

17th November 2025

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Ofgem

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Consultation on “Financing arrangements for DCC1 and DCC2 during the Business Handover Period”

Dear Jakub,

E.ON Next (E.ON) welcome the opportunity to review and comment on Ofgem’s proposals for the funding arrangements during the transition to the to-be Smart Meter Communication Licensee (DCC2).

While the Business Handover Period represents a complex phase, it is important that both DCC1 and DCC2 are required to justify the costs they have incurred, and that these represent Value for Money. Where actual costs incurred are lower than the estimates included in 2026 Changing Statements, then refunds should be promptly issued to funding DCC Users. Ultimately energy customers should not fund inefficiency in either DCC1 or DCC2’s delivery.

In the early 2010’s, UK Government and industry assumed that DCC1 would be setup as a ‘thin’ organisation. While the scope of DCC’s Authorised Business has materially changed since 2013, E.ON do not view DCC1’s current structure and headcount as a suitably ‘thin’ organisation. Given this, Capita and DCC1 must be closely monitored to ensure that the resources they employ for the Business Handover Period and final Regulatory Year Price Control are appropriate. This monitoring must focus on the volume of resources employed; their seniority; day rate (where applicable); and related profit being made by Capita (where applicable).

Our responses to the consultation questions are not deemed confidential. We would be happy to discuss our response further if this is required.

Yours sincerely,

Martin Christie

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Appendix One - E.ON Next Response (November 2025)

Q1. What are your views on the proposed mechanism to enable DCC2 to recover necessary Business Handover costs prior to Transfer Date?

Provided that the scale and nature of DCC2's proposed Business Handover costs are transparent and subject to robust scrutiny, then we agree

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?

We agree.

Q3. What are your views on the criteria for allowable DCC2 handover costs?

Subject to the comments below, we broadly agree.

Legal and Commercial Expertise

The current scope in Paragraph 3.11 does not appear to support the recovery of costs for broader contract law advice during the Business Handover period. Given the volume, breadth, and complexity of the contracts that DCC1 will be looking to novate, it is conceivable that DCC2 will need to secure extensive advice on contract law topics. Restricting DCC2's ability to procure such services could elongate contract disputes with External Service Providers, and result in unintended consequences and avoidable costs post the Business Handover completing.

We would welcome this bullet being revised.

Security Accreditation

The current description in Paragraph 3.11 does not clearly confirm that costs associated with security clearance and background vetting of DCC2 staff can be recovered as a Pass-Through cost. The sensitive nature of DCC's activities means that its employees must be subject to robust and independent security screening, ahead of access to critical or sensitive systems being granted. Failure to do so could put DCC2 in breach of SEC and other obligations, increase the risk of delay to the handover process, and potentially impact services delivered to energy customers post Transfer Date.

We would welcome this bullet being revised to specifically cover these critical topics.

Audit and Assurance

Depending on the precise timing of the handover period in the Financial Year, DCC may require audit and assurance support on topics other than "handover deliverables". Unduly restricting this specific definition may impact DCC2's ability to comply with other legislation.

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?

Reasonable steps must be taken to ensure that DCC1's activities post the Transfer Date are delivered efficiently and in a cost-effective way. Ultimately DCC1 should be penalised if its resourcing model is skewed too heavily towards senior roles, or contractors and consultants with unjustified day rates, or where these resources are retained for an excessive time-period. Where DCC1 makes unjustified demands on DCC2-employed staff or is inefficient in its requests, then DCC1 should again be penalised to prevent energy customers from having to fund these avoidable costs.

We support DCC2's pre-agreed assistance being considered as Mandatory Business.

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?

No comments.

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?

We agree, provided that DCC1 is required to demonstrate that financial liabilities in the Business Handover period have been reasonably incurred and managed, or mitigated where appropriate.

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?

The proposed licence modification appears to address the policy intent outlined.

Q8. Do you have any views on changes that would need to be made in the draft Successor Licence?

No comments.

Q9. Do you have any other views or concerns?

While we recognise the complexities that DCC1 and DCC2 will have to address in the Business Handover period, monitoring must be implemented to ensure they deliver in the most efficient way. Where cost estimates included in the March 2026 Charging Statement exceed actual costs incurred, then refunds to funding DCC Users must be made quickly and clearly explained.