

# Consultation

## Consultation on the new Smart Meter Communication Licence

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Response deadline:	7 November 2025
Contact:	Kirstan McCartney
Team:	DCC Regulation and Oversight
Email:	<a href="mailto:DCCregulation@ofgem.gov.uk">DCCregulation@ofgem.gov.uk</a>

We<sup>1</sup> are consulting on a draft version of the new Smart Meter Communication Licence (SMCL) which we expected to be awarded under section 6(1)(f) of the Electricity Act 1989 and section 7AB(1) of the Gas Act 1986 in Q1 2026. The Licensee provides the communications, data transfer, and management required to support smart metering in Great Britain.

We would like views from people with an interest in smart metering. We particularly welcome responses from potential Applicants for the Licence and DCC<sup>2</sup> customers, including energy suppliers, distribution network operators, consumer groups and other current or potential future users of the DCC network.

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

<sup>2</sup> The term 'DCC' refers to the organisation appointed from time to time to deliver the Authorised Business under the Smart Meter Communication Licence.

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## Executive summary

The Data Communication Company (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 to ensure purpose-driven decision-making, a quality service, and value for money for its customers and energy consumers.

DCC operates under the Smart Meter Communication Licence (SMCL). The current Licence is held by Smart DCC Ltd and is due to expire on 22 September 2027. Ofgem has been running a programme of work (“the DCC Review”) to put in place a new regulatory regime for the First Successor Licensee which will be implemented through a new Smart Meter Communication Licence. This includes a transition to a not-for-profit model, the introduction of *ex-ante* cost controls, and independent governance arrangements.

This consultation seeks views on the proposed structure and content of the new Licence, which reflects the decisions made during the DCC Review. Feedback is sought on the following key areas:

- overall structure and drafting,
- new conditions and whether they reflect the intended policy outcomes, and
- specific questions on drafting approach whether details have been developed since the policy consultations.

The consultation is open for seven weeks and will close on **7 November 2025**. Ofgem welcomes responses from all stakeholders, particularly potential applicants for the new Licence, current DCC customers, other users of the DCC network, and consumer groups. Responses will inform the final drafting of the Licence and the regulatory framework that will govern DCC’s operations from 2027 onwards.

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## 1. Introduction

- 1.1 The Data Communications Company (DCC) plays a central role in the smart metering ecosystem, acting as the central communications body responsible for enabling secure and interoperable data exchange and communication between smart meters and energy suppliers in Great Britain.
- 1.2 The appointed DCC operates under the Smart Meter Communication Licences (SMCL)<sup>3</sup> which were granted by the Secretary of State in 2013 under powers conferred by the Gas Act 1986<sup>4</sup> and the Electricity Act 1989<sup>5</sup> (see in particular, sections 7AB(1) and 6(1)(f) of those Acts respectively).<sup>6</sup> These Acts give also Ofgem the authority to grant, modify and revoke licences for regulated activities in the gas and electricity sectors.
- 1.3 The DCC's core responsibilities include:
- Operating the central communications network that links smart meters to system users.
  - Procuring and managing service providers who deliver the technical infrastructure and software platforms.
  - Applying and maintaining security and privacy standards of the network.
  - Supporting system upgrades, including the new market arrangements such as the Central Switching Service (CSS).
  - Facilitating innovation and flexibility by enabling authorised third parties to access smart meter data under regulated conditions.
- 1.4 Since its establishment, DCC has transitioned from a design, build and test phase to a mature operation. It now supports over 30 million smart meters and plays a critical role in enabling consumer engagement with their energy usage. Smart meters help consumers understand their energy usage and is critical to improving demand-side response and governments wider goal of decarbonisation.
- 1.5 The current SMCL is due to expire on 22 September 2027. In preparation for this, we have conducted a multi-phase review of the regulatory arrangements to be put in place in the new Licence.<sup>7</sup> This has led to several policy

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<sup>3</sup> Available at: <https://www.ofgem.gov.uk/sites/default/files/2023-03/Smart%20Meter%20Communication%20Licence%20-%20Current.pdf>

<sup>4</sup> Available at: [www.legislation.gov.uk/ukpga/1986/44/contents](http://www.legislation.gov.uk/ukpga/1986/44/contents)

<sup>5</sup> Available at: [www.legislation.gov.uk/ukpga/1989/29/contents](http://www.legislation.gov.uk/ukpga/1989/29/contents)

<sup>6</sup> Note that there are therefore two Smart Meter Communication Licences but they both must be granted to the same Licensee (s7AB(5) Gas Act and s6(2B) of Electricity Act)

<sup>7</sup> References provided in 1.10

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conclusions, including the transition to a not-for-profit model, the introduction of *ex-ante* cost controls and independent governance arrangements.<sup>8</sup>

### List of terms

1.6 This consultation uses a number of key terms:

- The Licence, the ‘new Licence’ or ‘SMCL2’ refers to the subject of this consultation, i.e. the Smart Meter Communication Licence (SMCL) that will be granted upon the completion of the current tender exercise to identify ‘DCC2’.<sup>9</sup>
- The ‘original licence’ or ‘SMCL1’ means the SMCL that was granted by the Secretary of State to Smart DCC Ltd on 22 September 2012.
- ‘Successor Licence’ means any licence that will be granted after SMCL1, other than SMCL2.
- ‘Licensee’ or ‘DCC’ refers generally to the holder from time to time of the SMCL.
- ‘Previous Licensee’ or ‘DCC1’ refers to the holder of SMCL1, i.e. Smart DCC Ltd.
- ‘Successor Licensee’ means the holder of any licence that will be granted after the original Licence, noting that where we refer specifically to the holder of SMCL2 the below definition will be used.
- ‘First Successor Licensee’ or ‘DCC2’ refers to the holder of SMCL2 which will be determined through the tender process that Ofgem is currently running.

### Purpose of this consultation

1.7 This consultation seeks views on the proposed structure and content of the new Licence. It is designed to ensure the Licence reflects the new regulatory framework decided upon as part of the DCC Review.

1.8 We are seeking views on a *draft* version of the new licence, which sets out the proposed substance of the licence and the changes we intend to introduce. It should be noted that the draft provided in Appendix 2 is a work in progress, subject to technical and drafting revisions, improvements and corrections, in addition to any revisions that may be made as a result of this consultation. As such, the cross-referencing and formatting, for example, may not always be

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<sup>8</sup> These are discussed in 2.1-2.10

<sup>9</sup> Details on this tender exercise can be accessed here:

<https://www.ofgem.gov.uk/guidance/smart-meter-communication-licence-tender>

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correct or consistent. These will be addressed prior to the publication of the final Licence.

- 1.9 We are primarily seeking feedback on the substance of the Licence specifically, whether the proposed terms accurately reflect and give effect to the intended policy outcomes. However, if any part of the drafting is unclear or difficult to interpret due to the formatting, feedback on this is welcomed.

**Proposed consultation questions**

- 1.10 We are seeking feedback on these consultation questions
- Q1. Do you have any comments on the structure of the Licence?
- Q2. Do you have any comments on the drafting principles?
- Q3. In particular, where the wording in the existing licence has been carried forward (as the condition was not subject to consultations), do you have views about whether it should be rewritten for drafting consistency or simply retained?
- Q4. Do you have any comments on Chapter 1 of the licence conditions?
- Q5. In particular do you have any comments on the drafting of the definitions (refer to Appendix 2)?
- Q6. Do you have any comments on Chapter 2 of the licence conditions?
- Q7. Do you agree that the wording of the new Primary Objective, the general duties and transitional duties in LC5 meets the policy intent as set out in our decision on the objectives, operational model and future role of DCC?
- Q8. Do you have any comments whether the application and approval approach for Permitted Business under LC6 should be detailed in the Licence or in guidance?
- Q9. Do you agree with the new requirement under LC10 for the Licensee to directly employ more than half of the Licensee's workforce and all Senior Managers? If not, do you have views on a different approach that could be adopted to achieve the same aim?
- Q10. Do you agree with the conditions on Code Industry documents? In particular:
- a. Updating the condition to reflect the SEC is established and, therefore, introducing a duty to have regard to SEC objectives
  - b. Removing the right to be supplied with information arising from other code documents
  - c. Whether to retain the conditions relating to consequential changes
  - d. Moving the mandatory content and code arrangements to Schedule 2
- Q11. Do you have any comments on Chapter 3 of the licence conditions?
- Q12. Do you have any comments on Chapter 4 of the licence conditions?
- Q13. Do you agree that the wording of the new condition on the Licensee's Board of Directors (LC15) meets the policy intent as set out in our decision on governance arrangements? In particular, the power for Ofgem to remove directors or require the appointment of an independent director?
- Q14. Do you have any comments on Chapter 5 of the licence conditions?

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- Q15. What are your views on the scope of the remuneration policy – should it be directed to all staff or key staff responsible for the managing Fundamental Service Provider contracts and/or programme delivery?
- Q16. Do you have any comments on Chapter 6 of the licence conditions?
- Q17. Do you agree that the wording of the new conditions 22-25 meets the policy intent as set out in our decision on cost controls?
- Q18. Do you have any views on the current drafting regarding the ring-fencing of funding (LC24) and whether this provision would benefit from a stand-alone condition that it more prescriptive regarding spending constraints and other requirements? Do you have any views on the current drafting regarding the ring-fencing of funding (LC24) and whether this provision would benefit from a stand-alone condition that it more prescriptive regarding spending constraints and other requirements? Do you have any views on the current drafting regarding the ring-fencing of funding (LC24) and whether this provision would benefit from a stand-alone condition that it more prescriptive regarding spending constraints and other requirements?
- Q19. Do you have any comments on Chapter 7 of the licence conditions?
- Q20. Do you agree with our decision to remove the additional financial security requirements, noting the potential impact this may have in the event of a Special Administrator Regime, and/or licence revocation. Do you agree with our decision to remove the additional financial security requirements, noting the potential impact this may have in the event of a Special Administrator Regime, and/or licence revocation.
- Q21. Do you have any comments on Chapter 8 of the licence conditions? In particular, whether LC35 and LC36 can be merged given the overlapping obligations in respect of reporting. Do you have any comments on Chapter 8 of the licence conditions? In particular, whether LC35 and LC36 can be merged given the overlapping obligations in respect of reporting.
- Q22. Do you have any comments on Chapter 9 of the licence conditions?
- Q23. Do you have any comments on Chapter 10 of the licence conditions?
- Q24. Do you have any views on whether it would be appropriate to include a general power of derogations for Ofgem?
- Q25. Do you have any views on the proposed powers to be conferred on the Authority under the commencement and transitional provisions?
- Q26. Do you have any views on the Schedules?

