

Decision

New Successor Smart Meter Communication Licence (Decision)

Publication date:	1 May 2026
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This decision document sets out our¹ decision on the final version of the Successor Smart Meter Communication Licence (SMCL) following our consultation published on 18 September 2025. The Successor SMCL was awarded to DCC2 Ltd., a wholly owned subsidiary of the Smart Energy Code Company (SECCo) Ltd., under section 6(1)(f) of the Electricity Act 1989 and section 7AB(1) of the Gas Act 1986 on 14 April 2026. The Licensee provides the communications, data transfer, and management required to support smart metering in Great Britain.

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

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Executive summary

The Data Communication Company (DCC) is the licensed monopoly provider of communications and data services that underpin smart metering in Great Britain. The first Smart Meter Communication Licence has been held by Smart DCC Ltd and is due to expire on 22 September 2027. Ahead of the first Licence expiry, Ofgem developed a new regulatory framework for a Successor Licensee to be implemented via a Successor SMCL. The new framework shifts to a not-for-profit model, independent governance arrangements and *ex-ante* cost control regime.

We consulted on this new SMCL in September 2025 and sought views broadly on the structure and drafting of the new Licence, the effectiveness of new and amended conditions in delivering the intended policy outcomes, and on a small number of more specific questions where detail had evolved since earlier policy consultations.

The responses we received were broadly supportive of our proposals. Feedback focused primarily on drafting clarity and operability rather than the underlying policy intent. Based on the feedback we received, and consideration following further engagement with both the current Licensee and the newly appointed Successor Licensee, the Secretary of State and the SEC Security Sub-Committee, we have now concluded the final text of the Successor SMCL. We have generally maintained the draft text that we consulted on, with this decision setting out where we have made significant changes and the rationale for these changes.

The main areas of change include: formalising the Terms in Respect of Grant and Revocation, clarifying the approval process and submission timelines for the Business Strategy and Technology Roadmap (BSTR), refining the requirements on the security controls, the addition of modifications made to the Previous Licence by the Department of Energy Security and Net Zero (DESNZ), improving the drafting of the Price Control conditions, addressing omissions, and improving drafting and consistency across the Licence where appropriate.

Following the completion of a competitive tender process, the Successor SMCL was awarded to DCC2 Ltd, a wholly owned subsidiary of the Smart Energy Code Company (SECCo) Ltd, on 14 April 2026. The Licence will run for an initial fixed term of six (6) years from the First Transfer Date,² and may be extended subject to satisfying certain condition, but in all cases is subject to an absolute maximum duration of eighteen (18) years from the Licence grant.

Alongside this decision we publish the full Licence text (Terms, Conditions and Schedules), a redlined version compared to the consultation draft, a direction on the commencement of specific Conditions and Schedules and non-confidential consultation responses.

² Designated by Ofgem under Condition 43 of the Previous Licence to occur on 2 November 2026.

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Introduction

The SMCL sets the regulatory framework for the Data Communications Company (DCC), which provides the communications, data transfer and management services required to support smart metering in Great Britain. DCC plays a critical role in the GB energy system and operates as a monopoly service provider. It is therefore essential that the Licence supports effective delivery, high quality service, value for money and the protection of energy consumers' interest.

To this end, Ofgem undertook a programme of work (the DCC Review) to put in place a new regulatory framework for a Successor Licence to the SMCL. Through this programme, Ofgem has taken a series of policy conclusions, including the introduction of a not-for-profit operating model, an ex-ante cost control regime and strengthened, independent governance arrangements.

In September 2025, Ofgem consulted on the draft new Smart Meter Communication Licence. The draft Licence reflected the policy decisions taken through the DCC Review and set out the proposed operating scope and obligations that the Successor Licensee will be bound by. The consultation sought views on whether the drafting of the new Licence was clear, that it was internally consistent and that it appropriately reflected those policy decisions.

This document sets out Ofgem's decision on the final form the new Smart Meter Communication Licence, having carefully considered all responses to the consultation. The Licence published alongside this decision establishes the mandate and operating scope of the Successor Licensee, including how services are procured and delivered, how performance is monitored and reported, and how costs are controlled. It updates, clarifies or replaces conditions from the existing Licence where this was seen as required based on respondent feedback to give effect to the new regulatory framework.

In parallel with the development of the new Licence, Ofgem ran a competitive tender process³ to appoint an appropriately qualified entity as the successor holder of the SMCL, in line with the Competitive Tenders for Smart Meter Communication Licences Regulations.⁴ The competition assessed bidders against published evaluation criteria⁵ covering governance, financial standing, operational capability and readiness to deliver a complex Business Handover.

³ Ofgem (2025), Smart Meter Communication Licence tender. www.ofgem.gov.uk/guidance/smart-meter-communication-licence-tender

⁴ The Electricity and Gas (Competitive Tenders for Smart Meter Communication Licences) Regulations 2012 <https://www.legislation.gov.uk/ukxi/2012/2414/made>

⁵ Ofgem (2025), Criteria Assessment Framework for the new Smart Meter Communication Licence tender process. www.ofgem.gov.uk/sites/default/files/2025-07/SMCL%20tender%20document%20-%20evaluation%20criteria%20assessment%20framework-20250710112141.pdf

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In February 2026, we published our decision⁶ on the outcome of this tender, and notified DCC2 Ltd of their preferred bidder status for the Successor Licence, with DCC2 Ltd being formally awarded the Licence on 14 April 2026.

The outgoing Licensee, Smart DCC Ltd, will continue to deliver Authorised Business in parallel with providing handover assistance to DCC2 Ltd until the Transfer Date (TD), which has been designated by Ofgem to occur on 2 November 2026. On TD, the entity that is DCC will transfer from Smart DCC Ltd to DCC2 Ltd, including all assets, contractual rights and obligations, and responsibility for delivery of the Authorised Business. Until Transfer Date, DCC2 Ltd will not deliver the Authorised Business or hold key service contracts, ensuring there is no overlap or conflict between the incumbent and successor Licences, although both Licences will co-exist until the expiry of the first Licence in September 2027.

Although the new Licence provides the basis for the new regulatory regime, it may be further modified, including to reflect the outcome and lessons learnt of the Handover Period, the live investigation into Smart DCC Ltd and its compliance⁷ and the ongoing process for determination of Required Revenue for the first Price Control Cycle.

Clarification on terminology

All capitalised terms throughout this document are as defined in the new Licence. This document is drafted from the perspective of the new Licensee, therefore the following terms should be interpreted as follows:

- “Licensee” and “DCC2” mean **DCC2 Ltd**, a wholly owned subsidiary of the Smart Energy Code Company (SECCo) Ltd.
- “Licence” means the (second) Smart Meter Communication Licence, awarded by Ofgem to DCC2 Ltd on 14 April 2026
- “Previous Licensee” and “DCC1” means **Smart DCC Ltd**, a wholly owned subsidiary of Capita Plc.
- “Previous Licence” means the (first) Smart Meter Communication Licence, awarded by the Secretary of State to Smart DCC Ltd on 22 September 2013

The term “DCC” should be understood in its general sense as the holder of the Smart Meter Communication Licence, who carries on the Authorised Business; this means:

- Smart DCC Ltd pre-Transfer Date
- DCC2 Ltd post-Transfer Date

Furthermore, we also use the terms “Authority” and “Ofgem”, and DESNZ and the Secretary of State (SoS), interchangeably.

⁶ Ofgem (2026) Smart Meter Communication Licensee: decision. www.ofgem.gov.uk/decision/smart-meter-communication-licensee-decision

⁷ Ofgem (2025), Investigation into Smart DCC Ltd. www.ofgem.gov.uk/publications/investigation-smart-dcc-ltd-and-its-compliance-standard-licence-conditions-116-119-and-164-166-smart-meter-communication-licence

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Context and related publications

Document	Date published	Link
Call for evidence: Review of the DCC licence arrangements	January 2021	www.ofgem.gov.uk/call-for-input/call-evidence-review-dcc-licence-arrangements
DCC Review: Phase 1 Consultation	September 2022	www.ofgem.gov.uk/consultation/dcc-review-phase-1-consultation
DCC Review: Phase 1 Decision	August 2023	www.ofgem.gov.uk/decision/dcc-review-phase-1-decision
DCC Review Phase 2: Governance and Centralised Registration Service arrangements - consultation	May 2024	www.ofgem.gov.uk/consultation/dcc-review-phase-2-governance-and-centralised-registration-service-arrangements
Decision on the continuation of the Smart Meter Communication Licence	September 2024	www.ofgem.gov.uk/decision/decision-continuation-smart-meter-communication-licence-and-rate-shared-service-charge-and-baseline-margin
DCC review: Process for appointing the Successor Smart Meter Communication Licence holder - conclusions and next steps	September 2024	www.ofgem.gov.uk/decision/dcc-review-process-appointing-successor-smart-meter-communication-licence-holder-conclusions-and-next-steps
DCC Review Phase 2: Centralised Registration Service	December 2024	www.ofgem.gov.uk/decision/dcc-review-phase-2-centralised-registration-service-arrangements-decision

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Document	Date published	Link
arrangements - decision		
DCC Review Phase 2: Governance arrangements - conclusions	January 2025	www.ofgem.gov.uk/decision/dcc-review-phase-2-governance-arrangements-conclusions
DCC Review Phase 2: Determination of Allowed Revenue - consultation	December 2024	www.ofgem.gov.uk/consultation/dcc-review-phase-2-determination-allowed-revenue
DCC Review Phase 2: Determination of Allowed Revenue - conclusions	May 2025	www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions
DCC Review Phase 2: Objectives, operational model and future role of DCC	June 2025	www.ofgem.gov.uk/consultation/dcc-review-phase-2-objectives-operational-model-and-future-role-dcc
Smart Meter Communication Licence tender	July 2025	www.ofgem.gov.uk/guidance/smart-meter-communication-licence-tender
Regulatory Instructions and Guidance (Successor Licensee)	July 2025	www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee
Terms of Reference for Customer Challenge Group and Business Plan Guidance	July 2025	www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance
Modifications to the Smart Meter	July 2025	www.ofgem.gov.uk/decision/modifications-smart-meter-communication-licence-

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Document	Date published	Link
Communication Licence (ex-ante transition and licence closure)		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
Financing arrangements for DCC1 and DCC2 during Business Handover	October 2025	www.ofgem.gov.uk/consultation/financing-arrangements-dcc1-and-dcc2-during-business-handover

Decision-making stages

Stage 1 Consultation opened: **18 September 2025**

Stage 2 Consultation closed (awaiting decision) & deadline for responses: **7 November 2025**

Stage 3 Responses reviewed: **December 2025**

Stage 4 Licence granted: **14 April 2026**

Stage 5 Consultation outcome: **1 May 2026**

1. Licence structure

Section summary

This chapter sets out our decision on the structure of the new Licence and the drafting principles. We have decided to maintain the Licence structure in line with our consultation. We have also set the Terms in Respect of Grant and Revocation of the Licence, modelled on the current Licence with minor changes to reflect drafting improvements and feedback from the bidding parties. As part of the Licence award, we have also directed that certain conditions and schedules of the Successor Licence will commence from a later date; mainly to reflect that the Successor Licensee will not become responsible for the operation of the Authorised Business until the First Transfer Date.

Questions posed at consultation

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

The Licence structure

Background

- 1.1 We consulted on the structure of the Licence, adopting a chapter-based structure to ensure clarity and readability. Licence conditions were grouped thematically with the intention to make it easier to navigate and interpret the Licence.
- 1.2 The drafting approach was as follows:
- The original SMCL had been used as the basis for the new Licence.
 - Where a condition has been the subject of a policy consultation, the Licence has been amended to reflect the decisions.
 - Where new obligations had emerged (e.g. governance reform, ex-ante cost control), new conditions have been introduced.
 - Where a condition has not been impacted from policy consultation, the condition has usually been retained with minor amendments for clarity or alignment. Where there was significant amendments, the consultation sought targeted views.

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Summary of responses

- 1.3 The majority of respondents agreed with the Licence structure and drafting principles. One respondent raised a concern that the re-numbering of Licence Conditions could add complexity for External Service Provider contracts whose clauses relate to specific conditions of SMCL1. They suggested keeping the numbering consistent to avoid any issues.
- 1.4 Most respondents agreed with the proposal to retain existing conditions, where relevant, with one observing that, unless the drafting inconsistency is significant, retaining the existing wording is appropriate.

Decision and rationale

- 1.5 Although some contracts may contain direct linkages to the conditions of SMCL1, having engaged with DCC1, we believe that the risk of misalignment can be mitigated and that, on balance it was preferable to rigidly maintaining existing numbering, which would have rendered the Successor Licence less clear and inhibit necessary or expedient drafting changes. We have therefore decided to keep the proposed structure.

Terms in Respect of Grant and Revocation

- 1.6 Parts A and B of the Licence set out Terms in Respect of Grant and Terms in Respect of Revocation, respectively.
- 1.7 Consistent with the principle set out in our consultation, we have adopted the Terms from the current Licence with targeted changes to update the drafting efficiency and to reflect the changes in the regulatory model.
- 1.8 We have decided to adopt the Terms with two material changes to the Terms in Respect of Grant:
 - The initial term of the Licence will expire six (6) years from the First Transfer Date. The absolute possible term remains unchanged, subject to extensions by Ofgem in accordance with Part A of the Licence, with the absolute expiry of eighteen (18) years from the date of the Licence award.
 - To reflect the staged process for handover of Authorised Business and the Transfer Date, certain conditions and schedules to the Licence will not commence on Licence award date but a later date directed by Ofgem.
- 1.9 The Terms and the direction for the purposes of paragraph 1.8 above (commencement of certain licence conditions) are published alongside this decision.

2. Licence Chapter 1: Interpretation, Contact Details and Payment

This chapter sets out the definitions and interpretation of the Licence, the address of the Licensee and possible payments to the Authority. We have amended some of the definitions in the general interpretations to reflect changes in other chapters; otherwise, this chapter remains largely unchanged.

Questions posed at consultation

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

Q5. In particular, do you have any comments on the drafting of the definitions (refer to Appendix 2)?

Background

2.1 Chapter 1 of the Licence includes the following four Conditions:

- Condition 1. Definitions for the Conditions of this Licence
- Condition 2. Rules of interpretation for this Licence
- Condition 3. Addresses for the purposes of this Licence
- Condition 4. Licensee’s payments to the Authority.

Summary of responses

2.2 One respondent suggested that the definition of the general duty to “*consult*” throughout the Licence should follow the wording used in the Cabinet Office “Consultation principles: guidance”.⁸

2.3 One respondent noted that DCC has not historically made payments to Ofgem under LC4 – Licensee’s Payments to the Authority and that no allowance for such costs had been included in the DCC2 Business Plan.

2.4 A couple of respondents brought our attention to drafting improvements and typographical errors in the general interpretations sections of Condition 1.

2.5 One respondent commented on an inconsistency between various licence conditions and the definition of the first Regulatory Year.

