

Decision

Terms of Reference for Customer Challenge Group and Business Plan Guidance

Publication date:	15/07/2025
-------------------	------------

Contact:	Jakub Komarek
----------	---------------

Team:	DCC Oversight & Regulatory Review
-------	-----------------------------------

Email:	DCCRegulation@ofgem.gov.uk
--------	----------------------------------------------------------------------------

This decision document sets out the conclusion of our consultation on two guidance documents to underpin a move to *ex-ante* cost control regime for the Successor Smart Meter Communication Licence holder:

- Terms of Reference for a SEC Customers Challenge Group
- Business Plan Guidance

Both documents will take effect from the publication date of 15th July 2025.

© Crown copyright 2025

The text of this document may be reproduced (excluding logos) under and in accordance with the terms of the [Open Government Licence](#).

Without prejudice to the generality of the terms of the Open Government Licence the material that is reproduced must be acknowledged as Crown copyright and the document title of this document must be specified in that acknowledgement.

Any enquiries related to the text of this publication should be sent to Ofgem at:
10 South Colonnade, Canary Wharf, London, E14 4PU.

This publication is available at www.ofgem.gov.uk. Any enquiries regarding the use and re-use of this information resource should be sent to: psi@nationalarchives.gsi.gov.uk

Contents

Executive Summary	4
Introduction.....	5
1. Customer Challenge Group Terms of Reference.....	8
2. Business Plan Guidance.....	19

Executive Summary

We sought views on two guidance documents to underpin the implementation of the first ex-ante cost control cycle for the holder of the Successor Smart Meter Communication Licence (the “Successor Licensee”).

Customer Challenge Group Terms of Reference

As per our May 2025 conclusion and July 2025 statutory decision, prior to its submission of a costed Business Plan and Price Control Information to Ofgem the Licensee is required to consult with a customer challenge group (CCG) to be established under the Smart Energy Code (SEC). We consulted on the draft text of the CCG’s terms of reference (ToR) to serve as a blueprint for the engagement process. Respondents generally supported the proposed text of the ToR. Some raised specific comments about the relationship between the SEC Panel and the CCG, CCG’s membership and the appointment process, the scope of the Group’s role, the term of appointments of the CCG’s members, the quality of engagement in the first Business Plan cycle and the voting arrangements. Some respondents also commented on specific draft clauses. We have made amendments to the final text of the ToR to clarify our policy intent where needed and to respond to the comments raised and published the final version of the ToR alongside this decision. The ToR will take effect from 15th July 2025.

Business Plan Guidance

To help DCC prepare a costed Business Plan and *ex-ante* Price Control Information for the first cost control period, we consulted on a draft text of a guidance setting out the Business Planning process, required content, format and presentation of the Plan, as well as the processes and procedures we expect to apply in our assessment of DCC’s submission. We received broad support from respondents for our draft Business Plan Guidance. We have made some amendments to the final text of the guidance to respond to specific comments and to clarify our intent. The Business Plan Guidance will take effect from 15th July 2025. It is published alongside this decision pursuant to LC 34A.9 of the Smart Meter Communication Licence. It is subject to revision under the Successor Licence.

Introduction

The Data Communications Company (DCC) is responsible under the Smart Meter Communication Licence for establishing and operating a secure national communications network for smart metering in Great Britain. The current Licensee is Smart DCC Ltd (“DCC1”) whose Licence was awarded by the Government in 2013 and is now due to expire in September 2027. Ahead of the Licence expiry we are reviewing (“DCC review”) the regulatory regime to put in place a new set of arrangements under a Successor Licence and to award that Licence to a Successor Licensee.

In August 2023 we concluded the first, scoping phase of the DCC review with a set of key features to form the basis of the design of the new regulatory model. One of these was a transition to an *ex-ante* form of cost control.

In December 2024 we published a consultation on the detailed design of an *ex-ante* cost control regime and its implementation. We published our decision in May 2025. This included our conclusions that:

- DCC1 will be responsible for submitting to Ofgem the first Business Plan and Price Control Information to allow Ofgem to set the Allowed Revenue of the Successor Licensee in the first cost control period (from Transfer Date¹ until 31st March 2028)
- Prior to its submission, DCC1 will be required to consult with a customer challenge group to be established under the Smart Energy Code (SEC)

We subsequently sought views on the draft text of two guidance documents to underpin the implementation of these conclusions:

- Draft Terms of Reference for Customer Challenge Group
- Draft Business Plan Guidance

This decision should be read alongside our May 2025 conclusions document and our July 2025 statutory decision to modify the Licence. An overview and links to the key documents are provided below (“Related publications”).

¹ Transfer Date has the meaning given to that term in LC 43.7.