**Context and related publications**

1.11 The below publications are relevant context for this consultation:

- DCC Review Phase 1 – Decision (August 2023).<sup>10</sup>

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<sup>10</sup> Ofgem, (2023) DCC review: Phase 1 Decision [www.ofgem.gov.uk/decision/dcc-review-phase-1-decision](https://www.ofgem.gov.uk/decision/dcc-review-phase-1-decision)



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- Phase 2, first policy consultation (May 2024) on arrangements for governance and Centralised Registration Service (“Switching”).<sup>11</sup> We published our decisions in December 2024 (Switching)<sup>12</sup> and January 2025 (governance).<sup>13</sup>
- Phase 2, second policy consultation (December 2024) on the process for determination of the Successor Licensee’s Allowed Revenue (ex-ante cost control).<sup>14</sup> We published our decision in May 2025.<sup>15</sup> This decision was followed by decisions on statutory changes to the current Licence<sup>16</sup> and guidance documents (Terms of Reference for a Customer Challenge Group & Business Plan Guidance,<sup>17</sup> and Successor Licensee Regulatory instructions and Guidance)<sup>18</sup> to support the implementation of the first ex-ante cost control cycle
- Phase 2, third policy consultation (June 2025) on the strategy setting, objectives, operational model and scope of the Authorised Business under the Successor Licence.<sup>19</sup> We published our decision in September 2025.<sup>20</sup>
- Information on the Smart Meter Communication Licence tender, including the Criteria Assessment Framework and notice that the tender exercise is being held.<sup>21</sup>

## Consultation stages

### Stage 1 Consultation open: 18 September 2025

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<sup>11</sup> Ofgem (2024), DCC Review Phase 2: Governance and Centralised Registration Service arrangements <https://www.ofgem.gov.uk/consultation/dcc-review-phase-2-governance-and-centralised-registration-service-arrangements>

<sup>12</sup> Ofgem (2024), DCC Review Phase 2: Centralised Registration Service arrangements – decision <https://www.ofgem.gov.uk/decision/dcc-review-phase-2-centralised-registration-service-arrangements-decision>

<sup>13</sup> Ofgem (2025) DCC Review Phase 2: Governance arrangements – conclusions <https://www.ofgem.gov.uk/decision/dcc-review-phase-2-governance-arrangements-conclusions>

<sup>14</sup> Ofgem (2025) DCC Review Phase 2: Determination of Allowed Revenue <https://www.ofgem.gov.uk/consultation/dcc-review-phase-2-determination-allowed-revenue>

<sup>15</sup> Ofgem (2025) DCC Review Phase 2: Determination of Allowed Revenue – conclusions <https://www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions>

<sup>16</sup> Ofgem (2025), Modifications to the Smart Meter Communication Licence [...]. [www.ofgem.gov.uk/decision/modifications-smart-meter-communication-licence-transition-ex-ante-cost-control-and-other-changes-required-licence-closure-decision](https://www.ofgem.gov.uk/decision/modifications-smart-meter-communication-licence-transition-ex-ante-cost-control-and-other-changes-required-licence-closure-decision)

<sup>17</sup> Ofgem (2025), Terms of Reference for Customer Challenge Group and Business Plan Guidance. [www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance](https://www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance)

<sup>18</sup> Ofgem (2025), Regulatory Instructions and Guidance (Successor Licensee). [www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee](https://www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee)

<sup>19</sup> Ofgem (2025) DCC Review Phase 2: Objectives, operational model and future role of DCC <https://www.ofgem.gov.uk/consultation/dcc-review-phase-2-objectives-operational-model-and-future-role-dcc>

<sup>20</sup> Ibid.,

<sup>21</sup> Ofgem (2025) Smart Meter Communication Licence tender <https://www.ofgem.gov.uk/guidance/evaluation-criteria-framework-smart-meter-communication-licence-tender>

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**Stage 2** Consultation closes: **7 November 2025**

**Stage 3** Responses reviewed and published: December 2025

**Stage 4** Consultation outcome: decision and final licence by March 2025

## **How to respond**

We want to hear from anyone interested in this consultation. Please send your response to the person or team named on the front page of this document.

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.

## **Your response, data, and confidentiality**

Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000.

You can ask us to keep your response, or parts of your response, confidential. We will 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 will contact 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 United Kingdom's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Please refer to our Privacy Notice on consultations, see Appendix 1.

If you wish to respond confidentially, we will keep your response confidential when we publish our consultation response, but we will publish the number, but not the names, of confidential responses we receive. We will not 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.

## **How to track the progress of a consultation**

1. Find the web page for the call for input you would like to receive updates on.

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2. Click 'Get emails about this page', enter your email address and click 'Submit'.
3. You will receive an email to notify you when it has changed status.

A consultation has three stages: 'Open', 'Closed (awaiting decision)', and 'Closed (with decision)'.

## 2. Policy and legal context

This Chapter summarises the policy consultations that have been undertaken to date regarding the amended regulatory framework to be put in place for the new Smart Meter Communication Licence. This includes the 2021 Call for Evidence, the 2023 Phase 1 decision documents on key features for the new Licence, and the detailed policy consultations undertaken across 2024 and 2025 on governance arrangements, the determination of allowed revenue, and the future role and objectives of the Licensee. This Chapter also provides an overview of the legal framework that enables Ofgem to make and grant a new SMCL.

### Policy Context

#### Rationale for Licence reform

- 2.1** The DCC Review began in 2021 with **Call for evidence: Review of the DCC licence arrangements**<sup>22</sup> to examine the regulatory framework for the Data Communications Company (DCC), as the existing licence was due to expire in 2025. This call for evidence allowed us to develop the Review’s objectives around stakeholder views which included ensuring future regulation:
- Achieves value for money.
  - Supports innovation and competition.
  - Reflects consumer interests.
  - Facilitates effective governance and cost control.
- 2.2** This direction was initially outlined in our DCC Review Phase 1 consultation,<sup>23</sup> which introduced two potential models, specifically an enhanced version of the existing commercial framework (option A) or an alternative not-for-profit model with increased governance measures (option B).

#### Phase 1: Decision and the five foundational features

- 2.3** We published our **DCC Review Phase 1 – Decision**<sup>24</sup> in August of 2023, which indicated that in response to our consultation, we received stakeholder support for reform. In this decision, we identified five foundational features that would be further developed to form the core of the new Licence.

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<sup>22</sup> Ofgem, (2021) Call for evidence: Review of the regulatory arrangements for the Data Communications Company [www.ofgem.gov.uk/call-for-input/call-evidence-review-dcc-licence-arrangements](https://www.ofgem.gov.uk/call-for-input/call-evidence-review-dcc-licence-arrangements)

<sup>23</sup> Ofgem, (2023) DCC review: Phase 1 Consultation [www.ofgem.gov.uk/consultation/dcc-review-phase-1-consultation](https://www.ofgem.gov.uk/consultation/dcc-review-phase-1-consultation)

<sup>24</sup> Ofgem, (2023) DCC review: Phase 1 Decision [www.ofgem.gov.uk/decision/dcc-review-phase-1-decision](https://www.ofgem.gov.uk/decision/dcc-review-phase-1-decision)

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<b>Feature</b>	<b>Description</b>
Governance reform	The company Board should be majority stakeholder or independent controlled and include consumer representation.
Not-for-profit	The Core Mandatory Business should be conducted on a not-for-profit basis.
Ex-ante cost control	Costs of activities deemed to be sufficiently stable should be subject to an upfront approval by Ofgem via an ex-ante price control or a budget-setting process.
Competitive procurement	The operational model will remain primarily outsourced with key contracts procured competitively on the market.
User-funded model	DCC's core Mandatory Business will remain funded by charges on users.

2.4 These features have been established as the organising principles for DCC Review Phase 2: detail design.

## Phase 2: detailed design

### Governance arrangements

2.5 In January 2025, we published our conclusions for the **DCC Review Phase 2: Governance arrangements**,<sup>25</sup> which highlighted the following key governance decisions:

- The Licence will require that the majority of DCC Board members be “Sufficiently Independent Directors” (SIDs)
- The Licensee will be afforded a level of flexibility in assessing independence of Directors (other than the Chair) where there are circumstances which may impair their independence
- The Chair of the Board must meet SID requirements without exception
- The composition of the Board must be such that it possesses sufficient experience in the following core areas:
  - Recent GB energy industry experience (at least 25% of members)

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<sup>25</sup> Ofgem, (2024) DCC Review Phase 2: Governance and Centralised Registration Service arrangements. [www.ofgem.gov.uk/consultation/dcc-review-phase-2-governance-and-centralised-registrationservice-arrangements](https://www.ofgem.gov.uk/consultation/dcc-review-phase-2-governance-and-centralised-registrationservice-arrangements)

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- Commercial contract management
- Data and communication technology
- Consumer advocacy (must be an SID)
- Ofgem will have a right of review role in the appointment of Board members
- Reputational incentives will be introduced, including public reporting of performance on:
  - A customer satisfaction survey assured by a third-party
  - Contract management audits
  - Assessment of the Licensee’s Business Plan
  - Quarterly cost reporting

### Centralised Registration Service (CRS)

**2.6** In December 2024 we published our **DCC Review Phase 2: Centralised Registration Service (CRS) arrangements – decision**.<sup>26</sup> The CRS is a service that aims to enable a reliable, fast and cost-effective service for British consumers to allow them to switch energy suppliers. Our decision confirmed that the CRS will continue to operate within DCC under the new Licence, following the same arrangements as in the original Licence.

### Process for determination of Allowed Revenue (“price control”)

- 2.7** In May 2025, we published our **DCC Review Phase 2: Determination of Allowed Revenue – conclusions**, confirming the transition from an *ex-post* to a full *ex-ante* cost control regime<sup>27</sup>, specifically:
- Ofgem will determine DCC2’s Allowed Revenue upfront on the basis of a detailed business plan submitted by DCC2 prior to each multiannual cost control period
  - Cost uncertainty will be managed by a mixture of limited budgetary flexibility, access to contingency funding and three types of Uncertainty Mechanism allowing in-period adjustment of the Allowed Revenue
  - A Customer Challenge Group (CCG) will assess and provide feedback on the plan

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<sup>26</sup> Ofgem, (2024) DCC Review Phase 2: Centralised Registration Service arrangements – decision. [www.ofgem.gov.uk/decision/dcc-review-phase-2-centralised-registration-service-arrangements-decision](https://www.ofgem.gov.uk/decision/dcc-review-phase-2-centralised-registration-service-arrangements-decision)

<sup>27</sup> When referring to the scope of the process for determination of the Licensee’s Allowed (Required) Revenue the terms ‘cost control’ and ‘price control’ have been used interchangeably.

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2.8 The first *ex-ante* cost control period will be RY26/27. This means that DCC1 will be responsible for preparing the initial Business Plan (this is currently being developed). The cost control period for DCC2 will start from Business Transfer Date (expected November 2026).

2.9 We also concluded that:

- The entirety of DCC2’s Authorised Business will be carried out on a not-for-profit basis
- We will implement a targeted remuneration-based incentive model

**Objectives, operating model and future role**

2.10 In September 2025, we published our **DCC Review Phase 2: Objectives, operational model and future role of DCC - conclusions**,<sup>28</sup> which sets the strategic direction for DCC2. These elements are structured to ensure DCC2 remains forward-looking and fully accountable to users. This includes:

- Introducing a new requirement on DCC2 to develop a long-term Business Strategy and Technology Roadmap
- Introducing a new Primary Objective that prioritises consumer-focused, secure, efficient, not-for-profit delivery of Mandatory Business, supported by three Secondary Objectives focused on innovation, competition and environmental impacts, and transitional duties.
- Strengthening the process for review and approval of the Procurement Strategy.
- Maintaining the current approach to Fundamental Service Capability (FSC) with an updated list in the Licence schedule.
- Introducing two new procurement principles centred around environmental and consumer impacts, and strengthening the process for review and approval of the Procurement Strategy.
- Requiring the Successor Licensee to directly employ its own staff.
- Broadly retaining the scope of the Authorised Business with the following amendments:
  - New provisions for Additional User Services.
  - Guidance for Value Added Services and a new “innovative services” category for public policy initiatives

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<sup>28</sup> 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](https://www.ofgem.gov.uk/consultation/dcc-review-phase-2-objectives-operational-model-and-future-role-dcc)

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- Removal of Minimal Services

**Integration into the Successor Licence**

- 2.11 All decisions from Phase 1 and 2 have been incorporated into the draft Licence included with this consultation at Appendix 2.