⁸ Cabinet Office (2018) Consultation principles: guidance.
www.gov.uk/government/publications/consultation-principles-guidance

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- 2.6 Ofgem does not currently recover costs via the SMCL, nor does it intend to at this time. We have nonetheless decided to retain the condition as a standard condition which could be relied on in future; with the fees payable by the Licensee set out in the Authority's Licence fee cost recovery principles.
- 2.7 Noting the feedback on the defined term "Consult", we have further clarified that the general duty to consult includes that the Licensee must fairly select the consultees. While there are consultations carried out by the Authority or the Secretary of State, we have further clarified, by amendments throughout the Licence, that the defined term itself only applies to the *Licensee's* duty to consult.
- 2.8 We have corrected the definition of the Regulatory Year to clarify that the first Regulatory Year means the period beginning with the First Transfer Date and ending with 31 March 2027, instead of 31 March 2028. This change provides a correction for various requirements within the Licence tied to the timing of the commencement and end of Regulatory Years.
- 2.9 We have made further changes to general interpretations to:
- Add missing definitions (eg the BSTR, Licensee Workforce) or removed unneeded definitions occurring (eg Procurement Strategy which is only used in Condition 10 or Other Code Services removed from Condition 6)
 - Reflect changes made to other conditions, eg changes to references to Authorised Business in the definitions of Charging Methodology, Charging Statement for Service Charges, and Service Charges to reflect changes in Conditions 26 and 27
 - Complete defined terms which relate to the Successor Licensee (eg Licence Commencement Date, Licence Term and Licensee)
 - Correct typographical errors

3. Licence Chapter 2: Nature and Conduct of the Licensee's Business

This chapter sets out the mandate and operating scope that the Licensee operates under, describing what services it delivers, how it must conduct itself and the frameworks with which it engages.

The key changes made to the conditions of this chapter were to:

Condition 5, with amendments to transitional objectives some of the requirements for the Business Strategy and Technology Roadmap (BSTR), in particular confirming the approval process and the roles of Ofgem and the Secretary of State;

Condition 9, to reflect modifications to the Previous Licence by the Secretary of State, and amend to Appendix 1 (Statement of Service Exemptions) to allow DCC2 to continue using the last approved version of the SoSE under the Previous Licence;

Condition 10, where we have set a threshold for the publication of contracts and finalised the requirements on Workforce employment; and

Condition 11, which now includes requirements on DCC2 to comply with Ofgem-issued Data Best Practice Guidance.

Questions posed at consultation

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

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

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

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

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

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

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Background

- 3.1 This chapter sets out the mandate and operating scope of the Licensee, describing the services it delivers, how it must conduct itself, and the frameworks with which it engages.
- 3.2 The Licence establishes general duties, the scope of the Authorised Business, arrangements for the provision and procurement of services, and the Licensee's role across core industry documents.
- 3.3 Taken together, these provisions reflect the shift from design, build and test operations of DCC1 to mature and not-for-profit operations of DCC2, with added safeguards to ensure value for money and high-quality outcomes for both DCC customers and GB energy consumers.

Condition 5 (General duties and strategy)

Summary of responses

Part A: General Duties

- 3.4 One respondent expressed a concern that the drafting in LC 5.5(a) could be interpreted such that the Successor Licensee could be classified as an Energy System Participant, allowing it to engage in innovation activities *itself*, rather than facilitating innovation by others, thus going counter to the policy objective.
- 3.5 One respondent was of the view that the requirement to promote the protection of the Natural Environment via LC 5.5(c) stretched the overall objective further than was necessary as not all aspects of the term 'Natural Environment' (as defined in the Environment Act 20215) are particularly relevant.

Part B: Transitional Duties

- 3.6 One respondent suggested an additional duty on the Licensee to enter into a legal agreement with the Previous Licensee, mirroring the requirements of LC 43.16 of the Previous Licence. They also suggested that the Transitional duties under Paragraph 5, part B should be clearly time-limited and explicitly defined as "spent" once concluded.
- 3.7 In relation to the contractual review requirements pursuant to the Transitional Duties in paragraphs 5.11-5.15, one respondent suggested that the drafting in paragraph 5.11 lacked clarity on the scope and timetable of the review. They suggested that the review of external contracts should commence in the second Price Control Period, *ie* from 1 April 2028 onwards, to allow DCC2 to plan appropriately once the scope is confirmed.
- 3.8 They also noted that some current External Service Providers felt that meeting the general duties & requirements in the previous Licence/SEC added cost, and there

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may be benefits in exploring engagement with the supply chain to identify any amendments that could drive costs out without compromising the network during the contract review.

- 3.9 One respondent suggested that the contract review required under Condition 5 should include the status and the approach of being adopted with 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.
- 3.10 One respondent suggested that the new License should be required to carry out further reviews of its External Service Provider Contracts during the Licence term, even after the completion of the transitional objective under LC 5, to ensure they remain fit for purpose.

Part C: BSTR

- 3.11 Two respondents raised concerns that the proposed date of 31 March 2028 for the submission of the draft Business Strategy and Technology Roadmap (“BSTR”) to the Authority and the Secretary of State was too late. One suggested that the submission deadline should be moved to December 2026 to allow for an approval to prior to the due submission of the second *ex-ante* Business Plan in July 2027, which should reflect the approved BSTR.
- 3.12 One respondent asked that the draft BSTR content in LC 5.17 be amended so that the risk mitigation required in paragraph 5.17(h)(ii) should apply to both new and existing security threats. Additionally, they proposed the inclusion of references to sustainability and social responsibility in line with the General Duties.
- 3.13 One respondent suggested that the Successor Licensee should consider any BSTR factors that may impact the maintenance and operation of smart meters, or the business processes used by funding DCC Users.
- 3.14 One respondent suggested that it would be prudent to set out a timetable to produce subsequent versions of the BSTR to provide regulatory certainty. They suggested that this be no later than one year before the deadline for the draft Business Plan Report as described in Condition 22 Part B.
- 3.15 One respondent suggested that some aspects of the BSTR should remain confidential e.g. details of potential and actual security threats. As such, they suggested that paragraph 5.23(a) should be amended to permit DCC to redact elements of the public BSTR.
- 3.16 One respondent suggested that, through the consultation requirements of the BSTR under paragraph 5.20, the Licensee should be required to explain how it has evolved its BSTR to directly take account of feedback from funding DCC Users and other respondents.

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Part A: General Duties

- 3.17 We have decided to maintain the proposed drafting of Part A: General Duties. We note the feedback about the wording of LC 5.5(a) and whether DCC could be considered an “Energy System Participant”. However, we do not consider this interpretation to be possible as the definition of “Energy System Participants” in Part D of Condition 5 limits this term only to parties engaged in “Commercial Activities connected to the Supply of Energy or Distribution of Energy under the Principal Energy Legislation”, which does not capture DCC’s activities carried out under the Smart Meter Communication Licence.
- 3.18 We note the concern about the extent of the meaning of a “promote the protection of Natural Environment” under LC 5.5(c); however, the scope should be interpreted in the context of DCC’s Mandatory Business to whose provision it relates. **We have amended the wording in the objective to “protect” rather than “promote the protection”** and therefore do not consider there to be a risk of scope creep or inability of the Licensee to comply with its duties, arising from this wording.

Part B: Transitional Duties

- 3.19 Based on the feedback we received including further engagement with the SoS, we have made the following key changes to the Transitional duties in relation to a possible review of the Licensee’s External Service Provider Contracts under LC 5.11:
- **We have added into LC 5.15(b) a reference to the terms of contract(s) as a matter which could be specified in the Authority’s direction** as a review of contractual terms and conditions could be appropriate in some instances
 - Similarly, we agree that, as the Successor Licensee may inherit live disputes with Service Providers, it could be **required to review the approach to handling of these disputes. We have therefore amended the scope of LC 5.13(b) to reflect this.**
- 3.20 However, we do not consider it necessary to specify in the licence the terms of reference or the scope of the contract review itself, which would be laid out in any direction served under LC 5.11, subject to the content in 5.13. Equally, although we agree that the contractual review may be delivered in stages, the flexibility to mandate a phased approach (for example, by mandating an initial high-level review, followed by a more detailed one) already exists as any direction under 5.11 may subsequently be modified pursuant to LC 5.12. In principle, we agree that appropriate funding would need to be made available through the Price Control process, commensurate with the mandated scope.

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- 3.21 We do not consider it necessary to create a bespoke mirror condition to LC 43.16 of the Previous Licence. LC 5.8 provides Ofgem with a power to direct the Licensee under the Business Handover Plan approved under the Previous Licence, including to enter an arrangement with the Previous Licensee for the transfer of funds.
- 3.22 We note the comment regarding the end-date of each transitional duty. We consider these to be sufficiently clear from the Licence:
- The third transitional duty in LC 5.7, is the duty to facilitate the handover of the Authorised Business, which can only apply whilst the Handover Period is ongoing. Nevertheless, we have added a direct reference to the Handover Period. The Handover Period will end on the expiry of the Previous Licence.
 - The second duty in paragraph 5.9 (withdrawal from all Transitional Services Agreements) has a specified end date of 12-months from the Transfer Date.
 - The third transitional duty (review of External Service Provider Contracts) has a specified end-point in LC 5.15, which provides for the completion of the review in Writing by the Authority.

Part C: BSTR

- 3.23 Based on the feedback we received including further engagement with the SoS, we have made the following key changes to the BSTR duties:
- **We have amended the submission deadline of the draft BSTR to 31 July 2027** to align with the submission of the second *ex-ante* Business Plan and Price Control Information. We agree that the proposed deadline of 31 March 2028 may be too late; however, we do not consider that a December 2026 deadline would be appropriate due to the proximity to the Transfer Date. Nonetheless, we are supportive of an initiative by DCC1 to undertake early work to help DCC2 in submitting the draft BSTR and note that the Licence deadline is the *latest* date; nothing prevents the Licensee from submitting a draft BSTR earlier.
 - **The initial BSTR, as well as any subsequent revision, will have to receive an approval by Ofgem, subject to a non-objection by the Secretary of State.** This will provide clarity to the Licensee on the process and lines of accountability. We expect to collaborate with the SoS and DCC2 on the details of the approval process.
 - We have maintained the requirement on the Licensee to Consult with Ofgem and the SoS and **added an explicit reference to SEC and REC parties in LC 5.20.** This requirement will be captured by the updated definition of Consultation, which now expressly refers to a fair selection of consultees.

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- In relation to the BSTR content, we agree with the respondent’s suggestion regarding security threats and **have amended LC 5.17(h) to include reference to “new and existing” [security threats]**
- We agree that some aspects of the BSTR should remain confidential prior to publication due to possible commercial sensitivity or security reasons and **have amended LC 5.25 to mandate the reduction of information the publication of which would “contravene the requirements of Conditions 13 (Security Controls) or 17 (Protection of Confidential Information) or prejudice the commercial interests of any person.”**
- **We have added a backstop date of 31 July before each new Price Control period into LC 5.26 for a revised copy of the BSTR to be submitted to** Ofgem. A revision within one year into a Price Control cycle, as suggested, could lead to the BSTR being outdated by the time the *ex-ante* Business submitted. Nevertheless, although the Licence provides a backstop, and the submission of the Business Plan is the natural backstop point, we expect the Licensee to keep a close eye on the BSTR to ensure that it remains current; equally, nothing prevents the Licensee to propose revisions earlier in the Price Control cycle.

3.24 We note the proposal for an inclusion of references to sustainability and social responsibility in line with the General Duties into the mandatory content of the BSTR. LC 5.17(a) already requires the BSTR to contain “with reference to its General Duties, the outcomes the Licensee seeks to achieve in carrying out the Authorised Business”. General Duties (Part A of Condition 5) already require the Licensee to have regard to the impact on consumers and the protection of the natural environment. We have previously concluded⁹ that sustainability was not an appropriate objective and therefore have not included it here.

3.25 We agree that the Licensee should consider the impact on customers and consumers. In addition to the abovementioned General Duty (see LC 5.4), we consider this to also be provided for under Procurement Principle 8 (see LC 10.20) and by the approval process which includes:

- A duty to Consult with Ofgem, the SoS, and SEC and REC Parties, at minimum
- Approval by Ofgem
- Non-objection by the Secretary of State

⁹ Ofgem (2025), DCC Review Phase 2: Objectives, operational model and future role of DCC, paragraphs 2.61-2.62. www.ofgem.gov.uk/consultation/dcc-review-phase-2-objectives-operational-model-and-future-role-dcc

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3.26 Taken together, these should ensure that wider impacts are considered within the BSTR as we recognise that DCC may not have all the information necessary to make all decisions on its own.

Condition 6 (Authorised Business)

Summary of responses

- 3.27 There was general support for this Condition and respondents' feedback focused on the draft Part B (Permitted Business) of Condition 6.
- 3.28 Two respondents suggested a deemed approval for proposed Permitted Business under LC 6.4 if Ofgem does not respond to the Licensee's application within a defined period.
- 3.29 Two respondents asked Ofgem to confirm when the "Permitted Business Guidance" under LC 6.5 will be provided. Additionally, they suggested that the Permitted Business Guidance should consider how 'in-flight' activities are managed during Handover Period, referring in particular to SMEDR.¹⁰
- 3.30 One respondent recommended that the Licence establish clear, prescriptive rules governing the application and approval process for Value Added Services and Innovative Services, including provisions to allow for consultative engagement with industry as part of the *ex-ante* budget setting.
- 3.31 A couple of respondents commented on the classification of services within the "Other Code Services" category and the position of the Interoperability Checker Service.

Decision

Part A: Mandatory Business

- 3.32 We have decided to make the following changes to the definition of Mandatory Business:
- **We have included explicit references to CH Replacement Reimbursement Service and Virtual WAN Provider Service into LC 6.2(b).** These reflect additional Enabling Services introduced by the SoS into the Previous Licence which will need to continue.¹¹ It is necessary to specify these services, as

¹⁰ Smart Meter Data Repository. www.gov.uk/government/publications/smart-meter-energy-data-repository-programme-successful-projects

¹¹ DESNZ (2025), Conclusions on 4G Communications Hub only exchange site visit DCC charging mechanism and legal changes. smartenergycodecompany.co.uk/smart-metering-implementation-programme-densz-conclusions-on-4g-communications-hub-only-exchange-site-visit-dcc-charging-mechanism-and-legal-changes.

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opposed to referring to the SEC, as Condition 9 (Arrangements for the provision of services) provide bespoke requirements for their provision. We have made consequential amendments to Condition 9 to introduce these requirements.

- **We have decided to remove the category of Other Code Services.** This is because all in-scope services fall within the definition of “Other Enabling Services” in the SEC, with the exception of the Interoperability Checker Service (ICS), which is currently excluded as a result of being listed directly in the Previous Licence. We intend for a consequential amendment to the SEC to remove the exclusion of the ICS from the definition of Other Enabling Services to ensure that the ICS is correctly classified as falling within the Mandatory Business under the new Licence from Transfer Date.¹²

Part B: Permitted Business

3.33 We have decided to make the following changes to the conditions governing the Permitted Business:

- **We have specified in LC 6.4 that the Authority will respond to a Notice served to it by the Licensee proposing a Permitted Business Service, within 30 days.** However, we do not agree that an automatic approval would be appropriate.
- **We have removed the defined term “Innovative Services”.** This does not change our policy intent, and the term may continue to be used for guidance purposes (referring to approved “public good” initiatives provided not-for-profit but on a discretionary, non-mandatory basis); however, it is in recognition that the term itself had no further legal effect in the licence. Services designated as Value Added Services will continue to have legal effect due to their impact, via Value Added Services Contribution, on the calculation of the Required and Recovered Revenue (see Conditions 24 and 25).

3.34 We do not consider a Permitted Business Guidance to be necessary at this time:

- We have already published guidance. We expect to publish further guidance before the next price control cycle. We previously concluded¹³ that we would not accept Permitted Business under the first Business Plan, with the

DESNZ (2025), Virtual WAN Arrangements Amendments to the DCC Licence. Accessible at: <https://smartenergycodecompany.co.uk/desnz-conclusions-on-policy-proposals-for-vwan-and-further-consultation-on-licence-and-sec-changes/>

¹² See Ofgem (2026), Draft second preliminary Strategic Direction Statement for industry codes, pp.84-85. www.ofgem.gov.uk/consultation/consultation-draft-second-preliminary-strategic-direction-statement-industry-codes

¹³ Ofgem (2025), DCC Review Phase 2: Determination of Allowed Revenue, paragraph 4.24 www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions

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exception of Innovative Services, for which guidance is already provided as part of the wider Business Plan Guidance.¹⁴

- If DCC is asked to deliver additional Authorised Business (eg SMEDR) we would expect it to be subject to Licence modification and classified as Prescribed Business (part of Mandatory Business) and therefore be included in Schedule 4 of the Licence.

