

3rd November 2025

Kirstan McCartney  
DCC Regulation and Oversight Team  
Ofgem

**E.ON Next Energy Limited**  
Westwood Way  
Westwood Business Park  
Coventry  
West Midlands  
CV4 8LG  
eonnex.com

**By email only:** [DCCRegulation@ofgem.gov.uk](mailto:DCCRegulation@ofgem.gov.uk)

### **Consultation on the new Smart Meter Communication Licence**

Dear Kirstan,

E.ON Next (E.ON) welcome the opportunity to respond to the latest industry consultation supporting the transition to the future Smart Meter Communication Licensee (DCC2 Licensee). We acknowledge Ofgem's work and believe that revising the DCC1 Licence will resolve past issues and help structure the to-be DCC2 entity.

DCC2 will hold crucial responsibilities at the heart of the smart metering end-to-end service. Decisions made by the DCC2 Board may materially affect the number of non-operating smart meters, the services used by Pay As You Go (PAYG) energy customers, and the costs charged to funding DCC Users. As such, the DCC2 Licensee should be obligated to take all reasonable steps to prevent factors that would mean energy suppliers making payments under the to-be Guaranteed Standard of Performance (GSOP) regime.

Under-performance by DCC's 'External Service Providers' could directly cause non-operating meter volumes to fluctuate, or delay issue resolution. However, the proposed DCC2 Licence terms will prevent funding DCC Users from recovering penalty payments from these providers. E.ON firmly believe that Ofgem should revise the DCC2 Licence to bring DCC2 and its External Service Providers in-scope of the GSOP regime. This would prompt DCC2 to revise contract terms with its External Service Providers, enabling appropriate penalties to be imposed for service performance issues.

In the early 2010's, UK Government and industry assumed that DCC1 would be setup as a 'thin' organisation responsible for letting and managing outsource contracts. E.ON do not view DCC1's current structure or its FY24/25 headcount of 762 FTE as being a 'thin' organisation. While we will look to address factors via SEC Forums, the drafting of the DCC2 Licence offers a key opportunity to influence the DCC2 organisation design and set it up to deliver for energy customers. Ofgem should strengthen the drafting of Licence Condition (LC) 10 to drive efficiency savings by the DCC2 Licensee and reduce the costs funded by energy customers.

Our responses to the consultation questions are not deemed confidential and are detailed in Appendix 1. We would be happy to discuss our response further if Ofgem need to clarify any points.

Yours sincerely,

Martin Christie

E.ON Next Energy Limited  
Registered in  
England and Wales  
No. 03782443

Registered Office:  
Westwood Way  
Westwood Business Park  
Coventry CV4 8LG

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

### **Q1. Do you have any comments on the structure of the Licence?**

No comments to raise.

### **Q2. Do you have any comments on the drafting principles?**

No. The drafting principles appear pragmatic.

### **Q3. In particular, where the wording in the existing licence has been carried forward (as the condition was not subject to consultations), do you have views about whether it should be rewritten for drafting consistency or simply retained?**

Unless the drafting inconsistency is significant, retaining the existing wording is appropriate.

### **Q4. Do you have any comments on Chapter 1 of the licence conditions?**

No comments to raise.

### **Q5. In particular, do you have any comments on the drafting of the definitions?**

No comments to raise.

### **Q6. Do you have any comments on Chapter 2 of the licence conditions?**

Subject to specific comments below, we agree.

#### ***Licence Condition 8***

While we recognise the need to evolve the DCC's services, proposals to transition between technologies cannot be solely assessed from the DCC2 Licensee's perspective. Decisions to change communication hubs or other DCC services can impose material costs onto funding DCC Users, due to the implications on SMETS assets or the requirement for additional site visits. For too long DCC1 has expected DCC Users to fund and complete site visits as a primary solution to fix issues within DCC's control. This is disruptive to energy customers and imposes avoidable cost.

Therefore, E.ON firmly believes that the DCC2 Licensee should be required to demonstrate it has appropriately considered the operational and financial implications on funding DCC Users during its development of Network Evolution plans. The drafting of LC 8 provides a good opportunity to require the DCC2 Licensee to demonstrate its assessment addresses impacts to funding DCC Users.