**Legal Framework**

- 2.12 Ofgem is the grantor of the new Smart Meter Communication Licence under section 6(1)(f) of the Electricity Act 1989 and section 7AB(1) of the Gas Act 1986.
- 2.13 As the grantor of a licence under those sections, Ofgem may, under section 7(1)(a) EA1989 and section 7B(4)(a) of GA 1986, include any such conditions as seem to it to be required or expedient. These may differ from the terms and conditions of a previous licence.
- 2.14 There are no standard conditions that apply to the SMCL.
- 2.15 Therefore, this consultation is undertaken not in the context of a licence modification process, but in terms of drafting and granting a new licence.



### 3. Licence structure and content

#### Section summary

This Chapter outline the structure of the new Licence and provides an overview of the content of each condition, with commentary on the 2012 policy context (where applicable), and the updated 2025 policy context.

#### The Licence Structure

- 3.1 The new Licence adopts a chapter-based structure to ensure clarity and readability. Licence conditions are grouped thematically with the intention to make it easier to navigate and interpret the Licence.
- 3.2 At this point, we are not consulting on the Terms in Respect of Grant (such as duration of the Licence) nor the Terms in Respect of Revocation as these are subject to the ongoing tender process.
- 3.3 The table below outlines the Licence chapters and conditions which are mapped onto the conditions in SMCL1, for reference.

LC	Title	Mapped to SMCL1
<b>Chapter 1: Interpretation, contact details and payments</b>		
1	Definition	LC1
2	Interpretation	LC2
3	Addresses	LC3
4	Payments	LC4
<b>Chapter 2: Nature and conduct of the Licensee's business</b>		
5	General duties and strategy	New + LC5 & LC13
6	Authorised Business	New + LC6
7	Switching	LC 15
8	Network Evolution	LC13B
9	Arrangement for the provision of services	LC 17
10	Provision of services and procurement	LC16+17
11	Roles in relation to Core Industry Documents	LC 21
<b>Chapter 3: General arrangements for services and the Licensee's business</b>		
12	General controls for Authorised Business	LC7
13	Security control	LC 8
14	Disputes determination	LC 20
<b>Chapter 4: Arrangements for the Licensee's independence</b>		
15	Licensee's Board of Directors and Managers	New
16	Independence and autonomy of the Licensee	LC9
17	Confidential Information	LC10

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18	Special position duties	LC11
19	Compliance Officer	LC12
<b>Chapter 5: Arrangements relating to the Licensee's performance</b>		
20	Remuneration policy	New
21	Operational Performance Regime	New + Sch 4
<b>Chapter 6: Cost Control of the Licensee</b>		
22	Business Plan Report	New + LC34A
23	Price Control Information	New + LC34B
24	Determination of the Licensee's Required Revenue	New
25	Licensee's Recovered Revenue and Reporting	New
26	Charging Method	LC18
27	Charging Statement	LC19
<b>Chapter 7: Financial and ring-fencing provisions</b>		
28	Availability of necessary resources	LC24
29	Undertaking from an Ultimate Controller	LC25
30	Financial stability and security	LC26
31	Indebtedness and transfer of funds	LC27
32	Disposal of Relevant Business Assets	LC28
<b>Chapter 8: Provision of regulatory Information</b>		
33	Provision of Information by the Licensee	LC29
34	Requirements for the Regulatory Accounts	LC30
35	Reporting of Quality of Service Information	LC31
36	Annual Service Report to the Authority	LC34
<b>Chapter 9: Arrangements for intervention and continuity</b>		
37	Arrangements for business handover	LC43
38	Treatment of Intellectual Property Rights	LC44
<b>Chapter 10: Other provisions</b>		
39	Provision of market share information	LC45
<b>Schedules</b>		
Sch 1	Details of Fundamental Service Contracts	Sch1
Sch 2	The Smart Energy Code and change control	New + LC22 & LC23
Sch 3	Novation of External Service Providers Contracts	Sch 2
Sch 4	Details of Prescribed Business Services	New
<b>Removed conditions</b>		
LC13 Arrangements relating to the Transition Objective		
LC13A: Enduring Change of Supplier Arrangements		
LC14: Licensee's future development objectives		

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LC32. Reporting of Price Control Information

LC33. Regulatory Instructions and Guidance

LC35. Definitions for the Price Control Conditions

LC36. Determination of the Licensee's Allowed Revenue

LC37. Assessment of Mandatory Business costs

LC38. Determination of the BMP Adjustment

LC39. Determination of External Contract Gain Share

LC40. Determination of the VAS Contribution

LC41. Disapplication of Price Control Conditions

LC42: Management orders for the Licensee

Sch3: Implementation Performance Regime

Sch5: Matters associated with the grant of this licence

Sch6: Switching Incentive Regime

3.4 The drafting approach is as follows:

- The original SMCL has been used as the basis for the new licence.
- Where a condition has been the subject of a policy consultation, the Licence has been amended to reflect the decisions.
- Where new obligations have emerged (e.g. governance reform, ex-ante cost control), new conditions have been introduced.
- Where a condition has not been impacted from policy consultation, the condition has usually been retained with minor amendments for clarity or alignment. However, if significant amendments have been made, this consultation will seek targeted views.

3.5 Below is each new Licence condition, with commentary on the 2012 policy context (where applicable), the updated 2025 policy context and a brief overview of the content of the condition.

**Consultation Questions:**

- Q1. Do you have any comments on the structure of the Licence?
- Q2. Do you have any comments on the drafting principles?
- Q3. In particular, where the wording in the existing licence has been carried forward (as the condition was not subject to consultations), do you have views about whether it should be rewritten for drafting consistency or simply retained?

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### **The Licence Content**

#### **Chapter 1: Interpretation, contact details and payments**

##### **Condition 1: Definitions for the Conditions of this Licence**

- 3.6 The original Licence adopted standardised definitions that aligned with other energy Licences. These definitions were intended to support consistency across regulatory documents.
- 3.7 The new Licence retains the foundational purpose of this condition but updates terminology to reflect the current regulatory landscape. This includes new roles such as “Successor Licensee” or documents such as “Business Strategy and Technology Roadmap”. We have included new definitions, such as “consultation” means providing consultees with adequate information and the consideration of responses to avoid Ofgem having to detail expectations each time a duty is placed on the Licensee to consult.

##### **Condition 2: Rules of interpretation for this Licence**

- 3.8 The interpretation condition in the original Licence provided rules for interpreting clauses and Licence terms, including how references and cross-references should be understood. The rules were aligned to standard conditions in other Licences.
- 3.9 The policy intent remains the same and the original wording has been carried forward.

##### **Condition 3: Addresses for the purposes of this Licence**

- 3.10 This condition in the original Licence listed the postal and email addresses of the Licensee, Secretary of State and Authority for formal communications, including notices and directions.
- 3.11 The condition is retained with updated contact details to reflect current organisational structures. A placeholder has been included for the Licensee which will be completed once the tender exercise to identify DCC2 has been finalised.

##### **Condition 4: Payment of fees**

- 3.12 The aim of this condition is to provide for an obligation on the Licensee to pay fees to the Authority to cover the Authority’s costs, as well as those of the Secretary of State and the Competition and Markets Authority. Such a condition is a feature of all energy licences, with the scale of the fees payable by individual licensees being set out in the Authority’s licence fee cost recovery principles. Section 7(1)(b) of the Electricity Act 1989 and section 7B(4)(c) of the Gas Act 1986 provide that such conditions may be imposed.

**Consultation** – Consultation on the new Smart Meter Communication Licence**Consultation Questions:**

- Q4. Do you have any comments on Chapter 1 of the licence conditions?
- Q5. In particular do you have any comments on the drafting of the definitions (refer to Appendix 2)?

**Chapter 2: Nature and conduct of the Licensee's business**

- 3.13 This Chapter sets the mandate and operating scope of the Licensee, describing what services it delivers, how it must conduct itself and the frameworks with which it engages.
- 3.14 The Licence establishes general duties, the scope of the Authorised Business, arrangements for the provision and procurement of services, and the Licensee's role across core industry documents.
- 3.15 Taken together, these provisions reflect the shift from design, build and test operations of DCC1 to mature and NFP operations of DCC2, with added safeguards than ensure value for money and high-quality outcomes for both DCC customers and GB energy consumers.

**Condition 5: General Duties and Strategy of the Licensee**

- 3.16 The General Objectives under the original Licence required the Previous Licensee to operate efficiently and economically, promote competition and innovation, support smart meter rollout and maintain security.
- 3.17 In recognition that the functions of the DCC are now well established, new objectives have been introduced to reflect what is required of a mature organisation that is embedding and improving on its operations.

*General duties*

- 3.18 The new Licence introduces a general duty for the Licensee to carry out the Mandatory Business in the manner most likely to achieve an overarching objective ('the Primary Objective'), ie providing services in an economic, efficient, coordinated and secure way that considers consumer impacts.
- 3.19 The Primary Objective mirrors the original Licence's first enduring objective and Ofgem's objective to protect the interests of consumers. The goal is to ensure that the Licensee's primary focus remains on providing the Mandatory Business while ensuring that consumer impacts are given consideration in decision-making. This reinforces our decision to require the Licensee to have a Board member with consumer advocacy experience.
- 3.20 We are seeking views on whether the current drafting achieves this objective or if the objective should be strengthened to 'consumer-focused provision of Mandatory Business'. Our concern with the strengthened version is that it may

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have unintended consequences that could result in conflict for the Licensee in meeting the needs of its customers and those of consumers.

3.21 The Licence also introduces supporting general duties to promote:

- Innovation with the intent is that the Licensee facilitates innovation by the users of its service but does not act as an innovator itself
- Competition among persons engaged in activities connected with the supply of energy, noting that energy distribution is carried out on a regional monopoly basis
- Environmental protection with the intent that the Licensee considers sustainability and environmental impacts in its provision of Mandatory Business, eg when procuring new contracts/technology. This is reinforced by the introduction an environmentally-focused procurement principle into LC10.

*Transitional duties*

3.22 A new transitional duty has been introduced. The intent is to introduce obligations that will ensure the full, timely, efficiency, economical and secure transfer of the Authorised Business. The Licensee will be required to commence activities at the start of the licence term to:

- Conclude the Business Handover in accordance with any directions issued by the Authority under LC43.21 of SMCL1.
- Exit any transitional agreements for services provided to it by the previous Licensee or its affiliates by reprocurring them from third parties on a competitive basis or providing them from own resource (in-house) where this would be the most economic and efficient option
- Undertake a review of the External Service Provider contracts that it inherits, with focus on ensuring long-term value for money. We envisage that the in-scope contracts would be all Fundamental Service Capability (FSC) contracts, and potentially some non-FSC contracts over a certain value.

3.23 This condition will require the Licensee to complete the activities in a timely manner to set deadline to be determined by Ofgem and extendable if required. After which the provisions will be considered spent (i.e. they cease to have effect or application).