3.35 We may provide further guidance in respect of Value Added Services in future.

3.36 We note that DCC has already applied for funding for Permitted Business in line with the guidance (limited to “innovative services”) via the first submitted Business Plan. If approved, subject to Condition 24 this funding will be included in the calculation of the Required Revenue in the first “ex-ante” Price Control Period. As a result of this, we have made consequential amendments to Conditions 26 (Charging Methodology for Service Charges) and 27 (Charging Statement for Service Charges) to allow DCC to recover this funding via Service Charges. The changes replaced references to Mandatory Business (which would have excluded this funding) to Authorised Business (which includes this funding). The Prohibition of provision or receipt of cross-subsidy between Mandatory and Permitted Business under Part B of Condition 18 (Special position duties) has been retained, which means that any funding for Permitted Business must be ringfenced.

Condition 7 (Provision of the Centralised Registration Service)

3.37 We did not receive substantial comments in relation to Condition 7. However, we have reinstated the description of the contents of a direction which may be serviced under Part B of the Condition. This was omitted in drafting from the Previous Licence and provides that a direction under LC 7.5 may provide for changes to, or cessation, in whole or in part, of the General Centralised Registration Service Objective.

Condition 8 (Network Evolution)

Summary of responses

- 3.38 One respondent questioned whether a transitional provision is required, suggesting that the previous Network Evolution plans should be adapted by the Successor Licensee.
- 3.39 One respondent believed that the Licensee should be required to demonstrate that it has appropriately considered the operational and financial implications for funding DCC Users when developing the Network Evolution plans.

¹⁴ Ofgem (2025), Business Plan Guidance. www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance

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Decision

- 3.40 We agree that previously approved plans by the SoS under the Previous Licence should continue to have effect under the new Licence, which we have specified by **the addition of a new LC 8.11 with a reference to previously approved plans under Condition 13B of the Previous Licence**. We provided further references to that condition in Part A (Powers to direct and approve production of new plans).
- 3.41 We do not consider it necessary to refer to impacts on customers in this condition. An overarching obligation on the Licensee to consider consumer impacts is embedded within the General Duties (Part A of Condition 5) and further amplified via Procurement Principle 8 (Condition 10). As it pertains specifically to Network Evolution to which this condition relates, the SoS may also consider wider system and industry impacts as part of his approval of the Network Evolution Plans.

Condition 9 (Arrangements for the provision of services)

Summary of responses

- 3.42 Responses to the draft Condition 9 focused primarily on Appendix 1 to the Condition (Statement of Service Exemptions).
- 3.43 The SoS suggested that a transitional provision may be appropriate, such that the last approved Statement of Service Exemptions (SoSE) could be adopted by DCC2 without the need for a new version being immediately prepared.
- 3.44 The SoS also suggested to allow reporting on the geographic/area constraints using the % of WAN coverage.
- 3.45 One respondent raised a concern that the drafting left it entirely to DCC2's discretion to consider if amendments to the SoSE are needed, and that the approval process (in paragraphs 1.8 and 1.9 of Appendix 1) was unclear. Another proposal suggested that the SoSE should be reviewed and amended once in each Price Control Period, rather than annually.
- 3.46 One respondent proposed that paragraph 1.9(a) in Appendix 1, covering the requirement for a copy of the SoSE to be provided, be removed, given that increasingly business interactions have moved to be entirely digital form.

Decision

Condition 9

- 3.47 We have decided to make several amendments to the draft text of Condition 9 to reflect modifications by the SoS, which were introduced since the publication of the consultation. These already apply in the Previous Licence and are required to carry over to the Successor Licence and include:

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- A new LC 9.19 which introduces a reference to the Virtual WAN Provider Service.¹⁵ The Licence does not replicate bespoke “Terms for provision of the Virtual WAN Provider Service” from the Previous Licence as these fall within existing requirements of Part A of Condition 9 (Agreement for Services) with the terms prescribed by, or are determined in accordance with, the provisions of the SEC
- A new Part E: Statement of Availability of Communication Services introduced by the smart metering policy framework post 2025.¹⁶ These changes were laid before Parliament and are subject to parliamentary process. If made, they will come into effect in this Licence from Transfer Date (DCC1 will be bound by the same changes in the Previous Licence, which will take effect from a date in line with the parliamentary procedure)
- A new Part F: CH Replacement Reimbursement Service and an accompanying Schedule 5 which sets out the Communications Hub Replacement Reimbursement Methodology, which previously sat in Appendix 2 to Condition 17 of the Previous Licence¹⁷

Appendix 1 to Condition 9 (Statement of Service Exemptions)

3.48 Based on feedback received and further engagement with DCC1 and the SoS, we have decided to make the following amendments to the draft text of Appendix 1:

- **We have removed the requirement on the Licensee to prepare a new SoSE within 12 months of the Licence Commencement Date.** Instead, the Licence allows **the SoSE in force under the Previous Licence on Transfer Date to apply for the purposes of this condition.**
- **We have introduced a new paragraph 1.5 as an alternative way for the Licensee to report on the Premises and Area Constraints** mandated by paragraphs 1.2 and 1.3, allowing the Licensee to instead set out the number or proportion of premises within any geographic region to which DCC provides services as a consequence of those Constraints.

3.49 These changes reflect the current form of the SoSE and provide continuity during Business Handover while allowing ongoing work to continue on better monitoring and improving smart meter connectivity, which may result in a future review of the

¹⁵ DESNZ (2025), Virtual WAN Arrangements Amendments to the DCC Licence. Accessible at: <https://smartenergycodecompany.co.uk/sec-changes-for-vwan-and-4g-north-and-designation-of-first-version-of-the-virtual-wan-transition-document/>

¹⁶ DESNZ (2026), Smart metering policy framework post 2025, Annex C. www.gov.uk/government/consultations/smart-metering-policy-framework-post-2025

¹⁷ DESNZ (2025), Conclusions to the consultation on cost recovery and legal changes associated with 4G Communications Hub only exchange site visits arrangements. <https://smartenergycodecompany.co.uk/documents/sec/2025-08-conclusions-on-4g-communications-hub-only-exchange-cost-recovery-arrangements-and-legal-changes/>

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SoSE requirements as a whole. We expect DCC1 to update the SoSE prior to the Transfer Date to include up to date data on connectivity to provide the incoming Licensee with a good basis for future revisions to the SoSE.

- 3.50 **We have also introduced a new paragraph 1.10 which replicates paragraph A8.8 (Condition 17, appendix 1) of the Previous Licence**, which was omitted from the drafting. This paragraph was introduced by the SoS as part of amendments addressing the DCC’s ability to operate more than one External Electronic Communications Network in a geographic area using different Communications Technologies. We have linked the existing duty under paragraph A8.8 (replicated as paragraph 1.10) to the new alternative reporting method of Premises and Area Constraints in paragraph 1.5.
- 3.51 In response to the feedback received, **we have clarified the wording of the process for the review of the SoSE in paragraphs 1.8-1.9** to place an explicit duty on the Licensee to “make” (as opposed to “propose”) revisions to the SoSE for it to continue to meet the requirements of Part A of Appendix 1 to Condition 9. Any material revisions will be subject to a consultation with the Authority to safeguard the integrity of the SoSE. Nevertheless, we do not consider it appropriate to move away from an annual review of the SoSE to a review per Price Control period, as suggested by one respondent. There is no inherent link between Price Control and the SoSE and it is important that the SoSE remains up to date.
- 3.52 We note the comment regarding a duty to provide a physical copy of the SoSE (paragraph 1.12 of the Appendix). Under the rules of interpretation for this Licence (see LC 2.16), any requirement under this Licence for the Licensee to give a copy of a document to any person (including the Authority or the Secretary of State) is able to be satisfied by giving that person an electronic copy in an intelligible form. We therefore do not consider a further change to paragraph 1.12 to be necessary.

Condition 10 (Procurement of Relevant Service Capability)

Summary of responses

- 3.53 We received generally supportive responses. Substantial comments are discussed below.
- 3.54 We received a number of responses to the proposals under Part J (Employment arrangements) imposing a requirement on the Licensee to directly employ at least 50% of its Workforce. Respondents commented both on the headline obligation as well as the definition of Workforce:
- One respondent suggested that a reference to “direct employment” should be specified as “holding a contract of employment”. Another suggested a framing around “sufficient in-house capacity” rather than a requirement expressed in percentage terms.

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- Two respondents agreed with the headline obligation but expressed concerns about the Licensee’s ability to comply with it under the proposed definition of Workforce. They proposed to exempt from the definition of Workforce personnel employed by External Service Providers, arguing that, in practice, it would not be practical (or even possible) for the Licensee to count the number of employees of its contracted third parties.
 - One respondent noted that condition 10 does not appear to have provisions to constrain DCC’s headcount growth over its Licence term. They were of the view that retaining the requirements of the Previous Licence (Condition 16) may not sufficiently encourage DCC2 to ensure its headcount is appropriate, cost-effective, or ‘thin’. They suggested that further strengthening of LC10 drafting could deliver headcount and cost efficiencies for the Successor Licensee.
 - Two respondents suggest moving part J (employee arrangements) from Condition 10 to Condition 15 to avoid any confusion. One also noted the term “Employee” is provided in Paragraph 10.45 but not used until condition 15.
- 3.55 One respondent suggested that the requirement on DCC to publish all of its contracts on its website within paragraph 10.38 be amended. They argued that there was a limited value in the effort required to redact and publish contracts for small supporting services, eg office supplies. Instead, they proposed that DCC2 would only be required to publish Legacy Procurement Contracts listed in Schedule 1 (and future contracts subject to the ‘HMT Green Book’ process under LC 10.8).
- 3.56 One respondent recommended that the review cycle of the Procurement Strategy should be changed to once per price control cycle, and to improve clarity in the drafting, paragraph 10.35 should be moved to the first paragraph in Part D of Condition 10.
- 3.57 One respondent suggested that, given recent cybersecurity incidents affecting FTSE350-sized organisations in the United Kingdom, amending LC10 to specifically address such threats may be appropriate.
- 3.58 In addition, we have received some drafting suggestions to improve clarity/efficiency, including to:
- Merge paragraphs 10.28 and 10.36 which cover the right for the Licensee to seek a confidentiality undertaking before consulting on the Procurement Strategy
 - Clarify Ofgem’s policy intent that any service procured from a Related Undertaking should be subject to the procurement regime of Condition 10 in paragraph 10.2, instead of paragraph 10.41

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- Rephrase the interpretation to “capability” in paragraph 10.44 (now paragraph 10.46)
- 3.59 One respondent queried whether non-objection confirmations issued under Condition 16.6B(c) of the Previous Licence would have effect under the DCC2 Licence, particularly where contracts include extension options or are signed post-handover.
- 3.60 One respondent further suggested minor drafting amendments to paragraph 10.8(c) to clarify the continued role of the Authority in case responsibility transfers under a direction issued by the Secretary of State.

Decision

3.61 Based on the comments received and following further engagement with DCC1, we have decided to maintain the obligation on DCC2 to directly employ more than half of its Workforce and all Senior Managers. As set out in our consultation document, the objective of the proposed requirement is to ensure that clear control over the delivery of the Authorised Business remains within the Successor Licensee. This should be achieved:

- By preventing influence of any one party over the Successor Licensee’s workforce and excessive outsourcing of internal functions to third parties (which could potentially undermine the not-for-profit model);
- While maintaining operational flexibility allowing the Successor Licensee to hire consultants and/or contract with third parties for resourcing in respect of specific, short-term projects where that is demonstrably the most economic and efficient way to meet business needs.

3.62 We have consolidated the requirements on employment arrangements, and the definition of Workforce, into Part J of Condition 10. **We have decided to amend the definition of Workforce** to:

- Firstly, specify that it is the “organised grouping of employees, workers and contractors that has as its principal purpose the carrying out of the Authorised Business”. We have also clarified the meaning of “directly employ” by adopting the suggested wording “have a direct contract of employment”.
- Secondly, exempt from the definition persons delivering Fundamental Service Capability (FSC). This is because we agree that it may not be proportionate for DCC2 to count all personnel of its External Service Provider; additionally, Condition 10 prevents DCC (or any Related Undertaking) to deliver FSC from their resources, which means that FSC must always be provided externally. However, we do not consider it appropriate to exempt *all* External Service Providers, as this could create a loophole for the Licensee to outsource its core internal functions to third party providers as *non-FSC* External Service

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Providers. Instead, we have decided to include the ability for Ofgem (see LC 10.45) to direct the exclusion of other Relevant Service Capability (RSC). Our intention is to use this power to exclude non-resource External Services, which are reported to us via Price Control Information.¹⁸

- 3.63 We note the concern over the Previous Licensee’s headcount and resulting Internal Costs; however, we do not consider the Licence to be the best place to prescribe headcount requirements, which could have unintended consequences and reflect only a specific view at a point in time, as opposed to providing an enduring rule or principle as outlined above. The efficiency of DCC’s costs is subject to the cost control process, which now includes an additional layer of customer scrutiny via the Customer Challenge Group (see Condition 22 – Business Plan Report)
- 3.64 We agree that a degree of proportionality should be applied to the publication of contracts and that it may not be reasonable to require the Licensee to publish, for example, office supply contracts. **We have revised LC 10.38 to set the parameters for contract publication**, with the following in scope of the publication requirements:
- All FSC (“Legacy”) contracts
 - All contracts with a value exceeding £150,000, or in the case of any framework or master agreement, subsidiary or call-off contracts with an aggregate value exceeding £150,000
- 3.65 This reflects the “materiality” threshold which DCC has to date applied for the purposes of Price Control reporting, and which we have generally found to strike the right balance.
- 3.66 In relation to the Procurement Strategy, we consulted on the frequency of its reviews in our “future role” consultation.¹⁹ We have not received sufficient new evidence to change our conclusion²⁰ which remains that the frequency of the reviews should be annual.
- 3.67 We agree that cybersecurity incidents may be relevant for Procurement Principle 5 (see LC 10.17); however, we do not consider it necessary to amend the drafting of this principle as cybersecurity incidents are already captured within the meaning of operational failures under LC 10.17(b). Additionally, matters relating

¹⁸ Ofgem (2025), Regulatory Instructions and Guidance (Successor Licensee).

www.ofgem.gov.uk/decision/regulatory-instructions-and-guidance-successor-licensee

¹⁹ Ofgem (2025), DCC Review Phase 2: Objectives, operational model and future role of DCC, paragraph 2.17. www.ofgem.gov.uk/consultation/dcc-review-phase-2-objectives-operational-model-and-future-role-dcc

²⁰ Ofgem (2025), DCC Review Phase 2: Objectives, operational model and future role of DCC – conclusions, paragraph 2.25. www.ofgem.gov.uk/consultation/dcc-review-phase-2-objectives-operational-model-and-future-role-dcc

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to cybersecurity fall within control established under Condition 13 (Security controls).