Decision –Terms of Reference for Customer Challenge Group and Business Plan Guidance

Related publications

Document	Published	Link
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 the draft Terms of Reference for Customer Challenge Group and the draft Business Plan Guidance	May 2025	www.ofgem.gov.uk/consultation/draft-terms-reference-customer-challenge-group-and-draft-business-plan-guidance
Consultation on draft Successor Licensee Regulatory Instructions and Guidance	June 2025	www.ofgem.gov.uk/consultation/draft-regulatory-instructions-and-guidance-successor-licensee
Statutory decision on interim changes to the DCC Licence	July 2025	www.ofgem.gov.uk/decision/modifications-smart-meter-communication-licence-transition-ex-ante-cost-control-and-other-changes-required-licence-closure-decision
The DCC Licence	-	www.ofgem.gov.uk/licences-and-licence-conditions

Decision-making stages

Date	Stage description
09/05/2025	Stage 1: Consultation opened
07/06/2025	Stage 2: Consultation closed (awaiting decision), Deadline for responses
15/07/2025	Stage 3: Responses reviewed and published
15/07/2025	Stage 4: Decision published

General feedback

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

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

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

1.Customer Challenge Group Terms of Reference

Section summary

Respondents generally supported the proposed text of the draft ToR. Some raised specific comments about the relationship between the SEC Panel and the CCG, CCG’s membership and the appointment process, the scope of the Group’s role, the term of appointments of the CCG’s members, the quality of engagement in the first Business Plan cycle and the voting arrangements. Some respondents also commented on specific draft clauses. We have made amendments to the final text of the ToR to clarify our policy intent where needed and to respond to the comments raised. These ToR will take effect from the publication date of this decision.

Questions posed at consultation

- Q1. Do the Terms of Reference provide a clear description of the role, membership, operations and outputs of the Customer Challenge Group?
- Q2. Do you have any views on the draft text of the Terms of Reference?
- Q3. What, if anything, is missing from the draft Terms of Reference?

Background

- 1.1 The first document, which we sought views on, were draft terms of reference (ToR) for a customer challenge group (CCG) to be established under the Smart Energy Code for the purposes of providing a challenge to the Licensee’s business planning process and monitoring the Licensee’s business plan delivery.
- 1.2 The ToR outlined the following matters relating to the establishment and functioning of the Customer Challenge Group:
 - Objectives
 - Membership
 - Roles and responsibilities
 - Outputs
 - Process for review of the ToR
- 1.3 We explained that The ToR will provide as a blueprint for the engagement process, ensuring clarity and accountability for all stakeholders.

Summary of responses: general comments

- 1.4 We received 8 responses in total. All respondents were broadly supportive of our proposals. They welcomed the ToR providing a clear framework for the Group’s role, objectives and ways of working, the Group’s role in scrutinising DCC’s proposed expenditure as well as proportional representation of different SEC groups. Nevertheless, some respondents raised specific comments or concerns which we summarise below.
- 1.5 Several respondents raised questions about the **relationship between the Panel and the CCG**:
- A couple of respondents suggested that the CCG should be explicitly mentioned in the relevant condition of the DCC Licence² to recognise that it is intended to operate independently of the SEC Panel.
 - The SEC Panel argued strongly that the Panel should be given visibility of the Group’s final Report (redacted to the extent necessary to comply with the Panel Information Policy) prior to its submission to Ofgem to recognise the regulatory obligation introduced into the DCC Licence requiring DCC to consult with the Panel, and to align to SEC governance.
 - One respondent asked that the ToR, referring specifically to clause **2.10**, should clarify how the CCG will be accountable to the SEC Panel.
- 1.6 Some respondents felt the proposed **membership** of large supplier representatives was too restrictive. They noted that limiting the number of seats for larger suppliers would reduce visibility of key cost information to the main funding parties as representatives would be restricted in what information they can share with the wider SEC community. One respondent suggested that having more customer representatives in the Group would increase knowledge and reduce the need for external consultations. They also argued that this would lessen the burden on smaller CCG members. Another respondent noted that the ToR is unclear on whether the CCG can commission external analysis (eg for benchmarking costs, risk assessment). A couple of respondents suggested that chairs of other SEC subcommittees (eg Operations and TABASC groups) become core members of the CCG to provide the CCG with immediate access to existing smart metering expertise, along with a deep understanding of DCC challenges and programmes – at minimum for the initial Business Plan review cycle.