*Business Strategy and Technology Roadmap*

3.24 The Licence also introduces a new obligation on the Licensee to prepare a Business Strategy and Technology Roadmap (BSTR) with input from Ofgem, Department for Energy Security and Net Zero (DESNZ) and industry. The intent of the BSTR is to create a single document with an agreed long-term strategy for

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the delivery of the Licence. Therefore, the condition sets out the mandatory content of the BSTR, such as the outcomes the Licensee wants to achieve, key areas of activity, and measures for ensuring effectiveness.

- 3.25 The condition also sets out the process for developing, approving and reviewing the BSTR. Ofgem or the Secretary of State will approve the BSTR and either (but not both) will be able to direct modifications which will ensure that there are not conflicting directions. Approval will be tied to the multi-annual, ex-ante, cost control cycles as the BSTR is intended to provide the strategic oversight of licensed activities that will ultimately be funded via the cost control process.

**Condition 6: Authorised Business of the Licensee**

- 3.26 This condition defines the scope of the Licensee's Authorised Business, distinguishing between Mandatory Business and Permitted Business.
- 3.27 The new licence amends the definition of Mandatory Business to better reflect the different types of activities undertaken by the Licensee. It also aims to more transparently manage any future changes to the scope of the Licensee's Mandatory Business.
- 3.28 Mandatory Business will now be captured in the Licence using the following categories:
- Core Communication Services - no change
  - Enabling Services - no change
  - Additional User Service - replaces 'Elective Communication Services' in recognition that the Licensee may provide bespoke capability on request, other than strictly "communication services"
  - Prescribed Business Services – a new category. It will capture any requirements that are introduced by Ofgem or DESNZ and not covered by the other categories of Mandatory Business. For example, Market-Wide Half Hourly Settlements.
  - Other Code Services - a new category. The intent is to ensure a clear link between services defined within the SEC/REC and the Licence. For example, Interoperability Checker Service in Section H of the SEC will be included.
- 3.29 Some of these changes are likely to also require amendments to the Smart Energy Code.
- 3.30 The amended definition is not intended to expand the scope of the Licensee's Mandatory Business.
- 3.31 Permitted Business will continue to be separately defined from Mandatory Business. Permitted Business will continue to include Value Added Service, and the Licence introduces a new category called "Innovative Services".

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Innovative Services are intended to capture permitted purposes and Minimal Services that were available in SMCL1. These are distinguished from VAS as the net financial benefit of VAS will be used when determining the Required Revenue.

- 3.32 Guidance would be issued in order facilitate the application and approval process of these services. We have already published guidance for application for the funding of Innovative Services in our Business Plan Guidance.<sup>29</sup> However, views are sought on whether the Licence should be more prescriptive.

### Condition 7: Centralised Registration Service

- 3.33 In the original Licence, the previous Licensee was instructed to take on responsibilities for the delivery of the new arrangements to support faster, more reliable switching ('the CRS' or 'switching'). These responsibilities were added to the remit of the Licensee's Mandatory Business.
- 3.34 In Phase 1 of DCC review, we stated our intention to keep under review whether the Licensee should remain the responsible party for provision of the CRS, or whether the responsibility was best vested in RECCo. In our November 2024 decision, we decided to retain responsibility for switching within the SMCL.
- 3.35 Therefore, no significant changes have been made to this condition other than to remove the interim objective and design, build and test phase to reflect the CRS is in a steady state of operations.

### Condition 8: Network Evolution Arrangements

- 3.36 The purpose of this condition is to facilitate the achievement of efficient, economical, coordinated and timely Network Evolution Arrangements. These arrangements include the transition from older technologies (eg 2G/3G) to more modern connectivity.
- 3.37 There is a continuing need for the Secretary of State to make appropriate provisions under the Licence for the delivery of this programme. Therefore, the condition has been broadly retained and the wording carried forward.

### Condition 9: Arrangements for the provision of services

- 3.38 This condition sets out the Licensee's duties when a request is made for services. Although the condition is based on the overarching purpose of LC17 of the previous Licence this condition has been restructured as a consequence of the decisions from the **Objectives, operational model and future role of**

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<sup>29</sup> Ofgem (2025), Business Plan Guidance, 3.30-3.35. [www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance](https://www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance)



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**DCC** regarding the scope and governance for the evolution of the Authorised Business.

**Condition 10: Provision of services and procurement**

- 3.39 The original Licence required the Licensee to procure its core services externally. This was intended to ensure flexibility and maintain a “thin” operational model. The operational model of primarily outsourcing services with key contracts procured competitively on the market was a key feature kept in the DCC Review. Therefore, the new Licence broadly retains the requirements in LC16 of the original Licence. The arrangements for the adoption of energy supplier contracts have been removed as this relates to the enrolment of SMETS1 meters which will have been concluded when the new Licence is issued.
- 3.40 The new Licence retains the distinction between Fundamental and Non-Fundamental Relevant Service Capability. The procurement of FSC is guided by specific rules, eg a prohibition on provision by the Licensee or an affiliated entity. Maintaining this distinction and rules is important to drive value for money via competition for these services among External Service Providers and to prevent centralisation of monopoly services and market distortion. The new Licence therefore keeps the default requirements for procurement of Fundamental Service Capability from non-affiliated External Service Providers on a competitive basis, reflecting a key feature of the DCC Review.
- 3.41 The Licence introduces two new procurement principles focusing on environmental impact and consumer impact. These support the revised objectives and duties. The intent of these proposals is to ensure that the objectives are embedded in the Licensee’s decision-making in respect of procurements of all Relevant Service Capability.
- 3.42 Although the Licence retains the requirement for a compliant Procurement Strategy document, it introduces new process requirements. These include an annual review, consultation with stakeholders, and for Ofgem to approve changes. The intent is for stronger engagement with industry/service providers and to have better version control than the current approval processes.
- 3.43 The Licence also introduces a new requirement that the Licensee must directly employ more than half of the Licensee’s workforce and all Senior Managers. The intent is to reflect the policy decision that the default position for the Licensee should be to directly employ its staff working on the Authorised Business and not outsource resourcing to a third party. However, the condition also seeks to maintain operational flexibility allowing the Licensee to hire consultants and/or contract with third parties for resourcing in respect of specific, short-term projects where that is demonstrably the most economic and efficient way to meet business needs.

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- 3.44 Our rationale for requiring ‘more than half’ is to provide a measurable quantity that reflects the governance arrangements that are intended to ensure that no single party has majority influence over the Licensee’s delivery of the Authorised Business. However, we seek respondents’ views on whether this condition would benefit from stronger provisions.

**Condition 11: Roles in relation to Core Industry Documents**

- 3.45 The original Licence had three conditions relating to the Licensee’s relationship with Code Bodies and Industry Code Documents (notably the Smart Energy Code). The purpose was to ensure that the Licensee operated within the established regulatory framework of the energy industry, complied with the SEC, and managed changes to the SEC through a structured and transparent process.
- 3.46 The new Licence has retained the central obligations in LC21 of the original Licence, such as the requirement that the Licensee must be a party to and comply with key industry codes, include the SEC.
- 3.47 However, the condition has been redrafted to clarify the Licensee’s duties in relation to codes. For example, the original Licence:
- granted the Licensee the right to be supplied with information in relation to other core industry documents. However, this is not an enforceable obligation on the Licensee. Therefore, we propose removing it from this licence and vesting the duties in the relevant persons, licence or codes.
  - required Licensee not to frustrate consequential changes to a core industry document. We consider the rationale for this condition to remain valid; however, we are seeking views on the practical application of this obligation and whether it should be retained in the present form.
- 3.48 The Licence retains obligations relating to the cooperation on significant code reviews and the implementation of Market-wide Half Hourly Settlement.
- 3.49 The original Licence contained conditions that established the SEC (LC22) and the process for change control (LC23). These have been reframed to introduce a duty on the Licensee to have regard to the SEC objectives in carrying out its functions. This mirrors the Energy System Operator licence and how it links the Licensee’s duties to the relevant code.
- 3.50 The mandatory content of the SEC and the arrangements relating to modifications have now been moved to Schedule 3.
- 3.51 We acknowledge that consequential amendments will be made to the SEC as a result of these drafting changes but do not anticipate substantial impacts.

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- Q6. Do you have any comments on Chapter 2 of the licence conditions?
- Q7. Do you agree that the wording of the new Primary Objective, the general duties and transitional duties in LC5 meets the policy intent as set out in our decision on the objectives, operational model and future role of DCC?
- Q8. Do you have any comments whether the application and approval approach for Permitted Business under LC6 should be detailed in the Licence or in guidance?
- Q9. Do you agree with the new requirement under LC10 for the Licensee to directly employ more than half of the Licensee's workforce and all Senior Managers? If not, do you have views on a different approach that could be adopted to achieve the same aim?
- Q10. Do you agree with the conditions on Code Industry documents? In particular:
- Updating the condition to reflect the SEC is established and, therefore, introducing a duty to have regard to SEC Objectives,
  - Removing the right to be supplied with information arising from other code documents,
  - Whether to retain the conditions relating to consequential changes,
  - Moving the mandatory content and code arrangements to Schedule 2

**Chapter 3: General arrangements for services and the Licensee's business**

- 3.52 This Chapter's conditions are grouped together because they define the environment and controls in place for the Authorised Business.
- LC12 sets the governance, internal control and risk management disciplines.
  - LC13 establishes mandatory security controls.
  - LC14 provides the dispute resolution route when things go wrong.
- 3.53 Collectively, they ensure every service, contract and code interaction operates within the same assurance framework in preventing issues (LC12 & LC 13) and resolving them (LC14), resulting in consistent delivery no matter who provides the underlying service.

**Condition 12: General Controls for the Authorised Business**

- 3.54 This condition requires the Licensee to establish and maintain effective arrangements for corporate governance and risk management. The intent is to ensure that the environment in which the Authorised Business is carried out remains fit for purpose.
- 3.55 The Licensee is required to provide controls over three main areas:
- Corporate governance: through compliance with the UK Corporate Governance Code by requiring the Licensee to submit their Corporate

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Governance Statement outlining their compliance over the previous regulatory year (RY).

- Internal controls: through an Internal Control Document demonstrating its maintenance of an appropriate organisational structure, audit trails, monitoring processes etc.
- Risk management: through a Risk Management Strategy which sets out a robust framework for identification, evaluation and management of risk.

- 3.56 These obligations reflect the position of the Licensee as an asset-light entity with relatively large external contracts. Reporting mechanisms outlined in the original Licence continue to be necessary and fit for purpose.
- 3.57 The policy intent has not changed. However, we are engaging with DESNZ on whether the Secretary of State should continue to have an approval role for these documents or if this should be vested in the Authority.

**Condition 13: Security controls for the Authorised Business**

- 3.58 This condition sets out the requirement for the Licensee to have an overarching set of security controls in place. It requires the Licensee to install, operate and maintain these security controls which are designed to protect the components and assets of the Authorised Business.
- 3.59 Security remains a core obligation under the licence. The condition is retained from the original Licence with updates to reflect evolving cyber threats and regulatory standards.

**Condition 14: Dispute Resolution**

- 3.60 The Licence allowed the Authority to determine disputes between the Licensee and SEC Parties regarding service terms.
- 3.61 The condition is retained from the original Licence with minor redrafting to align with SEC dispute processes and clarify when disputes should be raised with the Authority versus the SEC Panel.