3.68 In relation to further drafting suggestions:

- Paragraph 10.36 refers to both the duty to prepare and review the Procurement Strategy. We therefore consider it appropriate to retain the matter of undertakings required in respect of confidentiality as a separate section to avoid having to replicate it across both parts D and E.
- In relation to Part I (Intercompany Agreements), we have decided not to make changes. Although paragraph 10.2 sets out the background to Relevant Service Capability, it features within the Introduction to the Condition, whereas paragraph 10.41 is, and should remain, within the operative part of the licence.
- We have not made changes to paragraph 10.44 as we consider the existing wording appropriate and the suggested revisions would, in our view, create interpretative ambiguity.

3.69 Finally, **we have made minor amendments in paragraphs 10.8-10.9 and included a new paragraph 10.47** within Part K (Interpretation) to ensure continuation of LCs 16.6A-C of the Previous Licence under LCs 10.8-10.10 of the new Licence. This is prudent to avoid the need to reissue non-objections previously provided under LCs 16.6A-C pertaining to legacy contracts novated to DCC2. New paragraph 10.47 clarifies that confirmations in writing obtained under LC16.6B(c) of the Previous Licence have effect as if given under LC10.8(c) of the new Licence.

3.70 We agree that the suggested amendment to LC 10.8(c) did not change the policy intent and have amended this condition to clarify that confirmation may be obtained by the Authority where responsibility has transferred under a Secretary of State direction.

Condition 11 (Roles in relation to Core Industry Documents)

Summary of responses

3.71 Responses to this proposed condition were mixed.

3.72 Two respondents argued that Schedule 2 (Principal Contents of the SEC) should remain in the licence body in condition 11.

3.73 Three respondents agreed with the proposed removal of the Licensee's right to receive information on other core industry documents. However, one respondent viewed the current proposal as lacking sufficient detail and sought clarification on how these duties will be reassigned to the appropriate parties, licences or codes,

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and how they will operate in practice, including timescales. Similarly, another respondent said that minimum access rights to information should remain.

Decision

3.74 Following feedback from respondents, engagement with the SoS and further considerations, we have decided to make the following main changes to the drafting of Condition 11:

- **We have introduced a new Part B (Compliance duties relating to other industry documents) to replicate modifications to the Previous Licence made by Ofgem in January 2026 to extend the Data Best Practice.**²¹ These modifications will be required in the new Licence and we consider Condition 11 to be an appropriate home for these enduring obligations.
- **We have made amendments to Part D of Schedule 2 to replicate the requirements on the SEC to include provisions for the incorporation of documents by the SoS from Condition 22 of the Previous Licence.** The power to redesignate SEC Subsidiary Documents is necessary to enable the SoS to fulfil its role in continuing to support the next crucial phase of the Programme. This includes clarifying requirements where appropriate to ensure the protection of consumers and ensure benefits are maximised in areas such as resolving non-operating smart meters, the transition to a new Data Services Provider and the transition to use of the 4G network for smart meter communications by 2033 when 2/3G communications are switched off. This is complementary to the SoS's power to amend energy licences and codes for the purposes of smart metering. Accordingly, the power to redesignate SEC Subsidiary Documents should expire when the power to amend energy licences and codes expires.

3.75 We note support for our proposal not to replicate LC 21.6 of the Previous Licence (Licensee's right to be supplied with information) on the grounds that responsibilities for such information should rest with the appropriate parties, licences, or industry codes. Consequently, we will not carry over this condition.

3.76 We maintain our proposal to keep Schedule 2 separate from this Condition. Requirements set out in the schedules have the same legal effect as those in the body of the Licence, and it is common practice for detailed requirements (such as contents of an industry document) to keep the body of the licence text focused. Similarly, we consider that the SEC objectives in the Licence remain consistent with the SEC objectives in the SEC and have therefore not made further changes to the draft text.

²¹ Ofgem (2026), Data Best Practice as a Code Obligation. www.ofgem.gov.uk/consultation/data-best-practice-code-obligation

4. Licence Chapter 3: General arrangements for services and the Licensee's Business

The key changes across this chapter were to:

Condition 12, where we made drafting changes to the approval process for the Internal Controls Document and Risk Management Strategy; and

Condition 13, which we have amended in consultation with the SEC Security Sub-Committee, the SoS and DCC1 to future-proof the Licence and reflect changes to security requirements since the Previous Licence was drafted. We have also reintroduced the obligations for Independent Security Arrangements (originally under Schedule 5, Annex 2 of the Previous Licence).

Questions posed at consultation

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

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

Condition 12 (General controls for the Authorised Business)

Summary of responses

- 4.3 Two respondents queried whether the requirement in paragraph 12.4 for the Corporate Governance Statement to be provided by 31 July in each Regulatory Year starting on 1 April 2027 is consistent with the definition of the Regulatory Year in the general interpretations in Condition 1 (noting that, as drafted, no Regulatory Year would commence on 1 April 2027).
- 4.4 The SoS provided a view that, although the SoS had approved the initial Internal Controls Document and Risk Management Strategy, it may be appropriate for the new Licence to allow DCC2 to adopt the most recently approved versions of these documents under the Previous Licence and for Ofgem to continue to control their revisions.

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4.5 Two respondents also suggested the removal of the requirement on the Licensee to provide physical copies of the documents maintained under this Condition.

Decision

4.6 Having considered the feedback we received, and following further engagement with the SoS, we have decided to make the following amendments:

- **We have amended paragraph 12.4 to clarify that a Corporate Governance Statement is required on or before 31 July following each Regulatory Year.** The first Regulatory Year will commence on Transfer Date (designated to occur on 2 November 2026) and will end on 31 March 2027. The first Corporate Governance Statement will therefore be due by 31 July 2027 in respect of the first Regulatory Year.
- We agree with the SoS's suggestion that it would be practical and proportionate for the Licence to **require DCC2 to follow the latest approved Internal Control Document and Risk Management Strategy** (collectively known as LC12 Documents) approved under the Previous Licence and we **introduced a new paragraph 12.16 to that effect. We have also made amendments to paragraphs 12.11 and 12.6 and 12.12 to require DCC2 to prepare new LC12 Documents within 3 months of the Transfer Date.**
- We have further clarified the approval procedures and publication rules. This includes, in line with other approval processes for regulatory documents under the Licence, requirement of Ofgem's approval for any material changes, subject to a consultation with at least the SEC parties. We have also simplified the publication requirements by placing a duty on the Licensee to publish within 7 days any revised copy of an LC12 Document on its Website.

Condition 13 (Security controls)

Summary of responses

4.7 We have received a number of comments on the drafting of this condition, including from the SEC Security Sub-Committee (SSC) and the SoS. Most comments focused on updating and future-proofing the provisions of this condition. We have engaged further with the SEC SSC, the SoS and both DCC1 and DCC2 before finalising the new text. Below is a summary and examples of the responses we received.

Part A: Requirements for Licensee's control of physical security

4.8 One respondent suggested an amendment to paragraphs 13.3 & 13.4. They felt that the current drafting does not sufficiently address the use of public cloud technology.

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Part C: Requirements for Licensee's control of information security

- 4.9 Two respondents proposed that the Licence should allow certification by providers that are mutually recognised by the United Kingdom Accreditation Service, given that some External Service Providers are not based in the United Kingdom.
- 4.10 A couple of respondents commented on the requirement in paragraph 13.10 on DCC to hold ISO/IEC 27001 standard, noting that the most recent one is a 2022 standard, but suggesting that, in order to future-proof it the provision, the paragraph could omit the specific year of publication. One further suggested to adopt the wording of "On or before the First Transfer Date" in paragraph 13.10 to give DCC2 the flexibility to either obtain a new accreditation or allow for a transfer of existing accreditation from DCC1.
- 4.11 One respondent suggested the removal of paragraph 13.11 from the draft Licence altogether, noting that the standard in the Cyber Essentials certificate is already met by the requirement on having the ISO 27001 standard at business transfer.

Part D: Requirement to maintain a Register of Security Incidents

- 4.12 One respondent thought that the drafting made it unclear whether paragraph 13.12 requires the Licensee to provide the Authority with information about any contractual shortcomings that contributed to a security incident, or about any contractual penalties that could be invoked against an External Service Provider.
- 4.13 One respondent suggested changes to the drafting in paragraph 13.13 (now 13.12) to require the Licensee to notify the Authority of any update and provide the Register upon request, rather than always.

Part E: Requirements in respect of the Licensee's contracts

- 4.14 One respondent requested clarification on draft paragraph 13.15 (now 13.14), regarding the extent to which obligations of this condition must flow down the supply chain and what constitutes reasonable evidence of third-party due diligence by External Service Providers. They commented that, particularly for arrangements which use capabilities such as cloud hosting services, External Service Providers may face challenges in providing evidence that their contracts include flow down of Licence and SEC requirements to their third parties.

Part F: Legal and operational location of the Licensee

- 4.15 One respondent asked for clarity on the circumstances in which services or personnel can be located outside of Great Britain and/or the EEA. Specifically, they noted that draft paragraph 13.16 (now paragraph 13.15) included geo-location restrictions for the procurement of Smart Metering Key Infrastructure (SMKI) Services and the controls and monitoring of the security events, but without further specification as to which SMKI services were in scope of this restriction.

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- 4.16 Finally, two respondents, including the SEC SSC, recommended the reintroduction of the provisions within Annex 2 (Independent Security Assessment Arrangements) to Schedule 5 of the previous Licence into this Condition on the grounds that, unlike other aspects of the schedule, the requirements of Annex 2 are enduring.

Decision

- 4.17 We have carefully considered all representations, including further input provided by the SEC SSC and the SoS and made the following changes to the final text of Condition 13.

Part A: Requirements for Licensee's control of physical security

- 4.18 We recognise that the Previous Licence focused on physical security, reflecting the technology used at the time. We agree that the use of cloud hosting services should be directly addressed; **we have adopted the recommended drafting by the SEC SSC and updated the drafting in paragraphs 13.3 & 13.4 to include references to virtual, digital and cloud services.**

Part C: Requirements for Licensee's control of information security

- 4.19 We have considered whether the Licence should be amended to recognise accreditation by an equivalent body for mutual recognition agreement. Whilst we recognise that this proposal was intended to create additional flexibility, following engagement with the SEC SSC, we are of the view, that on balance, it would be prudent to retain the existing requirement so as not to inadvertently compromise security standards.
- 4.20 We are supportive of a transfer of DCC1's ISO 27001:2022 certification to DCC2 and **we have amended the wording in paragraph 13.10 to provide the additional flexibility in timing.** We have retained the reference to ISO/IEC 27001:2022 standard within paragraph 13.10(a); paragraph 13.10(b) clarifies that any standard that updates or replaces it remains valid under the Licence. Nevertheless, we agree that, with a requirement on DCC2 to obtain ISO 27001:2022 by the Transfer Date, **the requirements of draft paragraph 13.11 are no longer necessary** and, further to consultation with the SEC SSC, **we have removed it from the final version of the Licence.**

Part D: Requirement to maintain a Register of Security Incidents

- 4.21 Noting one respondent's concern about the link between contractual shortcomings and potential cybersecurity incidents, we are of the view that draft paragraph 13.12(d)(i) (now LC13.11(d)(i)) already addresses this matter as the report required after any Security Incident must detail "the nature, cause, and impact (or likely impact) [thereof]". We have therefore not made further changes to this condition.

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- 4.22 **We amended draft paragraph 13.13 (now paragraph 13.12) to require the Licensee to notify the Authority of any update to the Register of Security Incidents, and provide the Register, upon request** (as opposed to “at all times”). We agree that this better reflects the established practice, which has proved satisfactory to date to allow Ofgem to effectively monitor the Licensee’s compliance.

Part E: Requirements in respect of the Licensee’s contracts

- 4.23 **We have amended the drafting in paragraph 13.15 (now paragraph 13.14) in line with the suggestions we received, and in consultation with the SEC SSC, regarding requirements in respect of the Licensee’s contracts.** The updated drafting clarifies requirements on the Licensee to ensure that its External Service Providers conduct appropriate third-party due diligence and ensure that their own subcontractors, agents and/or suppliers implement security controls that are consistent with the requirements of the DCC Licence and the SEC. We consider that this protects the flow-down of security provisions while recognising that, some providers may not be able to fully guarantee the flow-down of Licence/SEC requirements into their sub-contract, in particular with large technological companies providing cloud hosting services.

Part F: Legal and operational location of the Licensee

- 4.24 The reference to SMKI in draft paragraph 13.16 (now 13.15) reflects that, at the time of drafting of the Previous Licence, only SMKI Device and Organisation Certificates and IKI Certificates existed and were defined as ‘SMKI Services’ in SEC Section L3.1. Since then, additional Public Key Infrastructures (PKIs), namely DCKI, S1SPKI and VWKI, have been created. In the SEC, each individual Certificate Policy governing these PKIs (SEC Appendices A, B, Q, S, AP1, AP2 and BB) contains specific restrictions that apply to each Certification Authority. Following engagement with the SEC SSC and DCC1, we have decided to update the reference in draft paragraph 13.16(b) (now 13.15(b)) to “Public Key Infrastructure and DCC Live Systems” with definitions of each set out in the SEC. We will require a consequential change to the SEC to introduce a new definition of PKI in line with the scope outline above. SEC-based definitions are preferable for matters of highly technical nature, such as the PKI, as they can be more easily modified in response to new technical requirements covered by the code.
- 4.25 We have made several other amendments to draft paragraph 13.15 (now 13.16) to:
- Allow the SEC SSC to permit exemptions from the requirement to procure PKI and DCC Live Systems from UK-based companies
 - Align the wording of sub-paragraph (c) with the wording in the SEC

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New Part G: Independent Security Arrangements

4.26 We agree the arrangements within Annex 2 of Schedule 5 to the Previous Licence should be retained in the new Licence. We have placed these into a new, separate Part G (Independent Security Arrangements) and updated the text and interpretations in Part H in consultation with the SEC SSC and the SoS to better reflect established practice and future-proof the Licence, for example, by updating the accreditation requirements.

Condition 14 (Determination of disputes by the Authority)

Summary of responses

4.27 A couple of respondents asked if this condition should be extended to include disputes between DCC2 and DCC1 during Handover Period.

Decision

4.28 Whilst we agree that disputes between DCC1 and DCC2 may arise during the course of Business Handover, we do not consider Condition 14 to be the appropriate place for the dispute resolution process. Condition 14 specifically deals with disputes related to the provision of Authorised Business by DCC to customers. Any Business Handover disputes between DCC1 and DCC2 would be subject to a process within the Business Handover Plan (and associated handover documents) under the requirements of Condition 43 of the Previous Licence.

5. Licence Chapter 4: Arrangements for the Licensee’s independence

Chapter 4 contains a package of conditions to establish a framework for the Licensee’s independence. This chapter remains broadly unchanged from consultation; one exception are the “Fit and Proper Requirements” in Condition 15, where we have reverted to the text of the existing SLC 4C (of the Electricity Supply Licence), pending decision on broader changes to these requirements in all Ofgem-issued licences.

Questions posed at consultation

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

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

Background

- 5.1 The conditions in this chapter set clear requirements for Board independence, operational autonomy, information confidentiality and fair conduct. The proposed conditions reflected our policy conclusions published in January 2025.²²
- 5.2 The chapter begins with the highest level of governance, ensuring a majority-independent Board and strong appointment processes (Condition 15), then sets boundaries around the Licensee’s activities and relationships (Condition 16). It then provides for the Licensee’s responsibilities in protecting confidential information (Condition 17), and those that arise from its unique position as a monopoly provider (Condition 18). Finally, the chapter requires a Compliance Officer to oversee and report on these obligations (Condition 19).
- 5.3 Grouped in this way, these conditions work together to ensure that the Licensee remains neutral and focused on delivering value for consumers, regardless of changes in personnel or service arrangements.

