

Decision

DCC Review Phase 2: Objectives, operational model and future role of DCC – conclusions

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This decision document responds to our consultation published in June 2025, which set out our proposals in relation to future arrangements for the objectives, operational model and future role of DCC under the Successor Licence. This document summarises the responses to that consultation and outlines our policy decisions on the proposals we sought views on, including:

- Strategy-setting
- Future objectives
- Operational model
- Scope and governance for the evolution of Authorised Business

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Executive Summary

The Data Communications Company (DCC)¹ is responsible under the Smart Meter Communication Licence for establishing and operating a secure national communications network for smart metering in Great Britain. The current licensee is Smart DCC Ltd² ("DCC1") whose Licence was awarded by the Government in 2013 and is now due to expire in September 2027. We are reviewing the regulatory arrangements to be put in place for the Successor Licensee ("DCC2").³ In June 2025 we consulted on our proposals for reforms to objectives, operational model and future role of DCC2.⁴

In this document, we set out our conclusions following the June 2025 consultation. An overview of our conclusions is presented in the table on page 8, with further details in chapters 2- 4.

Successor Licensee's strategy

First, we proposed to introduce a new licence duty on DCC2 to produce a Business Strategy and Technology Roadmap (BSTR) document with input from Ofgem, DESNZ and industry. We have decided to proceed with this proposal which received strong support from respondents. We expect the BSTR to cover at minimum two cost control cycles (6 years) in detail and a long-term plan up to the due expiry of the main contracts (with the longest contract term c.20 years). The Successor Licence will set out the mandatory content, based on the content subject to the consultation with minor changes made to take into account stakeholder feedback, as well as the process for approval and revision. The BSTR, and any changes to it, will be subject to consultation with Ofgem, DESNZ and industry. We remain of the view that the BSTR should be approved by either Ofgem or the Secretary of State but the approval route will be determined in the context of the changing roles of Ofgem and DESNZ as part of a broader transition in the Smart Metering Implementation Programme governance.

¹ Throughout this consultation we use the terms "DCC" or "the Licensee" to refer generally to the entity that delivers smart metering data and communication systems, and "DCC users" as organisations which use the network. The Smart Meter Communication Licence is granted pursuant to sections 7AB(2) and (4) of the Gas Act 1986 and 6(1A) and (1C) of the Electricity Act 1989. When referring to a particular holder we will use either the terms DCC1, DCC2 or the registered name of the licence holder

² A wholly owned subsidiary of Capita Plc

³ Notes: Unless the current Licensee is awarded the Successor Licence, DCC2 (1) will be a new legal entity established subject to open and fair competition; and (2) as a separate and distinct corporate vehicle, has no connection to the corporate governance of DCC1 and/or its parent company (and its subsidiaries). The terms "DCC2" and "Successor Licensee" are used interchangeably throughout this consultation document

⁴ 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

Secondly, we proposed to amend the process for approval of, and changes to, the Procurement Strategy and require the Successor Licensee to carry out annual reviews, provide updates to Ofgem and consult on changes with Ofgem, DESNZ and SEC/REC parties. We will proceed with our proposals of annual submission and approval by Ofgem; however, taking into account respondents' feedback about the risk of undue burden on industry, we will limit the requirement for DCC to consult to material changes only.

Successor Licensee's objectives

We have decided to introduce the following objectives into the Successor Licence:

- A Primary Objective to deliver a consumer-focused, efficient, economical, co-ordinated, and secure Mandatory Business
- Three Supportive Objectives focused on delivering Mandatory Business in a way which:
 - Facilitates innovation by DCC users
 - Facilitates competition in activities connected with the supply of energy
 - Considers environmental impacts
- A Transitional Objective imposing on the Successor Licensee duties to:
 - Conclude the Business Handover
 - Exit any transitional arrangements for services with DCC2 or its shareholder
 - Produce a plan for, and execute, a review of novated External Service Provider contracts
 - Develop the Business Strategy and Technology Roadmap

We have made the following changes to our proposal based on consultation feedback:

- Incorporate consumer impacts into the Primary Objective
- Split innovation and competition into two separate supporting objectives and focus on innovation by and competition between users of DCC's service
- Focus on environmental impacts instead of a broader sustainability objective

With a broad support, the weighting of the objectives will remain as consulted on, such that the Primary Objective shall always take precedence and secondary objectives will be weighted in the round.

Finally, we have decided not to place a new obligation on the Successor Licensee to review its objectives. This review can be carried out by Ofgem if and when required.

Successor Licensee's operational model

DCC is primarily a contract management company with most of its costs arising from contracts with third-party service providers. In the consultation we outlined the different types of contracts DCC manages, and our proposals in respect of their procurement.

First, we consulted on the definition of "Fundamental Service Capability" (FSC) in the Successor Licence. FSC contracts are a subset of DCC contracts for the provision of the key data and communication services. The procurement of FSC is guided by specific rules, *eg* a prohibition on provision by DCC or an affiliated entity. Some respondents raised concerns about the complexity of the definition and the distinction between Fundamental and non-Fundamental Relevant Service Capability. We have decided to maintain the current approach towards defining FSC through the scope of the existing FSC contracts. For the Successor Licensee, this will mean that all FSC contracts novated to it as part of Business Handover, and any subsequent contracts that will replace them, will continue to be treated as FSC. 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.

Secondly, we consulted on introducing additional procurement principles to consider sustainability and consumer impacts. Respondents broadly agreed with this proposal, and we have decided to proceed with both principles with a clarification in the focus on environmental impacts instead of sustainability – aligned to the new objectives. Given the range of stakeholder views on this topic, we will not be prescriptive about how DCC2 should meet the principles, although we have outlined some examples.

Thirdly, we proposed that services provided to the Successor Licensee by any related undertaking would have to be procured on the same conditions and under the same requirements as those of other third-party contracts and that the Successor Licensee should regularly report on these contracts to Ofgem to help us monitor compliance. We also proposed introducing a Licence requirement to mandate that the Successor Licensee be the employer of its staff. These proposals attracted general support and we have decided to introduce them as consulted upon.

Scope and governance for the evolution of Authorised Business

Mandatory Business

With general respondents' support, we will carry forward the current scope of Mandatory Business into the Successor Licence defined using the following five categories:

- Core Communication Services
- Enabling Services

- Prescribed Business Services
- Additional User Services
- Other code requirements

This categorisation will maintain existing categories where there is a clear understanding of requirements, align the Licence to the SEC and REC while minimising the need for changes to the codes and allow future amendments to the Mandatory Business without significant revisions to the Licence.

Secondly, following consultation feedback, we will not progress with changes to Elective Communication Services at this time but we will introduce general provisions into the Successor Licence for Additional User Services. These would include Elective Communication Services or other bespoke services provided on request, subject to guardrails to ensure focus and no adverse impact on existing Mandatory Business.

Thirdly, we confirm that the future framework will enable the Successor Licensee to help develop additional Mandatory Business, subject to a business planning process and necessary code governance.

Permitted Business

We consulted on three changes for the Permitted Business:

Firstly, include a new category of Innovative (public good) initiatives, including wider use of system data. DCC2 would be able apply for ringfenced funding via its business planning process and Ofgem would authorise provision of any new services to safeguard consumer interest. The proposal received broad support from respondents and will be implemented as consulted on.

Secondly, introduce high-level criteria for Value-Added Services. Stakeholders were sceptical about the viability of VAS and raised concerns about the risk of distraction away from Mandatory Business but expressed support in principle. We have previously decided not to allow the provision of VAS until at least the second cost control cycle, when we will provide further guidance on the criteria that would apply. We will draw on this consultation when developing those.

Thirdly, remove the concept of “Minimal Services” from the Successor Licence. Most respondents agreed with this proposal we have decided to remove it as it is functionally replaced by ringfenced funding provisions.

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Area	Question	Main conclusion(s)
Strategy	Q1. Business Strategy and Technology Roadmap	Introduce a duty on DCC2 to produce and maintain a new BSTR document Successor Licence to set out: prescribed mandatory content; duty to consult with key stakeholders; approval process and periodic reviews aligned to three-year cost control cycles
Strategy	Q2 Procurement strategy	Require annual reviews and approval of the Procurement Strategy Require consultation with Ofgem, DESNZ and industry for all material changes
Objectives	Q3 Primary objective	Introduce a Primary Objective to deliver a consumer-focused, efficient, economical, co-ordinated, and secure Mandatory Business
Objectives	Q4 Supporting Objective on competition and innovation	Introduce two separate supporting objectives, one focused on competition and one on innovation by DCC users.
Objectives	Q5 Sustainability objective	Introduce a supporting objective with focus on environmental impacts
Objectives	Q6 Consumer objective	Incorporate into the Primary Objective.
Objectives	Q7 Transitional objective	Introduce to place four transitional duties on DCC2 as consulted on
Objectives	Q8 Weighting and review of the objectives	Primary objective will always take precedence, supporting objectives to be weighted in the round No new obligation on the Successor Licensee to review its objectives
Operational Model	Q9 Fundamental Service Capability	Maintain distinction between FSC and non-FSC and current approach to definition with an updated list of FSC contracts in a schedule of the Successor Licence
Operational Model	Q10 Procurement principles	Introduce two new principles on environmental and consumer impacts aligned to the new supporting objectives