**Consultation Questions:**

Q11. Do you have any comments on Chapter 3 of the licence conditions?

**Chapter 4: Arrangements for the Licensee's independence**

- 3.62 Chapter 4 introduces a package of conditions to establish a framework for the Licensee's independence. Collectively these conditions safeguard the Licensee from undue influence, whether from shareholders, service providers or market participants. The conditions set clear requirements for Board independence, operational autonomy, information confidentiality and fair

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conduct. The proposed conditions reflect our policy conclusions published in January 2025.<sup>30</sup>

- 3.63 The chapter begins with the highest-level of governance ensuring a majority-independent Board and strong appointment processes (Condition 15), then sets boundaries around the Licensee’s activities and relationships (Condition 16). It then provides for the Licensee’s responsibilities in protecting of confidential information (Condition 17), and those that arise from its unique position as a monopoly provider (Condition 18). Finally, the chapter requires a Compliance Officer to oversee and report on these obligations (Condition 19).
- 3.64 Grouped in this way, these conditions work together to ensure that the Licensee remains neutral and focused on delivering value for consumers, regardless of changes in personnel or service arrangements.

**Condition 15: Licensee’s Board of Directors and Managers**

- 3.65 The new Licence introduces comprehensive governance reforms based on the decision on Governance arrangements. Key changes include:
- A requirement for a majority of Board members to be independent, taking into account specified independence criteria,
  - The Chair must meet independence criteria without exception.
  - At least 25% of the Board must have substantial, recent GB energy industry experience.
  - The Board must possess core expertise in commercial contract management, data and communications technology, and consumer advocacy.
  - Ofgem will have a formal role in Board appointments and ensuring the independence is requirement is met.
  - The Licence now also includes certain requirements for persons with significant managerial responsibility or influence within the Licensee to be “fit and proper” persons
- 3.66 The new condition reflects a significant shift from stakeholder-controlled governance to a majority independent Board.

*Director independence requirements*

- 3.67 The condition requires the Licensee to have a majority independent Board. This is based on the objective that the Licensee should be a purpose-driven organisation which is not governed by any single interest. The intent is to:

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<sup>30</sup> Ofgem (2025), DCC Review Phase 2: Governance arrangements – conclusions.  
[www.ofgem.gov.uk/decision/dcc-review-phase-2-governance-arrangements-conclusions](https://www.ofgem.gov.uk/decision/dcc-review-phase-2-governance-arrangements-conclusions)

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- Ensure the needs of energy consumers and the Licensee’s customers are safeguarded without the risk of conflicts of interests
  - Avoid conflicts of interest arising whereby the interests of a particular Board members conflicts with their duties as a Board director, the broader objectives of the Licence, or with interests of other customers/ energy consumers.
- 3.68 To implement this policy rationale, the condition requires that the majority of persons appointed to the Board must be considered independent and that no director is (or at any time becomes) a director or an employee of a DCC customer or External Service Provider. The aim is to ensure that a director is not at risk of undue influence.
- 3.69 The condition sets out a non-exhaustive list of circumstances that could impair a person’s independence. The Licensee will have discretion to decide that, despite some of those circumstances applying, a person can still properly be considered to be independent.
- 3.70 However, for the Chair, the Licensee will not have this discretion: if any of the circumstances that could impair independence apply to a person, that person may not be appointed as the Chair. The reason for this is due to the Chair’s central role in the Board’s proceedings, including appointment of other directors, moderating the Board’s discussions and ability to cast deciding votes. The Chair’s independence will ensure the overall integrity of the Board is safeguarded against potential conflicts of interest.
- 3.71 To balance retention of expertise and accountability, the Licence also sets term limits for non-executive directors for a fixed period of three years or less with the opportunity for up to two reappointments, and reporting requirements in annual statutory report. We propose to include an Authority power to direct the Licensee to make changes to appointments or remove a director where it appears to the Authority that the Licensee is in breach of its licence obligation to at all times have a majority independent board.

*Fit and proper person requirements*

- 3.72 This section has been included to include obligations regarding ongoing fit and proper person requirements for persons with significant managerial responsibilities that will be included within all Ofgem-issued licences.
- 3.73 Ofgem is expected to consult on new fit and proper person requirements in September 2025 with decision in late 2025 or early 2026. The new requirements will build on existing fit and proper requirements in condition 4C of gas and electricity supply licence, and condition B21 of the carbon dioxide transport and storage licence. Therefore, we have included the latest drafting which Ofgem will be consulting on, noting it may change prior to the consultation

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being published. We will ensure the final SMCL reflects the outcome of the broader consultation process.

*Other Board requirements*

- 3.74 The licence introduces an obligation on the Licensee to ensure the Board has members with the following expertise: commercial contract management, data and communications technology, customer advocacy and GB energy market experience which must be possessed by 25% of the Board as a whole.
- 3.75 The rationale for this is to ensure that the Licensee’s leadership possess skills in key areas needed to deliver its Mandatory Business. This is especially applicable to industry experience and the knowledge and understanding of issues affecting GB energy markets, hence the 25% requirement.
- 3.76 The licence requires that the director with consumer advocacy experience must be independent. This is to ensure that consumer voices are heard alongside those of industry and do not come into conflict with this director’s other duties.

*Board appointments*

- 3.77 The licence requires the Licensee to notify Ofgem of intended appointments and to allow sufficient time for review. This is to allow Ofgem to provide its views before an appointment is confirmed. The intent is to ensure Ofgem has oversight of the Licensee’s compliance. This also provides a suitable control mechanism for deciding to allow the Licensee greater flexibility in the appointment of independent directors. The Licence also grants Ofgem the power to remove directors or require the Licensee to appoint a director for the purpose of meeting the independence requirement.

**Condition 16: Independence and autonomy of the Licensee**

- 3.78 The condition governs the independence and autonomy of the Licensee by establishing prohibitions and restrictions in relation to the Licensee’s activities and corporate structure.
- 3.79 The Licence retains a general prohibition on the Licensee from undertaking any activity other than the Authorised Business. The intent is the Licensee will be a discrete corporate entity that sits operationally separate from any company.
- 3.80 The permitted exceptions to the general prohibition have also been retained.
- 3.81 The Licence also retains the restrictions that aim to ensure that the Licensee is not subject to influence from SEC or REC Parties (eg “DCC Users”) or External Service Providers. The aim is to prevent undue influence and ensure operational independence. This includes:
- The Licensee and its directors are not allowed to own part of a DCC User, or a business that provides services to the Licensee.

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- The Licensee must take appropriate steps to ensure it is not a ‘related undertaking’ of a DCC User, external service provider or anyone able to exert material influence over the Licence’s Authorised Business
- The Licensee and its Affiliate or Related Undertaking are prohibited from providing services that are Fundamental Service Capacity or Fundamental Registration Capacity

**Condition 17: Protection of Confidential Information**

- 3.82 This condition prohibits the Licensee from using confidential information for non-Licensed activities. The intent is to protect commercially sensitive data and personal information, complementing data protection legislation.
- 3.83 The condition is retained but updated to formalise the process for Permitted Purpose Requests. The intent is that all confidential information shared with others, including when the Licensee is undertaking data analysis and sharing its findings, is subject to the licence requirements and approval should be sought formally through a Permitted Purpose Request.

**Condition 18: Duties from Licensee’s Special Position**

- 3.84 This condition was designed to ensure that the Licensee recognises and appropriately manages the responsibilities that arise from its special position as a licensed monopoly provider for smart meter communication services. This includes obligations to act fairly and transparently with SEC Parties, REC Parties (where applicable) and External Service Providers.
- 3.85 The condition is retained from the original Licence with little change.

**Condition 19: Appointment and Duties of Compliance Officer**

- 3.86 This condition requires the Licensee appoint a compliance officer to produce an annual report on its compliance with conditions 15 (Licensee’s Board of Director), 16 (independency and autonomy), 17 (confidential information) and 18 (special position duties). These specific conditions are grouped together under the Compliance Officer’s remit as they are intrinsically linked to regulating a monopoly Licensee.
- 3.87 The requirement for a Compliance Officer is common practice across energy licences. The intent is to assure stakeholders that the Licensee is operating in accordance with its licence obligations.
- 3.88 The condition is retained from original licence with little change.

**Consultation Questions:**

- Q12. Do you have any comments on Chapter 4 of the licence conditions?
- Q13. Do you agree that the wording of the new condition on the Licensee’s Board of Directors (LC15) meets the policy intent as set out in our decision on governance



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arrangements? In particular, the power for Ofgem to remove directors or require the appointment of an independent director?

**Chapter 5: Arrangements relating to the Licensee's performance**

3.89 This Chapter restructures the previous performance incentives that were tied to Baseline Margin into reputation incentives, with a subset of measurable outcomes linked to remuneration received by key personnel, and Licensee executives. This intent of these conditions is to provide ongoing incentivisation for good performance in a not-for-profit model. The draft conditions are based on our policy conclusions published in January 2025 (decision on future governance including the decision to adopt reputational incentives and a target remuneration model)<sup>31</sup> and May 2025 (confirming the not-for-profit arrangements for the entirety of the Authorised Business and the key pillars of remuneration-based incentives).<sup>32</sup>

**Condition 20: Remuneration policy**

3.90 Pursuant to decisions in the Governance and Allowed Revenue consultations, the new Licence introduces a formalised remuneration framework, with key elements including:

- A committee composed solely of independent directors (as defined in the Condition 15) must approve the policy before submission.
- The Licensee must prepare and submit a policy for Authority approval.
- The policy must explain how remuneration for key staff is tied to delivery against targets set out in the Operational Performance regime (OPR) and a Remuneration Policy Guidance developed by Ofgem.
- The policy must be reviewed annually, with revisions submitted to the Authority for approval.
- Once approved, the policy must be published on the Licensee's website and followed until a revised version is approved.

3.91 We consider it appropriate for the Licensee to develop its own remuneration policy in alignment with the Remuneration Policy Guidance (which Ofgem will develop and consult on). The Licence includes a safeguard whereby Ofgem can

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<sup>31</sup> Ofgem (2025), DCC Review Phase 2: Governance arrangements – conclusions, see chapter 4. [www.ofgem.gov.uk/decision/dcc-review-phase-2-governance-arrangements-conclusions](https://www.ofgem.gov.uk/decision/dcc-review-phase-2-governance-arrangements-conclusions)

<sup>32</sup> Ofgem (2025), DCC Review Phase 2: Determination of Allowed Revenue – conclusions, see esp. chapter 4. [www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions](https://www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions)

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intervene where the policy does not meet licence requirements or where it is at odds with performance metrics or wider Licence compliance.

3.92 The licence states that the Remuneration Policy Guidance will set out any matters that must be considered when determining the remuneration of Senior Managers. The details will be consulted upon but, at a minimum, the Guidance will expect that the remuneration model reflects:

- system performance metrics
- customer satisfaction
- quality of business planning based on Ofgem’s assessment of the *ex-ante* cost control business plan, and
- delivery against the approved Business Plan and prudential financial management within a 5% contingency.

3.93 The intent is to link remuneration of ‘Senior Managers’ to reputational incentives and the above metrics. Accordingly, we are seeking views on the definition of Senior Managers to be included within the scope of the remuneration policy, which may include:

- Senior Responsible Officers in charge of programmes and/or Fundamental Service Providers contracts
- Persons within the definition of Senior Managerial Responsibility and Influence, and
- Executive directors.