² 34A.12

- 1.7 One respondent raised concerns on the uncertainty around how CCG members are **appointed**. They suggested that each cohort (constituency) should elect its own representatives, as is the established practice in other SEC subcommittees, with the SEC Panel only intervening in the case of a tie or to approve the outcome. One respondent expressed preference for a SEC Panel's role in the appointment of the Group's Chair. They argued that this would mitigate the risk of a conflict of interests if SECCo sought to apply to become the holder of the Successor Licence.
- 1.8 A few respondents commented on the **scope of the CCG's role**:
- One proposed that the CCG could provide views on performance targets for key activities, mechanism changes to the Allowed Revenue model (eg stretch efficiency targets), proposed customer satisfaction survey; and review and agree DCC's forecasts before the costs are incurred.
 - One respondent raised concerns about the risk of the **fragmentation of roles** and responsibilities and noted a perceived overlap between CCG's role and SEC Operations.
 - Similarly, another raised concerns that the quarterly review process by the CCG may overlap with DCC's broader customer engagement activities, such as the QFF (Quarterly Finance Forum).
- 1.9 A couple of respondents commented on the members' **term of appointment** and **change in membership**. One suggested that a seat be held for the duration of a Cost Control Period to provide consistency in the feedback being shared. Another suggested that the proposed changes could disrupt the CCG's review of the second *ex-ante* business plan and asked that Ofgem consider adjusting the timing of a membership review.
- 1.10 One respondent raised concerns about the outgoing Licensee (DCC1) preparing the submission on the basis of which Ofgem will calculate the Allowed Revenue for the Successor Licensee (DCC2), with a risk that **DCC1 will not have enough skin in the game** to provide adequate information leading to subsequent impacts on costs and service delivery. They suggested that a suitable incentive placing a portion of DCC1's margin at risk against the delivery of a high quality Business Plan and Price Control Information could help mitigate this. Similarly, another respondent was concerned about the completeness of the BPG provided by DCC to the CCG.

- 1.11 A couple of respondents highlighted a lack of explicit provisions for **voting arrangements** in the ToR.

Our response to general comments

- 1.12 **Relationship between CCG and the Panel:** As explained in our statutory decision,³ we expect that, in practice, the SEC Panel will delegate its function to the CCG to be constituted as its sub-committee; however, the CCG has not yet been established under the SEC so it is appropriate for the Licence to refer to the Panel. We understand the Panel's concern and we agree that the Panel should have the opportunity to receive a suitably redacted version of the Group's Report for review and discussion, so long as the contents of the report are not altered by the Panel or its release to Ofgem delayed. We have made an amendment to clause **4.14** to that effect. The CCG's accountability relates to the Panel's role as set out in clauses 4.10-4.14 and various other provisions of the ToR; for example, the Panel has a role in constituting the CCG as its subcommittee,⁴ may under certain circumstances appoint or remove the Group's members⁵ and can receive a redacted copy of the Group's report for discussion.⁶
- 1.13 **Membership:** We note the comments about the representation of large suppliers. While we understand the desire from large suppliers to each be represented within the Group, the ToR seeks to balance the interest of all DCC customers while maintaining operational efficiency of the Group. We remain of the view that up to three members from the large supplier constituency is pragmatic to ensure large suppliers have a strong voice without making the Group's membership excessive. The membership follows a precedent of the SEC Panel composition where large suppliers share two representatives. Furthermore, we would reiterate that the Group is not intended to be the sole forum for customer engagement and that DCC should ensure effective communication and consultation with its customers throughout the business cycle. Our Business Plan Guidance sets out clear expectation on evidence of customer engagement.⁷ In relation to sourcing expertise, the Group is not prohibited from commissioning external analysis, so long as confidentiality of sensitive information is protected.

³ Ofgem (2025), Modifications to the Smart Meter Communication Licence for transition to ex-ante cost control and other changes required for licence closure: decision, paragraph 4.3. www.ofgem.gov.uk/decision/modifications-smart-meter-communication-licence-transition-ex-ante-cost-control-and-other-changes-required-licence-closure-decision.

⁴ ToR, 1.3

⁵ ToR, 3.4-3.6, 3.9, 3.12(b),

⁶ ToR, 4.14

⁷ Business Plan Guidance, Section 3, Part D

We agree that expertise of other subcommittee chairs could be beneficial to the CCG; however, we do not consider it necessary to amend the core membership to facilitate this. The Group has the flexibility to draw on internal expertise by inviting members or chairs of other SEC sub-committees as non-core members as and when required. This would also help ensure that members or chairs of other groups are not tied to the CCG and are able to balance their responsibilities. We have nonetheless specified in clause 3.17 that the CCG's core members are not prohibited from serving as members or chair of other sub-committees (but not as Panel members to protect the Group's independence) to allow constituencies greater flexibility in appointing their representatives.

