

Consultation

Financing arrangements for DCC1 and DCC2 during Business Handover (statutory consultation)

Publication date:	24 October 2025
Response deadline:	24 November 2025
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We¹ are consulting on proposed modifications to the Smart Meter Communication Licence (SMCL) to:

- Enable the holder of the Successor Licence (“DCC2”) to recover costs necessary for Business Handover activities prior to Transfer Date; and
- Ensure that any liabilities, linked to DCC1, which may arise post Transfer Date, can be met.

We are also seeking views on a mechanism that would best enable the current Licensee (“DCC1”) to recover costs necessary for mandated activities following the Transfer Date, which may require further changes to the draft Successor Licence.

We welcome responses from anyone with an interest in smart metering. We particularly welcome responses from DCC customers, including energy suppliers, distribution network operators, customer groups and other current or potential users of the DCC network, as well as parties applying to be the holder of the Successor Licence. We also welcome responses from other groups and members of the public.

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

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

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mark the parts of your response you consider to be confidential, and where possible put the confidential material in a separate appendix.

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Executive summary

This is a combined policy and statutory consultation which seeks view on:

- A mechanism to enable the Successor Licensee to recover Business Handover costs prior to the Transfer Date, including the criteria for allowable costs and exclusions
- An approach to enabling the current Licensee to recover costs for mandatory activities after the Transfer Date, including the classification of agreed assistance provided by DCC2 to DCC1 as part of the Mandatory Business under the Successor Licence
- Proposals for ensuring that any potential liabilities linked to DCC1, which may arise post Transfer Date, can be met

We invite views on:

- Our overarching policy approach
- Proposed modifications to the Smart Meter Communication Licence, whether they accurately reflect the intended policy and whether the wording is clear and sufficient
- Further changes to the draft Successor Licence and any practical considerations relevant to the proposed arrangements

The proposed changes are technical in nature, focused on clarifying and facilitating the process for recovery of legitimate costs and ensuring liabilities can be met. They do not increase the Allowed/Required Revenue but provide a necessary mechanism to maintain consistency with existing regulatory arrangements.

The consultation closes on 24th November 2025.

1. Introduction

- 1.1 The Data Communications Company (DCC) is the central communications body for smart metering in Great Britain. It provides a centralised, secure and interoperable network for data exchange between smart meters and energy market participants, helping consumers and industry benefit from a national smart meter rollout.
- 1.2 It operates under the conditions of the Smart Meter Communication Licence (SMCL), granted by the Secretary of State under the Gas Act 1986² and the Electricity Act 1989.³ The current holder of the SMCL is Smart DCC Ltd which was granted the SMCL in 2013.
- 1.3 The current SMCL is due to expire on 22 September 2027. In preparation, Ofgem has conducted a multi-phase programme of work (“DCC review”) to:
- Review the regulatory arrangements and put in place new regulation under the Successor Licence
 - Identify the holder of that licence (“Successor Licensee”)
- 1.4 We have launched a competitive tender process to identify a suitable body to be granted the Successor Licence.⁴ Under our current plans, we expect to grant the Successor Licence in March 2026.

Purpose of this consultation

- 1.5 The Successor Licence award will be followed by a period of Business Handover from the current Licensee (DCC1) to the Successor Licensee (DCC2). From the point of the Successor Licence award through to the expiry of the current SMCL (due in September 2027), both entities will incur time bound handover costs and liabilities may arise.
- 1.6 The purpose of this consultation is to seek views on:
- **Proposed modifications the current SMCL to:**
 - Enable the Successor Licensee to recover costs associated with Business Handover activities before Transfer Date via the current Licensee’s Allowed Revenue; and
 - Ensure that any financial liabilities linked to DCC1, which may arise post Transfer Date, can be met.

² Available at: www.legislation.gov.uk/ukpga/1986/44/contents

³ Available at: www.legislation.gov.uk/ukpga/1989/29/contents

⁴ Available at: www.ofgem.gov.uk/guidance/smart-meter-communication-licence-tender

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- **Changes to the conditions of the draft Successor Licence** (currently being consulted on)⁵ to:
 - Enable the current Licensee to recover costs associated with its mandatory activities post-Transfer Date via the Successor Licensee's Required Revenue;
 - Designate activities carried out by the Successor Licensee to assist the current Licensee in discharging its duties in respect of Price Control Reporting⁶ as Mandatory Business; and
 - Govern the transfer of money between DCC1 and DCC2 post-Transfer date after any liabilities have been met.

Why we are consulting now

- 1.7 As we expect the Successor Licence award to occur in March 2025, we are consulting now to put in place a mechanism to allow DCC2 to recover Business Handover costs from April 2025.