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Area	Question	Main conclusion(s)
Operational Model	Q11 Requirements on shareholder services and register of contracts	Services from a related undertaking must be procured under the same conditions as other Relevant Service Capability. All contracts must be reported in a register provided regularly to Ofgem for compliance monitoring
Operational Model	Q12 Staff employment	The Successor Licensee will be required to be the employer of its staff
Authorised Business	Q13 Scope and categorisation of Mandatory Business Services	The full scope of the current Mandatory Business will be retained in the Successor Licence, defined using the five categories as consulted on
Authorised Business	Q14 Additional User Services	No changes to Elective Communication Services; new licence provisions enabling other Additional User Services to be requested and provided
Authorised Business	Q15 Development of additional Mandatory Business	DCC2 able to apply for a ringfenced funding though its <i>ex-ante</i> cost control submission to develop new services – not applicable in the first <i>ex-ante</i> cost control period (November 2026-March 2028)
Authorised Business	Q16 Evolution of Permitted Business	<p>Requirements to be met for the provision of Value Added Services will be included in a guidance produced when Ofgem determines it will allow DCC2 to apply for funding for VAS – not available in the first <i>ex-ante</i> cost control period</p> <p>Successor Licence will include a new category of “innovative services” to help unlock and deliver public policy (“good”) initiatives</p> <p>All Permitted Business will be subject to Ofgem’s approval</p>
Authorised Business	Q17 Minimal Services	Minimal services will be replaced by ringfenced funding provisions

1.Introduction

Context and related publications

- 1.1 This document is a response to our consultation on the objectives, operational model and future role of the Successor Licensee. The consultation was published on 6 June 2025 and closed on 15 July 2025.
- 1.2 DCC is the term used to refer to the holder of the Smart Meter Communication Licence ("the Licence").⁵ It operates under the conditions of its Licence and is regulated by Ofgem. Smart DCC Ltd is the legal entity that holds the Licence, following a competitive tender process that took place in 2013.
- 1.3 DCC is responsible for establishing and operating a secure national communications network for smart metering in Great Britain, which connects smart meters in people's homes and small businesses. Its key role is to effectively manage large contracts with communication and data service providers to ensure a stable and secure service that is value for money.
- 1.4 Ahead of the expiry of the Licence (due in September 2027), we are carrying out a programme of work ("DCC review") with the objective to:
 - Put in place a new regulatory regime for DCC under the Successor Licence
 - Select and appoint a Successor Licensee ("DCC2") to hold that Licence
- 1.5 We published a decision in August 2023, which concluded the first (scoping) phase of our review. That decision outlined considerations for a way forward to a detailed design of the new framework and its implementation. We concluded that the new framework should be based on a set of key features, which included:
 - Key feature #4: The operational model will remain primarily outsourced with key contracts procured competitively on the market (decisions made by the Board subject to Licence limitations)".⁶
- 1.6 In June 2025 we published a consultation on detailed policy proposals building on this key feature to which this document responds.

⁵ Throughout this decision document, we refer more broadly to "DCC", meaning the holder of the Licence (in its generic sense) and the organisation currently carrying on the Authorised Business, and our references should be interpreted in accordance with the context to which they relate, whether that be the current licensee or the future DCC.

⁶ Ofgem (2023) DCC Review: Phase 1 Decision, paragraph 2.33 and chapter 5.
www.ofgem.gov.uk/decision/dcc-review-phase-1-decision

Context and related publications

- 1.7 This decision concludes the third and final policy consultation that forms part of Phase 2 (detailed design) of the DCC review programme. These three consultations (and our decisions in response to these) should be taken as a whole:
- We published our first policy consultation of Phase 2 in May 2024. It focused on the future arrangements for governance and Centralised Registration Service ("Switching").⁷ We published our decisions in December 2024 (Switching)⁸ and January 2025 (governance).⁹
 - We published our second policy consultation of Phase 2 in December 2024.¹⁰ It focused on the process for determination of the Successor Licensee's Allowed Revenue (*ex-ante* cost control). We published our decision in May 2025.¹¹ This decision was followed by decisions on statutory changes to the current Licence¹² and guidance documents (Terms of Reference for a Customer Challenge Group & Business Plan Guidance,¹³ and Successor Licensee Regulatory instructions and Guidance)¹⁴ to support the implementation of the first *ex-ante* cost control cycle.
- 1.8 We expect to launch the competitive selection process for the Successor Licensee and publish the draft Successor Licence in September 2025. In accordance with the 2012 Regulations, we will publish a notice to this effect. We will provide greater detail outlining the process for prospective applicants to register on Ofgem e-Tendering portal.

⁷ Ofgem (2024), DCC Review Phase 2: Governance and Centralised Registration Service arrangements. www.ofgem.gov.uk/consultation/dcc-review-phase-2-governance-and-centralised-registration-service-arrangement

⁸ 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

⁹ Ofgem (2025) DCC Review Phase 2: Governance arrangements – conclusions. www.ofgem.gov.uk/decision/dcc-review-phase-2-governance-arrangements-conclusions

¹⁰ Ofgem (2024), DCC Review Phase 2: Determination of Allowed – consultation. www.ofgem.gov.uk/consultation/dcc-review-phase-2-determination-allowed-revenue

¹¹ Ofgem (2025), DCC Review Phase 2: Determination of Allowed Revenue – conclusions. www.ofgem.gov.uk/consultation/dcc-review-phase-2-determination-allowed-revenue

¹² 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

¹³ 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

¹⁴ Ofgem (2025), Regulatory Instructions and Guidance (Successor Licensee). www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee

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- 1.9 We have already commenced work on the selection of the Successor Licensee through market engagement and a webinar in November 2024. We also published an Expression of Interest in the spring 2025.¹⁵ Finally we have published the Evaluation Criteria Framework in July 2025.¹⁶
- 1.10 Under our current assumptions, we anticipate the appointment of the Successor Licensee to occur in the spring 2026, followed by a 6 month Business Handover period.
- 1.11 We expect to formally set the Transfer Date (whereafter DCC2 will be solely responsible for delivering Mandatory Business under the Successor Licence) using powers under LC 43.7(b) in Q3 2025. Our current best assumption is that the Transfer Date will occur before or in November 2026.

Our decision-making process

Date	Stage description
02/06/2025	Stage 1: Consultation open
15/07/2025	Stage 2: Consultation closes (awaiting decision), Deadline for responses
09/09/2025	Stage 3: Responses reviewed and published
09/09/2025	Stage 4: Consultation decision/policy statement

General feedback

We are keen to receive your comments about this report. We would also like to get your answers to these questions:

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

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

¹⁵ Ofgem (2025), Expression of Interest in the new Smart Meter Communication Licence. www.ofgem.gov.uk/call-for-input/expression-interest-new-smart-meter-communication-licence

¹⁶ Ofgem (2025) Evaluation Criteria Framework for the Smart Meter Communication Licence tender. www.ofgem.gov.uk/guidance/evaluation-criteria-framework-smart-meter-communication-licence-tender

2. Successor Licensee's strategy and objectives

We will require the Successor Licensee to produce a Business Strategy and Technology Roadmap (BSTR) document to outline the high-level direction of the Successor Licensee's Authorised Business, with input from Ofgem, DESNZ and industry. The BSTR will be required to cover at minimum two cost control cycles (6 years) in detail and plan up to the expiry of the Fundamental Service Capability contracts novated to the Successor Licensee (with the longest contract term c.20 years). The Successor Licence will set out the mandatory content. The document will be subject to consultation with Ofgem, DESNZ and industry. The approval route for the first BSTR will be determined in the context of the changing roles of Ofgem and DESNZ as part of a broader transition in the Smart Metering Implementation Programme governance.

We will proceed with the proposed changes to the Procurement Strategy approval process, including requirement on the Successor Licensee to consult with Ofgem, DESNZ and SEC/REC parties and carry out annual review and updates, but limit the scope of subsequent consultations to material changes only.

We have decided to introduce the following objectives into the Successor Licence:

- A Primary Objective to deliver a consumer-focused, coordinated, secure and economic and efficient Mandatory Business. This Primary Objective will always take precedence over others.
- Three Supportive Objectives focused on delivering Mandatory Business in a way which facilitates innovation by DCC users, competition in activities connected with the supply of energy, and considers environmental impacts
- A Transitional Objective imposing on the Successor Licensee duties to: conclude the Business Handover; exit any transitional arrangements for services with DCC2 or its shareholder; produce a plan for, and execute, a review of novated External Service Provider contracts; and develop the Business Strategy and Technology Roadmap

We have decided not to place a new obligation on the Successor Licensee to review its objectives.

Questions posed at consultation

- Q1. What are your views on our proposal to set DCC2's long-term strategy through the proposed Business Strategy and Technology Roadmap document? What are your views on the document's scope, content and the timeframes?

- Q2. Do you agree with our proposal to amend the approval process for the Procurement Strategy?
- Q3. Do you agree with our proposal to set a Primary Objective for the Successor Licensee? What are your views on its proposed intent and wording?
- Q4. What are your views on the proposed First Supporting Objective? Do you agree that it should focus on enabling competition and innovation and its proposed wording? Do you agree that DCC2 should have an objective to foster competition in the services that it procures when carrying out its Mandatory Business?
- Q5. What are your views on the proposed Second Supporting Objective? Do you agree with its focus on sustainability and the proposed wording?
- Q6. What are your views on the proposed Third Supporting Objective? Do you agree with its focus on consumer impacts and the proposed wording?
- Q7. Do you agree with the proposed transitional objectives and the four proposed aims of this objective? Does this objective sufficiently capture the key expected milestones during the transition?
- Q8. What are your views on the proposed weighting of the objectives and the possible review of the objectives? Do you have any other views on the proposed objectives?