- 1.14 **Appointments:** We agree that each constituency should elect its own representatives (as set out in clause 3.10) and intend for standard SEC procedures to apply in the appointment of the Group members. We envisaged a potential role for the SEC Panel in helping to source a consumer representative (as set out in sub-clause 3.12(b)) in the event that no nomination is received from Citizens Advice/Citizens Advice Scotland. We note the concern about a potential conflict of interest in the appointment of the Chair. We believe this is currently sufficiently mitigated by the process set out in clauses 3.4-3.6, which include requirements on independence and declaration of any conflicts of interest, fair and transparent process and Ofgem review of a shortlist of candidates.
- 1.15 **Scope of CCG's role:** We note stakeholder suggestions in respect of additional roles that the CCG could take on. Performance targets are an important way of measuring how well DCC delivers its Mandatory Business services. The key performance targets are set out in the SEC⁸ and we would expect DCC's Business Plan to be aligned to these requirements. Furthermore, as set out in the Business Plan Guidance DCC's business plans should identify key metrics to measure service providers' performance;⁹ its customer engagement strategy should include clearly defined performance commitments;¹⁰ and reopener applications should include a description of how performance will be monitored.¹¹ The Group may comment on any of these aspects. Regarding the risk of overlaps with different groups, we do not intend for the CCG to duplicate activities and work undertaken in other groups. DCC should highlight what engagement it has

⁸ Notably in Section H (DCC Services) and Appendix E (User Interface Services Schedule) for Core Communication Services' Target Response Time

⁹ Business Plan Guidance, 3.29(c)

¹⁰ Business Plan Guidance, 3.38(c)

¹¹ Business Plan Guidance, 6.20(e)

undertaken on various aspects of its plans and the Group may seek validation or assurance and focus on areas which have not received scrutiny. Equally, although the CCG will have a role in reviewing DCC's delivery of the approved Business Plan on time and budget, it is not intended to duplicate BAU work of other sub-committees such as the Operations group. We would encourage the subcommittee chairs and the Panel to work together to stay joined up on the activities undertaken by each subcommittee. While we understand DCC's concern about the interaction of the quarterly reporting to the CCG with the QFF, we would encourage DCC to work with customers and the CCG to find a pragmatic way to provide QFF updates, for example by adapting the quarterly reporting to CCG for a wider audience.

- 1.16 **Term of appointment:** Terms of appointment should balance retention of expertise with the risk of inertia. We agree that it would be beneficial to prioritise stability for the first two cycles, such that members stay in place until at least Ofgem's decision on the second Business Plan in Q1 2028. This means that members appointed in summer 2025 would serve for c.2.5 years in the first instance with a periodic review of membership aligned to the cost control cycles thereafter. For the first Chair, we will allow for an interim appointment in the first instance (until at least the Group's submission of its final Report in respect of the first Business Plan to Ofgem) followed by a permanent appointment to be confirmed thereafter. We will keep this under review to ensure sufficient flexibility.
- 1.17 **Quality of the first Business Plan submission:** We note stakeholders' concern about the completeness of information provided to the CCG by DCC1 during the first cycle. We note the new regulatory obligations placed on DCC1 through our recent amendments to the Smart Meter Communication Licence, including a requirement on DCC under LC34A.12(c) to consult in good faith; as well as the detailed requirements on DCC's submission through the Business Plan Guidance and the ToR, esp. subclauses 4.1(c)-(e) which includes the Group's ability to request additional information.
- 1.18 **Voting arrangements:** For clarity and completeness we have included in the ToR provisions for voting,¹² adopting standard arrangements in place for the SEC Panel and other sub-committees backed up by Section C of the SEC. We would

¹² Clauses 3.30(f) and 3.31-3.33

not expect the Group to make resolutions beyond the approval of the final version of the Report to be submitted to Ofgem.

Summary of responses: Comments on specific clauses

1.19 In relation to the CCG's draft objectives one respondent proposed an amendment to clause **2.1(c)** to require the CCG to "*submit its commentary on DCC's adherence and delivery against the Business Plan in the subsequent years*"

- **Our view:** We agree with this proposal to align the objectives of the Group to the roles and responsibilities set out in section 4. Consequently, we have made a minor amendment to clause 2.1(c).

1.20 In respect of the relationship between the CCG and other groups/Ofgem, one respondent expressed concerns that DCC could prioritise its engagement with the CCG and the SEC Panel. Therefore, the Licensee, under clause **2.6**, should be required to evidence to Ofgem in its final report how it has engaged with both the CCG and wider funding Users.

- **Our view:** Clause 2.6 clarifies that "DCC is expected to continue its engagement with customers through consultations and other appropriate forums and channels". The BPG further specifies that the Business Plan must "set out how the Licensee has incorporated the views and feedback provided to it by stakeholders which the Licensee has consulted with in developing the Plan."¹³ We therefore do not consider further amendments to be necessary.