Related publications

Document	Published	Link
Decision on the detailed design and implementation of the ex-ante cost control arrangements	May 2025	www.ofgem.gov.uk/publications/dcc-review-phase-2-determination-allowed-revenue-conclusions
Statutory decision on interim changes to the DCC Licence	July 2025	www.ofgem.gov.uk/decision/modifications-smart-meter-communication-licence-transition-ex-ante-cost-control-and-other-changes-required-licence-closure-decision
Draft new Smart Meter Communication Licence	September 2025	www.ofgem.gov.uk/consultation/draft-new-smart-meter-communication-licence
The DCC Licence		www.ofgem.gov.uk/energy-regulation/how-we-regulate/energy-licences-and-guidance/licences-and-licence-conditions

⁵ Ofgem (2025), Draft new Smart Meter Communication Licence.
www.ofgem.gov.uk/consultation/draft-new-smart-meter-communication-licence

⁶ Under Condition 35-40 of the SMCL

Consultation questions

- | | |
|-----|---|
| Q1. | What are your views on the proposed mechanism to enable DCC2 to recover necessary Business Handover costs prior to Transfer Date? |
| Q2. | Do you agree that the proposed modification to the definition of Pass-Through Costs accurately and sufficiently captures the policy intent? Do you have any views on the wording of the proposed modification? |
| Q3. | What are your views on the criteria for allowable DCC2 handover costs? |
| Q4. | What are your views on the proposed mechanism to enable DCC1 to recover necessary costs for mandatory activities after Transfer Date and for pre-agreed assistance by DCC2 to be considered Mandatory Business under the Successor Licence? |
| Q5. | Do you have any comments on how best to reflect the proposed mechanism for DCC1 cost recovery post-Transfer Date in the Successor Licence? |
| Q6. | What are your views on our proposals (Proposal 1 and 2) to ensure that potential liabilities, which may arise after Transfer Date, can be met? |
| Q7. | Do you agree that the proposed licence modification (introduction of LC 41A) accurately and sufficiently captures the policy intent? Do you have any views on the wording of the proposed modification? |
| Q8. | Do you have any views on changes that would need to be made in the draft Successor Licence? |
| Q9. | Do you have any other views or concerns? |

Consultation stages

Stage 1	Stage 2	Stage 3	Stage 4
Consultation opens	Consultation closes (awaiting decision)	Responses reviewed and published	Consultation outcome (decision)
24 October 2025	24 November 2025	12 December 2025 (expected)	12 December 2025 (expected)

How to respond

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

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

We will publish non-confidential responses on our website.

Your response, data, and confidentiality

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

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

If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the United Kingdom's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 1.

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

How to track the progress of a consultation

1. Find the web page for the call for input you would like to receive updates on.
2. Click 'Get emails about this page', enter your email address and click 'Submit'.
3. You will receive an email to notify you when it has changed status.

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

Send us your feedback

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

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?

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- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.

2. Policy gaps and proposals

Context and purpose

- 2.1 The Smart Meter Communication Licence (SMCL), under which Smart DCC Ltd (DCC1) operates, is due to expire in September 2027. Ahead of this deadline two key milestones must be reached:
- The Successor Licence must be awarded. We plan for the Successor Licence award to take place in March 2026. From this point until September 2027 both licensees will co-exist to enable an orderly handover of the Authorised Business and closure of the current SMCL
 - Operational control (responsibility for delivering Authorised Business) must pass from DCC1 to DCC2. This will happen on a Transfer Date (TD), currently designated to occur on 1 November 2026
- 2.2 The transition from DCC1 to DCC2 will see both entities co-existing and requiring access to funding for mandatory activities. This chapter explains how we propose for the licence framework to fund necessary handover activities efficiently and transparently, avoiding the risk of double recovery and allowing clear visibility for service users.
- 2.3 To avoid the risk of duplication and confusion, our overarching principle is that only one Charging Statement (CS) should be in force at any time:
- **DCC1 will continue to issue CS up until the TD**
 - **DCC2 will start issuing CS post-TD**
- 2.4 Our proposed approach is consistent with the current DCC's Charging Statement practice.⁷

Issues arising during the transition phases

- A. Period from SL award (March 2026) to TD (November 2026)
- 2.5 DCC1 will continue to deliver the Authorised Business, including any Business Handover activities under the Business Handover Plan, and to levy charges on users. In line with established practice, the CS for RY26/27, taking effect from 1st April 2026, is expected to be issued by DCC in March 2026 to reflect the outcomes of Ofgem's Price Control decision (ordinarily published by end-February). An indicative CS is expected to be issued by DCC in January 2026 to give customers a sufficiently advanced notice.