Condition 15 (Licensee’s Board of Directors and Managers)

Summary of responses

- 5.4 One respondent commented on paragraph 15.6 which restricts directors from holding shares in affiliates or service providers. They believed this drafting should

²² Ofgem (2025), DCC Review Phase 2: Governance arrangements – conclusions.
www.ofgem.gov.uk/decision/dcc-review-phase-2-governance-arrangements-conclusions

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be amended to allow such holding in pension funds or similar (where the director has no knowledge/insight into the holdings).

Decision

- 5.5 Having considered respondents' feedback, we have decided to maintain the condition as consulted upon; with the exception of **Part B (Fit and proper requirements)**. Our proposal was based on Ofgem's consultation on new ongoing fit and proper requirements to be introduced in all Ofgem-issued licences.²³ However, as decision on these changes has not been taken yet, **we have reverted to the text of the existing SLC 4C (of the Electricity Supply Licence)**. Should changes be made to SLC 4C and a matching fit and proper provision be added to other licences issued by Ofgem, then this Licence would be modified accordingly.
- 5.6 We have also chosen to retain the existing wording in paragraph 15.6, as there would be no reason why any directors would be unable to discover how their funds are invested and then assist their affiliates or service providers to improve their own position. This condition has been adopted from the Previous Licence where it has performed as intended and we have, to date, not been made aware of any issues arising from it for any member of the Previous Licensee's Board.

Conditions 16-18

- 5.7 We have not received any substantial feedback on these draft conditions. We have retained these as consulted upon, with only minor changes to address stylistic or typographical issues.

Condition 19 (Appointment and duties of Compliance Officer)

Summary of responses

- 5.8 One respondent sought a clarification of intent, observing that the draft condition did not prevent DCC2 from appointing the same Compliance Officer as DCC1 had under Condition 12 of the Previous Licence.

Decision

- 5.9 The Licence does not prohibit DCC2 from appointing the same Compliance Officer as DCC1. However, any DCC2's Compliance Report (prepared pursuant to Part D of Condition 19) must be separate from any DCC1's Compliance Report.
- 5.10 We expect:
- DCC1's final Compliance Report to cover its Final Regulatory Year, *ie* the period from April 2026 up to Transfer Date; and

²³ Ofgem (2025), Introducing a general ongoing fit and proper requirement. www.ofgem.gov.uk/consultation/introducing-general-ongoing-fit-and-proper-requirement

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- DCC2's first Compliance Report to cover its First Regulatory Year, *ie* the period from the Transfer Date until 31 March 2027.

6. Licence Chapter 5: Arrangements Relating to the Licensee’s Performance

The main changes in this chapter were to Condition 20, where we have finalised the process for the submission and approval of the Licensee’s Remuneration Policy and amended the definition of “Senior Manager” to ensure that staff with significant managerial responsibility or influence, including those overseeing key programmes are included. Condition 21 remains largely unchanged with minor amendments, such as including references to REC Parties and clarifying the commencement of OPR reporting.

Questions posed at consultation

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

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

6.1 This chapter consists of Conditions 20 & 21 which restructure the previous performance incentives that were tied to Baseline Margin into reputation incentives, with a subset of measurable outcomes linked to remuneration received by key personnel. The intent of these conditions is to provide ongoing incentivisation for good performance in a not-for-profit model. The draft conditions were based on our policy conclusions published in January 2025 (decision on future governance including the decision to adopt reputational incentives and a target remuneration model)²⁴ and May 2025 (confirming the not-for-profit arrangements for the entirety of the Authorised Business and the key pillars of remuneration-based incentives).²⁵

Condition 20 (Remuneration Policy)

Summary of responses

6.2 Responses to this draft condition were supportive, with comments focused on clarification of policy intent, timing of the Remuneration Policy and Ofgem’s guidance, and quality of drafting.

6.3 One respondent proposed that the Remuneration Policy should be deemed to be approved if Ofgem does not respond within the 60-day period specified within paragraph 20.9.

²⁴ Ofgem (2025), DCC Review Phase 2: Governance arrangements – conclusions.

www.ofgem.gov.uk/decision/dcc-review-phase-2-governance-arrangements-conclusions

²⁵ Ofgem (2025), DCC Review Phase 2: Determination of Allowed Revenue - conclusions.

www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions

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- 6.4 One respondent proposed that where the Authority directs modifications under paragraph 20.9(b), the 60-day approval period should restart following resubmission.
- 6.5 One respondent suggested that Ofgem should indicate when Remuneration Policy Guidance would be published to ensure that the policy can take effect from 1 April 2027. They also suggested a minor drafting change to clarify that Ofgem can extend the deadline for the submission of the policy but not bring it forward to reduce uncertainty.
- 6.6 Four respondents commented on who the Remuneration Policy should apply to:
- Two respondents argued that the policy should only apply to Senior Managers but not all staff. To that end, one suggested that the Condition should be renamed to “Executive Remuneration Policy”
 - One argued that the policy should apply to staff "materially involved in delivery of Fundamental Service Capability and programme delivery"
 - One notes that elements of the policy could apply to all staff. They argued that even junior members of staff could be incentivised to proactively identify and help deliver cost saving initiatives through their day-to-day work
- 6.7 One respondent suggested that the Remuneration Policy should also incentivise Procurement and Contract Management functions to identify and deliver contract improvements and to incentives the proactive identification and delivery of cost saving initiatives within DCC2 and across its External Service Provider
- 6.8 One respondent was of the view that the interaction between the Remuneration Policy and the Operational Performance Regime was unclear.

Decision

- 6.9 Having considered respondents’ feedback, we have decided to make the following changes to the draft text.
- 6.10 **We have amended paragraph 20.2 to bring the deadline for the Remuneration Policy to be submitted to Ofgem forward to six (instead of twelve) months following the Commencement Date.** We agree that a remuneration policy should be in place from 1 April 2027 and this earlier deadline will ensure that it can be developed and approved by Ofgem in time (although we have also specified that Ofgem can extend this deadline to a *later* date.) We currently plan to develop the Remuneration Policy Guidance pursuant to Part C of the condition in summer 2026. Nevertheless, the headline obligation on the Licensee to develop and submit Ofgem a Remuneration Policy is not contingent on a guidance being provided. In the absence of a specific guidance, the Licensee must still ensure that its Remuneration Policy contains at minimum a description of how the remuneration of Senior Managers is linked to the Licensee’s Operational

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Performance,²⁶ and other policies relevant to the performance of Senior Managers (see LC 20.5(a)). Condition 21 further specifies that, unless Ofgem provides a specific guidance, the Licensee must select its Key Performance Indicators for System Performance in consultation with the SEC and REC Parties (see LC 21.3) and ascertain customer satisfaction via a mandatory survey (see LC 21.5). We are supportive of the Licensee and industry working together on this and would consider DCC's and industry's feedback in developing our guidance.

- 6.11 In relation to the full scope of the Remuneration Policy and its link to the Operational Performance Regime under Condition 21, we have previously published our conclusions that the Remuneration Policy should target four key pillars: System Performance, customer satisfaction, delivery of the LC22 Business Plan (on time and budget) and the quality of the LC22 Business Plan. We have explained, as part of our conclusions, that contract management would not be incentivised separately as its outcomes are already captured by system performance and delivery of Business Plan (in terms of costs and any stretch targets). However, the contract management audit will become binding with additional powers for Ofgem to request implementation of findings (see Condition 21).²⁷
- 6.12 While Ofgem would seek to either approve the Remuneration policy or direct a modification within 60 days of receipt, we do not agree that a deemed approval would be appropriate; for example, Ofgem may require further information to make a decision or it may wish to provide feedback to the Licensee on further changes without the need for a formal direction. **We have amended paragraph 20.9 by clarifying that Ofgem will “respond” to the Licensee within 60 days and “may”, in addition to approving the policy, directing changes and a resubmission, also require further information.** Nonetheless, restarting the 60-day period after each resubmission could materially delay the approval and create inefficiency. Ofgem will have the discretion to set appropriate timeline for a resubmission within any direction it issues under paragraph 20.9(b).
- 6.13 We confirm that the Remuneration Policy is intended apply to senior management only. To provide more clarity, **we have updated the definition of Senior Managers within Part F (Interpretation) to include individuals with significant managerial responsibility or influence as well as those overseeing key programmes (as may be further specified within the Remuneration Policy**

²⁶ Operational Performance means the results of the System Performance Report (see Part A: System performance of Condition 21), Customer Satisfaction Survey (see Part B: Customer satisfaction of Condition 21) and any other matter specified in guidance issued by the Authority under Part C: Remuneration Policy Guidance.

²⁷ Ofgem (2025), DCC Review Phase 2: Determination of Allowed Revenue – conclusions, chapter 4 part C (Targeted financial incentive model).

www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions

For further details, see: Ofgem (2024), DCC Review Phase 2: Determination of Allowed Revenue, pp.63-64, table 4.1. www.ofgem.gov.uk/consultation/dcc-review-phase-2-determination-allowed-revenue

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Guidance). We agree that all staff should be incentivised to deliver good work but do not consider it necessary for Ofgem to be approving policy affecting all staff. A flow down from the expectations on senior managers to wider staff incentives should remain outside the Licence framework and within the board/executive purview.

Condition 21 (Operational performance regime)

Summary of responses

6.14 A number of comments focused Part B (Customer satisfaction), including the following proposals:

- That the independent third-party required under paragraph 21.7 should be engaged only to audit/review the Customer Satisfaction Survey, not to design or run it
- That a Customer Satisfaction Survey should be conducted every six months, rather than within the two-year window set out in the draft Licence
- That the term “results” should be clarified to mean high level outputs (overall satisfaction score, participation rates, and key themes), rather than full datasets
- One respondent also expressed a concern that the Authority’s powers to require a Rectification Plan (under paragraph 21.10(i)) following survey results were too broad and could create uncertainty over cost and resourcing impacts

6.15 One respondent proposed that Part C of Condition 21 (contract management and procurement audit) should be moved into Condition 10, arguing that it is at odds with the other performance reporting and incentives.

6.16 One respondent requested an indicative timeline for when OPR Guidance would be published, to support transition planning. One respondent proposed that where no KPI guidance has been issued, the Licensee should consult REC Parties as well as SEC Parties.

6.17 Two respondents highlighted that the draft definition of “Reporting Period” would result in no OPR reporting for the period between the Transfer Date and 31 March 2027.

6.18 One respondent asked whether performance reporting and surveys should explicitly cover REC services, not just SEC services.

Decision

6.19 Having considered all feedback, we have decided to make the following minor amendments to the draft condition:

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- **We have amended paragraph 21.3 to require the Licensee to Consult with SEC and REC Parties (instead of only the SEC Panel) before choosing its Key Performance Indicators for a Reporting Period, in the absence of an Ofgem-issued guidance.** This reflects that performance reporting should cover REC services as well as SEC services and recognises that the user community as a whole, not only the Panel, should have the opportunity to input into the selection of the KPIs.
- **We have clarified within paragraph 21.6 that an OPR Guidance may include terms of reference for a contract management audit** (under Part C of this condition). We have chosen to maintain the provisions for the audit within Condition 21 as the contract management audits are intended to form part of the performance and incentives framework, even if indirectly. This also obviates the need for a bespoke guidance to be developed for the audit.
- **We have amended the definition of Reporting Period in Part E (Interpretation) to clarify that the first [OPR reporting] period commences on the First Transfer Date**, aligned to the start of the first Regulatory Year (as opposed to 1 April 2027). To that end, we also plan to develop the OPR guidance in summer 2026.

6.20 We have maintained the proposed drafting of Part B (Customer satisfaction), including the requirement for a survey to be carried out at least once every two years with assurance from an independent third party. We do not object to more frequent Customer Satisfaction Surveys being carried out voluntarily, but do not propose to mandate this in the Licence. Indeed, we note that DCC1 has already commenced a six-monthly customer survey. We may consider the results and feedback from this survey when designing the OPR and/or Remuneration Policy Guidance. We remain of the view that a third party assurance would be appropriate to safeguard the integrity of the survey due to a direct link to remuneration, for example, to ensure that questions are not skewed in favour or against certain topics; however, we are open to working with the Licensee on a proportionate way to satisfy this requirement. Finally, as per paragraph 21.5, we confirm that the survey should ascertain the views of all Customers, being both SEC and REC Parties (but excluding the Licensee itself).²⁸

6.21 We recognise the request for additional clarification on what constitutes “results” of a Customer Satisfaction Survey, which we expect to provide via the OPR/Remuneration Policy Guidance rather than the Licence itself.

6.22 We disagree that the power to require a Rectification Plan under paragraph 21.10 is too broad. As set out in our policy conclusion, the context of this power is to allow Ofgem to require a plan “where serious failings are revealed through the survey”. Further details on what constitutes serious failings, for example with

²⁸ See LC 21.17 for the definition of the term Customer

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reference to the score obtained through the survey, can be provided via the OPR Guidance. Additional thresholds or limits in the Licence itself are, in our view, unnecessary, as the power is already constrained by public law principles and duties, such as proportionality.

7. Licence Chapter 6: Cost Control of the Licensee

Conditions 22 and 23 remain unchanged but we have made various amendments to Conditions 24-27, including:

In Condition 24, we have introduced clear dates for the setting of Required Revenue (ReqR), improved the drafting of the ReqR formula and defined terms, and amended the application window for Annual Reopeners;

In Condition 25, we have improved the drafting of the Recovered Revenue (RecR) formula and associated defined terms; overhauled term “A” to deal with various transfers of cash that will affect DCC2’s charges, especially during the Handover Period; changed requirements on cash balance reporting to quarterly instalments, and corrected an error in the quarterly reporting requirements to CCG and Ofgem on progress in the delivery of the approved Business Plan;

We have made changes across Conditions 26 and 27 to allow DCC2 to recover approved funding for Permitted Business via Service Charges by specifying a link between Service Charges and the whole of the Licensee’s Authorised Business. We have also made minor changes to reflect the impact of Uncertainty Mechanisms on Service Charges.

Questions posed at consultation

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

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

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

Condition 22 (Business Plan Report) & Condition 23 (Price Control Information)

Summary of responses

7.1 We have received a small number of comments on these two draft conditions. They were introduced into the Previous Licence in 2025 to facilitate the submission of the first Business Plan Report and Price Control Information for the first “ex-ante” cost control cycle.²⁹

²⁹ Ofgem (2025), Modifications to the Smart Meter Communication Licence for transition to ex-ante cost control and other changes required for licence closure: decision. www.ofgem.gov.uk/decision/modifications-smart-meter-communication-licence-transition-ex-ante-cost-control-and-other-changes-required-licence-closure-decision

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- 7.2 Two respondents raised concerns that the deadlines for issuing Business Plan Guidance (BPG), Regulatory Instructions and Guidance (RIGs), and engaging with the Customer Challenge Group were too tight and could create delivery pinch points. They proposed earlier dates (30 September for the BPG and the RIGs, and 31 January for CCG consultation) to allow better planning and engagement.
- 7.3 One respondent proposed merging Conditions 22 (Business Plan Report) and 23 (Price Control Information), arguing that they are closely linked and would be clearer as a single condition.
- 7.4 One respondent suggested that the time available to DCC to respond to Ofgem's requests for additional information under paragraph 22.15 should be "at least" 14 days (as opposed to being the limitation on the period available to the Licensee to respond).
- 7.5 One respondent asked that the Licensee should demonstrate how it has considered and addressed stakeholder (eg CCG) feedback on the draft Business Plan. They have also suggested that the Licensee should be required to explain how it has evolved subsequent Business Plans to address lessons in the preceding plan period, eg improvements to its forecasting.