1.21 One respondent asked that clause **2.9** should clarify whether the CCG members can directly engage with their SEC constituencies – as long as confidentiality agreements are respected. Similarly, they suggested that an update to clause **3.30** to allow the Group to publish a version of its minutes with a "TLP: Green" for review of the SEC Parties.

- **Our view:** As required by paragraphs 2.4 and 3.3(b) and (c), members shall abide by the confidentiality and disclosure provisions (as set out in Section M of the SEC and the Panel Information Policy) any other confidentiality and disclosure provisions as the Group may agree with DCC. Core members are not prohibited to engage with other SEC Parties, providing these provisions are adhered to. This includes the sharing of appropriately redacted minutes.

¹³ Business Plan Guidance, Section 3 Part D

- 1.22 In respect of membership clause **3.16**, one respondent suggested that alternates should be nominated from the same constituency as the member proposing them to ensure representation of views.
- **Our view:** We agree with the suggestion that Alternates should be nominated from the same constituency as the members proposing them and have made a corresponding amendment to clause 3.16.
- 1.23 One respondent commented on the practice in other working groups in which Ofgem representative may provide clarifications or guidance to the group and asked that clause **3.22** be amended to support that.
- **Our view:** Because the determination of DCC’s Allowed Revenue remains Ofgem’s sole responsibility and to safeguard the Group’s operational independence, we do not consider it appropriate for Ofgem representative to participate in the proceedings in any other than an observer capacity. However, we remain open to engagement with all stakeholders via standard communication routes.
- 1.24 DCC asked that its representative should be allowed to call in Subject Matter Experts to help explain complex elements of the Business Plan to the Group.
- **Our view:** We agree that it is reasonable for DCC to be able to invite, at the Chair’s discretion, its internal experts to present the Plan or respond to questions. Consequently, we have amended clause 3.25.
- 1.25 A couple of respondents raised concerns about the meeting frequency proposed in clause **3.27**, noting that a requirement on three meetings per month may be too high, leading to disproportionately high costs for Subject Matter Expert and secretariat support and leaving insufficient time for DCC to act on feedback between meetings. One respondent suggested holding one meeting per month, with additional *ad-hoc* meetings if needed during the review period; another proposed that meetings should be left at the Chair’s discretion.
- **Our view:** We are persuaded by the argument that three mandated meetings per month may not be conducive to improved efficiency and may be too burdensome from administrative perspective. However, we remain of the view that the Group should meet at least twice per month during the review period to maintain momentum and ensure that the Group can complete its review of the draft Business Plan in the allotted time. Accordingly, we have amended clause 3.27.

- 1.26 One respondent asked that clause **4.1** should include a clear process for DCC’s handling of clarification questions from the CCG and suggested a 14-day period.
- **Our view:** We remain of the view that DCC should respond to any clarification questions as soon as possible but we agree with the suggestion to include a deadline of no later than 14 days, in line with LC34A Part E (Requirements for new or more detailed information), requiring the Licensee to respond to requests for additional information from the Authority. We have included this requirement as subclause **4.1(e)**.
- 1.27 One respondent suggested an amendment to clause **4.1(c)** to clarify that any non-disclosure agreements between should be ‘appropriately scoped’, noting that DCC has in the past used wide-ranging NDA templates.
- **Our view:** It is reasonable that any NDA template should be commensurate with the breadth and detail of information being shared. We have made an amendment to clause 4.1(c) to that effect; however, we expect the Group (via its Chair) and DCC to work cooperatively and pragmatically to ensure required information can be shared.
- 1.28 DCC asked for a clarification of sub-clause **4.1(d)**. DCC argued that it only holds limited benchmark data which it uses to assess parts of its internal costs but beyond this it does not hold extensive data on other sectors.
- **Our view:** The intention of this sub-clause was to complement LC34A.12(b) requiring DCC to provide [the CCG] with sufficient and accurate information to allow it to understand the contents of the draft Business Plan Report and provide the Group with a power to request additional information as set out in the BPG. We have made an amendment to this sub-clause to that effect.
- 1.29 One respondent asked that sub-clause **4.1(f)** be expanded to brief the CCG during Q1–Q3 on the likelihood, scope, and rationale of any potential re-opener requests to align with expectations set out in the Business Plan Guidance.
- **Our view:** We agree with this proposed modification. The quarterly updates are intended to provide assurance and oversight over DCC’s delivery against the approved Plan and an early opportunity to discuss emerging issues. It is therefore reasonable that where DCC foresees an emerging risk of a reopener, it should inform the Group sufficiently ahead of time to allow for a discussion to take place and to help both DCC and the Group to prepare for an actual reopener application being submitted. This aligns to the expectation set out in paragraph 6.39 of the BPG.