⁷ Available at: www.smartdcc.co.uk/about-dcc/governance-regulations/charges/

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2.6 Meanwhile, following its appointment, DCC2 will begin mobilisation (for example, by setting up its Board & internal governance and systems) and carrying out other Business Handover activities (for example, executing contract novation or staff onboarding), which will culminate on Transfer Date. **If no action is taken, DCC2 will not have any means of funding the Business Handover activities during this period.** We consider it appropriate for customers to fund DCC2's set-up and handover activities as:

- They will be necessary to facilitate a compliant handover of Authorised Business from one licensee to the next to ensure business continuity
- DCC2 will operate on a not-for-profit basis and therefore its shareholder would not be able to offset initial set-up costs by future profits

B. Period from TD (November 2026) to Licence expiry (September 2027)

2.7 DCC1 will stop delivering Authorised Business (and levying charges) on TD when DCC2 will assume operational control. DCC2 will start levying charges in line with Ofgem-approved Required Revenue ("ex-ante budget").

2.8 Although DCC1 will cease to deliver services to users, it will retain residual obligations until the Licence expiry date. The most important of these is the duty to submit to Ofgem Price Control information in respect of the Final Regulatory Year (from 1st April 2026 to 31st October 2026). This final ex-post Price Control submission will be due no later than 3 months after the TD, ie 1st February 2027 under the current plan. **If no action is taken, DCC1 will not have any means of recovering the costs of residual mandatory activities during this period.** We consider it appropriate to allow DCC1 to recover these costs insofar as they relate to mandatory matters under the Licence and are economic and efficient.

2.9 Finally, all employees in scope of TUPE (who choose to exercise their right), as well as all records and systems will move from DCC1 to DCC2 on TD. **If no action is taken, DCC1 will not have access to necessary information and suitably qualified staff to deliver its final Price Control submission.**

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Table 1 Policy issues arising during transition

Period	From the award of Successor Licence until Transfer Date	From Transfer Date until the expiry of DCC1's Licence
Time	March 2026 – 31 st October 2026	1 st November 2026 – 22 nd September 2027
DCC1	• Delivers Authorised Business • Levies service charges • Continues to operate under <i>ex-post</i> Price Control – CS issued based on indicative budget	• Must submit final <i>ex-post</i> Price Control by 1st February 2027 (covering period from 1st April 2026 to Transfer date) • Does not have access to service charges to recover costs • Does not have access to permanent staff in scope of TUPE or necessary systems and data (moved to DCC2 on Transfer Date) to deliver the final price control submission
DCC2	• Setting up own governance, systems & processes, preparing for Transfer Date • Does not have access to service charges to meet costs (NB <i>ex-ante</i> budget only takes effect from Transfer date)	• Delivers Authorised Business • Levies service charges • Operates under <i>ex-ante</i> Price Control – CS based on Ofgem-approved Required Revenue

C. Retention of funds until the end of SMCL1

2.10 The amount of revenue that DCC is allowed to collect from its customers (*ie* the Allowed Revenue) in a particular Regulatory Year (t) (RYt) is determined by the following formula set out in the Licence:⁸

$$AR_t = EC_t + IC_t + CRSR_t + PTC_t + \mathbf{BM_t} + \mathbf{BMPAt} + \mathbf{ECGSt} - VASCT + K_t$$

2.11 This formula comprises both DCC's costs as well as margin components, *ie* Baseline Margin (including any approved upward adjustments to the Baseline Margin) and External Contract Gainshare. The Allowed Revenue for any Regulatory Year is determined by the Authority after that Regulatory Year has ended.⁹

2.12 Prior to the Authority making a final determination on DCC's Allowed Revenue, DCC must estimate¹⁰ what the costs for a Regulatory Year will be; DCC charges its customers based on this estimate. Upon making the final determination of the actual Allowed Revenue, it may be that DCC has either over or under-recovered revenue from its customers. The Licence foresees that in such circumstances, DCC "corrects" the Allowed Revenue for the following year via the K-factor, *ie* the

⁸ LC36, Part C: Determination of the Allowed Revenue (AR) Term

⁹ LC37.8, Part B: Authority's power with respect to certain costs

¹⁰ LC36.4, Part B: Duty of the Licensee with respect to Regulated Revenue

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correction factor;¹¹ in other words, the K-factor ensures that the amount that has been over-recovered gets deducted from DCC's charges in the following year.