A. Business Strategy and Technology Roadmap

Background

- 2.1 In our consultation we outlined that the DESNZ-led governance is expected to reduce as the smart meter rollout concludes and there is no enduring overarching strategy document, decision-owner or a set process for determining DCC's long-term strategy. While this was not necessarily required for the first DCC Licence (while the system was being set up and scaling, and transitional governance was in place), it may not be sufficient for the next Licence period.
- 2.2 We proposed to pursue an approach under the Successor Licence where DCC2 would lead on the development of an overall long-term strategy. We proposed introducing a Licence obligation on the Successor Licensee to produce a new Business Strategy and Technology Roadmap (BSTR).
- 2.3 We consulted on the introduction, proposed content and scope of the document and sought views on the process for its approval.¹⁷

¹⁷ Ofgem (2025) DCC Review Phase 2: Objectives, operational model and future role of DCC, paragraphs 2.9-2.15. www.ofgem.gov.uk/consultation/dcc-review-phase-2-objectives-operational-model-and-future-role-dcc

Overview of respondents' views

- 2.4 All respondents supported the introduction of the BSTR. One stakeholder said this represented a move towards DCC2 being a proactive organisation with increased responsibility for its own strategy rather than reacting to and being controlled by external parties. Another commented that this would help improve awareness among DCC customers about future activities and changes to the network.
- 2.5 **Content:** Respondents put forward several comments and suggestions in respect of the proposed content, including:
- An assessment of technology risk alongside the main trends affecting existing systems and future developments
 - That no technology changes should be considered unless they make a positive impact to core operations, or they enable a reduction in costs
 - A clearer emphasis on system interoperability and backwards/forwards compatibility given the range of smart meter generations and communications technologies in operation in the future
 - An expectation that DCC2 aligns its roadmap with clearly defined end-user outcomes including service reliability, coverage, and costs
 - Clarification on how DCC2 will benchmark activities as time progresses and what metrics would be used to evaluate this
 - Scope and contents should predominantly focus on principles rather than setting out specific technologies that should be adopted
 - Planned technology procurement should maximise the network reach whilst ensuring economic efficiency
 - Predicting and preventing security threats
- 2.6 **Duration:** Three respondents suggested timeframes between 6-10 years as they view this as reasonable and the timeframe that DCC could most accurately predict. One suggested the lifespan of the Successor Licence at a minimum which would allow it to remain flexible and dynamic. One respondent suggested a longer term, *eg* 25 years.
- 2.7 **Approval process:** Respondents provided mixed views:
- One respondent argued that DCC2's Board would be well suited to take the decision to approve the BSTR on account of its independence
 - One respondent was in favour of a joint approval by Ofgem and DESNZ

- Another preferred a “non-objection” from Ofgem
- Two respondents raised concerns about the proposal for Ofgem’s power to direct changes to the BSTR, asking when and how this power could be used
- One respondent suggested that other affected parties, who may not be DCC users, such as device manufacturers, should be consulted with. One respondent raised concerns regarding whether there was sufficient time to develop the initial BSTR

2.8 **Review process:** Respondents offered varied views on the review process. Two respondents proposed that the BSTR should be updated every three years so it will coincide with the relevant three-year *ex-ante* cost control. One of these believed there should be flexibility to provide additional updates to the Roadmap where critical policy decisions materially influence DCC’s operations. Two respondents suggested 3- or 5-year reviews with annual check-ins. One respondent suggested quarterly reviews and annual updates during the initial development.

Decision

2.9 We have decided to proceed with our proposal and will introduce a licence condition requiring the Successor Licensee to prepare and maintain a BSTR document.

2.10 We have also decided to proceed with our proposal to mandate specific content of the BSTR through the Successor Licence. We have made amendments (in bold) to the proposed list of mandatory matters in response to respondents’ feedback. We will base our licence drafting on the following updated list:

- 1) Key decisions pertaining to the development and provision of the Mandatory Business (including network and systems solutions), which need to be taken, and their impacts on the energy networks, energy suppliers and GB energy consumers. For example, communication technology that should be adopted in each communication region or how to maximise the reach of the smart metering network
- 2) Key areas of activity, products and/or services that are delivered under the Authorised Business, and how the Licensee will develop the infrastructure, systems, and processes for the provision of services under or pursuant to its Licence conditions, the Smart Energy Code or Retail Energy Code
- 3) Market analysis to establish the risk of technology becoming redundant/ expiring, and to identify emerging or evolving technologies that could improve

the Licensee's management and operation of the Authorised Business, including **predicting and preventing security threats**

- 4) DCC2's plan for working with relevant Code Managers to deliver their Strategic Direction Statement
 - 5) Where appropriate, a roadmap of the technology that DCC2 plans to acquire, linked to its objectives, Mandatory Business and the Procurement Strategy
 - 6) Considerations of the lifecycle of the existing technology **and the timing of technology changes/procurement of RSC to ensure continued economic and efficient provision of the Mandatory Business**
 - 7) Interactions with other technologies, for example different generations of smart meters and the systems used by DCC users, **and how DCC plans to ensure system interoperability and backwards/forwards compatibility.**
 - 8) Metrics that DCC will use to measure the success of its strategy, including **clearly defined end-user outcomes**, and the identification of potential risks associated with technology adoption and usage, and their mitigations.
- 2.11 The Successor Licence will require DCC2 to consult on the BSTR to ensure views of diverse parties are incorporated, including Ofgem, DESNZ, DCC customers and any other persons who are likely to be materially affected by the BSTR (*eg* DCC's External Service Providers or device manufacturers). This mirrors the licence requirements placed on DCC1 in respect of the Procurement Strategy under LC16.
- 2.12 The BSTR document will be subject to a review and updated in line with the three-year *ex-ante* cost control cycles. Revisions outside of this period would be possible to reflect any material changes, however, DCC2 would still be required to consult on these changes.

Rationale

- 2.13 We have decided to amend the mandatory contents of the BSTR following feedback from stakeholders. We are persuaded by the suggestions to include into the requirements the following matters:
- Requirement #3: Predicting and preventing security threats – ensuring secure provision of Mandatory Business is one of the elements of DCC's Primary Objective and it is appropriate for security planning to form part of the long-term strategy, in cooperation with the SEC Security Subcommittee. We note that this is already undertaken by DCC1.

- Requirement #6: Ensuring a positive impact on Authorised Business.
 - Requirement #7: How DCC plans to ensure system interoperability and backwards/forwards compatibility – we agree with respondents view that this is an important consideration given the various technologies used on the DCC network.
 - Requirement #8: Defined end-user outcomes (such as service reliability or coverage) – we agree that this would help underpin customer focus and make the strategy a meaningful outcome-based product.
- 2.14 We have further considered the proposed requirement on the BSTR to include “the main trends and factors that are likely to affect the future development and performance of the Authorised Business, in whole or in part” and decided not to proceed with it. We note that this is part of the mandatory content of the Development Plan section of the Business Plan and suitably addressed by requirements 1, 3 and 4.
- 2.15 The requirements set out above should be the focus of the initial Business Strategy and Technology Roadmap and may be expanded upon or refined via engagement and consultation on the draft Business Strategy and Technology Roadmap.
- 2.16 Aligning the BSTR with the second *ex-ante* cost control period (commencing on 1st April 2028) will:
- Provide sufficient time for the Successor Licensee to develop and consult. Note that the production of the BSTR will form part of the Successor Licensee’s transitional objective (see Part C below).
 - Create a logical link between the overall strategy and the costed business plan as a delivery vehicle.
- 2.17 An initial two-cycle (six-year) detailed outlook will allow for a greater certainty. However, to ensure a holistic view, where relevant, the BSTR should set out plans aligned to the terms of FSP contracts.
- 2.18 We consider that it would be appropriate for Ofgem and/or DESNZ to provide an approval or non-objection to the BSTR. We will consult on the inclusion of the approval mechanism into the Successor Licence in the context of an overall transition of the current DESNZ-led governance at the conclusion of the smart meter rollout.

- 2.19 We note respondents' question about the power of Ofgem/DESNZ to direct changes to the BSTR. The rationale for the inclusion of this discretionary power is to:
- Ensure that a compliant BSTR is in place – Ofgem/DESNZ may direct changes for example where one or more of the mandatory matters (as listed above) are missing from the BSTR
 - Ensure the BSTR remains up to date with links to public policy objectives – Ofgem/DESNZ may direct changes if policy/regulatory strategy changes
- 2.20 We will consult further on the power of direction through the draft licence conditions.

B. Procurement strategy

- 2.21 The current Licence¹⁸ requires the Licensee to have in place a statement of its Procurement Strategy for Relevant Service Capability. We did not propose to change its contents from the current licence requirements. However, we proposed that, under the Successor Licence, revisions to the Procurement Strategy should be subject to consultation. We sought views on the following options:
- Option 1 (preferred): The Procurement Strategy would be subject to annual revisions. The Successor Licensee would be required to consult with DESNZ, Ofgem and SEC/REC parties, and seek approval from Ofgem for each revised version.
 - Option 2: The Procurement Strategy would be subject to revision only when there is a *material* change and after consultation with DESNZ, Ofgem and SEC/REC parties. Ofgem's approval would be required. Immaterial changes could include updates to ensure it reflects references to current legislation.

Overview of respondents' views

- 2.22 Respondents generally agreed that the content of the Procurement Strategy should not change.
- 2.23 Most also agreed with the proposed requirement for consultation for each version of the Procurement Strategy.
- 2.24 The majority of respondents agreed with our preferred option 1 (annual review). Three respondents preferred option 2 as they considered that an annual review with consultation would put unnecessary burden on industry.

¹⁸ LC 16 Parts D-F

Decision

2.25 We have decided to proceed with an amended version of option 1. The Successor Licensee will be required to review the Procurement Strategy annually and submit it to Ofgem for approval. However, the requirement for consultation will be limited to only material changes.

Rationale

2.26 On balance, this option will ensure proportionate industry engagement and mitigate the risk of non-transparent version control. We agree that repeated consultation should be required only where material changes are made to manage regulatory burden.