3.94 Remuneration Policy is not intended to apply to all staff as there is a risk that staff are penalised for the decision-making of management over which they have limited or no control. However, Ofgem recognises that an all-staff policy could ensure that the Licensee’s workforce is aligned with performance objectives, and that there is an incentive which attracts and motivates high calibre individuals to drive the delivery of activities.

3.95 Therefore, we are seeking views on the scope of the Remuneration Policy.

**Condition 21: Operational Performance Regime incentives**

3.96 The OPR in the previous Licence consisted of three measures: System Performance, Customer Engagement and Contract Management, and these were set out in Schedule 4.

3.97 The OPR will be retained in the new Licence as a condition requiring monitoring of the Licensee’s system performance, customer satisfaction, and procurement and management of contracts. References to baseline margin adjustments mechanisms have been removed to reflect the new NFP model.

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Instead, OPR information will be used as the basis for the Remuneration Policy (LC20).

*System performance*

3.98 This condition introduces a new reporting obligation for system performance, including that:

- System performance targets should be chosen in accordance with any OPR Guidance provided by Ofgem, or through consultation with the SEC Panel
- The Licensee must regularly publish key performance indicators in a prominent position on its website in accessible and simple language.

3.99 The intent is that the Licensee selects KPIs that better reflect and monitor the Licensee's performance.

*Customer satisfaction*

3.100 The Licence reforms the previous customer engagement measure into a broader Customer Satisfaction Survey. The survey must be carried out at least once every two RYs with assurance from an independent third party, and the first survey commencing during RY27/28.

3.101 The Licensee must publish the results of the survey on its website and demonstrate to the Authority that it has acted upon the issues arising from the survey results. Where serious issues are identified, Ofgem may direct the Licensee to provide a rectification plan.

3.102 The intent of these obligations is to ensure that the Licensee has a mechanism for receiving and acting upon customer feedback and concerns.

*Contract management and procurement*

3.103 The Licence maintains the existing requirement for a contract management audit of the OPR, which will be carried out annually by an independent third-party auditor.

3.104 The Licence introduces an obligation for the Licensee to take appropriate action to respond to the outcomes of the audit. Ofgem may at any time request a report that describes how the auditor's findings have been reflected in the Licensee's procurement and contract management approaches.

**Consultation Questions:**

Q14. Do you have any comments on Chapter 5 of the licence conditions?

Q15. What are your views on the scope of the remuneration policy – should it be directed to all staff or key staff responsible for the managing Fundamental Service Provider contracts and/or programme delivery?

**Consultation** – Consultation on the new Smart Meter Communication Licence**Chapter 6: Cost Control Conditions of this Licence**

- 3.105 Under the original Licence, the price control operated on an annual *ex-post* basis. This meant the Allowed Revenue for each regulatory year (RY) was reconciled after the fact, with specific components and adjustment mechanisms built into the Licence (eg Baseline Margin (BM) and the External Contract Gain Share (ECGS)). This was implemented across multiple Licence conditions and supported by annual reporting through RIGs and price control submissions.
- 3.106 Following the DCC Review, the new Licence will implement an *ex-ante* cost control regime for the Licensee's revenue. The new regime means that costs are agreed upfront and that mechanisms have been built into the Licence to account for uncertainty and the need for readjustments of the budget.
- 3.107 The first *ex-ante* cost control period will be from Transfer Date until 31<sup>st</sup> March 2028. DCC1 is under its Licence<sup>33</sup> responsible for preparing the initial Business Plan (this is currently being developed and must be submitted to Ofgem by 31<sup>st</sup> December 2025). The cost control period for DCC2 will start from Business Transfer Date (expected November 2026). The first determination of the Required Revenue will be made after the grant of the licence but before the Transfer Date. Our current plan is to determine the Required Revenue by September 2026. This means that the new Licensee will have the opportunity to be part of the consultation process.
- 3.108 The Conditions 22-25 below seek to implement the policy changes that were identified as part of our conclusions<sup>34</sup> on the process for determination of Allowed Revenue (cost control).

**Condition 22: Business Plan Report**

- 3.109 This condition seeks to put in place an obligation on the Licensee to prepare a Business Plan Report that sets out the activities that the Licensee is expected to carry out in a future cost control period. The Licensee will be expected to submit the Report to Ofgem on or before the 31<sup>st</sup> of July in the RY preceding the relevant cost control period.
- 3.110 Prior to submitting the Report to Ofgem, the Licensee will also be required to consult on the report with a Customer Challenge Group established by the SEC Panel, giving it sufficient and accurate information to allow it to understand the information contained within it.

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<sup>33</sup> LC 34A

<sup>34</sup> Ofgem, (2025) DCC Review Phase 2: Determination of Allowed Revenue – conclusions [www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions](https://www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions)

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3.111 As the report will be used to determine the Licensee’s revenue, the Licensee will be required to prepare the report in accordance with the Business Plan Guidance.<sup>35</sup> The Guidance will be shared with both the Licensee and the Customer Challenge Group in advance of each price control period, and may describe:

- the format of the Business Plan Report
- the processes and procedures to determine the revenue
- the principles to determine if costs are economic and efficient
- the processes and procedures that the Licensee should follow to adjust its revenue
- any other information that may help the Licensee prepare the Business Plan Report.

3.112 Under this condition, and irrespective of the requirements in the Business Plan Guidance, Ofgem may also request from the Licensee any further information that is reasonably required to determine the Licensee’s revenue for a future cost control period.

**Condition 23: Cost Control Information**

3.113 This condition requires the Licensee to provide Ofgem with the information, other than the information already provided (or yet to be provided) under the Business Plan report, that is required to calculate the required revenue for the next cost control period.

3.114 The Licensee will be required to submit this information to Ofgem on or before 31<sup>st</sup> July in the RY preceding the price control period, in accordance with the Regulatory Instructions and Guidance (“RIGs”) that is issued by Ofgem.

3.115 The RIGs provide instructions and guidance to help the Licensee understand what information is needed and will be made available to the Licensee on or before the 1<sup>st</sup> of April in the RY preceding the price control period. The RIGs may include:

- a list of the required information together with definitions and / or explanations of the respective words and phrases associated with that information
- instructions and guidance with respect to the collection, recording, and provision of the required information

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<sup>35</sup> Ofgem (2025), Business Plan Guidance. Available at: [www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance](https://www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance)

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- instructions and guidance on the expected accuracy and reliability required information
- requirements on the form, manner and frequency in which the information must be recorded
- requirements on the form, manner and frequency in which the information must be provided to Ofgem
- provision of how Ofgem may monitor and assess the Licensee's compliance with the RIGs.

**Condition 24: Determination of Licensee's Required Revenue**

- 3.116 Under this condition, Ofgem will determine the revenue that the Licensee requires for each RY of the next cost control period. Ofgem will make that determination on or before 28<sup>th</sup> February in the RY preceding the new cost control period.
- 3.117 The principles, methods of assessment, and types of criteria that are likely to be applied to determine whether costs would be economically and efficiently incurred, will be set out in the Business Plan Guidance that Ofgem may issue and update from time to time.
- 3.118 Pursuant to our decisions for the Successor Licensee to operate on a not-for-profit (NFP) basis, as well the decision to not include an External Contract Gain Share mechanism, this condition introduces a new formula to calculate the required revenue. The formula comprises of:
- External and Internal costs that the Licensee is likely to incur during the regulated year.<sup>36</sup>
  - Pass-Through costs which will mainly be the amount that is paid by the Licensee to Ofgem as well as the payments to SECCo, RECCo and AltHANCo for purposes associated with the governance and administration of the SEC, the REC and AltHAN.
  - With the Value Added Services Contribution (VASC) being offset against the combined costs identified above. The VASC thus constitutes a reduction in the required revenue as a direct result of the provision of these services; that reduction is commensurate to the amount that would otherwise be payable for the Licensee's Mandatory Business.
- 3.119 This condition also sets out the circumstances where it may be appropriate to adjust the required revenue. The Business Plan guidance, which will be issued and updated by Ofgem from time to time, will set out the form and contents

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<sup>36</sup> The Required Revenue will be calculated on an accruals basis, *ie* when the liability is incurred rather than when the payment is made.

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that the Licensee is required to follow whilst submitting a re-opener application. More specifically, the circumstances where it may be appropriate to adjust the required revenue:

- 3.120 Automatic adjustments where a change in costs arise from the operation of a specific driver identified as such in advance, where the change in costs cannot be reasonably foreseen or controlled by the Licensee; we have decided that this would include pass-through costs, contractual inflationary impacts and volume sensitive costs proposed in the Licensee's Business Plan Report and agreed through the cost control process
- 3.121 Annual re-openers, except for the first ex-ante cycle i.e. the RY beginning on the 1st of April 2026, and at the end of a cost control cycle, where a reopener will not be necessary. Ofgem expects the Licensee to submit a request for the re-opener during the application window in the last week of December each year, and it must be aimed at adjusting the regulated revenue for any future regulated year within the same cost control cycle. Ofgem will consider the Licensee's application, and issue a new direction in relation to the Required Revenue - unless it is minded not to do so, in which case, Ofgem will first consult the licensee before making a final decision.
- 3.122 Emergency re-openers, which may be submitted at any time within a price control cycle, must relate to the adjustment of the regulated revenue of a RY in the same cost control period in which the re-opener is applied for. Ofgem will issue a new direction in relation to the Required Revenue, or will reject the application. In practice, the application may be approved in part or in full, and Ofgem may want to discuss the application with the Licensee before making a decision. Where we decide not to consult with the Licensee (eg if DCC urgently needs additional funds), we will justify this within our final determination.
- 3.123 Finally, this condition also specifies that a proportion of the Licensee's required revenue may be ringfenced, meaning that the Licensee will not be allowed to spend the identified amount on any other activity instead. As well as this proposed cost control, we are also considering whether the determination of Required Revenue itself should identify what is required for individual heads of spending. The ringfencing provisions on spending are inserted here as a marker but we may place them in a more bespoke provision or separate designated document. We are interested in respondents' views on whether additional provisions are required and on the identification of individual heads of spending in the Required Revenue determination.

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3.124 As set out in our policy conclusions<sup>37</sup> and in the recently published RIGs guidance and templates,<sup>38</sup> we intend the following ringfencing principles to apply:

- External costs and non-resource internal costs (at a programme or “Service Family” level), and any costs that are subject to automatic adjustments will be ringfenced.
- Internal resource costs will not be ringfenced. In other words, the Licensee will be able to assign its staff resources across the portfolio so long as it stays within the overall budget.
- Ringfenced funding will be provided for the development of additional Mandatory or Permitted Business; any unused funds will need to be returned to customers and cannot be used to offset overruns elsewhere in the business.

### Condition 25: Licensee’s Recovered Revenue and Reporting

3.125 The Licensee recovers its Required Revenue, calculated pursuant to LC 24, via charges levied on service users. LC 25 sets out the limitations on how much revenue the Licensee may recover in a RY (‘Recovered Revenue’).<sup>39</sup>

3.126 Required Revenue is calculated on an accruals basis. However, this does not always align to the exact amount of “cash” that the Licensee needs to meet its obligations in a RY. This is principally on account of financing arrangements for some External Costs, as well as use of milestone payments in some contracts. Additionally, the Licensee should be able to maintain a headroom for natural cash fluctuations and to meet small, unexpected overruns.