- 2.13 DCC will not be able to charge its customers beyond the final Regulatory Year, a correction by the K-factor will therefore not be possible. Instead, the Licence foresees that under the Business Handover Plan, DCC makes a payment to the Successor Licensee to reflect the over-recovery found to have arisen at the Transfer Date.¹²
- 2.14 DCC is, however, likely to continue to face financial liabilities notwithstanding that it will have no income after the Transfer Date. This could be, for example, the case when the Authority decides on the Allowed Revenue for the Regulatory Years 25/26 and the final Regulatory Year in February 2027 and in the summer of 2027, respectively. In the event of a cost disallowance as part of these price controls, the risk exists that DCC will have no financial resources to refund its customers. Alternatively, DCC could also face a financial liability, after the Transfer Date, if for example the Successor Licensee succeeds in making a financial claim against it.
- If no action is taken, DCC may not have the means to cover any financial liabilities that may arise post-Transfer Date.**

Policy proposals

A. Period from SL award (March 2026) to Transfer Date (November 2026)

- 2.15 We propose that DCC2 handover costs would be included as Pass-Through Costs in DCC1's Allowed Revenue, recovered from service users through DCC1's charges levied in accordance with the Charging Statement issued in March 2026, and paid to DCC2.
- 2.16 This proposal preserves the existing charging mechanism, obviating the need for separate charging statements to be issued by two different entities. It is also implementable without significant changes to either the Licence or the SEC. It will allow costs to be estimated upfront and communicated to users in advance by inclusion into DCC's indicative charging statement.
- 2.17 The licence change we are proposing to implement this solution is to modify the definition of Pass-Through Costs in the SMCL to include allowable costs of DCC2 handover activities (see section 3 for details).

How would this mechanism work in practice?

- 2.18 As part of the proposal stage of the licence application process, Ofgem would request information from qualified applicants for an estimate of the costs needed

¹¹ LC36.18, Part G, Calculation of the Correction Factor (K)

¹² LC42.16, Mandatory contents of the Business Handover Plan

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for handover activities until TD. (This would be informed by the criteria within this consultation, see paragraphs 3.11-3.12.) This estimate would be included into DCC1's indicative CS issued in January 2026.

- 2.19 Following the licence award, Ofgem would ask the successful bidder to provide a revised estimate for inclusion in DCC1's final CS issued in March 2026 following Ofgem's Price Control decisions for RY24/25. If our current expected timeline changes and the licence award takes place after the issuance of the March 2026 CS, the revised estimate may require a modification to the CS should it materially vary from the indicative estimate.
- 2.20 DCC1 would recover costs on DCC2's behalf based on invoices issued by DCC2 for allowable expenditure. DCC1 would then pay the corresponding sum to DCC2 under an agreement between the two parties. (LC 43.16 foresees that DCC1 and DCC2 will enter into an agreement on a legally enforceable basis for securing payment necessary for the purpose of settling the over/under-recovery of Allowed Revenue at the Transfer Date. We propose that this agreement be used as a vehicle for payments being made from DCC1 to DCC2 for handover costs.)
- 2.21 To mitigate the risk of poor cost control, we propose that the Pass-Through Costs would be allowable based on specific criteria, and we are seeking views on these alongside the modified licence text in chapter 3.

B. Period from Transfer Date (November 2026) to Licence expiry (September 2027)

- 2.22 We propose to mirror the mechanism outlined above as pertains to acceptable DCC1 costs of post-Transfer Date duties; that is to allow eligible, pre-approved DCC1 costs to be recovered via DCC2's charges by inclusion into DCC2's Required Revenue.
- 2.23 This option would be consistent with the pre-TD proposal and preserve the principle of one CS being issued at the same time. As both licensees will be in the same position pre- and post-TD, both will have the incentive to cooperate with each other.
- 2.24 There are two categories of costs which may arise:
- DCC1's direct costs – for example, contractor or consultancy support for Price Control submission. If approved, these would be treated as **Pass-Through Costs** within DCC2's Required Revenue and paid to DCC1 on the basis of a written agreement.
 - DCC2's **Internal Costs** associated with any agreed assistance provided to DCC1 for post-TD duties – for example, the labour cost of employees providing DCC1 with data and information for the final Price Control submission. As explained above, all permanent employees in scope of TUPE who choose to exercise their right, as well as all systems and records, will

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transfer to DCC2 on TD. This means that DCC1 may need a degree of assistance from DCC2's internal resources. We expect the details and scope of any mutual assistance to be set out in a written agreement entered into by both parties.

- 2.25 We are currently consulting on the draft conditions of the Successor Licence. If we proceed with this proposal, we would make changes to the SL at the decision stage to ensure that activities of assistance provided by DCC2 to DCC1 for the purposes of a final Price Control are considered DCC2's Mandatory Business. This will be necessary to ensure that associated costs can be considered as legitimate Internal Costs.

