	Provision of a Corporate Governance Statement	No later than 3 months post Transfer Date
14.2	Requirement to prepare a Development Plan	No change required. We propose to disapply this LC using power of direction under LC 43.24 after 31 st July 2025
24.14(b)	Due Date in respect of provision of certain certificates	No change required. We propose to disapply this LC using power of direction under LC 43.24 after 31 st July 2026
25.7	Provision of an annual schedule of undertakings	No change required. We propose to disapply this LC using power of direction under LC 43.24 after 31 st July 2026
30.10(c)	Delivery of Regulatory accounts and auditor's report	No later than 3 months post Transfer Date
30.13	Agreed Upon Procedures for the Appropriate Auditor	No later than 3 months post Transfer Date
30.14(b)	Publication of Regulatory Accounts	No later than 3 months post Transfer Date
32.4(b)	Licensee's obligations in respect of reporting [of Price Control Information]	No later than 3 months post Transfer Date
34.3	Provision of Annual Service Report	No later than 3 months post Transfer Date
36.20	Over recovery of Allowed Revenue	No later than 3 months post Transfer Date
37.3	Submission of annual report on cost performance	No later than 3 months post Transfer Date
39 App.1: A5(a),(c)	Adjustment mechanism for the ECGS term: submission of a notice proposing Relevant Adjustment	No later than 3 months post Transfer Date

3. Baseline Margin (BM) and External Contract Gainshare (ECGS)

Section summary

We are proposing modifications to the Baseline Margin Adjustment and External Contract Gain Share mechanisms to account for the Licence Term coming to an end. We are seeking stakeholder views both on the underlying policies we are minded implementing, and on the proposed licence modifications to facilitate those policies.

Consultation questions:

Question 2: What are your views on our proposals to amend the Baseline Margin Adjustment and External Contract Gain Share Mechanisms in the remainder of the Licence Term?

Background

Baseline Margin

- 3.1 DCC is permitted to earn a Baseline Margin (BM) on its economically and efficiently incurred Internal Costs as part of the calculation of its Allowed Revenue (AR) each year.¹² The monetary value of this BM was agreed with DCC as part of the competitive licence award process and fixed for each year of the Licence term up to and including 2025/26.^{13,14}
- 3.2 DCC's margin, including relevant adjustments, is put at risk each year through performance incentive mechanisms. Since 2018/19, this has been through the Operational Performance Regime (OPR) and the Baseline Margin Project Performance Adjustment (BMPPA) schemes.
- 3.3 As part of the annual Price Control, DCC can also apply for an adjustment ("**Relevant Adjustment**") to the value of BM for the year in question through a mechanism known as the Baseline Margin Adjustment (BMA) process. This mechanism was provided in the Licence to recognise the inherent uncertainty present at the time of the Licence award of the nature and risk of DCC's Mandatory Business over time, and to protect DCC against its margin being diluted over time due to material changes in the activities it carries out.

¹² As defined in Licence Condition 36.7

¹³ Each year the value of Baseline Margin defined in the licence is multiplied by the price index adjuster (PIBM) to correct for changes in the value of money over time.

¹⁴ The BM values applicable for each year are set out in appendix 1 to LC 36

- 3.4 Under one of the requirements of the existing BMA process, DCC may apply for an adjustment of the BM value, for one or more Regulatory Years (RY), by serving a Notice to the Authority:
- At any time during the month of July ("the **Application Window**") in any RY (excluding the RY 2013/14);¹⁵
 - Within the first Application Window after the date on which the grounds for proposing the Relevant Adjustment first arose;¹⁶ and
 - That contains 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 RY immediately following the RY which the Notice has been served.¹⁷
- 3.5 Where all requirements¹⁸ for a Relevant Adjustment are met, the Authority will, via a direction, determine the adjustments that are to be made to the BM values for the RY to which the BM values relate.
- 3.6 The Authority will make that determination in the **Determination Period**, which runs from the close of the Application Window until the end of the first month of November after that, unless otherwise directed in a Counter-Notice.¹⁹

