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Jakub Kumarek (Policy Expert, DCC Review)
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By email only

6th June 2025

Dear Jakub,

Re: Ofgem's consultation on modifications to the Smart Meter Communication Licence for transition to ex ante cost control and other changes required for Licence closure

DCC is pleased to have the opportunity to review Ofgem's proposed modifications to the Smart Meter Communication Licence. Together with the consultations on the Customer Challenge Group (CCG) and Business Plan Guidance, this is an important step forward in managing the transition from ex post to ex ante price control and from the current to the next Licence period. We are committed to working closely and collaboratively with Ofgem to make a success of this transition.

DCC broadly agrees with the policy intent behind the proposed Licence modifications. However, we have a number of suggestions we would ask Ofgem to take into account. We explain these below and highlight their impact on the proposed Licence drafting in Annex A to this letter.

Implementation of the first ex-ante Business Plan

Ofgem is proposing Licence modifications to give effect to its conclusions on the process for determination of the Successor Licensee's Allowed Revenue. In particular, Ofgem is proposing 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. Further, Ofgem is consulting on the Licence modifications that will oblige DCC to engage with a CCG - a group to be established under the SEC Panel - for at least four months prior to the Business Plan and cost submission to Ofgem.

It is critical that DCC prepares the Business Plan Report in line with Ofgem's proposed Guidance to ensure it covers the right content in the correct format. However, the Licence changes as currently drafted require DCC to issue the Business Plan in draft to the SEC Panel on the same date as they oblige Ofgem to issue the Guidance for the purposes of preparing the Business Plan Report. To align DCC's Business Plan with Ofgem's guidance, the guidance should be available several weeks before the report is due to be issued to the SEC Panel.

On a related point, it is also important that the Business Plan covers the correct period. The final Guidance should therefore confirm the exact Transfer Date (or a specific working assumption) rather than a best estimate.

Price Control and other regulatory reporting in the final Regulatory Year

Ofgem is proposing to modify the Licence dates of the Price Control and other regulatory reporting in the final Regulatory Year (RY) (commencing on 1st April 2026) to account for the fact that the Transfer Date to the Successor Licensee is unlikely to occur on the same date as a RY ordinarily finishes (31 March). As such, the relevant legal requirements need to come into force in line with that Transfer Date.

We agree that the deadline for regulatory reports and price control submissions should be linked to the Transfer Date rather than be required by the following 31st July. However, we take the view that the deadline for submission of these documents needs to be at least four months after the Transfer Date, rather than the proposed three months. This would be consistent with existing submission deadlines which are four months after the end of the RY. Although the time period that will be covered by the reporting will be shorter, the internal quality assurance and governance processes required to properly assure the data, will rightly be identical (as Ofgem and our stakeholders would expect). We do not believe that these reports can be finalised more quickly than is currently standard for a number of reasons:

- DCC reporting goes through a number of stages required for accuracy and assurance – including month end processes, internal reviews, audit sign offs, board approvals - that will take the same length of time even for a shorter reporting period.
- Our commercial relationship with independent auditors is based on completing activities within a four-month period. A change to make this shorter will require new commercial agreements at higher cost as the auditors will require more resource. We do not regard this as value for money for our customers.
- Following the transfer of staff to DCC2, these reports may be compiled by staff or consultants with less experience of the processes involved. We would welcome Ofgem building this into their consideration in relation to the reporting dates.

If – for whatever reason - the price control submission is required sooner than four months after the Transfer Date, we are of the view that the reporting should be simplified. Options might include a combination of:

- Increasing the materiality thresholds for variances to be narrated;
- Reducing the scope of the assessment by removing some elements of spend – which could be agreed upfront;
- Not requiring forecasts or changing the approach to disallowance of forecast costs to provide for a broader envelope in the regulatory baseline (ie with fewer variances arising); and
- Changing fungibility criteria to allow for adverse variances to be offset against favourable variances within certain cost groupings.

The timing of the price control submission gives rise to a further issue relating to the interdependence between the 2025/26 and 2026/27 submissions. For example, DCC's ex post price control



submission for RY25/26 will be submitted by the end of July 2026. This will include a regulated baseline forecast for RY26/27 which Ofgem will review and determine. If Ofgem only issues its final determination RY25/26 in February 2027, this key input will not be available in time for the RY26/27 Price Control submission – also required in February 2027. We would like to discuss further with Ofgem how this will be managed.

Finally, we agree with Ofgem's proposals to disapply the requirement for a Development Plan, certain regulatory certificates under Licence Condition 24 and the Schedule of Undertakings.