How would this mechanism work in practice?

- 2.26 As DCC2's budget will be approved upfront through the *ex-ante* process, DCC1 – which is responsible for preparing the first *ex-ante* submission – would include into it its best estimate of post-TD activities. These proposed costs would be consulted upon by Ofgem as part of draft determination of DCC2's Required Revenue and, if approved, ringfenced with DCC2's budget. For more details, see chapter 4.

Other options considered

- 2.27 As explained above, we do not consider it appropriate to not allow DCC1 and/or DCC2 to recover costs of licence-mandated activities (do nothing); nor do we consider it would be desirable for two CS to be issued at the same time.
- 2.28 We have considered, but do not propose to progress, the following alternative approaches:
- Insert a dedicated handover funding provision into the Allowed/Required Revenue calculation and impose reciprocal duties on DCC1 and DCC2 to make and recover payments.
 - Using the Permitted Purpose route to sanction Business Handover activities and allowances and relying on LC27.3 for payments to be made
- 2.29 The option of inserting a dedicated handover funding provision into the Allowed/Required Revenue formulae would align with the *ex-ante* regime under the Successor Licence. However, although achieving equivalent outcomes, it would require more complex licence modifications. Changing the Allowed/Required Revenue formulae in the current SMCL and its Successor would also have consequential impacts on related frameworks, such as the Charging Methodology. We therefore do not consider this option to be appropriate.
- 2.30 Relying on the Permitted Purpose, while less invasive than option 1, introduces regulatory discretion. DCC1 and DCC2 would need to seek approval for specific activities rather than having upfront clarity on what is/is not allowed.

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C. Retention of funds until the end of SMCL1

2.31 We are proposing to implement the following two changes to ensure that any liabilities which may arise after the Transfer Date can be met. We welcome views on these proposals and associated draft licence modifications.

Proposal 1 – DCC’s Financial Security (Increasing the value of on-demand bond)

2.32 The Licence¹³ requires DCC to provide financial security in a form approved by Ofgem. DCC has arranged for:

- A parent company guarantee from Capita; and
- An associated on-demand bond provided by one of the banks.

2.33 Under the parent company guarantee and the on-demand bond, £10m is made available to DCC to meet any financial liabilities that remain or fall due to be met during the Handover Period. The Handover Period is currently in force and will continue until the expiry of DCC’s Licence.

2.34 Under the current Licence, the Authority may direct¹⁴ that an amount is released for the purpose of ensuring that DCC’s financial liabilities during the Handover Period are discharged before the licence expires. The amount of £10m was determined by the Secretary of State at the time the Licence was granted in 2013.

2.35 The parent company guarantee, and the on-demand bond, may not be sufficient to meet all financial liabilities. To address this in part, we propose to direct that the value of the on-demand bond is increased on the following grounds:¹⁵

- The scope of DCC’s Authorised Business has materially changed and it now encompasses substantially more activities than what was initially anticipated in 2013. This is evidence, for example when comparing DCC’s Licence Application Business Plan (LAPB) with DCC’s latest Allowed Revenue reporting.
- The external environment has changed. In the context of higher energy bills, a failure to refund consumers for over-recovered amounts could have a more significant consumer impact, particularly on vulnerable consumers.

Proposal 2 – Licence changes to ringfence and retain an amount pending the final Price Control outcome

2.36 In addition to Proposal 1, we propose to place the following new obligations on DCC1 and DCC2:

¹³ LC26 (Financial stability and financial security)

¹⁴ LC26.7 and LC26.8, Part B: Additional arrangements in respect of financial security

¹⁵ LC26.14, Part C: Authority’s powers with respect to Part B arrangements.

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- Modify the SMCL to impose a duty on DCC1 to pay to the Successor Licensee, on Transfer Date, all margin components (*ie* Baseline Margin and External Contract Gainshare) for the Regulatory Years 25/26 and the final Regulatory Year; and
- Introduce a new duty on DCC2 through the Successor Licence to refund this amount back to DCC1 – minus any funds that were required to meet potential liabilities – within one month of the Price Control determination for the Final Regulatory Year (but no later than the SMCL expiry date).

3. Current SMCL Pre-TD recovery pathway

- Q1. What are your views on the proposed mechanism to enable DCC2 to recover necessary Business Handover costs prior to Transfer Date?
- Q2. Do you agree that the proposed modification to the definition of Pass-Through Costs accurately and sufficiently captures the policy intent? Do you have any views on the wording of the proposed modification?
- Q3. What are your views on the criteria for allowable DCC2 handover costs?