- 1.30 With reference to clauses **4.1(g)** and **5.5**, DCC asked for a more detailed timetable for a reopener application, including a deadline for submission of the reopener application to the CCG and a deadline for the CCG’s review.
- **Our view:** Paragraph 6.41 of the BPG clarifies that DCC should initiate discussions with the Challenge Group [about its reopener application(s)] from Q2 update in October at the latest. The timing of each reopener application will depend on its nature and complexity. We do not consider it necessary to prescribe a specific deadline but expect DCC and the CCG to work collaboratively to ensure that sufficient engagement has taken place by end-Q3 (December annual reopener window). We note DCC’s proposed timeline set out in its response to the draft Business Plan Guidance and we would encourage DCC to work with the CCG to seek alignment.
- 1.31 DCC noted it will need time to assess its options and seek approval of the Business Plan from its Board prior to the Christmas holiday period. With reference to sub-clause **4.2(b)**, DCC suggested a deadline of 31st October for the CCG to provide its feedback on the Business Plan.
- **Our view:** We recognise that there will be internal processes which DCC will have to complete prior to submitting its final Business Plan to Ofgem. However, we do not consider it necessary to impose a deadline on the CCG to provide feedback to DCC; rather, we expect DCC and CCG to work collaboratively to ensure that feedback can be obtained and reflected in time. If DCC is unable to reflect some of the Group’s feedback in its final version of the Business Plan, then it should provide an explanation to Ofgem as part of its submission.
- 1.32 With reference to sub-clause **4.4(c)**, DCC asked for a clarification on how Ofgem expects the Group to assess the alignment of DCC’s Business Plan to consumer interest.
- **Our view:** We expect the consumer representative(s)¹⁴ to provide an assessment of DCC’s Plan from a consumer perspective. This view should feature in the Group’s feedback to DCC and in the written report to Ofgem.
- 1.33 Referring to clauses **4.4** and **5.2**, one respondent suggested that in its Report the CCG should comment on emerging factors that have affected the Licensee’s delivery since the last Business Plan and to review elements of previous Business

¹⁴ Appointed as core member(s) as per clauses 3.1 and 3.12

Plans, such as assumptions and risks, which have since been proven to be inadequate. Similarly, commenting on **Appendix 1**, the respondent asked that CCG should review how the Licensee considers efficiency and value for money from the consumers' perspective and comment on the Licensee's assessment of risks, assumptions, and key dependencies that could affect the delivery of the Business Plan.

- **Our view:** We are supportive of the CCG considering these specific measures and we have made amendments to the list of suggested questions in Appendix 1¹⁵ to incorporate them. However, we remain of the view that the Group should have flexibility to focus on aspects of DCC's submission it finds most important to scrutinise.

1.34 We have made other minor changes to the ToR to improve clarity and legibility without impacting the policy intent of the amended clauses.

¹⁵ ToR, Appendix 1: 1(d), 3(f), 4(b)

2. Business Plan Guidance

Section summary

We received broad support from respondents for our draft Business Plan Guidance. We have made some amendments to the final text of the guidance to respond to specific comments and to clarify our intent. The Business Plan Guidance will take effect from 15th July 2025. It is issued pursuant to LC 34A.9 of the Smart Meter Communication Licence but is subject to revision under the Successor Licence.

Questions posed at consultation

- Q4. Does the draft Business Plan Guidance provide a clear description of the cost control process?
- Q5. Does the draft Business Plan Guidance provide clear expectations on the evidence required from the Licensee and the principles that Ofgem will apply in assessing the Licensee's Cost Control submission?
- Q6. Do you have any views on the draft text of the draft Business Plan Guidance?
- Q7. What, if anything, is missing from the draft Business Plan Guidance?

Background

- 2.1 The second document, which we sought views on, was a draft Business Plan Guidance (BPG).
- 2.2 We explained that the purpose of the BPG is to set out our expectations and provide a guidance to the Licensee on the preparation of the Business Plan to be submitted for the purposes of determining the Licensee's Allowed Revenue under LC 34A.6. The draft BPG covered the following matters:
- The Business Planning process – provides guidance on the steps, processes and timings involved in the Business Plan cycle
 - Contents of the Business Plan – outlines our expectations on the contents of the Business Plan and provides specific guidance on what different elements of the Business Plan should contain
 - Presentation and structure of the Business Plan
 - Principles of cost assessment – outlines the principles that we expect to apply when determining whether forecast costs are economic and efficient, the methods of assessment we may use, and the types of criteria we may apply

- Uncertainty mechanisms guidance – sets out the information required for application of Uncertainty Mechanisms (Automatic adjustments and re-opener applications submitted to the Authority) and the expected procedure for Ofgem’s assessment of those