External Contract Gainshare

- 3.7 Under the existing framework, the External Contract Gain Share (ECGS) functions as an **upward adjustment** to the Allowed Revenue for where DCC can secure cost savings in the Fundamental Service Provider (FSP) contracts. At present, any such savings are shared amongst DCC, its customers and where relevant, the respective service provider that is party to the FSP contract. The scope of the ECGS mechanism is currently limited to the realisations of savings against External Costs. Contrary to the treatment of BM, any upward adjustment to the Allowed Revenue because of the ECGS is **not put at risk against performance**.
- 3.8 As per the current arrangements for proposing a Relevant Adjustment to the BM, DCC may apply for an adjustment of the ECGS values, for one or more RYs, by serving a Notice to the Authority:

¹⁵ LC36, Appendix 2 (Appendix 2: Adjustment mechanism for the BM term), Part A: Requirements for the proposal of Relevant Adjustments, A6 (a)

¹⁶ LC36, Appendix 2 (Appendix 2: Adjustment mechanism for the BM term), Part A: Requirements for the proposal of Relevant Adjustments, A6 (b)

¹⁷ LC36, Appendix 2 (Appendix 2: Adjustment mechanism for the BM term), Part A: Requirements for the proposal of Relevant Adjustments, A6 (c)

¹⁸ LC36, Appendix 2 (Adjustment Mechanism for the BM Term), Part A: Requirements for the proposal of Relevant Adjustments)

¹⁹ LC36 – Appendix 2, A (8)

- At any time during the month of July (“the **Application Window**”) in any RY excluding the RY 2013/14);²⁰
 - Within the first Application Window after the date on which the grounds for proposing the Relevant Adjustment first arose;²¹ and
 - That contains 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 RY immediately following the RY which the Notice has been served.²²
- 3.9 Similarly, where all requirements²³ for a Relevant Adjustment to the ECGS term are met, the Authority will, via a direction, determine the adjustments that are to be made to the ECGS values for the RY to which the ECGS values relate.
- 3.10 The Authority will make that determination in the **Determination Period**, which runs from the close of the Application Window until the end of the first month of November after that, unless otherwise directed in a Counter-Notice.²⁴

Policy proposals

- 3.11 DCC will be able to earn BM and ECGS until the end of the current Licence on 22 September 2027; after that, the Successor Licensee will operate under a new Licence framework, which will be not-for-profit, meaning the financial incentive for the parent company will be removed.
- 3.12 Changes will be required to the current Licence arrangements to ensure that:
- DCC is able to serve a Notice to the Authority for proposing a Relevant Adjustment to the BM term for the final RY 2026/27. To facilitate this, we propose that DCC can do this within a period of three months beginning with the Transfer Date.
 - The Authority is able to determine all Relevant Adjustments that DCC proposes to the BM term (including for the final RY 2026/27) before the expiry of the Licence on 22 September 2027.

²⁰ LC36, Appendix 2 (Appendix 2: Adjustment mechanism for the BM term), Part A: Requirements for the proposal of Relevant Adjustments, A5 (a)

²¹ LC36, Appendix 2 (Appendix 2: Adjustment mechanism for the BM term), Part A: Requirements for the proposal of Relevant Adjustments, A6 (b)

²² LC36, Appendix 2 (Appendix 2: Adjustment mechanism for the BM term), Part A: Requirements for the proposal of Relevant Adjustments, A6 (c)

²³ LC36, Appendix 2: Adjustment Mechanism for the BM Term (Part A: Requirements for the proposal of Relevant Adjustments)

²⁴ LC36 – Appendix 2, A (8)

- 3.13 Failure to implement these changes would prevent DCC from earning the BM that it is permitted to (including any relevant adjustments it wishes to apply for), under the existing Licence, until the end of the Licence term.
- 3.14 DCC is permitted to earn a Baseline Margin (BM) on its economic and efficiently incurred Internal Costs as part of the calculation of its Allowed Revenue (AR) each year.²⁵ The monetary value of this BM was agreed with DCC as part of the competitive licence award process and fixed for each year of the licence term up to and including 2025/26.^{26,27}
- 3.15 Similarly, changes will be required to the current Licence arrangements to ensure that DCC can serve a Notice to the Authority for proposing a Relevant Adjustment to the ECGS term for the final RY 2026/27. The Relevant Adjustment to the ECGS term, as proposed by Notice to the Authority for the RY26/27, will be determined by the Authority before the expiry of the Licence on 22 September 2027.
- 3.16 **The proposed Licence changes are set out in more detail in Chapter 4.**

²⁵ As defined in Licence Condition 36.7

²⁶ Each year the value of Baseline Margin defined in the licence is multiplied by the price index adjuster (PIBM) to correct for changes in the value of money over time.