Background and context

- 3.1 As set out in chapter 2, the policy objective for the flow of funds from DCC1 to DCC2 pre-TD is to ensure that DCC2 can recover the necessary costs associated with Business Handover activities in a manner that is transparent to service users.
- 3.2 This chapter presents the specific legal mechanism we propose to deliver these objectives by proposing targeted amendments to LC 36 by explicitly allowing such costs to be recovered as Pass-Through Costs (PTC).

Proposed Licence modifications

- 3.3 Under Licence Condition 36, Allowed Revenue (AR_t) includes Pass-Through Costs (PTC_t) alongside External Costs, Internal Costs, Baseline Margin and other terms:

$$AR_t = EC_t + IC_t + CRSR_t + \mathbf{PTC_t} + BM_t + BMPA_t + ECGS_t - VASC_t + K_t$$

- 3.4 This formula provides an established mechanism for calculating the costs which DCC may recover from service users.
- 3.5 LC 36.8 of the SMCL defines PTC as the sum of:
- The total annual fee paid by the Licensee to the Authority;
 - The payments made by the Licensee during Regulatory Year (t) to SECCo Ltd for purposes associated with the governance and administration of the SEC; and
 - The payments made by the Licensee during Regulatory Year (t) to AltHANCo Ltd for purposes associated with the Alt HAN Arrangements.
- 3.6 We propose to amend this definition of PTC to include Authority-directed handover costs as the fourth element in the following manner: We are proposing to amend the definition of Pass-Through Costs by inserting into Condition 36, Part C, paragraph 8 the following words:
- **the amount that is equal to the payments made by the Licensee to the Successor Licensee for purposes associated with Business Handover as the Authority may direct.**

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- 3.7 This proposed amendment would be sufficient for DCC2 costs prior to the Transfer Date to be passed through DCC1 charges to achieve the policy objective set out in chapter 2. We propose to limit the definition to Business Handover purposes and make the inclusion subject to a direction by the Authority to place additional safeguards around the type and magnitude of costs to be passed through.
- 3.8 This approach builds on the established process by which SECCo and AltHAN Co receive funding via DCC and will allow DCC2 to invoice DCC1 for permitted activities in line with estimates included in DCC1's Charging Statement.

Assurance

- 3.9 We are seeking views on the criteria for eligible handover activities, and explicit exclusions. We will set out a non-exhaustive list of criteria in our decision and direction to:
- Ensure that the Pass-Through costs remain efficient and relevant strictly to Business Handover
 - Enable the Successor Licence to accurately estimate the amounts of costs likely to be required and included in DCC's Charging Statement
 - Provide transparency to industry about the funded activities
- 3.10 However, please note that we do not propose to include these criteria within the SMCL itself.

Criteria for eligible costs

- 3.11 We propose that DCC2 would be able to recover as Pass-Through costs via DCC1 economic costs which relate solely to ensuring a compliant, efficient Business Handover ("lift and shift"), including:
- Setting up of internal governance, including the constitution of the Board and onboarding of a senior executive team
 - Setting up of internal systems required for mobilisation
 - Procurement of legal and commercial expertise to support contract novation, regulatory compliance and the transfers of assets
 - Security accreditation and essential dual-running of systems where unavoidable to protect service continuity
 - Structured knowledge transfer and TUPE-related onboarding support and recruitment where necessary
 - Audit and assurance linked to handover deliverables

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Excluded examples

3.12 Costs which do not meet the above criteria would not be eligible for cost recovery. For additional information, below we set out several examples of costs which are likely to occur but which we propose would not be capable of being passed through:

- Bidder costs and unsuccessful tender costs
- Brand/marketing and discretionary change not required by handover
- Business-as-usual overhead beyond a capped, justified allocation
- Investments that primarily benefit DCC2 beyond handover without clear consumer benefit
- Costs of internal transformational services – we would expect such costs to instead be subject to *ex-ante* approval as part of DCC2's budget (consultation expected in May/June 2026)

4. Successor SMCL post-TD recovery pathways

- Q4. What are your views on the proposed mechanism to enable DCC1 to recover necessary costs for mandatory activities after Transfer Date and for pre-agreed assistance by DCC2 to be considered Mandatory Business under the Successor Licence?
- Q5. Do you have any comments on how best to reflect the proposed mechanism for DCC1 cost recovery post-Transfer Date in the Successor Licence?