C. Objectives

2.27 We proposed to introduce:

- A Principal Objective focusing on the continued delivery of Mandatory Business in an efficient, economical, co-ordinated, and secure manner
- Three Supporting Objectives focusing on DCC2's role in delivering Mandatory Business in a way which facilitates or has a regard to:
 - (1) Innovation and competition in the energy market;
 - (2) Sustainability
 - (3) Consumer impacts
- A time-bound transitional objective requiring DCC2 to:
 - (1) Conclude the business handover
 - (2) Ensure that any Transitional Arrangements for services provided by the previous Licensee (or its Affiliated or Related Undertakings) are exited in a timely manner (unless the current Licensee becomes the Successor Licensee)
 - (3) Prepare the Business Strategy and Technology Roadmap
 - (4) Undertake a review of the External Service Provider contracts novated from the Previous Licensee

2.28 We sought views on the possible wording of these proposed objectives and their weighting.

2.29 We also sought views on options for reviewing the objectives across the licence term:

- Option A: no specific review clause – Ofgem would review as and when necessary
- Option B: specific review clause aligned to cost control cycles or the licence term

Overview of respondents' views

Principal Objective and Third Supporting Objective (consumer impacts)

- 2.30 A majority of respondents agreed with the introduction and wording of the proposed Principal Objective. One respondent disagreed with the proposed wording stating that it was too broad and should focus on one area rather than multiple.
- 2.31 One respondent suggested incorporating a reference to Net Zero into the Principal Objective.
- 2.32 A majority of respondents agreed with the introduction of a consumer-focused objective with four respondents suggesting this should be included within the Principal Objective.
- 2.33 Two respondents queried why the proposed consumer-focused objective was only the Third Supporting Objective, noting that this implied consumer focus being of lower importance to other objectives.
- 2.34 One respondent disagreed with the introduction of a separate consumer objective on the grounds that there should be no gap between Mandatory Business and consumer interest.
- 2.35 One respondent stated that DCC should have just one overarching objective and the supporting objectives should be embedded in the Principal Objective.

First Supporting Objective (innovation and competition)

- 2.36 We received mixed views in response to this proposal. Although a majority of respondents agreed in principle with the introduction of this objective, five disagreed. These respondents were concerned about a risk that focus on innovation could prove a distraction to Mandatory Business and possible cost implications.
- 2.37 Two respondents suggested splitting this objective into two: one focusing on innovation and one on competition.

- 2.38 Two respondents agreed with the inclusion of wording which would extend the focus on competition to External Service Providers from whom DCC procures Relevant Service Capability. Two disagreed with this approach:
- DCC stated that this is already part of the requirements under the Competition Act 1998
 - Another respondent argued that this should be covered in the Principal Objective with reference to an “economic and efficient” delivery of Mandatory Business
- 2.39 Two respondents agreed with our proposal to include a clear focus on reducing barriers to entry for DCC customers; while two disagreed with one stating that they do not believe there are significant barriers to entry for new customers.

Second Supporting Objective (sustainability)

- 2.40 Four respondents argued that this proposal should be reframed as a Net Zero objective. They argued that sustainability was too broad and this reframing would better reflect Government’s Net Zero agenda.
- 2.41 One respondent argued that both a Net Zero and the sustainability objective should be included with the former embedded into the Principal Objective and the latter as a supporting objective.
- 2.42 Two respondents disagreed with the introduction of this objective. One argued that DCC has very little impact on the supply of energy and could not practically fulfil this objective. The other disagreed with the wording which they stated could result in unintended consequences and high costs or wasted time.

Transitional objective

- 2.43 A majority of respondents agreed with the introduction of the transition objective.
- 2.44 Two respondents suggested including an additional transitional duty for DCC2 to help facilitate the final *ex-post* price control for DCC1 following the Business Transfer Date.
- 2.45 One respondent asked for timescales for each sub-component of this objective to ensure that DCC customers had confidence in the delivery of these transitional duties.
- 2.46 There were several comments on Part D (review of contracts) including:
- Three respondents raised that a firm scope and timeframe were needed for the review

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- One respondent suggested Part D should include a requirement to identify and publish risks to service performance and terms of Fundamental Service Capability contracts
- One respondent disagreed with the proposal noting that a review of contracts should be a business-as-usual activity for the Successor Licensee

Weighting and review of objectives

- 2.47 A majority of respondents supported our proposed weighting of the objectives. As above, two respondents raised concerns that the consumer-focused objective being the third supporting objective implied it was of lower importance.
- 2.48 A majority of respondents supported Option B (specific review clause) for the review of the objectives. Two respondents preferred Option A (no specific clause).

Decision

- 2.49 We have decided to proceed with the introduction of a *Primary* Objective as consulted on, and to incorporate the proposed Third Supporting Objective (consumer impact) into this objective.
- 2.50 We have decided to split the proposed First Supporting Objective focused on innovation and competition into two objectives covering each area separately. We will not include references to External Service Providers or reducing barriers to entry for customers into the competition-focused supporting objective.
- 2.51 We have decided to introduce the Third Supporting Objectives (sustainability) but reframed it to focus on environmental impacts.
- 2.52 We have decided to introduce the Transitional Objective with the four parts as consulted upon.
- 2.53 We have decided to weight the objectives as consulted with the Primary Objective taking precedence.
- 2.54 We have decided not to introduce a requirement on the Successor Licensee to review its objectives during the licence term.
- 2.55 We will consult on the wording of the objectives in the draft Successor Licence.

Rationale for the decision

Primary Objective and proposed Third Supporting Objective (consumers impacts)

- 2.56 We are persuaded by the argument that there should be no divergence between the provision of Mandatory Business and consumer interest, or that consumer

interest should be given a separate consideration under a supporting objective. We have therefore decided to incorporate it into the Primary Objective. As explained in our consultation, whilst we recognise that DCC does not have a direct relationship with energy consumers as its services are provided to industry users; ultimately, energy consumers are impacted by the decisions DCC takes and the cost and quality of the smart metering communication services DCC provides. The embedding of consumer focus into the future Primary Objective complements our conclusions that the future DCC Board should include an independent non-executive director with consumer advocacy experience¹⁹ and the inclusion of a consumer representative on the Customer Challenge Group established to provide scrutiny and feedback on DCC's business planning under the new *ex-ante* cost control regime.²⁰ For clarity, although consumer interest and impacts should be considered as part of DCC's decision-making (aided by the inclusion of consumer advocacy experts on the Board and the CCG), we would not expect DCC to seek to independently define consumer interest or carry out own macroeconomic assessments of consumer impacts, areas where Ofgem and/or DESNZ are better suited to take action.

Supporting objectives on innovation and competition

- 2.57 Although both are geared towards maximising the positive impact of DCC's service provision, we are persuaded by the argument that innovation and competition do not always entail the same considerations and each should be treated separately. We have therefore decided to split the proposed First Supporting Objective into two.
- 2.58 **Competition:** We agree that facilitating competition between External Service Providers already forms part of DCC's objectives as it is the main route to ensure economic and efficient provision of the Mandatory Business (as per the Primary Objective). Additionally, DCC's obligation to procure Relevant Service Capability competitively from External Service Providers is rooted in the Procurement Principles (under LC 16). Therefore, on balance, we do not consider it necessary to make further inclusion into the supporting objectives.

¹⁹ Ofgem (2025) DCC Review Phase 2: Governance arrangements – conclusions, paragraphs 3.11-3.16. www.ofgem.gov.uk/decision/dcc-review-phase-2-governance-arrangements-conclusions

²⁰ Ofgem (2025) Terms of Reference for Customer Challenge Group, paragraph 3.11. www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance

2.59 **Reducing barriers to entry:** Similarly, whilst we remain of the view that easy onboarding and reduction of barriers to entry for new customers is important, on reflection, we do not consider it necessary to make a specific provision for these in DCC2's objectives. We have not seen concrete evidence of barriers to entry being a significant issue. Nonetheless, we note the existing obligations in this regard²¹ and expect the Successor Licensee to continue to support new customers. We welcome the inclusion of specific initiatives to improve the onboarding process for new users into DCC's recent 2025 Business Development Plan.²²

2.60 **Innovation:** We maintain that it is appropriate for an innovation-focused supporting objective to form part of the Successor Licensee's objectives to promote growth, competitiveness and innovation in the energy market. We understand concerns raised by some respondents in relation to risks of losing focus away from the provision of Mandatory Business under the Primary Objective. However, we would note that:

- The Primary Objective must take precedence
- The purpose of this supporting objective is not for the Successor Licensee itself to be engaged in innovation; rather, it is to facilitate innovation by its customers through the provision of Mandatory Business services
- Any non-mandatory innovative services provided by the Successor Licensee will require pre-approved funding via the business planning process and approval from Ofgem²³ (see Chapter 4, Part B)

We therefore consider this risk to be sufficiently mitigated and for this supporting objective to be included.

Supporting objective on sustainability

2.61 Whilst we understand the reasoning behind respondents' arguments in favour of a specific Net Zero objective, we maintain that this is not required to be explicitly provided for in the Successor Licence. Smart metering is a key building block for many of the market reforms needed to achieve the government's Net Zero agenda – for example, reform of the settlement process allowing the introduction

²¹ For example, SEC Section H1, or LC 11.3 and 11.8

²² Smart DCC (2025), Business & Development Plan, p.67. Accessible at: www.smartdcc.co.uk/about-dcc/business-development-plan/

²³ DCC Review Phase 2: Determination of Allowed Revenue – conclusions, paragraphs 4.24-4.27. www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions

of more renewable sources into the generation mix; and DCC already contributes to this by virtue of delivering its Mandatory Business. However, as set out in our consultation, in practice, Ofgem and DENSZ, who have Net Zero statutory duties and can take an informed macroeconomic view, are better placed to determine whether there are additional duties that DCC could be asked to provide in support of Net Zero delivery. If any additional duties are included into the Successor Licence at any point in future, then DCC's Primary Objective to deliver Mandatory Business in an economic and efficient, secure, coordinated and consumer-focused manner will apply.