#### ***Licence Condition 10***

Requiring the DCC Licensee to "...ensure flexibility and maintain a 'thin' operational model..." in its provision and procurement of services is recognised. However, the current Licence Conditions do not appear to have constrained growth in DCC1's headcount over its licence term. Retaining the requirements of the original LC16 may not encourage the DCC2 Licensee to ensure its headcount is appropriate, cost effective, or 'thin'. Further strengthening of the to-be LC10 drafting could realistically deliver headcount and cost efficiencies in the DCC2 Licensee.

Given recent Cyber Security incidents affecting FTSE350-sized organisations in the United Kingdom, amending LC10 to specifically address such threats may be appropriate. While LC Clause 10.17(b) refers to "...operational failure of an External Service Provider...", inclusion of Cyber Security references in this drafting may be appropriate. Such drafting could support the DCC2 Licensee in creating and evolving contracts that respond to emerging Cyber Security threats. Doing so could support service provision during incidents caused by human error, not just operational system failures.

***Q7. Do you agree that the wording of the new Primary Objective, the general duties and transitional duties in LC5 meets the policy intent as set out in our decision on the objectives, operational model and future role of DCC?***

Subject to specific comments below, we agree.

***Part B – Transitional Duties***

Restricting the LC Clause 5.11 requirement for the “*Licensee to carry out a review of the Licensee’s External Service Provider Contracts...*” to a Transitional Duty may mean that the to-be DCC2 Licensee does not realise future efficiency savings. Reviewing Annex 2 – Schedule 1, we note that several of DCC1’s contracts expire in the 2030’s or 2040’s meaning these will need to evolve over time if they are to represent value for money. E.ON believes the DCC2 Licensee should be required to complete further reviews of its External Service Provider Contracts during the licence term to ensure they remain fit for purpose and offer value for money to energy customers and DCC Users.

Reviewing LC Clause 5.13, we believe the to-be DCC2 Licensee should also be required to review the status of, and approach being adopted to, any significant legal or contractual disputes with the External Service Providers. Such a review may identify alternative negotiation options or solutions that are beneficial to energy customers or funding DCC Users.

***Part C – Business Strategy and Technology Roadmap (BSTR)***

We welcome the proposal that the DCC2 Licensee will be required develop, publish and maintain a BSTR. However, we believe this obligation should be amended to address three key factors.

Firstly, the current Part C drafting does not appear to require the DCC2 Licensee to engage with funding DCC Users during the assessment and review phases of the BSTR development. While LC Clause 5.20 requires the DCC2 Licensee to consult on the draft BSTR, positions will have been firmed up by this stage and may lead to sub-optimal outcome for industry. We believe the Licensee should be required to engage funding DCC Users during the analysis and development stages of the BSTR.

The current Part C drafting does not explicitly require the DCC2 Licensee to consider any BSTR factors that may impact the maintenance and operation of smart meters, or the business processes used by funding DCC Users. For example, DCC2 proposals to use new technologies or address emerging security risks could result in major design changes to communication hubs. While the DCC2 Licensee would meet its Licence Conditions, this could impose significant cost onto funding DCC Users and ultimately energy customers. Amending the drafting of Part C to address this risk would be welcomed.

As part of its submission to the Authority, the DCC2 Licensee should be required to explain how it has evolved its BSTR to directly take account of feedback from funding DCC Users and other stakeholders. Replicating the drafting used in LC Clause 8.4 would address this and help ensure that DCC2 both listens and acts on factors of importance to DCC Users and energy customers.

***Q8. Do you have any comments whether the application and approval approach for Permitted Business under LC6 should be detailed in the Licence or in guidance?***

Including the application and approval approach in the Licence would align with processes defined in other Licence Conditions (e.g., BSTR review and approval in LC5).

***Q9. Do you agree with the new requirement under LC10 for the Licensee to directly employ more than half of the Licensee’s workforce and all Senior Managers? If not, do you have views on a different approach that could be adopted to achieve the same aim?***

Provided this does not unduly hinder the DCC2 Licensee’s day-to-day critical operations, we agree. Formally reviewing this LC10 requirement and any impacts at a point 2-3 years post the appointment of the DCC2 Licensee may be appropriate.