Background

- 4.1 As set out in section 2, DCC1 will continue to be bound by Price Control and other reporting obligations post-Transfer Date. This may have two cost implications:
- DCC1 may be entitled to be reimbursed for own efficient costs of complying with licence obligations – for this purpose, we propose to use a mirror provision and pass these costs through via the Pass-Through Cost element of DCC2's Required Revenue. Any payments made would be subject to a written agreement entered into between both parties
 - DCC1 may require assistance from DCC2 (to access people, systems and data which will have transferred on Transfer Date) which would generate Internal Costs for DCC2

DCC2 Pass-Through Costs

- 4.2 Under the proposed LC24 of the Draft Successor SMCL, the term Allowed Revenue is to be retired in favour of Required Revenue; however, it will remain functionally equivalent to the Allowed Revenue under the current SMCL. Under our proposal, the Required Revenue will be determined by the principal formula that also explicitly includes **Pass-Through Costs (PTC)** alongside External Costs (EC), Internal Costs (IC) and other terms, as shown below.

$$EC + IC + PTC - VASC$$

- 4.3 The proposed definition of Pass-Through Costs in the Successor Licence already allows for inclusion of costs on direction by the Authority.¹⁶ This would allow for mirror-provisions achieved in the current SMCL by the proposed modifications in chapter 3. As such, we do not propose further changes to this definition.

DCC2 Internal Costs

- 4.4 We are seeking views on whether we should designate activities associated with DCC2's assistance to DCC1 for Price Control reporting obligations as part of

¹⁶ Draft LC 24.16, accessible at: www.ofgem.gov.uk/consultation/draft-new-smart-meter-communication-licence

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Mandatory Business under the Successor Licence to ensure that DCC2's costs incurred in supporting DCC1 during this period are both recognisable and recoverable.

- 4.5 To ensure that DCC2's assistance to DCC1 for Price Control reporting post-TD is recognised as part of DCC2's Mandatory Business, we propose using draft Licence Condition 6.2(b) which defines "Prescribed Business Services" as set out in LC 6.8. Specifically, Prescribed Business Services are those needed to discharge the Licensee's duties listed in Schedule 4 of the Licence. We are considering including the following wording into Schedule 4 to designate as Prescribed Business:

- **"Activities carried out by the Licensee pursuant to a written Agreement entered into by the Licensee with the Previous Licensee for the purposes of enabling the Previous Licensee to discharge its licence obligations"**

- 4.6 For clarity, we expect DCC1 and DCC2 to enter into a written agreement to set out co-operation between both parties during Business Handover. The level of support which DCC2 may agree to provide to DCC1 should be captured in that agreement and any agreement for the purposes of transfer of funds must also be legally enforceable.¹⁷ This change alone would not place any obligation on DCC2 to provide specific assistance but would provide regulatory recognition for any agreement reached between DCC1 and DCC2.
- 4.7 Additionally, we are proposing a small change to the draft LC 26.5(a) to specify that "Service Charges [are] payable for Mandatory Business Services provided under or pursuant to the SEC or REC **or this Licence.**" This would clarify that the costs incurred by delivering Prescribed Business, defined solely through the Successor Licenses, are recoverable.
- 4.8 Please note that the views provided in response to this section will be taken into account in our decision on the final conditions of the Successor Licence, expected in Q1 2026.

Assurance

- 4.9 As the entirety of DCC2's Required Revenue is subject to an *ex-ante* approval by Ofgem, all costs mentioned above will be determined upfront. We invite DCC1 to propose the estimated amounts required for the purposes of post-Transfer Date activities in the SL Business Plan Report and SL Price Control Information submitted no later than 31st December 2025 pursuant to LCs 34A and 34B. We would expect DCC1 to:

¹⁷ LC 43.16 of the current SMCL envisages a legally enforceable mechanism for managing any over- or under-recovery of revenue to be exchanged on Transfer Date.

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- Only include costs directly attributable to specific licence requirements falling beyond the Transfer Date
- Provide good justification for the resource required, including resource profile, seniority and evidence of benchmarking
- Explain what specific support would be required from DCC2 (strictly necessary to deliver licence obligations) and, based on historic evidence from past Price Controls, estimate the level of consequential Internal Costs. DCC1 should make a clear distinction between what costs would be incurred by DCC2 and recoverable by DCC2 as Internal Costs and what costs would be expected to be incurred directly by DCC1 which would be paid by DCC2 to DCC1 under a written agreement.

4.10 These costs will be subject to consultation and a final Ofgem decision as part of the wider determination of the SL Required Revenue.

5. Retention of funds pending final Price Control outcome

- Q6. What are your views on our proposals (Proposal 1 and 2) to ensure potential liabilities, which may arise after Transfer Date, can be met?
- Q7. Do you agree that the proposed licence modification (introduction of LC 41A) accurately and sufficiently captures the policy intent? Do you have any views on the wording of the proposed modification?
- Q8. Do you have any views on changes that would need to be made in the draft Successor Licence?
- Q9. Do you have any other views or concerns?