Summary of responses

- 2.3 We received eight written responses to our consultation. All five respondents who commented specifically on the BPG supported the draft guidance. One commented that the document marked a positive step towards improving transparency and accountability under the new *ex-ante* regime and supported the introduction of a structured plan. Another supported the guidance in the context of the enhanced scrutiny by the CCG. Below we summarise the main comments and our response to them.
- 2.4 One respondent expressed concerns about the need for strengthened controls to ensure the outgoing licensee does not provide inadequate information for Ofgem’s assessment of the Allowed Revenue for the Successor Licensee. They suggested mechanisms that should be implemented to incentivise the existing Licensee to submit a quality Business Plan and Price Control information; for example by: an extension of the Licence to coincide with the end of the Successor Licensee’s first Price Control Period, a gain-share mechanism that provides incentives on both parties to control costs, an Allowed Revenue mechanism that retains some margin available to Ofgem to distribute between outgoing and incoming Licensee as incentive payments, public reporting on quality of business plan, requirement on outgoing Licensee to warrant the business they are handing over, and a requirement that terms of employment or contract terms are not altered by the outgoing licensee prior to Transfer Date.
- 2.5 Another respondent suggested criteria to be included whilst assessing value for money aspect of the Licensee’ submission which ensures that that it has explicitly considered the evolving needs of energy consumers and has engaged with the CCG in a timely manner. For factors impacting Allowed Revenue, they reiterated the importance of the Licensee exhausting all contractual remedies before passing costs to users as well as the need to conduct thorough financial due diligence and avoid single-source procurement risks for force majeure events. For cost information, they also reiterated the importance of the Licensee documenting how lessons learned will be applied to avoid similar future events.
- 2.6 DCC broadly supported the clarity and intent of the guidance document, however, raised concerns about a need for clearer distinctions between the current

Licensee (DCC1) and the Successor Licensee (DCC2), particularly in the context of the first *ex ante* business plan cycle.

- 2.7 In the absence of an annual reopener in the first cycle, DCC highlighted the absence of a mechanism to handle deferred expenditure from DCC1 (for activities delayed beyond Transfer Date) that DCC2 may need to incur, suggesting that this could be addressed through emergency re-openers; and asked for a clarification on how to deal with non-contractual inflationary impacts. DCC also asked for clarification in relation to the application for ringfenced funding for additional activities, esp. innovation in the first Business Plan cycle.
- 2.8 DCC also raised a concern about the treatment of contingency funding. DCC is concerned that the guidance implies contingency funds should be the first resort for new or unforeseen costs, including those arising from code modifications or other new scope activities. DCC argued that this contradicts previous Ofgem decisions that defined contingency use as limited to liquidity support and minor overruns. DCC further argued that relying on contingency for new scope would undermine financial planning and risk reputational damage. It questioned the practicality of requiring undertakings for uneconomic costs that Ofgem cannot clearly quantify, warning this could lead to unjustified disallowances.
- 2.9 DCC recommended maintaining an eight-week consultation period for draft determinations to ensure sufficient time for Board-level engagement. Finally, DCC requested clearer guidance on reporting formats, re-opener processes, and the application of certain provisions that are not strictly relevant to the first *ex-ante* cycle.

Our decision

- 2.10 Having reviewed the consultation responses carefully, we have made amendments to various paragraphs throughout the guidance document to provide further clarity on the distinction between the current Licensee (DCC1, responsible for preparing the first Business Plan) and the Successor licensee (DCC2, responsible for delivering the Plan) and highlighting requirements for the first *ex-ante* business plan and subsequent cycles; for example in relation to reporting on services provided by a Related Undertaking, supporting documents to the Business Plan, the areas relating to ongoing reporting on the Business Plan to the Authority, and the procurement approach.
- 2.11 We have decided not to further prescribe a format for the quarterly reporting to the CCG beyond the requirements set out in the BPG and the ToR to give the CCG

and DCC more flexibility to agree the most pragmatic way to report the required information.