Decision

- 7.6 We have decided to implement these draft Conditions without material changes as we consider them fit for purpose to underpin the submission stage of the cost control process.
- 7.7 We understand the desire for earlier access to guidance documents and welcome the initiative for earlier engagement with the CCGs. The Licence provides necessary backstop dates; however, in practice, we are open to working with the Licensee and CCG on a more generous timeline for the guidance documents. We currently plan to review and publish the revised BPG and RIGs in Q3 2026. Nothing in the Licence prevents the Licensee from engaging with industry and the CCG earlier so long as a compliant Business Plan Report and Price Control Information are submitted no later than the Licence-mandated date.
- 7.8 Although we recognise that Conditions 22 and 23 are related, we have decided to keep them separate as, in practice, the two conditions serve distinct purposes: the Business Plan Report provides an overarching narrative and commitments of Licensee's business planning, delivery, performance and justifications of the proposed Required Revenue; whereas the RIGs provide quantitative (data) reporting necessary to calculate the Required Revenue for, and measure the Licensee's performance in, each Price Control Period. Retaining separate conditions recognises the distinct purpose of each submission (and bespoke guidance documents which accompany them) and is aligned to both the structure of the Previous Licence and the cost control submission itself.

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- 7.9 We disagree with the proposal to extend the time for clarification questions during the Price Control period beyond 14 days (see LC 22.16). Given the deadline for the determination of the Licensee's Required Revenue (see LC 24.2) constraining the overall timeline of the price control analysis period, we expect 14 days to be the maximum length of time in which the Licensee should respond to Ofgem's request for further information. This follows established practice and ways of working between DCC and Ofgem, with an agreed target response time for clarification questions being 7 days. We consider the 14-day period to be a necessary backstop, reflecting previous experience of "ex-post" Price Control reviews, when, on occasions, information was not being provided in a timely manner to Ofgem's requests.
- 7.10 We note comments about ensuring that the Licensee reflects in its Business Plan both customer (and especially CCG) feedback and lessons learnt from previous cost control cycles. In line with our previous conclusions, we expect that the Remuneration Policy will include a "quality of Business Plan" metric which would take these matters into account, thus incentivising DCC leadership to produce high quality Business Plan which fairly reflects customer input. As noted above, we expect to update the CCG terms of reference and the BPG prior to the next Business Plan submission. We will consider the inclusion of lessons learnt into those documents, in consultation with the Licensee, the CCG and other parties.

Condition 24 (Determination of the Licensee's Required Revenue)

Summary of responses

- 7.11 Respondents generally supported out proposals but provided a variety of comments, focused on the timing and process of the determination of the Required Revenue (ReqR), the ReqR formula, ringfencing and the reopeners process.

Part A: Determination of the Licensee's Required Revenue

- 7.12 One respondent disagreed with the proposed drafting of paragraph 24.2 and argued that setting Required Revenue by direction rather than Licence modification does not provide adequate appeals mechanism to the Licensee. They argued that the process should allow the Licensee a right of appeal to the CMA, as opposed to a judicial review to a court; they drew a comparison with the RIIO price controls, which are implemented via licence modifications and subject to CMA appeal mechanism. They argued that a CMA appeal would provide stronger protection and a more suitable an efficient recourse than a judicial review, which is handled by legal rather than economic experts, and is geared towards questions of procedure, rationality and fairness rather than specific

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substantive issues and matters of economic logic which may sit outside purely legal framework.

- 7.13 One respondent expressed concerns that the Licensee may become insolvent if Ofgem fails to determine its ReqR in time. They proposed to introduce a backstop provision in the form of a “deemed approval” whereby, if the Authority did not make a determination of the ReR by a certain date, the Licensee’s proposed ReqR (submitted pursuant to Conditions 22 and 23) would be automatically accepted (“deemed to have been approved”).
- 7.14 One respondent questioned whether the drafting was clear about when Required Revenue is set for years 2 and 3 of a Price Control Period, suggesting a drafting change to accommodate the policy intent.
- 7.15 One respondent suggested rewriting the Required Revenue calculation as an explicit algebraic formula with time subscripts (t) to improve clarity and consistency.
- 7.16 One respondent questioned how any Baseline Margin and External Contract Gain Share due to DCC1 should be treated post Transfer Date, including whether these amounts could be recovered by DCC2 and how liabilities should be handled.

Part B: Ringfencing

7.17 Two respondents commented on this section:

- One agreed with the proposed drafting and suggested that it should be made more prescriptive, with Ofgem ensuring compatibility with existing SEC financial governance rules and corporate governance requirements
- Another respondent sought greater clarity on how ringfencing powers would be exercised and whether additional guidance or licence detail will be provided

Parts C and D: Uncertainty Mechanisms

- 7.18 In relation to Automatic Adjustment Uncertainty Mechanism, one respondent proposed that RIGs should specify how “Drivers” affecting Required Revenue are measured and defined against a known baseline.
- 7.19 A couple of respondents commented on the Annual/Emergency Reopeners process
- One asked that the BPG should mandate the provision of evidence of specific mitigating actions identified and attempted by the Licensee itself. They also suggested that the Licensee should be required to outline how it has considered and addressed feedback from the CCG on specific reopener requests

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- Another expressed concern that the Licensee, operating on a not-for-profit basis, could become insolvent if Ofgem rejected a reopener application or deemed costs to be inefficient, particularly where this relates to required expenditure or the provision of services.
- Two raised concerns about the proposed seven-day window starting 24 December for Annual Reopeners, noting bank holidays and operational impracticality. One also queried how this applies in the first Regulatory Year

Part E: Interpretation

- 7.20 One respondent queried the definition of Internal Costs, noting misalignment with the RIGs and the treatment of Switching related costs.
- 7.21 One respondent asked whether the definition of Pass-Through Costs (PTC) should include costs incurred by DCC1 post-Transfer Date.

Decision

Part A: Determination of the Licensee's Required Revenue

- 7.22 Having considered all feedback, we have decided to make the following changes to the drafting of Part A.
- **We have amended paragraph 24.2 to specify that the ReqR is determined for each Regulatory Year in a Price Control Period** to dispel any ambiguity about whether the direction applies in respect of all or only the first RY in a multiannual period.
 - We have also **added specific end-dates into paragraph 24.2 for the determination of ReqR in the First Price Control Period (30 days prior to the First Transfer Date) and every subsequent Period (28 February).**
 - We recognise concerns raised around funding and solvency and agree that backstop dates for the approval of ReqR are appropriate. To that end, we have further **clarified in paragraph 24.3 that the date of 28 February may not be extended beyond 31 March**, by which time Ofgem must make a determination. We have not provided for an extension to the deadline for the purposes of the First Regulatory Year (unless the TD itself is redesignated) to ensure certainty for funding post-TD. However, we do not agree that a deemed approval of the proposed ReqR would be necessary. In the unlikely event that Ofgem failed to make a determination by 31 March, the Licensee could make an emergency application to a court to force Ofgem to make a decision on the Required Revenue.
 - **We have also amended the ReqR formula in paragraph 24.4 such that it written out as an algebraic equation with time stamps (t) in each term for**

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clarity and alignment with the established practice within the Previous Licence and the wider nomenclature in Conditions 24 and 25.

7.23 We have, however, maintained our proposal to maintain the determination of the Required Revenue subject to a direction, not a licence modification. We agree that an effective challenge process must be available to any regulated entity and we consider a judicial review process to be suitable in this instance for the following reasons:

- **Nature of DCC cost control:** The purpose of the price control regime, introduced by this Licence, is to set (*ex-ante*) the efficient level of revenue through a review of forecasts, but without changes to the underlying obligations or policies. Unlike in RIIO price controls, Ofgem does not amend or create new requirements on the licence holder. To the extent that the Business Plan submitted under Condition 22 explores substantial questions relating to specific investment decisions or trade-offs, the recently established Customer Challenge Group provides a forum to discuss and clarify these with industry. Furthermore, the long-term strategy will be set by a jointly developed Business Strategy and Technology Roadmap and medium- to long-term investment decisions remain subject to a bespoke three-stage business case process overseen by the Secretary of State. Taken together, we do not expect that the final Business Plan submission to Ofgem should seek decisions from the regulator on matters of new policy, and therefore for decisions to be implemented by modifications.
- **Providing a suitable level of protection:** The cost control process and methodology are consistent, set out in guidance documents maintained under the Licence and developed in public consultation, including the BPG and Terms of Reference for the CCG (maintained under Condition 22), the RIGs (maintained under Condition 23) and Price Control Processes and Procedures (maintained under Part E of Condition 24, currently published as part of the most recent BPG). Condition 24 further defines the powers and limitations on the setting and variation to the Required Revenue. We consider the judicial review to provide a suitable protection against unlawful determinations. Although a court would not replace Ofgem’s determination with its own, a determination found to have been based on (*inter alia*) demonstrably flawed or irrelevant evidence, or that followed an unfair process, could ultimately be quashed.
- **Efficiency:** Implementing decisions by determination is substantially more efficient than statutory changes. Not only is the administrative burden higher; crucially, statutory (licence) modifications require a 56 “standstill” period before they take effect. This means that Ofgem would have to make a determination on the Required Revenue at least two months in advance, resulting in a hard deadline in August 2026 for the first Price Control Period and January in each future cycle. This would require shifts in the overall

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timelines for the preparation of the Business Plan by the Licensee and the CCG. The ongoing process based on the first submission made by DCC1 in December 2026 shows how much assumptions and associated costs can change, even within two months; we therefore do not consider it efficient to adopt a process which would exacerbate the risk that assumptions underpinning the Required Revenue substantially shift shortly after a Business Plan approval. Any such changes, which would have to be met via reopeners or adjustments to the Required Revenue and amendments to service charges, will have implications for funding parties and end-consumers.

7.24 We do not consider it necessary to amend the ReqR formula to include separate terms for the Previous Licensee’s Baseline Margin or External Contract Gain Share, which fall due to be collected after the TD. Instead, we have included amended the definition of the term “A” in the draft Recovered Revenue formula (see Condition 25). This will allow the Licensee to amend its charges pursuant to requirements of Conditions 43.16 of the Previous Licence to account for under-recovery or over-recovery of the Allowed Revenue by the Previous Licensee (in other words, it will allow DCC2 to either recover in charges any money owed to DCC1, or receive from DCC1 any money owed to users and offset future charges).

Part B: Ringfencing

7.25 We have decided to maintain the drafting of Part B as consulted upon. The power to ringfence proportions of the Required Revenue for specific purposes is required to enforce the “fungibility” rules, eg for Service Family budgets, innovation fund or individual programmes, in line with our policy conclusions on the design of the “ex-ante” regime.³⁰ However, any use of this power would be subject to a consultation process in accordance with public law; in practice, we expect to consult on any specific ringfencing proposals as part of our wider consultation on the determination of ReqR under paragraph 24.2.

Parts C and D: Uncertainty Mechanisms

7.26 We note the comment asking for further details on how “Drivers” affecting the ReqR are measured and defined for the purposes of the Automatic Adjustments mechanism. We are of the view that this level of detail is more appropriate for a guidance rather than the Licence itself, which we have **reflected in an added definition of the term Driver in Part F Interpretation with reference to the BPG**. As with the use of the ringfencing powers under Part B of the condition, any direction issued under paragraph 24.8 to approve a Driver would be subject to a consultation process in accordance with public law; similarly, in practice, we

³⁰ Ofgem (2025), DCC Review Phase 2: Determination of Allowed Revenue – conclusions, paragraphs 3.27-3.30. www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions

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expect this consultation to be a part of our wider consultation on the determination of ReqR under paragraph 24.2.

- 7.27 We agree with the comments raised around the timing of the Annual Reopener applications. **We have amended paragraph 24.11(a)(ii) to extend the for Annual Reopeners to the entire month of December. We have also clarified in paragraph 24.11(b) that Annual Reopeners will not be allowable in the First Price Control Period** with reference to the RY commencing with the TD (in which an Annual Reopener application for Y2 of the First Price Control Period would otherwise had to have been submitted).
- 7.28 The power to approve any reopener is discretionary. An entitlement to automatic approval of any reopener for any reason would arguably undermine incentives on efficient management. Ofgem would not seek to make DCC loss-making by preventing it from meeting legal commitments, but approval of additional revenue would always be contingent on appropriate justifications and may be linked to, for example, commitments to finding efficiencies or other rectifications. We set our expectations on the reopener process, and what information and explanations would be required, in the BPG.³¹

Part F: Interpretation

- 7.29 We have made a number of changes and additions in the interpretative part of Condition 24, including to:
- **Add definitions for the terms “Driver”, “Regulatory Year t” and individual terms of the ReqR formula** separate from general definitions of those term (see for example the difference between the specific term “EC_t” used for the purposes of setting and calculating the ReqR in a RY_t and the general meaning of the term “External Costs”)
 - **Amend the definition of Pass-Through Costs to include the Reimbursement Amount for the purposes of the CH Replacement Reimbursement Service** introduced by the SoS (see Schedule 5, maintained under Condition 9, for the calculation methodology)³²
 - Correct the definition of Internal Costs by:
 - **Removing the exclusion of Switching costs.** While we recognise that the Switching costs are agreed via a separate process agreed with RECCo, we do not consider it necessary for the ReqR formula to include separate

³¹ Ofgem (2025), Business Plan Guidance, section 6. www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance

³² DESNZ (2025), Decision on 4G Communications Hub only exchange site visit, DCC charging mechanism and legal changes. smartenergycodecompany.co.uk/smart-metering-implementation-programme-desnz-conclusions-on-4g-communications-hub-only-exchange-site-visit-dcc-charging-mechanism-and-legal-changes

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terms for Switching-related costs. The distinction will be made within the RIGs reporting and enforced (for External Costs, given our decision to provide full budgetary flexibility on Internal resource Costs)³³ using ringfencing powers under part B of this condition.

- **Recognising that Internal Costs cover the provision of Authorised Business** (as opposed to only Mandatory Business). This is due to the inclusion into the Licensee’s Business Plan of a ringfenced “innovation budget” for Permitted Business, as explained in paragraph 3.36 of this decision.

7.30 In relation to DCC1’s post-TD costs, in line with our December 2025 decision,³⁴ approved DCC1 post-TD costs will be incorporated into DCC2’s Required Revenue via a direction under LC 24.17(f) (see Pass-Through Costs). We will consult on this as part of the wider process of setting the Required Revenue for the First Price Control Period.

Condition 25 (Recovered Revenue)

Summary of responses

7.31 Respondents provided a range of comments on the drafting of this condition. We have grouped the key comments by the part they related to.

Part A: Recovered Revenue

7.32 Several respondents commented on the Recovered Revenue (RecR) formula in paragraph 25.2:

- One respondent suggested that the formula be written out as a full algebraic equation with time stamps (t) for each term of the formula to enable calculation of the RecR in each RY_t
- They also suggested amending the definition of the term A to refer to cash transfer from DCC1 to DCC2 on Transfer Date *and any subsequent adjustments to that amount* noting that a final adjustment would have to be made after Ofgem’s Price Control decision for DCC1’s Final Regulatory Year (April 2026 to TD) in September 2027
- Another respondent queried what happens if Recovered Revenue (RecR) is less than the calculated amount and how any shortfall would be addressed.