Background

5.1 As set out in section 2, DCC1 is likely to continue to face financial liabilities notwithstanding that it will have no income after the Transfer Date. One of the proposals (Proposal 2) that we are seeking views on and that will address these concerns, requires a modification to the existing Licence to ensure DCC's profits are retained pending the final Price Control outcome. It also required further changes to the draft Successor Licence. We discuss both in turn below.

Proposed modification to SMCL1

New Licence Condition 41A (Ringfenced amount pending the final Price Control outcome)

- 5.2 Pursuant to the reasons set out above, we propose to create a new Condition 41A (Ringfenced Amount pending final price control). This condition will place a requirement on the Licensee to pay to the Successor Licensee, on Transfer Date, a "Ringfenced Amount". The Ringfenced Amount will comprise a proportion of the Regulated Revenue, collected by the Licensee before Transfer Date, to cover the following terms (as defined in LC 36.8):
- Baseline Margin (BMt) as well as the Baseline Margin Performance Adjustment (BMPAt) that form part of the Allowed Revenue for the Regulatory Year 25/26 and the Final Regulatory Year (April – 31st October 2026); and
 - External Contract Gainshare (ECGSt) component of the Allowed Revenue for the Regulatory Year 25/26 and the Final Regulatory Year (April – 31st October 2026).
- 5.3 **The proposed Licence modifications are set out in the accompanying draft Notice published alongside this consultation.**

Changes to draft Successor Licence

Draft Condition 5

5.4 We propose that draft Condition 5 of the Successor Licence (General duties and strategy) is extended to include a new obligation on the Successor Licensee to pay (return) to the Previous Licensee (DCC1) a “Refunded Amount” (inclusive of any accrued interest) within one month following the Authority’s Price Control determination for the Final Regulatory Year (but no later than the expiry date of the previous Licence)¹⁸. The Refunded Amount would comprise of the Ringfenced Amount, previously paid to the Successor Licensee upon Transfer Date, minus any:

- Disallowed costs and reductions to the BM and ECGS that reflect Ofgem’s Price Control determinations for the Regulatory Years 25/26 and the Final Regulatory Year (“Price Control Correction”); and
- Liabilities owed to the Authority or the Successor Licensee. If these amounts are deducted from the Ringfenced Amount, those liabilities would be considered discharged.

Draft Condition 25

5.5 Draft Condition 25 of the Successor Licence places limitations on the amount of charges which the Successor Licensee is allowed to recover (“Recovered Revenue”) in a Regulatory Year, which is 105% of its Allowed Revenue in that Regulatory Year, calculated on an accruals basis. In the first RY commencing on Transfer Date this amount should be reduced by the amount of money transferred to the Successor Licensee by DCC1 on Transfer Date as part of settling any over/under-recovery. We do not propose to treat the Ringfenced Amount transferred to the Successor Licensee as part of the SL Recovered Revenue as it is not connected with the SL’s Authorised Business. Instead, we propose that the amount be set aside, for example by creating a prohibition on cross-subsidy between the Ringfenced Amount and the SL Recovered Revenue.

5.6 Once the Successor Licensee has paid the Refunded Amount to the Previous Licensee and any liabilities to the Authority have been met under draft Condition 5, we propose that the residual amount (equal to “Price Control Correction” and any liabilities to DCC2) be returned to customers at the earliest opportunity by a corresponding reduction in service charges.

5.7 We are therefore proposing to make a minor change to draft Condition 25 to direct that the amount of Price Control Correction and liabilities paid to DCC2 be reflected in the SL Recovered Revenue after the payments in Condition 5 have been made. The existing limitation on the amount of Recovered Revenue would

¹⁸ The due expiry date of the current Smart Meter Communication Licence is 22nd September 2027

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place a duty on the SL to return this amount to customers by reducing service charges.

- 5.8 We welcome any views from respondents on these further changes to the draft Successor Licence. We will consider comments we receive as part of our decision on the final conditions of the Successor Licence.

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Expected next steps

Date	Milestone
7 November 2025	Consultation on new SMCL closes
24 November 2025	This consultation closes
12 December 2025	Decision for this consultation expected to be published
December 2025	Consultation on consequential code changes if required
February 2026	Licence modifications go-live
March 2026	Decision on the final conditions of the Successor Licence and necessary code changes expected to be published

Appendix 1. Privacy policy

Personal data

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

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

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

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

Why we are collecting your personal data

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

Our legal basis for processing your personal data

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

With whom we will be sharing your personal data

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

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

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

Your rights

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

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it

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- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

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

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

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

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