Baseline Margin and External Contract Gainshare

Ofgem is proposing modifications to the Baseline Margin Adjustment and External Contract Gain Share mechanisms to account for the Licence Term coming to an end. The proposal is that DCC should be permitted to serve a Notice to the Authority for proposing Relevant Adjustments to the Baseline Margin term and the External Contract Gainshare term for the final RY 2026/27. Ofgem proposes that DCC should be able to do this within a period of three months from the Transfer Date.

As noted above, we agree with the policy intent, but would welcome at least four months from the Transfer date to make an application. Again, this would be consistent with current practice and allow for evidence-gathering, analysis and internal governance processes to take place in full. DCC will be in a transition period and there is no reason to assume that under those circumstances, these processes can proceed at greater pace than is currently the case.

We provide further detailed points on the proposed Licence modifications and whether they support Ofgem's policy intent across the consulted areas in the annex to this letter. If you have any further questions, please contact Arik Dondi (Head of Regulatory Compliance).

Yours sincerely,

A handwritten signature in dark blue ink, appearing to read 'Adhir Ramdarshan', is positioned above the printed name.

Adhir Ramdarshan

Director of Regulation

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Cc. Ben Burke-Davies (Director of Ex Ante, DCC)
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Annex A – Detailed comments on proposed licence drafting

Licence Condition (LC)	Proposed Drafting	Comments
3.2	Updates DCC address	As Ofgem is proposing to update the DCC address in LC3.2, it may also make sense to update the addresses of DESNZ and Ofgem in LC3.3 and LC3.4
7.4A 30.10 (c) 30.13A 30.14 (b) 32.4 (b) 34A.3 36.20A	Requires DCC to provide certain regulatory reports within three months of the transfer date in the Regulatory Year that begins on 1 April 2026	<p>DCC suggests the reports should be required within four months of the transfer dates (see letter for rationale).</p> <p>In line with the proposed new interpretation of “Regulatory Year” in LC1, it may be neater to use the formulation “where a Handover Period is in force on 1 April” rather than the proposed “the Regulatory Year beginning with 1 April 2026.” This would prevent the need for further Licence changes - if for unforeseen reasons - there is slippage to the Transfer Date.</p> <p>Note the typo in the Notice of Statutory Consultation where 36.20A refers to “Regulatory Tear t-1”</p>
34A.9 34A.12	Obliges Ofgem to provide Business Plan Guidance on or before 29 August 2025 and DCC to provide a Business Plan Report to the SEC Panel on or before 29 August 2025.	<p>These obligations should not require DCC to provide a Business Plan Report to the same deadline as Ofgem needs to produce the relevant guidance.</p> <p>The Licence drafting should bring forward the deadline for Ofgem to produce the guidance document or push back the date for DCC to provide the Business Plan Report.</p> <p>Alternatively, the Licence should require DCC to provide the report a reasonable number of weeks after provision of the guidance by Ofgem.</p> <p>Also note typo in 34A.12 “on our before”</p>
34A.10(b)	Content of the Business Plan Guidance	In order for the Business Plan Report to be able to cover the correct time period, this should be “the Authority’s proposed Transfer Date” or simply “the Transfer Date, and” instead of “the Authority’s best estimate of the Transfer Date”

34A.12(c)	Requirement to consult the SEC Panel	Suggest removal of "in good faith." This is a vague construct and not used in other consultation requirements in the Smart Meter Communication Licence.
34A.14	Requirement for the Licensee to respond within 14 days to requests for further information made by the Authority.	<p>We assume the reference should be to paragraph 13, not to paragraph 12.</p> <p>Suggest adding the words "in writing" between "given" and "under paragraph [13]". This would provide a better audit trail for requests made and responded to.</p>
34A.15	Interpretation of "Mandatory Content"	Reference should be to 34A.10(c)
34B.3	Deadline for providing SL Price Control Information	Note that there is a typo in the Notice of Statutory Consultation where this is 30 December.
36 Appendix 2, A6	Deadline for providing a Notice for BM adjustment	We suggest this should be within a period of four months from the transfer date.
39 Appendix 1, A5(a)(i)	Deadline for providing a Notice for EGCS adjustment	We suggest this should be within a period of four months from the transfer date.
Throughout	References to paragraphs of Licence Conditions	<p>In order to improve intelligibility and consistency of drafting, paragraph references should restate the Licence Condition number, rather than just the paragraph number.</p> <p>See, for example, the reference to "paragraph 2.20" in LC2.21 and the reference to "paragraph 3.5" in LC3.6 and LC3.7.</p> <p>Compare the reference to "paragraph 3" in the newly proposed LC34B.5, or the reference to "paragraph 12" in the newly proposed LC34A.14.</p>