3.127 Part A therefore limits the Recovered Revenue in a given RY to an amount calculated as the Licensee’s Required Revenue in that RY (with the External Costs term on a cash basis)<sup>40</sup> + 5% contingent amount (allowing the Licensee to maintain a sufficient headroom). In the first RY, this amount is reduced by the amount of cash transferred to the Licensee by the previous Licensee on Transfer date pursuant to LC 27.3C and LC 43.17 of SMCL1.

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<sup>37</sup> Ofgem, (2025) DCC Review Phase 2: Determination of Allowed Revenue – conclusions, Chapter 3 Part B (Business Plan fungibility & managing underspend/overspend).

[www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions](https://www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions)  
<https://www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions>

<sup>38</sup> Ofgem (2025), Regulatory Instructions and Guidance (Successor Licensee).

[www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee](https://www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee)

<sup>39</sup> In the current licence and in our latest RIGs guidance, this term is labelled as “Regulated Revenue”.

<sup>40</sup> Ofgem (2025), Regulatory Instructions and Guidance (Successor Licensee).

[www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee](https://www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee)



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- 3.128 We have proposed to define the External Costs term on a cash basis [EC(c)] as “the sum of the amounts the Licensee will pay during the Regulated Year to meet External Costs”. The bridge (calculation) between the cash and accruals view is set out in the Regulatory Instructions and Guidance issued under LC 25. We invite respondents’ views on this proposed definition of the term.
- 3.129 We also propose to include an Authority power to direct the Licensee to return to service users (by way of modifying its Charging Statement) any amounts recovered and held above the level of Recovered Revenue.
- 3.130 Part B sets out the Licensee’s obligations in respect of:
- Reporting of the Cash Position – on request by the Authority
  - Reporting of the Business Plan delivery – quarterly to the SEC Panel/Customer Challenge Group and the Authority
  - End-of-Year Reporting – by 31<sup>st</sup> July following the end of each RY. This would include reconciliation of incurred costs against approved Required Revenue and any adjustments to the Required revenue made pursuant to LC 24.

**Condition 26: Charging Methodology**

- 3.131 Under the original Licence, a Charging Methodology for Service Charges (“Charging Methodology”) was incorporated into the SEC. This condition maintains the duty on the Licensee to always have, and comply with, a Charging Methodology. It also sets out the objectives of the Charging Methodology.
- 3.132 As part of the SEC, the Charging Methodology may be modified in the same way as the SEC. However, the objectives of the Charging Methodology differ to the general objectives of the SEC. The Licensee must keep the Charging Methodology under review and propose modifications where appropriate. The Licensee must also make the Charging Methodology accessible.
- 3.133 We propose to carry forward the text of this condition from the original Licence largely unchanged as we consider it continues to appropriately capture the policy intent. However, we have proposed to remove references to SMETS1 contracts adopted by DCC as this provision is no longer relevant.

**Condition 27: Charging Statement**

- 3.134 This condition requires the Licensee to prepare and comply with a Charging Statement for Service Charges that:
- has been prepared in accordance with the Charging Methodology in force under Condition 26 (Charging Methodology for Service Charges), and

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- will enable SEC Parties, REC Parties and any other persons to estimate the Service Charges that are payable for the provision by the Licensee of Mandatory Business Services
- 3.135 Every Service Charge levied by the Licensee for the provision of a Mandatory Business Service will be formulated in compliance with the Charging Methodology.
- 3.136 We propose to largely carry forward the text of this condition from the original Licence largely unchanged as we consider it continues to appropriately capture the policy intent. However, we have included provisions for the Licensee to amend its Service Charges as a consequence of Automatic Adjustments or Emergency Adjustments made by application of Uncertainty mechanisms under LC 24. We have proposed to place a limit of three amendments to Service Charges in a single RY as a consequence of Automatic Adjustments to strike a balance between the Licensee's ability to recover costs in a timely manner while maintaining stability and predictability of charges for service users.

**Consultation Questions:**

- Q16. Do you have any comments on Chapter 6 of the licence conditions?
- Q17. Do you agree that the wording of the new conditions 22-25 meets the policy intent as set out in our decision on cost controls?
- Q18. Do you have any views on the current drafting regarding the ring-fencing of funding (LC24) and whether this provision would benefit from a stand-alone condition that it more prescriptive regarding spending constraints and other requirements?

**Chapter 7: Financial and ring-fencing provisions**

- 3.137 The original Licence introduced a package of financial constraints which mirror those placed on network licence, comprising of:
- LC24 (Availability of resources)
  - LC25 (Undertakings from the Ultimate Controller)
  - LC26 (Restrictions of activity and financial ring-fencing / financial security)
  - LC27 (Restrictions on indebtedness)
  - LC28 (Disposal of relevant business assets)
- 3.138 This Chapter updates these provisions to reflect the NFP context. The majority of the obligations remain valid in order to ensure that the Licensee has the appropriate resources and financial security in place to effectively deliver the Authorised Business. The conditions in this chapter reflect the financial

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resilience obligation on energy suppliers to maintain sufficient control over the material economic and operational assets necessary to run their business.

**Condition 28: Availability of all necessary resources**

- 3.139 The policy intent of this condition in the original Licence stands: the Licensee must at all times ensure it has the necessary resources to effectively operate.
- 3.140 This includes having available, either itself or under contract, financial and management resources, and personnel and assets needed to deliver the Authorised Business. It also requires directors to certify annually whether this will be the case for the next 12 months.
- 3.141 The condition is retained with minor amendments to reflect the NFP model, such as removing the ability to issue dividends.

**Condition 29: Undertakings from Ultimate Controllers**

- 3.142 This condition requires the Licensee to obtain and maintain legally enforceable undertakings from any Ultimate Controller that it will not take action which might cause the Licensee to breach any of its duties under the licence, relevant codes or legislation.
- 3.143 The wording of this condition in the original Licence has been carried forward as the obligations are necessary and effective.

**Condition 30: Financial Stability**

- 3.144 This condition contains stability and financial security provisions that are intended to ensure that the Licensee will have sufficient access to sources of liquidity and capital on reasonable terms.
- 3.145 The original Licence required the Licensee to obtain additional financial security in order to discharge financial liability during a business handover and/or to ensure that an Administrator who is appointed has sufficient financial resources to manage the Licensee's affairs.
- 3.146 However, in a NFP model, we do not consider it reasonable to ask the Licensee, or its customers, to pay for such a security. It is also unlikely that a private equity investor would invest capital into a company when it will not receive dividends. Therefore, we are proposing to:
- maintain a generally requirement to provide assurance of financial stability which will ask for:
    - evidence of financial governance (eg financial controls, the Board, Audit Committee, Internal Audit, Regulatory Accounting),
    - evidence of financial stability (liquidity ratios, financial KPIs) and

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- credit facility for cashflow management (within the 5% contingency) which we will require the Licensee to manage responsibility.
  - remove the requirement for a financial security in the event of a handover and/or Special Administrator Regime.
- 3.147 The impact of removing the additional financial security is that in the event of a Special Administrator Regime, or a licence revocation requiring a handover, while the Government will step in, there may be some delays in access to funds. This could impact on business continuity. However, this reflects the approach in Transmission and Distribution licences.

**Condition 31: Indebtedness**

- 3.148 In the original Licence the intent of this condition was to restrict the Licensee from incurring debt or creating charges over its assets. Recognising the unique important position of the DCC within the UK energy infrastructure, this condition ensures the DCC's infrastructure viability is not jeopardised. The policy rationale of this condition stands in the new Licence.
- 3.149 The wording of the original Licence has been carried forward.

**Condition 32: Disposal of Relevant Business Assets**

- 3.150 In the original Licence the intent of this condition was to prevent disposal or loss of control over assets essential to the Mandatory Business, including contracts with external service providers. The policy rationale for this condition stands in the new Licence and it maintains the requirement for the Licensee to keep an asset register
- 3.151 Pursuant to our policy decisions, we have update requirements regarding Register of Relevant Business Assets to:
- Be explicit that the list should include contracts entered into with any Related Undertakings (this has been achieved through the definition of External Service Contracts in LC1)
  - Include an anonymised unique identifier and the role of every person employed by the Licensee.
- 3.152 The intent of these new requirements is to increase clarity and transparency on the services provided to the Licensee and assists Ofgem in compliance monitoring.

**Consultation Questions:**

- Q19. Do you have any comments on Chapter 7 of the licence conditions?
- Q20. Do you agree with our decision to remove the additional financial security requirements, noting the potential impact this may have in the event of a Special Administrator Regime, and/or licence revocation.

**Consultation – Consultation on the new Smart Meter Communication Licence****Chapter 8: Provision of regulatory information**

- 3.153 Condition 33 to 36 are largely standard conditions and deal with the provision of information to Ofgem and the Secretary of State. They set out the requirements for the Licensee to produce regulatory accounts and report on overall service performance. These conditions will give Ofgem the information necessary to monitor the Licensee's performance as well as providing DCC users and other stakeholders with information on the Licensee's performance.

**Condition 33: Provision of Information**

- 3.154 This condition, originally drafted in line with standard licence conditions, governs the provision of information by the Licensee to the Authority and the Secretary of State. The intent is to ensure that License supports Ofgem and the Secretary of State to discharge their statutory functions by providing required information.
- 3.155 The wording in the original Licence has been broadly carried forward in the new Licence as it is effective.

**Condition 34: Requirement for Regulatory Accounts**

- 3.156 This condition requires the Licensee to publish Regulatory Accounts, including the Directors' Report and the Business Review for the previous year to ensure the provision to the Authority of annual regulatory accounting information.
- 3.157 The intent is to ensure that the Authority has the information to assess the financial position of the Licensee. This is supported by requiring the Licensee to appoint an independent auditor to review the regulatory accounts in accordance with the terms set out in the Agreed Upon Procedures.
- 3.158 The condition also requires the Licensee (and its Related Undertakings) to maintain records that are necessary to comply with this obligation.
- 3.159 The wording from the original Licence has been broadly retained with minor amendments made to dates and definitions.

**Condition 35: Quality of Service Reporting**

- 3.160 This condition requires the Licensee to provide information that will enable Ofgem to monitor the quality of the Licensee's service performance. The original Licence required the Licensee to report on this in accordance with any Regulatory Instructions and Guidance which served to monitor the previous OPR system performance.
- 3.161 In the new Licence, we have introduced reporting requirements on system performance via LC21. Therefore, this condition may not be required. However, we have retained the condition for now as it could help with compliance monitoring. Views are sought on whether the condition should be merged with LC36 which monitors performance of External Service Providers, or LC21.

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- 3.162 The rest of the wording of this condition has been carried forward from the original Licence.

**Condition 36: Annual Service report**

- 3.163 This condition requires the Licensee to prepare an Annual Service Report and submit to the Authority. The report should include reference to the Licensee's performance and that of its service providers. The Licensee is required to make the report generally available to SEC parties and other interested persons.
- 3.164 The wording of this condition has been carried forward from the original Licence.

**Consultation Questions:**

- Q21. Do you have any comments on Chapter 8 of the licence conditions? In particular, whether LC35 and LC36 can be merged given the overlapping obligations in respect of reporting.