- 2.12 In relation to the six-monthly reporting to Ofgem on the [Successor] Licensee's cash position to the Authority, we have clarified our expectation that the Successor Licensee will report on its incomings and outgoings and cash balance using the RIGs.¹⁶
- 2.13 We have provided further clarity surrounding the criteria for any proposals by the Licensee for ring-fenced funding, including the lead criteria which the proposals will be primarily assessed upon as well as the requirement on DCC to highlight the outcome of its customer engagement when submitting its application to Ofgem. The CCG will have a role in reviewing these proposals, however Ofgem will ultimately decide on whether to approve the proposed funding. We will expect the CCG' Report to explain the reasoning behind any objections raised to any proposals from stakeholders. We have also decided to enable the [Successor] Licensee to retain the ability to move unused funds between regulatory years but only where these relate to the delivery of a specific project which has been delayed.
- 2.14 We have clarified our expectations in relation to how costs for new code modifications should be funded for the first and subsequent cost control cycles to mitigate concerns surrounding risks to the liquidity of the Licensee.
- 2.15 We have clarified that the draft costed Business Plan and Development Plan should be published on DCC's website subject to appropriate redactions to remove commercially sensitive information.
- 2.16 We have refined the requirements on the procurement approach which must be included within the Business Plan, as we will already receive details of the type of information that the Licensee will share throughout the cost control at the time of the Business Plan submission and any re-opener applications.
- 2.17 We have clarified our expectations on a potential undertaking required in cases where we discover failings but cannot determine the exact proportion of resulting uneconomic costs. In such cases, we may require the [Successor] Licensee to submit an undertaking to implement any lessons learnt to prevent the issues from reoccurring. This may include a rectification plan with clear steps to remedy

¹⁶ Template subject to our consultation on the Successor Licensee RIGs.
www.ofgem.gov.uk/consultation/draft-regulatory-instructions-and-guidance-successor-licensee

any identified failings. However, for clarity, Ofgem does not make arbitrary disallowances and our assessment of the Allowed Revenue is based on the evidence presented.

- 2.18 In relation to the issue of potential deferred expenditure, we understand that the timeline of implementation of live programmes can slip for reasons outside DCC's control and there this may create a risk for DCC2 to access full revenue for activities which were expected to be delivered by DCC1 prior to the Transfer Date. In the first instance, we would encourage DCC1 to provide an update on any changes to programme/project timelines as part of its response to our consultation on the determination of the Successor Licensee's Allowed Revenue (expected in Q2 2026) on the basis on which we may adjust the AR to account for any changes. We will consider further as part of Business Handover whether there are other projects which may require further adjustments. Where there is a reasonable need, we may discuss with DCC2 the option of an emergency reopener; however, equally, we expect DCC1 to execute Business Handover in line with its Licence requirements,¹⁷ including fulfilling its obligation until Transfer Date and not seeking to defer activities it is expected to deliver.
- 2.19 We understand DCC's concerns about the use of contingency funds vs reopener for new scope activities. We have retained the requirement for full evidence and explanation to be provided in these instances for why cost commitments cannot be met from the contingency fund, as this is necessary to provide us with the assurance that the additional requirements are genuinely new (and not minor in-period cost overruns within DCC's control) and sufficiently large to warrant a reopener. In principle we agree that new scope, *ie* new/unforeseen and unforecasted requirements should be met via a reopener application; however, it may be appropriate for DCC to meet some of these via a contingency, for example where the new activity is of relatively minor scope or where some preliminary work is needed before a reopener window to meet timelines, *eg* to fund an impact assessment.
- 2.20 In relation to dealing with inflationary impacts in the first cost control cycle in the absence of an annual re-opener, we are of the view that any non-contractual inflationary impacts should be reasonably forecastable on account of the shorter cost control period and justified within the first Business Plan.

¹⁷ Under LC43, esp. Part A

- 2.21 We agree that DCC should consider impacts on consumers. As set out in our response to the ToR (paragraph 1.32), we would expect the CCG Consumer Representative(s) to provide a view from consumer interest perspective. This is backed up by the BPG (clause 2.8). We have also included a sub-clause 6.26(f) asking DCC to demonstrate potential impacts on energy consumers where appropriate as part of options analysis within any re-opener application. Furthermore we are consulting on an inclusion of a consumer-focused Supporting Objective which would requiring the Licensee to consider the impacts of its decisions on end-consumer.¹⁸
- 2.22 We understand DCC has suggested to include a requirement for the Licensee to provide the Challenge Group with the full Business Plan suite of documents (beyond the requirements prescribed in figure 4.1 of the BPG) to deliver a clear picture of the proposed expenditure. We welcome additional transparency that DCC can provide in the process. Nonetheless, we have retained the existing requirements supported by the Group’s discretion to request additional information to ensure the Group is able to scrutinise specific areas as it sees fit and is not overburdened with a large number of documents, which may ultimately hinder the Group’s ability to efficiently fulfil its duties. We have decided not to prescribe a detailed timeline for the Challenge Group’s engagement with DCC on any re-opener applications, beyond requirements already set out in the ToR and the BPG, as this will vary depending on the re-opener complexity and when the need first arises; however, we encourage DCC and the CCG to work together to reach agreement on a timeline which meets the set requirements for reopener application window and works for both sides.

¹⁸ Ofgem (2025), DCC Review Phase 2: Objectives, operational model and future role of DCC. www.ofgem.gov.uk/consultation/dcc-review-phase-2-objectives-operational-model-and-future-role-dcc