³³ Ofgem (2025), DCC Review Phase 2: Determination of Allowed Revenue – conclusions, paragraph 3.28. www.ofgem.gov.uk/decision/dcc-review-phase-2-determination-allowed-revenue-conclusions

³⁴ Ofgem (2025), Financing arrangements for DCC1 and DCC2 during Business Handover – decision. www.ofgem.gov.uk/consultation/financing-arrangements-dcc1-and-dcc2-during-business-handover

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7.33 There were several comments about the Cash Position reporting and adjustments:

- A few of respondents alerted us to an algebraic error in the paragraph 25.5 which (incorrectly) referred to reducing the cash position to “1.05” instead of “0.05” [in line with the calculation performed under paragraph 25.3]
- One respondent proposed that the Licensee should submit a report to Ofgem explaining the quarterly cash holdings and forecasts rather than the requirement to carry out monthly calculations and notify Ofgem as soon as possible if the Cash Position exceeds 5% of the ReqR. They also proposed that, as service charges are fixed across the year but there are peaks and troughs in expenditure (eg if milestone payments due to service providers are delayed to a subsequent month), Ofgem should only direct return of cash if the forecast by the end of the year is to be above 5% of ReqR.
- One respondent suggested that DCC2 should be required to provide supporting information to funding DCC Users that explains the factors that have contributed to a cash position adjustment. They argued that this would prevent DCC2 from providing Charging Statement updates that blend cost increases and reductions, limiting the ability of DCC users to subsequently understand the adjustments

Part B: Reporting

7.34 One respondent identified an issue in the quarterly reporting requirements in paragraph 25.8. They pointed out that the months denoting end-quarters were unevenly spread.

7.35 One respondent was concerned about the scope of the End-of-year reporting requirements, in particular a requirement to provide an explanation to variations between approved ReqR and actual ReqR under 25.11(d), cautioning against the administrative burden of additional *ex-post* reporting.

Decision

Part A: Recovered Revenue: formula and definitions

7.36 Having considered respondents’ feedback and upon further considerations, we have decided to make changes to the proposed drafting.

7.37 **We have amended the RecR formula in line with the changes we made to the ReqR formula in Condition 24;** that is, formulated it as an algebraic expression with each term carrying a time stamp (t) for better alignment and clarity.

7.38 For the purposes of the RecR formula, **we have made amendments to the defined terms in paragraph 25.6.**

7.39 **Firstly, we have overhauled the definition of the term A.**

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7.40 The term A in the Recovered Revenue formula deals with various transfers of cash that will affect DCC2’s charges, especially during the Handover Period. In our view these include:

- Cash transfer from DCC1 to DCC2 on Transfer Date
- DCC2 recovering charges/paying invoices on behalf of DCC1 which will fall due after the Transfer Date. This is because of a time lag which means that the charges levied by DCC1 in October 2026 will only be physically paid in November 2026 (and should therefore be paid to DCC2 on behalf of DCC1) and, similarly, invoices from service providers etc, which cover all work until end-October 2026 will only be paid in November 2026, which may also need to be done by DCC2 on behalf of DCC1
- Any payments made by DCC1 to DCC2 if DCC1 is found, after Ofgem’s determination under the final price control, to have over-recovered revenue (eg there is a disallowance)
- Any payments made by DCC2 to DCC1 if DCC1 is found, after Ofgem’s determination under the final price control, to have under-recovered revenue (eg DCC1 is entitled to receive any remaining/ringfenced BM/ECGS – subject to Ofgem’s decision on the ringfencing proposal)³⁵

7.41 Table 7.1 below sets out the definition of term A and the money transfers each part will deal with

Table 7.1: Term A definition and its intended effects

Term A definition	Payments intended to fall under each part
<p><i>“A is the sum of:</i></p> <p><i>“any amount paid by any person to the Licensee in Regulatory Year t but excluding Service Charges levied by the Licensee, Value Added Services Contribution, or any amount paid pursuant to an Agreement for Services;</i></p>	<ul style="list-style-type: none"> • Cash Transfer on TD • Any charges levied by DCC1 pre-TD but received on behalf of DCC1 by DCC2 post-TD (November 2026) • Any payments made by DCC1 to DCC2 for over-recovery • A general provision for any payments made to DCC2 (outside charges, VAS and payments made under bilateral agreements for services), eg if DCC2 received money from a charity

³⁵ Financing arrangements for DCC1 and DCC2 during Business Handover Ofgem (2025) www.ofgem.gov.uk/consultation/financing-arrangements-dcc1-and-dcc2-during-business-handover

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Term A definition	Payments intended to fall under each part
<p><i>“A is the sum of:</i></p> <p><i>“any amount paid by the Licensee in Regulatory Year t to meet a cost of the Previous Licensee pursuant to an agreement made under Condition 43 of the Previous Licence, expressed as a negative value; and</i></p>	<ul style="list-style-type: none"> • Any invoices paid by DCC2 on behalf of DCC1
<p><i>“any amount paid by the Licensee to the Previous Licensee in Regulatory Year t reflect an under-recovery of Allowed Revenue as is found to have arisen at the First Transfer Date, expressed as a negative value.”</i></p>	<ul style="list-style-type: none"> • Any payments made by DCC2 to DCC1 if DCC1 is owed any money after the final Price Control

7.42 **Secondly, we have amended the definitions of the terms EC_t .** This term provides an expression of the External Costs directed by Ofgem for a Regulatory Year t under Condition 24 (and amended by the application of Uncertainty Mechanisms under Parts C and D of that condition) on a cash basis, recognising that factors such as milestone payments or financing can lead to mismatch between accruals and cash within a RY. The term is calculated in accordance with the RIGs and is a directly dependent on the amount of approved EC_t in a given RY_t .

7.43 **Thirdly, we have added missing definitions of the terms IC_t , PTC_t and $VASC_t$,** each recognising that the value is dependent on the determination by Ofgem under Part A of Condition 24 and subject to adjustments under Parts C and D of that condition, therefore allowing the Licensee to adjust its charges if its Required Revenue changes in line with approved Drivers (Automatic Adjustments) or Reopeners.

Part A: Recovered Revenue: Cash Position

7.44 Paragraphs 25.3-25.4 as originally proposed only required the Licensee to report to Ofgem in instances when its Cash Position breached the 5%. We agree that a quarterly reporting would lower the administrative burden while meeting the original intent of allowing Ofgem to monitor the Licensee’s compliance with the RecR formula in the absence of a penalty interest rate incentive. We agree that, in order to be effective, the quarterly reports should include an explanation of the appropriateness of the Cash Position including the Licensee’s forecast Cash Position. **The drafting in paragraphs 25.3 and 25.4 has been amended accordingly.** Additionally, we have set a reasonable timeframe of 7 days within the end of each quarter for the Licensee to submit its report.

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- 7.45 We maintain that the power to direct the Licensee to return excess cash should be discretionary and not contingent on the forecast end-of-year position. The proposed change does not meet our policy intent and could create a loophole whereby the Licensee could hold onto unlimited amounts of cash, so long as it committed to returning to a 0.05 Cash Position by the end of the year, whereas we intend for the 5% over-recovery threshold to be a ceiling rather than a target. However, we agree that the reference to Cash Position of 1.05 in paragraph 25.5 was erroneous and we have amended it to 0.05 (corresponding to the 5% within the RecR formula).
- 7.46 In case of under-recovery, the Licensee can manage a shortfall by an adjustment to its charges, either within a RY or in a new RY, always subject to condition 27.
- 7.47 We do not consider it proportionate to require the Licensee to report on its Cash Position to users, although we agree that amendments to charging statements should set out clearly any increases and decreases in charges for full transparency. We have not amended the Licence as we consider this matter to already be addressed in LC 27.8 which sets out that before varying charges, the Licensee must send Ofgem a Notice setting out the proposals and explanation, and issue a copy to any user.

Part B: Reporting

- 7.48 We recognise the error in the draft **paragraph 25.8 and the text has been corrected to ensure evenly spaced quarterly reporting** (January in place of December) and coherent alignment with reopener processes. The consequence of this correction is that the Licensee will have to report on an expected Annual Reopener to the CCG earlier (October) than previously envisaged. **We have made this consequential change in paragraph 25.10.** We note that this error currently exists in the CCG ToR³⁶ and we will correct it in our next review of the ToR ahead of the next Price Control cycle. As no Annual Reopeners apply in the first cycle, this error will cause any issues in 2026/27.
- 7.49 We note concerns about the scale of the end-of-year (EoY) reporting. We have maintained the draft requirement as an EoY revenue reporting is critical for Ofgem's ability to monitor the Licensee's compliance. We have already included our expectations on the EoY process in the BPG;³⁷ however, we are open to engaging with the Licensee on the details of this process further.

³⁶ Terms of Reference for Customer Challenge Group Ofgem (2025) section 4.1

www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance

³⁷ Business Plan Guidance Ofgem (2025) section 5.43-5.50 www.ofgem.gov.uk/decision/terms-reference-customer-challenge-group-and-business-plan-guidance

Condition 26 (Charging Methodology) & Condition 27 (Charging Statement for Service Charges)

Summary of responses

7.50 We have received a small number of comments to these draft conditions.

7.51 In relation to Condition 26 (Charging Methodology):

- One respondent proposed that the review cycle for the Charging Methodology is amended to be once in each Price Control Period. They explained that the charging regime has been relatively stable to date. Thus, moving to review every three years would allow a more focused review and reduce administrative burden on both DCC2 and customers.
- One respondent suggested that if the Licensee proposes modifications to the Charging Methodology, it should be required to formally consult with funding users, and show how it has addressed relevant feedback.
- One respondent proposed removing the requirement to provide physical copies of the Charging Methodology, on the basis that interactions are now digital.

7.52 In relation to Condition 27 (Charging Statement for Service Charges), one respondent commented that while paragraph 25.5 gives Ofgem the power to direct the Licensee to revise the charging statement to reduce the cash position, LC 27 does not permit amendment following such a direction (in relation to cash balances exceeding 5% of Required Revenue). They proposed to include this into LC 27.12 in addition to changes on account of Automatic Adjustment mechanisms.

Decision

7.53 We note the suggestion to limit the review cycle for the Charging Methodology to once in each Price Control Period. Although we accept that the charging has to date proved stable, we do not see this as a good reason to change the annual review cycle. While the revenue is set, the charging methodology may need to change. There is no inherent relationship between the Required Revenue and the methodology to apportion charges. If the methodology continues to prove consistent, then we expect the annual review to not pose significant administrative burden. For example, we observe that the most recent annual review has been published in a relatively brief form.³⁸

³⁸ DCC (2026), Review of Charging Methodology: Statement of review during RY2025-2026. www.smartdcc.co.uk/media/52pfry53/charging-methodology-review-statement-ry2526-aa.pdf

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- 7.54 We have considered the suggestion to place an explicit requirement on the Licensee to Consult on any modifications to the Charging Methodology but we have concluded that this is not necessary to include within the Licence. We observe that DCC1's recent significant review of charges has involved multi-stage consultation with industry parties;³⁹ we therefore consider that established practice is sufficient in this case.
- 7.55 In relation to publishing/providing a copy of the Charging Methodology, as previously noted in the context of other regulatory documents, we have clarified within paragraph 2.16 (Interpretations) that any requirement under this Licence for the Licensee to give a copy of a document to any person (including the Authority or the Secretary of State) is able to be satisfied by giving that person an electronic copy in an intelligible form. We therefore **agree that draft paragraph 26.12(a) is redundant, and we have decided to remove it**, leaving only the requirement in sub-paragraph (b) to make a copy of the Charging Statement available on the Licensee's Website.
- 7.56 We have made minor amendments to clarify the interaction between changes to the Required Revenue and the setting of charges. Ordinarily, the Licensee is expected to set charges for each RY in line with the ReqR determined by Ofgem for that RY under Condition 24 (with a limitation imposed by the RecR formula in Part A of Condition 25). However, there are different reasons why the Licensee may subsequently amend its charges, which include, amongst other things, as a consequence of:
- Automatic Adjustments (Condition 24 Part C) – LC 27.11(b)(i) allows the Licensee to make more than amendment to its charges in consequence of an Automatic Adjustment but LC 27.12 limits this number to three. There is no obligation on the Licensee to vary its charges and it is within the Licensee's gift to decide whether and when to make such amendments. For the purposes of limiting the number of in-year adjustments, we have assumed an adjustment at the end of each quarter during a RY, which we consider provides an appropriate balance between flexibility and stability
 - Annual Reopener (Condition 24 Part D), the effects of which would be reflected in the usual setting of charges for a new RY
 - Emergency Reopener (Condition 24 Part D) – LC 27.11(b)(ii) allows the Licensee to make more than amendment to its charges in consequence of an Emergency Reopener and there is no limit on the number of adjustments which can be made. **We have, however, clarified in LC 27.9 that the Licensee should make such an adjustment as soon as reasonably practicable.**

³⁹ [DP218 'Review of the SEC Charging Methodology' – Consultation on proposed changes to DCC charges](#)

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- An Ofgem direction by Ofgem to return excess cash (Condition 25 Part A). LC 25.5 already states that the Authority may direct the Licensee to modify the Charging Statement for the purposes of reducing the Cash Position to 0.05 as *soon as is practicable*, which can mean as soon as the next Automatic Adjustment, Emergency Adjustment or annual adjustment is made. We therefore do not consider it necessary to make additional changes to Condition 27.

7.57 As discussed above in paragraph 3.36 of this decision, **we have made minor amendments across both Conditions to allow DCC to recover approved funding for Permitted Business via Service Charges by specifying a link between Service Charges and the whole of the Licensee’s Authorised Business**. This reflects our decision to allow DCC to apply for a small, ringfenced innovation budget to provide a more transparent funding for certain “public good” initiatives which the Previous Licensee has been providing to date under Minimal Services or Permitted Purpose regulatory cover of the Previous Licence. We have not made changes to the Charging Methodology objectives, which we consider remain current.

8. Licence Chapter 7: Financial and ring-fencing provisions

The main changes in this chapter related to:

Condition 28, which has been updated to ensure its requirements align to the Transfer Date;

Condition 30, which has been redrafted such that the approval process for proposed financial stability arrangements aligns to that of other regulatory documents; and

Condition 31, where we have removed provisions for the return of cumulative over-recovery as this policy objective is now achieved more directly and effectively through the cash-position framework in Condition 25.

Questions posed at consultation

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

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

Background

8.1 Chapter 7 of the Licence includes the following five Conditions:

- Condition 28. Availability of all necessary resources
- Condition 29. Undertakings from an Ultimate Controller
- Condition 30. Financial stability
- Condition 31. Indebtedness and transfers of funds
- Condition 32. Disposal of Relevant Business Assets

Summary of responses

8.2 We have received limited comments in respect of these Conditions.

8.3 One respondent identified that the drafting of “Due Date” in LC 28.10 was inconsistent with the definition of the first Regulatory Year and would require the Licensee to provide statements before the Authorised Business transfers. The respondent argued this would be unworkable and misaligned with the point at which DCC2 becomes responsible for delivery.

8.4 Referring to draft LCs 31.4-31.6, one respondent queried whether the requirement to prepare and submit a plan for the return of over-recovery remains necessary given the introduction of explicit cash-position controls elsewhere in the Licence.

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- 8.5 One respondent proposed introducing a materiality threshold to LC 32.4(a) which requires the Licensee to list its External Service Provider Contracts in a Register of Relevant Business Assets. They proposed that only contracts that are listed as Legacy Procurement Contracts or have been subject to non-objection from the SoS should be included on the grounds of efficiency. They also queried the scope and usefulness of the Workforce information required by LC 32.4(d), suggesting that role descriptions may be more helpful than identifiers alone.
- 8.6 One respondent suggested that the Register of Relevant Business Assets should be shared with the Customer Challenge Group to support scrutiny of the Business Plan.