- 2.62 Equally, however, we recognise that sustainability can be interpreted widely. For example, we accept that DCC cannot in practice directly influence the sustainability of the supply of energy. To better capture the intent of this supporting objective, we have decided to focus on the environmental impacts of the actions DCC takes and the contracts that it procures. This objective would be supported by the inclusion of a related procurement principle (as per our conclusion in Chapter 3 Part B).

Transitional objective

- 2.63 We welcome the support received from respondents for our proposed Transition Objective which we have decided to proceed with as consulted upon.
- 2.64 Whilst we understand the respondent's rationale, we have decided not to include an express provision into the Transitional Objective in relation to supporting the final Price Control process by DCC1. However, we agree that this should be adequately provided for by the Business Handover Plan and the expected co-operation agreement between DCC1 & DCC2.
- 2.65 We will set the deadline for each transitional duty via the Successor Licence or a direction; however, we recognise that an indicative timescale would be helpful and provide below our current best estimate in relation to each strand of the Transitional Objective:
- *Carry out and conclude the transfer of Authorised Business in a manner most likely to ensure an effective business handover, and with no material adverse impact on the quality and efficiency with which services are delivered.* – The Business Handover process will conclude on Transfer Date whereafter the Authorised Business will be provided solely by the Successor Licensee. While we are yet to designate the Transfer Date using powers in LC 43.7, our current best estimate is that the Transfer Date will occur in or before

November 2026 with the final *ex-post* price control and settlement concluding before the expiry of the current Licence in September 2027.

- *Ensure that any Transitional Arrangements for services provided by Smart DCC Ltd or its Affiliated or Related Undertakings are exited in a timely manner.* – We envisage that the Successor Licensee should move away from Transitional Arrangements for services within 12 months of the Business Transfer Date.
- *Prepare the Business Strategy and Technology Roadmap document.* – Our current view is that the preparation of the BSTR should align with the commencement of the second *ex-ante* cost control period from 1st April 2028.
- *Undertake a review of the External Service Provider contracts novated from the Previous Licensee with a focus on driving efficiencies and cost reduction.* – The end-date of this exercise will depend on the scope of the exercise and the structure of the contracts (for example, to align to contractual break clauses) and may be delivered in stages; however, we would expect the initial scoping to happen within 12 months of the Business Transfer Date.

2.66 We recognise respondents' feedback in relation to the scope of the contract review. Our view is that, at minimum, novated contracts entered into for the provision of Fundamental Service Capability should be in scope. We will consult further on the details of this part of the Transitional Objective via our consultation on the draft conditions of the Successor Licence.

2.67 In relation to identifying and publishing any material risks to service performance, we consider this can be addressed in two ways. Any short-term issues arising during business handover should be raised with the Joint Handover Steering Group. Longer-term issues should be raised to Ofgem as part of BAU and recorded in the Business Strategy and Technology Roadmap.

Weighting and review of objectives

2.68 Although we recognise the rationale for keeping objectives under review, we do not consider it necessary to include in the Successor Licence a specific timing clause for a review to take place. If DCC2, Ofgem or DESNZ consider that the objectives require updating, this can be done via a licence modification process at any time, not be restricted to a single point in time.

3. Operational model

DCC is primarily a contract management company with most of its costs arising from contracts with third-party service providers. In the consultation we outlined the different types of contracts DCC manages, and our proposals in respect of their procurement.

First, we consulted on the definition of “Fundamental Service Capability” (FSC) in the Successor Licence. FSC contracts are a subset of DCC contracts for the provision of the key data and communication services. The procurement of FSC is guided by specific rules, eg a prohibition on provision by DCC or its affiliates. We have decided to maintain the current approach towards defining FSC through the scope of the existing FSC contracts. For the Successor Licensee, this will mean that all FSC contracts novated to it as part of Business Handover, and any subsequent contracts that will replace them, will continue to be treated as FSC. 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.

Secondly, we consulted on introducing additional procurement principles to consider sustainability and consumer impacts. We have decided to proceed with both principles with a clarification in the focus on environmental impacts instead of sustainability – aligned to the new objectives.

Thirdly, we proposed that services provided to the Successor Licensee by any related undertaking would have to be procured on the same conditions and under the same requirements as those of other third-party contracts and that the Successor Licensee should regularly report on these contracts to Ofgem to help us monitor compliance. We also proposed that the Successor Licensee should be the employer of its staff. We have decided to introduce these proposals as consulted upon.

Questions posed at consultation

- Q9. What are your views on the definition of Fundamental Service Capability? Do you agree that the distinction between fundamental and non-fundamental Relevant Service Capability remains relevant in the new regime? If not, why?
- Q10. What are your views of the proposed additions to the procurement principles for Relevant Service Capability? Do you have any other suggested areas of improvement?
- Q11. Do you agree with our proposal to require shareholder services to be provided on the same terms as other Relevant Service Capability contracts, and the

requirement for the Successor Licensee to produce a register of contracts and services that are provided by any Related Undertaking?

Q12. Do you agree that staff who work on the Authorised Business under the Successor Licence should be employed by the Successor Licensee?

A. Fundamental Service Capability

Background

- 3.1 In our Phase 1 decision, we decided that we would retain the existing Licence requirement to procure Fundamental Service Capability (FSC) on a competitive basis from External Service Providers.
- 3.2 We sought views on the following options for defining the FSC in the Successor Licence:
- Option A (preferred): Retain the current definition of FSC through an updated list of FSC Contracts in Schedule 1 (including any future extensions, amendments or replacements).
 - Option B: Review the Legacy Procurement Contracts and define FSC through the scope and function of the services included within these contracts.

Overview of respondents' views

- 3.3 We received mixed responses. A plurality of respondents (5 of 12) supported Option A (retain current definition). One respondent, who agreed that the current definition remains useful and should be maintained in the new regime, stated that it supports clarity in procurement, cost recovery, and regulation, while recognising that the market and user needs may evolve.
- 3.4 DCC preferred Option B stating that retaining the current definition of FSC is insufficiently precise, causes confusion and increases the risk of compliance issues. DCC suggested that two additional categories could be included:
- "Shared Service Capability" to consist of a set of capabilities, such as cloud hosting, systems integration, or service management that the Licensee should not have to procure separately for each system but should be able to procure and use across a number of systems
 - "Support Service Capability" which would consist of low value (and internally used) services such as catering
- 3.5 Several respondents did not provide a view. They commented that the distinction between Fundamental and non-Fundamental Relevant Service Capability should

be clearer and noted that in order to form a view it would be helpful to see a list or examples of non-Fundamental Relevant Service Capability contracts. A couple respondents questioned the complex way in which the Fundamental/non-Fundamental Relevant Service Capability is defined and suggested that the language be simplified.

Decision

- 3.6 Having carefully considered all responses, we have decided to proceed with Option A and retain the existing distinction between Fundamental and non-Fundamental Relevant Service Capability. We will embed this in the Successor Licence in a way which provides clarity on the distinction.

Rationale

- 3.7 We recognise respondents' feedback that the FSC/non-FSC distinction may appear unintuitive; however, we believe that the distinction remains relevant in the Successor Licence and that a definition through the scope of FSC contracts is the better option.
- 3.8 **FSC v non-FSC RSC:** Relevant Service Capability comprises all contracts (including resources, systems, processes, software/hardware, or services) that DCC procures in order to deliver its Authorised Business. A subset of the RSC is defined as "Fundamental" for which the Licence sets out specific rules, such as prohibition on the provision of FSC from own resources ("in house") or procurement from a related undertaking (effectively, contracting the parent company for the delivery). We consider that it will be important for the Successor Licence to maintain this distinction and rules to drive value for money via competition for these services among External Service Providers and to prevent centralisation of monopoly services and market distortion.
- 3.9 **Approach to defining the FSC:** As explained in our consultation, FSC has to date been defined through the scope of specific contracts (listed in Appendix 1 of the consultation document). These are:
- The original 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 (including the procurement of the 4G comms hubs and networks contracts and the reprocurement, by disaggregation, of the Data Service Provider)

- Contracts procured for the delivery of the Switching service – specifically, Address Management Service and the Registration Service (described in Condition 15) = “Fundamental Registration Service”
- Any contract which amend, supplement, revise or replace the contracts above

3.10 We have decided to proceed with the option to retain this general definition as we consider it will provide flexibility in the Successor Licence such that:

- Existing FSC contracts, novated to the Successor Licensee, continue to be treated as such with the licence provisions safeguarding their provision on the basis of competitively procured contracts from non-affiliated third parties
- The rules for procurement continue to apply when the Successor Licensee reprocures these contracts. This is especially important as the definition is agnostic of the specific technology used – which may change in ways we cannot predict today – and instead focuses on the nature of the services provided defined via the scope of the contracts. This is preferable to defining the specific services outside the contracts (Option B) which introduces the risk that the definition will not cover all services, prove impractically long, or not be relevant as technology changes.

3.11 We have not published a list of the non-fundamental RSC contracts that DCC holds but DCC is required to publish all its contracts on the website under Part C of Schedule 1.²⁴

3.12 We have considered DCC’s proposal for the addition of Shared Service Capability and Support Service Capability categories. Although we understand the rationale, we do not believe these are necessary:

- **Shared Service Capability:** DCC suggests that a separate shared capability would allow it to procure certain capabilities, such as hosting, for use across a number of systems services. We believe that existing procurement rules already allow DCC to do so, so long as procurement principles of competition are observed (in particular, procurement on a competitive basis from non-affiliated External Service Providers); however, we invite DCC to provide additional feedback during our consultation on the draft conditions of the Successor Licence if DCC believes this is not the case and further changes may be needed.