²⁷ The BM values applicable for each year are set out in appendix 1 to LC 36

4. Proposed Licence changes

Section summary

This chapter sets out the proposed modifications to the Licence:

- Giving effect to our conclusions on the implementation of the *ex-ante* process for determination of the Successor Licensee's Allowed Revenue in the First Cost Control Cycle
- Amending the dates in respect of certain reporting requirements, including the Price Control submission, in the Licence to account for the Transfer Date
- Amending the Baseline Margin Adjustment and External Contract Gain Share mechanisms
- Making a small number of housekeeping changes

Consultation questions:

Question 3: What are your views on the proposed Licence modifications? How well do they support our policy intent across the consulted areas? Do you have any views on the proposed housekeeping changes?

4.1 DCC Licence is due to expire on 22 September 2027 but we expect Business Handover to the Successor Licensee to occur in 2026.

4.2 To establish and implement the proposed changes above, we consider that modifications to the Licence are required in the following areas:

1. Implementation of the first ex-ante cost control cycle

4.3 We are proposing to introduce two new Licence conditions:

- Condition 34A (Successor Licensee Business Plan Report)
- Condition 34B (Successor Licensee Price Control Information)

4.4 Conditions 34A and 34B introduce the new duties on DCC to prepare and submit information to Ofgem to allow it to set the allowed revenue for the Successor Licensee in the period beginning with the Transfer Date and ending with 31 March 2028 (the "First Price Control Period" – defined in Part F of the new LC34A).

4.5 Under the NFP model, the Successor Licensee's Allowed Revenue will be equal to the revenue it needs to meet the costs likely to be incurred to economically and efficiently carry on the Authorised Business of the Successor Licensee. This will form the definition of the "Successor Licensee's Required Revenue" in Part A of new LC 34A.

- 4.6 Part B of LC 34A introduces the new duty on DCC to submit a Business Plan Report to Ofgem in accordance with Ofgem's guidance. As well as describing what the Business Plan Report must contain, Ofgem will provide DCC with the necessary guidance to facilitate the discharge of this duty. For example, DCC will need to understand what the Authorised Business under the next SMCL will look like, when the Transfer Date is likely to be and what information Ofgem needs. Ofgem must describe all of this in Business Plan Guidance under Part C of LC 34A. The proposed date of 29th August 2025 in LC 34A.9 and 34B.6 reflects the date on which DCC will be required to submit its draft Business Plan to the Customer Challenge Group; however, we will aim to provide DCC with the Business Plan Guidance and the Successor Licensee Regulatory Instruction and Guidance by 31st July 2025. We have issued a consultation on the draft Business Plan Guidance alongside this consultation and expect to consult on the revised Successor Licensee RIGs in June 2025.²⁸
- 4.7 As set out in the consultation of December 2024, DCC is in the best position to understand the required revenue of the Successor Licensee and so, irrespective of the guidance and Ofgem's description of the information it needs, DCC will be obliged to provide any information it thinks Ofgem may require to determine the Required Revenue (LC 34A.7).
- 4.8 Part D of LC 34A describes the procedure DCC must follow when preparing the Business Plan Report, including the duty to consult with the CCG. The CCG has not yet been established under the SEC and so the licence refers to the SEC Panel. As described above (paragraph 1.9), the CCG is expected to be an operationally independent sub-committee under the SEC.
- 4.9 Without prejudice to the generality of LC 29, Part E will provide Ofgem with the power to require further information from DCC to determine the Required Revenue. This will apply to both the Business Plan Report and the more detailed price control information under new LC 34B.
- 4.10 In addition to the Business Plan Report, Part A of new LC 34B will require more detailed price control information. This will complement the Business Plan Report and will be similar to the information DCC currently submits on an ex-post basis under the RIGs in LCs 32 and 33. However, if DCC has already provided

²⁸ Ofgem (2025), Consultation on [...] draft Business Plan Guidance.
www.ofgem.gov.uk/publications/draft-terms-reference-customer-challenge-group-and-draft-business-plan-guidance

information in the Business Plan Report, DCC will not need to provide it again under LC 34B.