**Chapter 9: Arrangements for intervention and continuity****Condition 37: Business Handover Arrangements**

- 3.165 This condition contains the requirements on the Licensee to support a Business Handover Process, including the production a Business Handover Plan (BHP). The intent is to ensure proper planning for the purpose of ensuring a smooth transfer of responsibilities for an incumbent licence holder to a successor licensee.
- 3.166 The condition also outlines powers that the Authority has to bring into force the Handover Period and the powers during the Handover Period.
- 3.167 The condition has been broadly retained from the original Licence as it is critical that the Licensee plans for business handovers in the event of the revocation or expiry of the licence.
- 3.168 The Licence updates the process for reviewing and approving BHP and the Licensee's responsibilities in business handover planning. It also clarifies that the BHP should contain provisions relating to the transfer of the Licensee's Workforce.
- 3.169 The condition also clarifies that Ofgem may issue directions to both the Licensee and the Successor Licensee (where a concurrent new Licence has been granted) to implement the BHP such as entering into a cooperation agreements, or assisting in the preparation of final cost controls.

**Condition 38: Treatment of Intellectual Property Rights**

- 3.170 The purpose of this condition is to ensure that the Licensee manages Intellectual Property Rights (IPRs) in a way that supports continuity of service,

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fair competition and the integration of systems across the smart metering ecosystem. The condition provides a framework for the treatment of IPRs arising from the Licensee's functions under the Principal Energy Legislation, this Licence, the Retail Energy Code (REC) and the Smart Energy Code (SEC).

- 3.171 This wording of this condition is carried forward from the original licence as it continues to be effective.

<b>Consultation Questions:</b>
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Q22. Do you have any comments on Chapter 9 of the licence conditions?
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**Chapter 10: Other provisions****Condition 39: Provision of Market Share Information**

- 3.172 This condition was inserted after the award of the original licence. In 2013/2014, energy suppliers licence conditions were amended to facilitate the funding of independent organisations that would lead a national consumer engagement campaign for smart meters. As the previous Licensee already had a regime in place under the SEC to obtain data, it was determined that it should be required to provide a summary of market share information to the central delivery body (currently, Smart Energy GB).
- 3.173 This wording of this condition is carried forward from the original licence as it continues to be required in the new Licence.

**Condition X: General powers of derogation**

- 3.174 We are seeking views on whether the final licence should include a general power of derogation for Ofgem. This would confer a power on the Authority to direct that any condition in the licence will cease to have effect at such times and in such circumstances as may be determined.
- 3.175 The original licence included specific powers of derogations, for example in respect of IPR, and obligations under the SEC. A general power of derogation would provide Ofgem with greater flexibility and could address any unintended consequences or adverse effects of the licence on consumers, customers, or markets and competition. The flexibility also aligns with the DCC Review objectives of allowing the Licensee's role to evolve in an uncertain environment while facilitating innovation.

**Condition Y: Commencement provision**

- 3.176 We are seeking views on whether the final licence should include a condition that provides the Authority with the ability to determine the commencement of conditions. For example, we expect some condition will commence upon grant (eg the duty to cooperate during the handover) whereas other will only apply after the Transfer Date (eg the duty to carry out the Mandatory Business).

**Consultation – Consultation on the new Smart Meter Communication Licence****Condition Z: Transitional provisions**

- 3.177 We are seeking views on whether the final licence should include a transitional condition whereby the Authority can designate that certain documents approved under the previous Licence will continue to apply for a defined period.
- 3.178 We have already suggested a transitional provision in relation to the Procurement Strategy in Condition 10.35 and suggest a similar form could be used where necessary. For example, DCC1 plans in relation to Network Evolution Arrangement that were approved by the Secretary of State under Condition 13B of the previous Licence would be adopted as plans under Condition 8 in the new Licence.
- 3.179 This would avoid a gap pending the approval or designation of the new documents prepared under the new Licence.

**Consultation Questions:**

- Q23. Do you have any comments on Chapter 10 of the licence conditions?
- Q24. Do you have any views on whether it would be appropriate to include a general power of derogations for Ofgem?
- Q25. Do you have any views on the proposed powers to be conferred on the Authority under the commencement and transitional provisions?

**Schedules****Schedule 1: Details of Fundamental Service Contracts**

- 3.180 Schedule 1 is intended to develop the definition of Fundamental Service Capability (FSC) which is used elsewhere in the Licence. Condition 10 states that FSC consists of Relevant Service Capability which has been provided under Legacy Procurement Contracts.
- 3.181 The Schedule defines Legacy Procurements Contracts are those FSP contracts which will have been novated from the Previous Licensee to the Licensee. They are:
- Contracts for the provision of Communication and Data Services (Communication Service Providers, Data Service Provider)
  - Contracts procured for the provision of the SMETS1 service
  - Contracts procured under the Network Evolution Programme
  - Contracts procured for the delivery of the Switching service
  - Any contract which amends, supplements, revises or replaces the contracts above



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- 3.182 Condition 11 refers to the need for the Smart Energy Code to include provision for the Principal SEC Content. This Schedule defines the meaning of that content. The schedule incorporates LC22 and LC23 from the original Licence.
- 3.183 Under the Schedule, the Licensee will continue to comply with a number of requirements with respect to the governance arrangement, secretariat and administration of the SEC. This is to ensure that the Licensee does not have disproportionate influence over the SEC's contents.
- 3.184 The Schedule outlines the fundamental contents of the SEC. This gives Ofgem control over both the SEC and the Licence.
- 3.185 The Schedule also provides for the protection against the risk that the SEC is modified in a way that removes some of its key components. Accordingly, it establishes the formal process for making changes to the SEC. It sets out how modifications can be proposed, reviewed, and approved, involving key stakeholders such as the SEC Panel and Ofgem. All proposed changes must be assessed against the General SEC Objectives, ensuring that any updates support the overall purpose of the SEC. This condition ensures that the SEC remains adaptable and responsive to evolving industry needs while maintaining a structured and transparent change control process.

**Schedule 3: Novation of ESP**

- 3.186 Schedule 3 sets out a proforma for the Deed of Novation for external service provider contracts. It is intended that all external service provider contracts would include provision permitting the novation of the contract to a successor DCC substantially on the terms set out in the deed of novation.
- 3.187 The wording has been carried forward from the original Licence.

**Schedule 4: Prescribed Mandatory Business**

- 3.188 Schedule 4 will contain a list of Prescribed Mandatory Business. At placeholder has been included for the time being.

**Consultation questions**

Q26. Do you have any views on the Schedules?

**Removed conditions**

- 3.189 The following conditions, which were part of the original licence have been removed, replaced and/or consolidated.
- 3.190 LC13: Arrangements relating to the Transition Objective: We expect that the Completion of Implementation will be declared by DESNZ before the new Licence is issued. Therefore, this condition has been removed and new Licence

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replaces it with a new Transitional Objective (see paragraphs 3.22). However, where the Completion of Implementation is not declared, this condition may be reinstated in the final licence.

- 3.191 LC13A: Enduring Change of Supplier Arrangements (ECoS): These SoS transitional powers were used to stand up ECoS. Now that ECoS is in steady operations, it will form part of the Mandatory Business (LC6) and the FSC contracts (Schedule 1).
- 3.192 LC14: Licensee's future development objectives: The old Development Plan duty is being replaced by a modernised strategy (Business Strategy & Technology Roadmap + refreshed general duties)
- 3.193 LC32. Reporting of Price Control Information: has been incorporated into LC23.
- 3.194 LC34A & LC34B: Successor Licensee Business Plan Report: These were time-limited bridging conditions on DCC1 to set up the first *ex-ante* period for DCC2 and are no longer needed in the enduring licence.
- 3.195 LC35. Definitions for the Price Control Conditions: many of these definitions have been removed (eg BM/ECGS) or replaced by definitions in the new cost control chapter.
- 3.196 LC36. Determination of the Licensee's Allowed Revenue: Superseded by a new Determination of the Licensee's Required Revenue condition (LC24) designed for an *ex-ante* model.
- 3.197 LC37. Assessment of Mandatory Business costs: Superseded by a new Determination of the Licensee's Required Revenue condition (LC24) designed for an *ex-ante* model.
- 3.198 LC38. Determination of BMP Adjustment: The BM performance adjustment concept has been removed in the NFP model.
- 3.199 LC39. Determination of External Contract Gain Share (ECGS): ECGS has been removed in the NFP model.
- 3.200 LC40. Determination of VAS Contribution: The explicit VAS sharing mechanism tied to the old BM/ECGS framework is being retired and reflected instead through the revised *ex ante* arrangements.
- 3.201 LC41. Disapplication of Price Control Conditions: The legacy disapplication route for price control is unnecessary under the new *ex ante* architecture (which agrees costs upfront), so it is removed.
- 3.202 LC42: Management Orders for the Licensee: Superseded by the statutory Special Administration Regime introduced by the Smart Meter Communication Licensee Administration (England And Wales) Rules 2020 made under the Smart Meters Act 2018.

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- 3.203 Schedule 3: Incentive Performance Regime: The schedule applied for the calculation of the BMP Adjustment (which has been removed in the NFP model) and, therefore, it is no longer required.
- 3.204 Schedule 4: Operational Performance Regime (OPR): the OPR has been moved into the licence as new duties have been introduced.
- 3.205 Schedule 5: Grant of the licence: The purpose of this schedule was to ensure that commitments made by the previous Licensee (DCC1) to the Secretary of State as part of the application process were recorded. This only applied to SMCL1 so it has been removed in the new licence.
- 3.206 Schedule 6: Switching Incentive Regime: The NFP model no longer enables the Licensee to earn profits through the SIR so it has been removed.

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## 4. Conclusions and next steps

- 4.1 Following the closure of this consultation, we will consider the responses that we receive which will then be published on the Ofgem website, unless they are marked as confidential.
- 4.2 The responses will inform the drafting of the final version of the new Licence. This will be completed prior to the award of the new Licence to DCC2.
- 4.3 The final Licence will also incorporate any changes to the original Licence that have been made since the publication of this consultation (eg amongst others, VWAN updates and Communication Hubs replacement).
- 4.4 We will also be amending the Smart Energy Code to reflect any consequential changes arising from the drafting of the new Licence.
- 4.5 We intend to award the new Licence to the successful applicant from the ongoing tender process,<sup>41</sup> with the winner expected to be announce in March 2026. Following the award and until the expiry of the original Licence term in September 2027, there will be a transitional period where both DCC1 and DCC2 will operate in parallel under SMCL1 and SMCL2, respectively. This period allows for a managed handover of responsibilities, assets and staff from DCC1 to DCC2. Upon expiry of the original Licence, the DCC2 will operate as the sole holder of the SMCL.

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<sup>41</sup> Details can be found here: [www.ofgem.gov.uk/guidance/smart-meter-communication-licence-tender](https://www.ofgem.gov.uk/guidance/smart-meter-communication-licence-tender)

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## Send us your feedback

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

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

Please send your feedback to [stakeholders@ofgem.gov.uk](mailto:stakeholders@ofgem.gov.uk).

## Appendix 1. Privacy policy

### 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](mailto: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

Information: 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

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- 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 3<sup>rd</sup> 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](#)”.

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## Appendix 2. Draft new Smart Meter Communication Licence

Please see the subsidiary attachment on the Ofgem webpage for the draft text of the new Smart Meter Communication Licence