²⁴ Smart DCC Service provider contracts can be found here: www.smartdcc.co.uk/document-centre/?filter=2075

- **Support Service Capability:** We recognise that certain low-value supporting services, such as cleaning or catering, differ from larger contracts; however, the Licence does accommodate their procurement in line with procurement principles by placing a proportionality test, allowing the Licensee to, for example, provide these from own resources where this is the most economic and efficient option. We do not consider it necessary to change these rules.

B. Procurement of Relevant Service Capability

Background

- 3.13 In our consultation, we posited that the existing procurement principles remains relevant and, therefore, did not propose to change them. However, we proposed including two *new* procurement principles for RSC.
- 3.14 The first proposed principle focused on sustainability and we sought views on three possible options for implementation:
- The Licensee should consider if there is material impact on Greenhouse Gas Emissions as a result of the proposed procurement, and (if so) to assess such impacts, or
 - The Licensee should carry out a life-cycle assessment of the procurement linked to relevant ISO standard (eg ISO 14040), or
 - The Successor Licensee should have regard to sustainability assessments when making decisions about procurements.
- 3.15 The second principle would focus on consumer impacts. This would require the Successor Licensee to consider the likely impacts of its procurement decisions on the end-consumer, including in relation to cost, consumer experience of the smart metering technology or implications for different groups of consumers (eg PPM, SMETS1, SMETS2 etc).

Overview of respondents' views

- 3.16 Most respondents agreed with the introduction of both procurement principles.
- 3.17 Two respondents disagreed with the introduction of either procurement principle. DCC stated that it is already required to consider sustainability under the HMT Green Book processes it follows in preparing business cases to receive non-objection from DESNZ under LC16.6A-C. DCC argued the proposal would add regulatory burden and confusion over which procurements and activities are impacted.

- 3.18 One respondent suggested including a procurement principle on a target percentage reduction in DCC's operating costs due to concerns around DCC costs.
- 3.19 One respondent agreed that ISO standard 14040 would be appropriate to support the proposed sustainability principle (life-cycle assessment).
- 3.20 One respondent, who agreed with our proposed sustainability principles, commented on the detailed aspects which could be in scope with reference to DCC's activities, including:
- In respect of Comms Hubs:
 - (1) Ensuring that the extraction of raw materials used in components or the production of CHs does not contribute to environmental pollution or harm to local communities. This should include monitoring of DCC2's supply chains in locations outside of Great Britain
 - (2) Taking reasonable steps to reduce emissions from shipping of hardware or components
 - (3) Designing and procuring CHs that can be appropriately separated and recycled at the end of their operational life and ensuring that their recycling does not cause environmental pollution during separation, processing, or disposal – applicable inside or outside of Great Britain.
 - (4) Using remote triage and localised refurbishment options to eliminate unnecessary use of return logistics for devices. The Licensee could enable this with changes to the 'Triage Use Case 5' service under review by the SEC Security Sub-Committee.
 - (5) Minimising activities involving comms hubs that purposefully or unintentionally render the devices obsolete or restrict their operational life. This includes decisions to cease communications, physically strand, or prevent 'Over The Air' updates from being delivered to installed DCC-supplied devices in consumer premises.
 - (6) Requiring the Licensee to contractually incentivise its supply chain to achieve ambitious annual sustainability gains. This could lead to an improvement in the rate of DCC comms hub refurbishment and speed up returns into the supply chain. They argued that doing so could cut new comms hub production and lower costs to energy consumers.
 - Incentivising External Service Providers to reduce factors that result in energy suppliers making remedial site visits to consumer premises

- Drive improvements in the energy efficiency of its buildings and those used by External Service Providers (eg hosting data centres). This could include mandating use of renewable energy sources, incorporating heat/chill services from efficient district energy networks, or demonstrating reduced use of scarce resources (eg water) at key sites
- 3.21 Four respondents suggested reframing the sustainability principle to a Net Zero principle in line with their view on the framing of objectives (as discussed in Chapter 2 Part C).

Decision

- 3.22 We have decided to proceed with the introduction of both proposed procurement principles.

Rationale

- 3.23 Both new principles support the implementation of the revised objectives:
- The consumer impact procurement principle will underpin the incorporation of consumer focus into the Successor Licensee's Primary Objective. As discussed in our rationale for that decision, we do not expect the Successor Licensee to define consumer interest for itself; it may be more appropriate to seek views from consumer advocacy experts (eg on the Board, the CCG or the SEC Panel) and consult with customers, DESNZ and Ofgem (especially where the Licensee lacks data to make a fully informed decision).
 - In relation to the sustainability principle, we will proceed with Option 3 to focus on environmental impact in line with our decision on the Third Supporting Objective (as per Chapter 2 Part C). We welcome the detailed suggestions provided in the consultation response set out above. We agree that these are the types of considerations the Successor Licensee should make in complying with the new objective and procurement principle. Nonetheless, we will not include these in writing into the Licence to give the Successor Licensee flexibility to evidence how it meets this principle.
- 3.24 While we acknowledge that cost is a concern to DCC customers and consumers, we consider that inclusion of a percentage reduction target could lead to poorer service and other unintended consequences. We have reserved the right to set efficiency targets via the cost control process.²⁵

²⁵ Ofgem (2025) DCC Review Phase 2: Process for determination of Allowed Revenue – conclusions, paragraph 4.34. www.ofgem.gov.uk/consultation/dcc-review-phase-2-determination-allowed-revenue

- 3.25 We recognise that DCC does currently follow the HMT Green Book principles for the business cases that it prepares to receive non-objections from DESNZ for major procurements. However, we would note that, although it has been the established process, the production of business cases itself has not been a licence requirement and does not apply to a significant amount of DCC's procurements (as in practice, only procurements with a total value of at least £10m are subject to the non-objection process). We are cognisant of the risk of increased regulatory burden, however, and will seek to draft the licence principle such that it both reflects established practice (therefore not adding additional burden) and remains flexible and proportionate.

C. Matters relating to shareholder services

- 3.26 The current Licensee receives certain shared services from its shareholder (a Related Undertaking). We proposed changes in the Successor Licence to address three identified issues with this arrangement:
- Issue 1: Some shareholder services are provided directly via negotiated inter-company agreements rather than standard commercial contracts. Some of these service agreements lack exit provisions or novation clauses. **We proposed requiring that any services provided to the Successor Licensee by a Related Undertaking must be procured on the same conditions and in line with the same procurement principles** (as set out in LC 16, subject to changes proposed in the consultation) **as other third-party contracts.**
 - Issue 2: We have noted instances where not all shareholder services are reported transparently, including through Price Control. **We proposed requiring the Successor Licensee to include in its Register of Relevant Business Assets complete information in relation to all contracts, including all those awarded to any Related Undertakings.**
 - Issue 3: The Licensee is not the employer of its staff. All staff are employed by the shareholder creating a risk to business continuity in case of Business Handover (either as a result of Licence expiry or revocation). **We proposed requiring the Successor Licensee to be the employer of staff working on the Authorised Business.**

Overview of respondents' views

- 3.27 All respondents agreed with the proposals for issues 1 and 2.

- 3.28 DCC observed that requiring essential corporate services to be procured on the same basis as all other services provided by a third party, may make it easier to maintain a register of contracts and services.
- 3.29 Most respondents agree with the proposal for issue 3.
- 3.30 One respondent disagreed suggesting that this may lead to increases in salaries when the Successor Licensee is selected.
- 3.31 One respondent suggested that there should be clear guidelines on when the Successor Licensee should employ staff on a permanent basis rather than contracting the resource.
- 3.32 One respondent raised concerns about whether restricting the use of temporary contractors was appropriate to support business needs.

Decision

- 3.33 We have decided to proceed with all three proposals as consulted on.

Rationale

- 3.34 We consider that requiring essential corporate services to be acquired on a competitive basis and meeting the procurement principles set out in the current LC16 makes it consistent with the requirement of all other Relevant Service Capability contracts and will help drive value for money by open competition.
- 3.35 Requiring a register of contracts (including those provided by a Related Undertaking) will enhance transparency of these services and assist Ofgem in compliance monitoring.
- 3.36 We do not anticipate that a requirement on the Successor Licensee to employ its staff would increase salaries. Resources must be benchmarked against the midpoint of market rates (with a 10% tolerance) and all Internal Costs will also be subject to *ex-ante* cost control approval.
- 3.37 As explained in our consultation, our intent is that the default position for the Successor Licensee is to directly employ its staff working on the Authorised Business and not to outsource resourcing to a third party. The Successor Licensee would still have the flexibility to hire consultants and/or contract with third parties for resourcing in respect of specific, short-term projects where that is demonstrably the most efficient way to meet business needs. However, this should be by exception and all allocation between permanent and temporary resource is expected to be justified as part of the cost control process.

4. Scope and governance for the evolution of Authorised Business

Mandatory Business

With general respondents' support, we will carry forward the current scope of Mandatory Business into the Successor Licence defined using the following five categories: (1) Core Communication Services; (2) Enabling Services; (3) Prescribed Business Services; (4) Additional User Services; (5) Other code requirements.

Secondly, following consultation feedback, we will not progress with changes to Elective Communication Services at this time but we will introduce general provisions into the Successor Licence for Additional User Services. These would include Elective Communication Services or other bespoke services provided on request, subject to guardrails to ensure focus and no adverse impact on existing Mandatory Business.