- 4.11 As with the Business Plan Report, Ofgem will provide DCC with guidance and information to facilitate the discharge of this duty under Part B of LC 34B.

2. Price Control and other regulatory reporting in the final Regulatory Year

- 4.12 We are proposing the following amendments to the dates of the final Price Control and other regulatory submissions to account for the timing of Business Handover:

Condition 1 (Definitions for the Conditions of this Licence)

- 4.13 Part A (Definitions arranged in alphabetical order)
- Modification to the definition of the term “Regulatory Year” to specify that when the Handover Period is in force, the Regulatory Year commencing on 1st April will end on Transfer Date
 - Inclusion of the definition of the term “Transfer Date” in reference to paragraph 7 of Condition 43
 - Inclusion of the definition of the term “Handover Period” in reference to Condition 43

Condition 7 (General Controls for the Authorised Business)

- 4.14 Part A (Requirement for corporate governance arrangements):
- Exclusion of reference to 31st July from LC7.4
 - Inclusion of a new LC7.4A to specify that the Corporate Governance Statement must be provided:
 - Where it relates to the Regulatory Year beginning with 1 April 2026, within the period of three months beginning with the Transfer Date, and
 - Where it relates to any other Regulatory Year, on or before 31 July in the following Regulatory Year (no policy change)

Condition 30. Requirements for the Regulatory Accounts

- 4.15 Part D (Audit and delivery of the Regulatory Accounts)
- Amendment to LC30.10(c) to specify that Regulatory Accounts must be delivered to the Authority
 - In the Regulatory Year beginning with 1 April 2026, within the period of three months beginning with the Transfer Date;
 - In any other Regulatory Year, on or before 31 July after the end of that Regulatory Year (no policy change)

4.16 Part F (Agreed Upon Procedures for the Appropriate Auditor)

- Exclusion of reference to 31st July from LC30.13
- Inclusion of a new LC30.13A to specify that an auditor's report must be delivered to the Authority:
 - Where that report relates to the Regulatory Year beginning with 1 April 2026, within the period of three months beginning with the Transfer Date;
 - Where that report relates to any other Regulatory Year, on or before 31 July after the end of that Regulatory Year (no policy change)

4.17 Part G (Publication and provision of the Regulatory Accounts):

- Amendment to LC30.14(b) to specify the publication date for Regulatory Accounts as follows:
 - For accounts that relate to the Regulatory Year beginning with 1st April 2026, within the period of three months beginning with the Transfer Date
 - For accounts that relate to any other Regulatory Year, 31st July after the end of that Regulatory year (no policy change)

Condition 32 (Reporting of Price Control Information)

4.18 Part A (Licensee's obligations in respect of reporting):

- A change to LC32.4(b) to specify that Price Control Information is to be submitted to the Authority:
 - For the regulatory Year beginning on 1st April 2026, no later than 3 months after the Transfer Date
 - For any other Regulatory Year, on or before 31st July in the following Regulatory Year (no policy change)

Condition 34. Annual Service Report to the Authority

4.19 Part A (Requirement to prepare an Annual Service Report):

- Exclusion of reference to 31st July from LC34.3
- Inclusion of a new LC33.3A to specify that the Annual Service Report must be submitted to the Authority:
 - Where it relates to the Regulatory Year beginning with 1 April 2026, within the period of three months beginning with the Transfer Date
 - Where it relates to any other Regulatory Year, on or before 31 July in the following Regulatory Year (no policy change)

Condition 36 (Determination of the Licensee's Allowed Revenue)

4.20 Part G (Calculation of the correction factor (K)):

- Inclusion of a new LC36.20A to specify that an explanation [to justify a potential over-recovery of Allowed Revenue] must be delivered to the Authority:
 - Where Regulatory Year t-1 begins with 1 April 2026, within the period of three months beginning with the Transfer Date
 - Where Regulatory Year t-1 begins with any other date, on or before 31 July of the Regulatory Year t (no policy change)

Condition 37 (Assessment of Mandatory Business costs)

4.21 Part A (Submission of annual report on cost performance)

- A change to LC37.3 to replace the words "by 31st July in the next Regulatory Year, as required by" with "in accordance with paragraph 4 of" [Condition 32] to reflect the different submission date of the Price Control Information in the final Regulatory Year.