**Q10. Do you agree with the conditions on Code Industry documents? In particular:**

- a. Updating the condition to reflect the SEC is established and, therefore, introducing a duty to have regard to SEC objectives**
- b. Removing the right to be supplied with information arising from other code documents**
- c. Whether to retain the conditions relating to consequential changes**
- d. Moving the mandatory content and code arrangements to Schedule 2**

We agree.

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

Subject to specific comments below, we agree.

*Licence Condition 12*

Requiring the DCC2 Licensee to consult with relevant industry stakeholders during development of its Risk Management Strategy may be appropriate, given the critical roles the DCC undertakes. For example, formally requiring the DCC2 Licensee to engage with the SEC Security Sub-Committee or other UK Government body may mean that the DCC's Risk Management Strategy addresses new and emerging Cyber Security threats. This could be addressed through an addition to LC Clause 12.13.

*Licence Condition 13*

Clause 13.8 appears to include an erroneous cross reference to "...paragraph 13.2354...".

It is unclear whether Clause 13.12 requires the DCC2 Licensee to provide the Authority with information about any contractual shortcoming that contributed to a security incident or associated contractual penalties that could be invoked on an External Service Provider. We would also expect the DCC2 Licensee to declare any contractual amendments that it would look to implement as part of any post-incident improvements.

**Q12. Do you have any comments on Chapter 4 of the licence conditions?**

Other than an erroneous cross reference in Clause 19.6, we have no comments to raise.

**Q13. Do you agree that the wording of the new condition on the Licensee's Board of Directors (LC15) meets the policy intent as set out in our decision on governance arrangements? In particular, the power for Ofgem to remove directors or require the appointment of an independent director?**

We agree.

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

Subject to specific comments below, we agree.

*Licence Condition 20*

While the focus on system performance metrics is reasonable, the DCC2's Remuneration Policy could drive other efficiencies that materially benefit energy customers and funding DCC Users. This could include measures that drive at the timely and appropriate resolution of External Service Provider under-performance given the issues experienced with specific DCC1 services. Given the scale of DCC's cost base, we believe the Remuneration Policy should also incentivise the proactive identification and delivery of cost saving initiatives within DCC2 and across its External Service Providers. This is particularly important for long-term DCC1 contracts with expiry dates in the 2030's or 2040's. Such initiatives offer a key opportunity to reduce the DCC-related costs that are ultimately funded by energy customers, including some of the most vulnerable households in Great Britain.

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

Elements of a Remuneration Policy should apply to all staff employed by DCC2.

While junior colleagues may not be able to directly influence decision-making, they can make a material difference to the services that energy customers rely upon. For example, a junior colleague could be incentivised to proactively identify and help deliver cost saving initiatives through their day-to-day work. Their activities could also help minimise system outages and protect service delivery to credit and PAYG customers.

DCC2 Procurement and Contract Management functions must be incentivised to identify and deliver contract improvements or efficiencies that benefit energy customers and funding DCC Users. These DCC2 functions will hold a key role in minimising DCC's cost base over the duration of the licence term, especially on long-term contracts that expire in the 2030's or 2040's.

***Q16. Do you have any comments on Chapter 6 of the licence conditions?***

Subject to specific comments below, we agree.

***Licence Condition 22***

Given that the Business Plan will be developed and iterated over time, E.ON believes that the DCC2 Licensee should have to demonstrate how its approach has evolved. This should include a requirement for DCC2 to provide clear evidence on how it has considered and addressed stakeholder (e.g., SEC Customer Challenge Group) or DCC User feedback.

Additionally, DCC2 should be required to explain how it has evolved subsequent Business Plans to address lessons in the preceding plan period. This could include improvements to its forecasting approach, treatments for crystallising risks, or scenarios where reopener processes have been utilised.