Thirdly, we confirm that the future framework will enable the Successor Licensee to help develop additional Mandatory Business, subject to a business planning process and necessary code governance.

Permitted Business

We consulted on three changes for the Permitted Business:

Firstly, include a new category of Innovative Services (public good initiatives). DCC2 would be able to apply for ringfenced funding via its business planning process and Ofgem would authorise provision of any new services to safeguard consumer interest. The proposal received broad support from respondents and will be implemented as consulted on.

Secondly, introduce high-level criteria for Value-Added Services. Stakeholders were sceptical about the viability of VAS and raised concerns about the risk of distraction away from Mandatory Business but expressed support in principle. We have previously decided not to allow the provision of VAS until at least the second cost control cycle, when we will provide further guidance on the criteria that would apply. We will draw on this consultation when developing those.

Thirdly, to remove the concept of "Minimal Services" from the Successor Licence. Most respondents agreed with this proposal, we have decided to remove it as it is functionally replaced by ringfenced funding provisions.

Questions posed at consultation

- Q13. Do you agree with the proposed scope of Mandatory Business in the Successor Licence? If not, which specific services or activities should be reclassified, added or removed?
- Q14. What are your views on Additional User Services: Which improvements to Elective Communication Services would be most likely to increase their uptake and deliver good outcomes for consumers? What other on-demand User Services could DCC2 provide?
- Q15. What are your views on the possibility to enable DCC2 to apply for funding to develop new services that could become part of its Mandatory Business if approved via a SEC/REC or licence modification?
- Q16. What are your views on the proposed process for funding and governance of Permitted Business: innovative (public good) initiatives and commercial services?
- Q17. Do you agree with the proposed removal of Minimal Services in lieu of the ringfenced funding?

Background

- 4.1 The Licence establishes the regulatory regime that the Licensee must follow in delivering the 'Authorised Business'. The current Licence separates the Authorised Business into two categories:
- Mandatory Business
 - Permitted Business
- 4.2 We sought views on:
- Scope and categorisation of Mandatory Business
 - Reforms to Elective Communication Services under Mandatory Business
 - Introduction of Additional User Service under Mandatory Business
 - Scope and governance for the evolution of Permitted Business
 - Introduction of a new category of innovative (public good) initiatives under Permitted Business
 - Removal of Minimal Services under Permitted Business

A. Scope, definition and governance of Mandatory Business

Background

Scope

- 4.3 We proposed not removing any services or activities from the scope of DCC's Mandatory Business; therefore carrying forward the full scope of the Mandatory Business into the Successor Licence.

Categorisation

- 4.4 We proposed amending the categorisation of the Mandatory Business and defining it as the provision, for and on behalf of parties to the Smart Energy Code, and where relevant, the Retail Energy Code, of:
- Core Communication Services (no change from current licence)
 - Enabling Services (no change from current licence)
 - Additional User Services (to replace Elective Communication Services (ECS) as a broader category which would include ECS)
 - Mandated Business Services (to capture any additional requirements introduced by Ofgem/DESNZ; this would include the existing Switching arrangements)
 - Other Services defined within SEC/REC or the Licence (most of the services DCC provides are set out in the SEC (Section H) and this category would provide a clear link between the code and Licence)

Additional User Services

- 4.5 We consulted on possible changes to ECS to improve their uptake. We also sought views on the scope of other potential Additional User Services, giving the example of advisory services for data interpretation and analysis to support implementing the Data Best Practice Guidance (DPBG).

Development of additional Mandatory Business

- 4.6 We proposed governance arrangements that would allow DCC2 to propose and obtain ring-fenced funding for the development of the additional Mandatory Business services. As set out in our conclusions about the process for determination of the Successor Licensee's Allowed Revenue, we do not intend to

enable this for the first *ex-ante* cost control cycle.²⁶ However, we sought stakeholder views on whether this should be unlocked in the future. We also sought views on our proposed process.

Overview of respondents' views

Scope

- 4.7 The majority of respondents agreed with our proposals on the scope of Mandatory Business.
- 4.8 One respondent argued that DCC2 should be required and incentivised to streamline its testing capabilities and services. They highlighted that DCC's current testing often misses defects in new firmware or comms hub devices, which are typically only found during the User Integration in suppliers' own labs. DCC2 should therefore demonstrate the value added through its ongoing testing activities to ensure there is no duplication or unnecessary work.
- 4.9 One respondent did not support the continuation of the Interoperability Checker as a service DCC should provide. They argued that the current incarnation provides little value as it is a generic data set of smart meter models that should function in smart mode but does not actually represent the end consumers actual experience.

Categorisation

- 4.10 The majority of respondents agreed with our proposals for the categorisation of Mandatory Business.
- 4.11 Four respondents suggested that the proposed categorisation is too complex and should be amended. One of the respondents argued that it could be simplified by combining the definition of Core Mandatory Business and the Mandated Business Services portion of the Additional Mandatory Business into one single category. Then, Ancillary Services and Elective Communications Services could be a method to modify those Additional Mandatory Business services.
- 4.12 One respondent agreed with the scope but welcomed the opportunity to explore the definitions of Mandatory Business and Additional User Services in greater detail through further consultation with the SEC Panel and Sub-Committee Chairs. They stated that this is important to ensure that expectations are clear, aligned

²⁶ Ofgem (2025), DCC Review Phase 2: Determination of Allowed Revenue – conclusions, paragraph 4.25. www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions

with SEC governance, and do not extend beyond what is appropriate for a central service provider.

Elective Communication Services

4.13 A majority of respondents did not think the outlined changes to the ECS were either necessary or that they would have strong impact on the uptake of the ECS:

- Some respondents argued that the issue of low uptake of ECS lay mainly in the complexity of requesting ECS and insufficient value propositions to date, rather than the exclusivity period or cost allocation. One respondent, who has successfully worked with DCC on a development of an ECS, argued that a better understanding of the step-by-step process of developing a new ECS (eg the role of the SEC subcommittees and Panel where security arrangements are impacted or the structure of the bilateral agreement between DCC and the requestor) could encourage other users to approach DCC with proposals.
- One respondent stated that the future DSP architecture will, to a limited extent, allow users to customise their DCC experience. Therefore, they were comfortable with the current approach to ECS.

4.14 DCC noted that SEC charging rules already allow for the apportionment of costs [of developing and running ECS] between multiple users of that service.²⁷

Other Additional User Services

4.15 DCC suggested that development of Additional User Services (incl. Elective Communication Services) had been slow due to the rigidity of the regulatory framework that defines DCC's role. These issues include DCC's inability to be a SEC Party, the slow speed of change via the SEC, and restrictions on the status of DCC as data processor but not controller.

4.16 DCC proposed several possible Additional User Services that it could provide, including:

- Bespoke analytics services providing customers with the ability to diagnose issues or identify opportunities to optimise their usage of DCC's existing suite of communications services
- Procurement of a 'proof of concept' to allow DCC to build prototype services for customers to explore before committing to a fully tested deployment to

²⁷ SEC section K8.6-8.9 (Second-Comer Contributions)

DCC's production environment (this is expected to reduce customers initial financial commitment)

- Provision of bespoke testing services, whereby DCC Users can procure additional Testing Services and associated defect resolution to assist customers to develop and optimise their usage of DCC's services

- 4.17 One respondent stated that DCC holds data on live device operations which could support manufacturers to monitor real world performance, and through this identify device improvements. Currently DCC is unable to provide such additional reporting as this is not a mandated activity.
- 4.18 One respondent highlighted that the Data Best Practice Guidance (DPBG) requirements may lead the Successor Licensee building additional in-house functions, even if this was not Ofgem's intent.
- 4.19 One respondent disagreed with the proposal, stating there is a risk that the DCC spends disproportionate effort on trying to promote or facilitate the uptake of new business propositions which are unlikely to be viable or based on outdated technology.

Development of Additional Mandatory Business

- 4.20 The majority of respondents agreed with this proposal. DCC expressed its support for a flexible regulatory regime that responds to changing priorities in the smart metering and energy sectors. This is in alignment with a regulated network company having the freedom to develop new services, subject to funding scrutiny in cost controls.
- 4.21 Two respondent comment that DCC2 should not be developing new services until the existing service is stabilised. This may not be evident until the end of the first price control period.
- 4.22 Two respondents did not support the proposal. One stated that it should not be the role of DCC to independently seek funding to develop new services. The other respondent stated that while the consultation specified the requirement to "engage with stakeholders", it lacked detail on which stakeholders, the forum(s) that would be used, or the sequence of events (eg before or after the discussions at the Customer Challenge Group). The respondent stated that relying solely on the CCG would limit scrutiny. They suggested controls would be required to review and approval of requests to develop new services, including a funding cap, precise scope, set timeline, and clear principles for ending the analysis.

- 4.23 One respondent commented that the proposed process was unclear, specifically the sequencing of the Successor Licensee applying for funding and *then* working with users to develop a new service. They suggested users should agree to support the service prior to funding being applied for. They also expressed concerns that the proposal may distract from the delivery and quality of DCC's Mandatory Business by evoking a 'use it or lose it' pressure.
- 4.24 One respondent commented that it is vital that both SEC Parties and non-Parties are consulted, and that the approval criteria account for industry needs and consumer benefit.

Decision

- 4.25 The full scope of the Mandatory Business will be carried into the Successor Licence using the five proposed categories of Mandatory Business.
- 4.26 We will not proceed with any changes to the Elective Communication Services at this time. However, we will retain the ECS option in the Successor Licence and introduce further arrangements to allow customers to request other Additional User Services, subject to specific guardrails.
- 4.27 When relevant, we will set out the governance process for the development of Additional Mandatory Business in the Business Plan Guidance, including requirement on DCC2 to engage with customers on the possible services prior to the Business Plan being submitted.