Condition 39 (Determination of External Contract Gain Share)

4.22 Appendix 1: Adjustment mechanism for the ECGS term (Part A: Requirements for the proposal of Relevant Adjustments):

- A change to paragraph A5(a) to specify that a Notice of a proposed Relevant Adjustment, *provided that it complies in all respects with the provisions of Part A of Appendix 1 to LC39*, may be served:
 - Where the notice relates to the Regulatory Year 2026/27, within the period of three months beginning with the Transfer Date
 - Where the notice relates to any other in any Regulatory Year (excluding Regulatory Years 2013/14 and 2014/15), at any time during the month of July in a preceding Regulatory Year (no policy change)

3. Baseline Margin (BM) and External Contract Gainshare (ECGS)

4.23 The key amendments to the Licence, associated with the proposed policy changes to accommodate the determination of DCC's Baseline Margin and the External Contract Gainshare before the expiry of the existing DCC Licence, include:

Condition 36. Determination of the Licensee's Allowed Revenue (Appendix 2: Adjustment mechanism for the BM term)

4.24 Part A: Requirements for the proposal of Relevant Adjustments (A6)

- A change to LC36, Appendix 2, A6 (a), to reflect that the Application Window for when the notice, for proposing a Relevant Adjustment to the BM, may be served is to be interpreted as:
 - Within the period of three months beginning with the Transfer Date, for where the notice relates to the Regulatory Year 2026/27; and
 - For where the notice relates to any other Regulatory Year (except for the Regulatory Year 2013/14), any time during July in a preceding Regulatory Year.
- A change to LC36, Appendix 2, A6 (c), to reflect that, *other than for the Regulatory Year 26/27*, the notice must contain an Adjustment Date (being the date on which it is proposed that the Relevant Adjustment should take effect), that is not earlier than 1 April of the Regulatory Year immediately following the Regulatory Year in which the notice has been served.

4.25 Part F: Interpretation (A16)

- A change to the definition of "Determination Period" so that it means that for a notice served in the:
 - Regulatory Year 2025/26, the period beginning 1 August 2024 and ending with 28 February 2026 (or such later date as may be directed by the Authority in a Counter-Notice); and
 - Regulatory Year 2026/27, the period beginning 1 August 2025 and ending with 22 September 2027 (or such later date as may be directed by the Authority in a Counter-Notice).

Condition 39. Determination of External Contract Gain Share

4.26 Appendix 1: Adjustment mechanism for the ECGS term (Part A: Requirements for the proposal of Relevant Adjustments)

- A change to A (2) to extend the period for which DCC can propose, by Notice to the Authority, a Relevant Adjustment to the value of the ECGS term i.e. to account for the final Regulatory Year 2026/27.

4. Housekeeping changes

4.27 In addition to these changes, we are also taking this opportunity to propose the following minor housekeeping changes to the Licence:

Licensee Address (various references in the SMCL)

4.28 The Licensee's address on the second cover page is incorrect. The address should read:

*First Floor, 2 Kingdom Street
Paddington
London W2 6BD*

4.29 In addition to the second cover page, the address will be updated in the following sections of the Licence:

- Part 1, Section B
- LC 1 – in the definition of the term "Licensee"
- LC 3.2
- Schedule 2, paragraph 2.1

Condition 39. Determination of External Contract Gain Share

4.30 The Licence erroneously refers in LC39.5 to the amount of the ECGS term being allowed to be varied for any one or more of the Regulatory Years from 2015/16 to 2024/25 as opposed until the end of the (initial) Licence Term in 2025/26. We propose this is corrected to account for the final Regulatory Year 2026/27.

Appendices

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Appendix 1 – Draft Licence changes

The Licence document published alongside this consultation on our website sets out the draft changes to the Licences proposed in this consultation. The document shows the proposed changes against the up-to-date version of the consolidated Licence conditions available on our website at the time of publishing.

Appendix 2 – Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, “Ofgem”). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data

(Include here all organisations outside Ofgem who will be given all or some of the data. There is no need to include organisations that will only receive anonymised data. If different organisations see different set of data then make this clear. Be as specific as possible.)

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for (be as clear as possible but allow room for changes to programmes or policy. It is acceptable to give a relative time e.g. ‘six months after the project is closed’)

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data

- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use “the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this”.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system. (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

10. More information For more information on how Ofgem processes your data, click on the link to our “[ofgem privacy promise](#)”.