The DCC2 Licence drafting outlines specific prerequisite deliverables (e.g., plan guidance), the sequencing of events (e.g., engagement with the SEC CCG), and headline timings of these events. Reviewing these elements, there appear to be constraints or pinch points that may impact either DCC2's ability to develop and evolve its Business Plan or engage with the SEC CCG in a way that delivers a quality output. It is important that lessons from the development and approval of the first DCC1 ex-ante business plan are considered and factored into the enduring DCC2 Licence drafting.

Each of these elements could be addressed through an amendment to LC Clause 22.13.

***Q17. Do you agree that the wording of the new conditions 22-25 meets the policy intent as set out in our decision on cost controls?***

Subject to specific comments below, we agree.

***Licence Condition 24***

In relation to annual or emergency reopeners, the DCC2 Licensee must be required to provide detail on both the risks and issues that have crystallised, but also evidence on the mitigating actions that have been utilised. We believe that the Business Plan guidance issued by Authority should mandate evidence on specific mitigating actions identified and attempted by DCC2 itself.

The DCC2 Licensee should also be required to outline how it has considered and addressed feedback from the SEC Customer Challenge Group (CCG) on specific reopener requests. This must also include how DCC2 has adopted associated actions in-year and across Business Plan periods

Mandating this evidence and insight will support subsequent assessment of reopeners and help mitigate inflationary effects on DCC's cost-base.

#### *Licence Condition 25*

We welcome the capability for the Authority to direct the DCC2 Licensee to “...*modify the Charging Statement for the purposes of reducing the Cash Position to 1.05...*” under LC Clause 25.5. However, it is important that the DCC2 Licensee is required to provide supporting information to funding DCC Users that explains the factors that have contributed to a cash position adjustment. This would prevent DCC2 providing Charging Statement updates that blend cost increases and reductions, which then limits subsequent analysis by individual funding DCC Users.

Amendments to clauses in LC 25 – 27 are required to ensure the DCC2 Licensee is obligated to provide sufficient detail.

#### *Licence Condition 26*

Where the DCC2 Licensee proposes modifications to the Charging Methodology, it should be required to formally consult with funding DCC Users. Having consulted, the DCC2 Licensee should also be required to evidence how it has addressed relevant feedback before any changes are implemented.

***Q18. Do you have any views on the current drafting regarding the ring-fencing of funding (LC24) and whether this provision would benefit from a stand-alone condition that it more prescriptive regarding spending constraints and other requirements?***

No comments to raise.

***Q19. Do you have any comments on Chapter 7 of the licence conditions?***

Subject to specific comments below, we agree.

#### *Licence Condition 32*

There may be merit in requiring the DCC2 Licensee to provide the SEC Customer Challenge Group (CCG) with specific detail extracted from the Register of Relevant Business Assets. Doing so may support elements of the formal Business Plan review process.

***Q20. Do you agree with our decision to remove the additional financial security requirements, noting the potential impact this may have in the event of a Special Administrator Regime, and/or licence revocation.***

Provided that potential DCC2 business continuity risks relating to Pay-As-You-Go services have been fully considered in Ofgem’s approach, we agree.

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

No comments to raise.

***Q22. Do you have any comments on Chapter 9 of the licence conditions?***

Subject to specific comments below, we agree.

#### *Licence Condition 37*

Reviewing LC Clause 37.10, we would expect the DCC2 Licensee to be required to explain how its Business Handover Plan specifically addresses any lessons learned from the DCC1 to DCC2 transition process. It is important that any key lessons are specifically addressed and not overlooked or subsequently edited out in later Business Handover Plan document versions.

***Q23. Do you have any comments on Chapter 10 of the licence conditions?***

No comments to raise.

***Q24. Do you have any views on whether it would be appropriate to include a general power of derogations for Ofgem?***

Inclusion of a general power of derogation in the DCC2 Licence would appear appropriate, provided it is used to address unintended consequences affecting energy customers or funding DCC Users. Given the expected move from DESNZ Transitional Governance to SEC Enduring Governance during the DCC2 Licence term, the decision-making powers of DESNZ may need to be reviewed in due course.

***Q25. Do you have any views on the proposed powers to be conferred on the Authority under the commencement and transitional provisions?***

The proposed commencement and transitional powers appear appropriate.

***Q26. Do you have any views on the Schedules?***

No comments to raise.