Rationale

Scope

- 4.28 We have not seen sufficient evidence to support the removal of testing services in whole or in part from the scope of the Mandatory Business at this time. However, we recognise the arguments raised in relation to testing services providing value for money and the risk of duplication of effort in testing carried out by customers. As the details of the testing services required from DCC are set out in the SEC, we would encourage DCC customers to consider using the code modification process if they believe that elements of the testing services could be streamlined. Equally, we expect DCC to provide evidence through its business planning on the economy and efficiency of testing services and the resources required to deliver the code obligations.
- 4.29 Similarly, we would encourage the respondent who expressed concerns about the usefulness of the Interoperability Checker to use the code forums and governance

to propose changes. We observe that the Interoperability Checker Service is provided under Section H16 of the SEC.

Categorisation

4.30 We have chosen the five proposed categories to:

- Maintain existing categories where there is a clear understanding of requirements – especially categories #1 (Core Communication Services) and #2 (Enabling Services) which have clear definitions in the SEC
- Align the Licence to the SEC and REC while minimising the need for changes to the codes – for example, category #5 (Other Code Services) will explicitly recognise all of the code requirements on DCC as being part of its Mandatory Business
- Allow future amendments to the Mandatory Business without significant revisions to the Licence – for example, category #4 (Mandated or Prescribed Business) will provide home for any future Ofgem/DESNZ mandated services which can be listed in a schedule appended to the Successor Licence; category #3 (Additional User Services – replacing Elective Communication Services which will instead be included within this category) will provide more flexibility for demand-driven customer services

4.31 Whilst we accept that this may introduce new terminology, we believe that this approach will, on balance, bring the most clarity and flexibility in the long run.

4.32 We will consult further on the categorisation and exact definitions of the terms via our upcoming consultation on the draft conditions of the Successor Licence.

Additional User Services

4.33 **Elective Communication Services:** Respondents' feedback has not showed that the existing arrangements around exclusivity and cost allocation do not appear to be key blockers to ECS and we will therefore not proceed with changes to the licence/SEC in those areas. However, we support any initiative by DCC and the SEC community to provide better guidance on the process for requesting and developing ECS subject to existing rules. We will retain the licence provisions not to foreclose the opportunity for customers to request ECS in future and we are open to further engagement with DCC and industry on this issue to support implementing changes via the code modification process if the SEC community reaches agreement on specific improvements to the governance framework.

4.34 **Other Additional User Services:** We have decided to proceed with the proposal to enable DCC2 to offer other user services to broaden the flexibility. Similar to the requirements for ECS, we will set additional guardrails in the Licence such that Additional User Services:

- Are provided on request from customers – meaning that customers will have the agency to drive demand, rather than DCC proactively developing these services where there isn't customer appetite
- Are provided from existing capability – DCC should not be procuring additional Relevant Service Capability, although it may be appropriate to modify existing capability
- Must relate to distribution or supply of energy or other existing aspects of DCC's Mandatory Business – this is to ensure that any services are relevant to DCC's remit
- Satisfy DCC's objectives and do not impair DCC's ability to provide other Mandatory Business – ensure proportionality and to safeguard focus on existing Mandatory Business

4.35 We note respondents' concerns about the impact on costs. We believe these are sufficiently mitigated by:

- Scrutiny as part of the cost control process
- Funding via elective charges whereby the cost of developing and providing Additional User Services is met by the requestor(s)

4.36 We will not prescribe what Other Additional User Services DCC2 could deliver (these will be provided on demand if and when relevant, subject to licence limitations such as those set out above); however, these may include, for example, advisory services for data analysis to support the implementation of the Data Best Practice Guidance principles into the Licence,²⁸ or other opportunities such as those identified by DCC (paragraph 4.16).

Development of Additional Mandatory Business

4.37 We remain of the view that it should be possible for DCC2 to propose development of additional services which, if approved, could be introduced into the scope of its Mandatory Business. As all of DCC2 costs will be approved

²⁸ Ofgem (2025) Data Best Practice as a Code Obligation. www.ofgem.gov.uk/consultation/data-best-practice-code-obligation

upfront, the funding for any such proposal would have to be part of the *ex-ante* business planning, which would mitigate the risk of speculative expenditure or development of services with no support from customers.

4.38 We have previously decided (via our conclusions on the process for determination of Allowed Revenue²⁹) not to allow applications for funding of Additional Mandatory Business in the first Business Plan Cycle, although the opportunity may be introduced in future cost control cycles. The process for application for funding would be set out in our Business Plan Guidance, updated upon consultation ahead of each cost control cycle commencement. The process as currently envisaged would:

- Require DCC2 to engage with customers on the proposed services to mitigate the risk of highly speculative requests and ensure industry needs and consumer benefit are accounted for
- Put DCC2's application for ring-fenced funding to scrutiny by the Customer Challenge Group and Ofgem
- Set limitations on the use of the funding such that, if granted, DCC2 should use the funds to develop early concept of a given service. If the initial development of the proof of concept proves successful:

(1) A SEC or REC modification would incorporate the service into DCC2's Mandatory Business made available to all users

(2) DCC2 could offer the service as an Additional User Service and recoup the cost via elective/explicit charges

B. Evolution of Permitted Business

4.39 We consulted on three proposals in this area:

- Firstly, to add a new category of Permitted Business to support public good initiatives ("innovative services"). This change would eliminate the need for *ad hoc* "permitted purpose" approval route under LC 9.6(c) and for Minimal Services. It would also formalise the governance of such requests, with the goal of enabling a greater number of these requests to be fulfilled.
- Secondly, to introduce specific requirements the Successor Licensee should meet before applying to provide any Value-Added Services. We also sought

²⁹ Ofgem (2025) DCC Review Phase 2: Determination of Allowed Revenue – conclusions, paragraph 4.24. www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions

views whether to include the requirements within the Successor Licence or bespoke guidance.

- Thirdly, to remove the Minimal Services category from the definition of Permitted Business given the changes to the funding of Permitted Business under the *ex-ante* cost control.

Overview of respondents' views

Innovative services

- 4.40 A majority of respondents agreed with the proposed introduction of innovative services into Permitted Business under the Successor Licence.
- 4.41 DCC raised a concern about its ability to forecast costs for specific initiatives for up to three years in advance as these opportunities come up at short notice and have to be responded to quickly.
- 4.42 One respondent stated that individual innovative services/public good initiatives should require collective stakeholder consensus through the development of the Business Strategy and Technology Roadmap. They argued that it is not necessarily DCC's role to decide what a 'public good' initiative looks like, and the BSTR process would ensure appropriate architectural and cost guardrails.
- 4.43 One respondent was concerned that 'public good' is an ambiguous term and could encroach on consumer privacy and consent. They suggested industry oversight before any funding is used via the Customer Challenge Group and/or the SEC Panel.

Value Added Services

- 4.44 A majority agreed with our proposal to retain the ability of the Successor Licensee to provide VAS, subject to limitations imposed by the Licence; equally, however, we found scepticism about the viability of VAS. Five respondents stated that DCC2 will need to ensure stability throughout the handover period and VAS should only be considered after that.
- 4.45 In respect of the proposed Licence criteria, two respondents suggested that DCC users scrutinise contractual terms to consider network impacts.
- 4.46 Two respondents disagreed with the proposal. One respondent expressed concerns that the money needed for business development costs may not outweigh the potential savings. The other stated that the technology environment and maintenance costs may mean the potential for commercial re-use is remote.

This implies that up-front business development costs are very unlikely to deliver any potential savings.

- 4.47 One respondent asked that we clarify the governance process and inclusion of wider industry engagement in the decision-making process.
- 4.48 One respondent stated that the governance process should be set out in the licence rather than a guidance.

Minimal Services

- 4.49 A majority of respondents agreed with the proposal to remove this category of Permitted Business. DCC suggested that retaining Minimal Services still had merits to cover minor activities outside the scope of regulatory intervention (eg subletting part of an office).

Decision

- 4.50 We have decided to proceed with our proposals to:
- Introduce the concept of “innovative services” into the Successor Licence
 - Introduce criteria to be satisfied before any VAS can be developed via a guidance document
 - Remove Minimal Services from the Successor Licence.

Rationale

Innovative services

- 4.51 We have published the application process for innovative services in the Business Plan Guidance.³⁰ We acknowledge the concerns raised by DCC regarding its ability to forecast for specific services given uncertainty and will further engage on this as part of the Business Plan approval process.
- 4.52 We also reflect on respondents feedback about the meaning of “public good”. We have set out initial details to help DCC’s initial application in the BPG. The application will be considered by the CCG and Ofgem as part of scrutinising the *ex-ante* cost control process before grant of any ringfenced funding. The second stage of scrutiny will come when DCC2 applies to Ofgem to run specific service. This would safeguard the integrity of the service and mitigate risks to consumer privacy and consent.

³⁰ Ofgem (2025), Business Plan Guidance, paragraphs 3.30-3.34.
www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance

Value Added Services

- 4.53 We will consider whether it would be appropriate to unlock the opportunity for DCC2 to provide any VAS ahead of the second cost control cycle (commencing in April 2028). We will include our proposed criteria in a published guidance – this may be the next iteration of the Business Plan Guidance or a bespoke document. The development of the guidance will consider the views raised in this consultation.

Minimal Services

- 4.54 We recognise that there may be minor activities which may not require regulatory intervention. However, we have not seen evidence that such Minimal Services have existed to date – other than those for which we are introducing the concept of “innovative services”. Nonetheless all of Licensee’s activities should relate to Authorised Business and be part of the Successor Licensee’s budget. We will apply principle of proportionality in scrutinising any immaterial activities when setting the Required Revenue for the Successor Licensee through the cost control process.