Decision

- 8.7 We agree that the drafting was erroneous and **paragraph 28.10 has been corrected so that the initial obligation applies after the Transfer Date, with subsequent submissions due annually on 31 July**. This ensures the requirement aligns with the point at which the Licensee assumes responsibility for the Authorised Business.
- 8.8 **We made changes in the drafting of Condition 30 (Financial stability) in relation to the approval process of the Licensee's proposed assurance of financial stability.** The drafting helps to align the approval process to that of other documents maintained under the Licence, such as the Procurement Strategy (Condition 10), the SoSE (Condition 9 Appendix 1) or the Business Handover Plan (Condition 37), but maintains the policy intent.
- 8.9 We agree that the requirement to prepare and submit a plan for the return of over-recovery under Condition 31 is now redundant. The policy objectives previously addressed by LCs 31.4-31.6 are now achieved more directly and effectively through the cash-position framework in Condition 25. **We have therefore decided to remove draft LCs 31.4-31.6 from the final text of the Licence.**
- 8.10 Although we have amended the requirements on which contracts should be published by introducing a materiality threshold into LC 10.38, we disagree with introducing a materiality threshold for the purposes of the Register of Relevant Business Assets, which should provide a complete and comprehensive list of all assets held by the Licensee to support effective regulatory oversight and to ensure preparedness for any future business handover. We do not consider this requirement to create additional administrative burden as the Licensee must have this information readily available within its internal systems. However, we do agree that the information required in relation to Workforce can be clearer and **we have made amendments to LC 32.4(d) to better align it with the information required under the Business Handover Plan.**

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- 8.11 We do agree that providing the CCG with a copy of the Register of Relevant Business Assets would aid its function under Condition 22. Information on External Service Provider contracts for the purposes of the Business Plan scrutiny is already made available to the CCG under the BPG and the CCG ToR.
- 8.12 The remainder of these conditions has been maintained as consulted on (save for minor stylistic or typographical corrections), including the removal of additional financial security requirements at this time, given the status of the Licensee as a fully industry funded, not-for-profit entity. However, we will continue to monitor the financial health of the organisation and may consider re-introducing additional financial security requirements in future.

9. Licence Chapter 8: Provision of regulatory information

With the exception of minor drafting changes, the Conditions in this chapter remain largely unchanged. We have decided to keep Conditions 35 and 36 separate.

Questions posed at consultation

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.

Background

9.1 Chapter 8 of the Licence includes the following four Conditions:

- Condition 33. Provision of Information by the Licensee
- Condition 34. Requirements for Regulatory Accounts
- Condition 35. Reporting of Quality of Service Information
- Condition 36. Annual Service Report to the Authority

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

Summary of responses

9.3 Two respondents suggested merging Conditions 35 & 36. One noted that merging may improve readability, provided the distinct purposes (quality of service vs annual service reporting) remain clear.

9.4 One respondent proposed that the date in LC 36.3 is amended from 1 April 2027, such that the first Annual Service Report would be prepared by the Licensee no later than 31 July 2028 for the period of 17 months from the TD to 31 March 2028.

9.5 Referring to Ofgem's power to require the Licensee to include in its Annual Service Report information on specific Service Providers' performance, one respondent suggested that the obligation on Ofgem in LC 36.8 to consult should relate to either providers above a certain threshold; or alternatively, be formulated as a broad obligation to consult publicly.

9.6 One respondent suggested that the requirement for a physical copy of the Annual Service Report in paragraph 36.12(a) be removed from given that business interactions have increasingly moved to be entirely digital.

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Decision

- 9.7 We have considered whether to merge Conditions 35 and 36; however, upon further consideration, we are of a view that there is little benefit to amending the licence to combine these conditions. As we explained in our consultation, we have drafted this Licence with the intention to minimise unnecessary changes and use the text of the Previous Licence where it continuous to be suitable, outside of parts impacted by our policy decisions. On balance, we have therefore decided to maintain both conditions as separate.
- 9.8 We have not made amendments to LC 36.3 in respect of the due date of the first Annual Service Report, which should be submitted by 31 July 2027 covering a c. five-month period from TD until 31 March 2027. (DCC1 will submit its final Annual Service Report for RY26/27, covering a c. seven-month period from 1 April 2026 to Transfer Date, no later than 3 months after the Business Handover date.)⁴⁰ We believe a degree of confusion arose as a result of erroneous definition of the first Regulatory Year in Condition 1 (Definitions for the Conditions of this Licence), which has now been corrected.
- 9.9 We agree that the draft LC 36.8 should be amended as it may not be proportionate to consult all External Service Providers, even if changes to the Annual Service Report requested by Ofgem under LC 36.6 do not affect them. **We have made a minor change to LC 36.8 to focus only on the External Service Providers impacted by any request under LC 36.6 (in addition to the Licensee and the SEC Parties).**
- 9.10 As with other regulatory documents, eg the Charging Methodology (Condition 26), as per our clarification in LC 2.16 (Interpretations), the requirement to provide a copy of the Annual Service Report is able to be satisfied by giving that person an electronic copy in an intelligible form. Consequently, **we have decided to remove the requirements from LC 36.12 (a), retaining only the duty to publish the Annual Service Report on the Licensee’s Website.**
- 9.11 Finally, **we have simplified the definition of Authorised Business Activities in the interpretative Part H of Condition 34 with a direct reference to Mandatory and Permitted Business Services.** This will obviate the need to modify this definition every time the scope of Authorised Business under Condition 6 is amended.
- 9.12 Other than these changes and minor typographical or stylistic corrections, we have decided to adopt the text of these Chapter 8 Conditions as consulted upon.

⁴⁰ SMCL1 LC 34.3A. See Ofgem (2025), Modifications to the SMCL. www.ofgem.gov.uk/decision/modifications-smart-meter-communication-licence-transition-ex-ante-cost-control-and-other-changes-required-licence-closure-decision

10. Licence Chapter 9: Arrangements for intervention and continuity

The conditions in this chapter remain largely unchanged. We have made some improvements to the drafting of Condition 37 related to the Business Handover, including the re-introduction of provisions of Part F of Condition 43 of the Previous Licence which were omitted from the consultation draft.

Questions posed at consultation

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

Background

10.1 Chapter 9 of the Licence includes the following two Conditions:

- Condition 37: Business Handover Arrangements
- Condition 38: Treatment of Intellectual Property Rights

10.2 Condition 37 contains the requirements on the Licensee to support a Business Handover Process, including the production of a Business Handover Plan (BHP). The intent is to ensure proper planning for the purpose of ensuring a smooth transfer of responsibilities for an incumbent licence holder to a successor licensee.

10.3 Condition 38 purpose is to ensure that the Licensee manages Intellectual Property Rights (IPRs) in a way that supports continuity of service, fair competition and the integration of systems across the smart metering ecosystem. The condition provides a framework for the treatment of IPRs arising from the Licensee's functions under the Principal Energy Legislation, this Licence, the SEC and the REC.

Summary of responses

10.4 One respondent suggested that the scope of Condition 37 should be broadened to allow future Business Handover to be carried out on the basis of a share sale (or entity transfer), which could lead to a more economic and efficient handover process.

10.5 One respondent noted that the provisions of Part F (Requirement to review the Business Handover Plan) of Condition 43 in the Previous Licence have not been included in draft Condition 37 and that no policy intent behind this omission is described in the consultation document. They also proposed that a three-year review cycle is included as it would be prudent to ensure key matters are updated given that the Business Handover Plan may be needed at short notice.

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- 10.6 One respondent proposed that Ofgem expand the requirement in LC 37.13(j), which requires the plan to provide for a transfer of the Licensee Workforce to the Successor licence, to specifically refer to TUPE⁴¹ related requirements based on the experience of the DCC1 to DCC2 process.
- 10.7 Two respondents proposed that the new Licensee should undertake and document a post-implementation review of the first business handover between DCC1 and DCC2. One suggested that this should be included within the Licence as a mandatory content of the Business Handover Plan itself.

Decision

- 10.8 We agree that certain aspects of the Business Handover could be made more expedient via a share sale or an entity transfer. This process was not practical under the first handover due to the need to carry out two final *ex-post* Price Control reviews after the TD itself. However, the changes required to facilitate a wholly different type of Business Handover would require a fundamental rework due to interactions with the Terms of Revocation of the Licence. On balance, we have decided not to carry out such wholesale changes to the draft Licence at this time; however, we may review this condition in future, in particular once the first Business Handover has concluded and all lessons learnt from the current process have been reflected upon.
- 10.9 Nevertheless, we have made some improvements to the drafting of Condition 37. **We have re-introduced the provisions of Part F of Condition 43 of the Previous Licence.** The omission of this part was an oversight in the consultation draft. We have improved the drafting of the approval process to align to that of other regulatory documents maintained under this Licence (eg LC10 Procurement Strategy).
- 10.10 We have, nonetheless, decided to maintain the annual reviews of the Business Handover Plan. As the need for a handover can be initiated at any point, due to unforeseen circumstances, the BHP should be kept up to date and ready, which three-year review cycles is unlikely to fully achieve.
- 10.11 We have also not included specific references to TUPE regulation within Part E (Mandatory contents of the BHP); although we understand the rationale, this is not strictly necessary as TUPE will apply to in-scope employees, regardless of what the Licence specifies. We may consider updating a guidance on the Remuneration Policy (see Condition 20) as and when relevant in the run-up to the second Transfer Date, to place additional incentives for the next Handover Period, not only in relation to TUPE but the execution of the Business Handover as a whole.
- 10.12 We agree that a lessons learnt exercise from the first Business Handover process should be conducted and reflected within the new BHP; however, we do not

⁴¹ [The Transfer of Undertakings \(Protection of Employment\) Regulations 2006](#)

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consider a Licence amendment is necessary for this purpose. Under LC 37.11 the Licensee will be obligated to consult on the draft new BHP with External Service Providers and SEC Parties, which process should result in the inclusion of lessons learnt. Ofgem's review under Part D of Condition 37 will provide further opportunity for Ofgem to direct an inclusion of any relevant matters arising from lessons learnt of the first process, or further modify this Condition.

10.13 We have not received substantial comments on draft Condition 38 (Treatment of Intellectual Property Rights) which we have decided to maintain in the form as consulted on (save for minor typographical and stylistic corrections).

11. Licence Chapter 10: Other provisions & Schedules

Condition 39 remains unchanged. We have decided to implement the power of derogation via a new Condition 40.

We have made some changes to the Licence Schedules, including:

Update to Schedule 1 (list of FSC contracts) drawing on new information provided by DCC1;

Amendments to Part D of Schedule 2 to replicate the requirements on the SEC to include provisions for the incorporation of documents by the SoS from Condition 22 of the Previous Licence; and

The introduction of a new Schedule 5 (Communications Hub Replacement Reimbursement Methodology) to replicate Appendix 2 to Condition 17 of the Previous Licence, introduced by the SoS since our consultation.

We have implemented commencement provisions for specific Conditions and Schedules via a direction issued under the Terms in Respect of Grant (published alongside this decision), and transitional provisions for individual regulatory documents throughout this Licence.

Questions posed at consultation

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

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

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

Q26. Do you have any views on the Schedules?

Background

11.1 Chapter 9 of the Licence includes the following two Conditions:

- Condition 39: Provision of Market Share Information to the Central Delivery Body
- A new Condition 40: General powers of derogation

11.2 We have also consulted on Part 4 (Schedules) of the Licence, which are maintained under specific LCs as follows:

- Schedule 1. Details of Fundamental Service Capability – maintained under Condition 10 (Procurement of Relevant Service Capability)
- Schedule 2. Principal Contents of the Smart Energy Code – maintained under Condition 11 (Roles in relation to Core Industry Documents)

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- Schedule 3. Novation of External Service Provider Contracts – maintained under Condition 37 (Arrangements for the handover of business)
- Schedule 4. Prescribed Business Services and other duties – maintained under Condition 6 (Authorised Business)
- Schedule 5. Communications Hub Replacement Reimbursement Methodology – maintained under Condition 9 (Arrangements for the provision of services)

11.3 Finally, we also consulted on certain commencement and transition provisions.

Condition 40 (General powers of derogation)

Summary of responses

11.4 Three respondents supported the introduction of a general power of directions:

- One agreed in principle with support for having flexibility regarding derogations on efficiency grounds. They propose that the drafting should include a defined process for such derogations to ensure that they are appropriately documented and subsequently notified to ensure visibility for wider
- Another agreed that the inclusion of a general power of derogation would be appropriate, provided it is used to address unintended consequences affecting energy customers or funding DCC Users.
- Another concurred that a derogation power may support flexibility. They further commented that clear parameters and criteria for granting derogations should be defined to ensure transparency.

11.5 One respondent had no objection but encouraged Ofgem to ensure that any exercise of this power is accompanied by industry consultation and clear justification.

11.6 One respondent suggested that akin to condition F9 of the NESO licence, the Licensee should be able to lodge a formal request for aspects of the Licence to be disapplied for a specified period. Where Ofgem rejects a disapplication request, the Licensee should be afforded the right to appeal to the CMA consistent with section 11C of the Electricity Act.

Decision

11.7 We have decided to implement this condition in line with our proposal as we consider derogations to provide necessary flexibility in the new regulatory regime. We have decided against the inclusion of a specific, set process to allow for flexibility in urgent cases. However, we have included in a new LC 40.3 that we

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may issue guidance regarding the way we expect to exercise the power of derogation. We said that this guidance may set out (amongst other things) the:

- process for requesting the Authority to exercise its power;
- type of information that is likely to be required by the Authority as part of that process;
- criteria the Authority may have regard to in considering whether to exercise its power.

11.8 Regardless of the precise provisions in the Licence, as with all powers exercised by the Authority in relation to this Licence, standard public law principles will apply.

11.9 We have considered the proposal to allow the Licensee to propose disapplication of LCs; however, we have not seen a compelling reason for it. The existence of this provision within the NESO licence must be considered in the right context. The disapplication provisions in Condition F9 of the NESO licence are linked to Secretary of State directions on fuel stocks and directing power stations; they are therefore a practical measure to de-risk the licensee in an emergency situation. This is not a context which applies in the case of SMCL and DCC. Regardless, nothing in this or other condition prevents the Licensee from approaching Ofgem with a derogation proposal even without an explicit entitlement.

Schedules

11.10 We have requested from DCC1 an updated list of Fundamental Service Capability contracts for the purposes of Schedule 1 and amended Part B of the Schedule in accordance with the information provided.

11.11 As discussed under Condition 11 (see paragraph 3.74 of this document), we have made amendments to Part D of Schedule 2 to replicate the requirements on the SEC to include provisions for the incorporation of documents by the SoS from Condition 22 of the Previous Licence.

11.12 Schedule 3 remains unchanged.

11.13 To reflect that DCC2 may need to assist DCC1 in discharging its residual regulatory obligations after TD, in line with our previous decision,⁴² we have specified in Schedule 4 that the “Licensee’s duties under 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” form part of the Licensee’s Prescribed Business.

⁴² Ofgem (2025), Financing arrangements for DCC1 and DCC2 during Business Handover. www.ofgem.gov.uk/consultation/financing-arrangements-dcc1-and-dcc2-during-business-handover

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11.14 Finally, as discussed under Condition 9 (Arrangements for the provision of services) (see paragraph 3.47 of this decision), we have included a new Schedule 5 (Communications Hub Replacement Reimbursement Methodology). This Schedule replicates Appendix 2 to Condition 17 of the Previous Licence, introduced by the SoS's decision on 4G Communications Hub only exchange site visits: proposed methodology for calculating a centralised price.⁴³ The Schedule sets out the cost components and calculation methodology and includes an annual review process. The calculated amounts are treated as Pass-Through Costs within the Licensee's Required Revenue (see Condition 24 Part F for the definition of Pass-Through Costs).

Commencement and transitional provisions

Summary of responses

11.15 Three respondents agreed with the introduction of commencement provisions for certain Licence Conditions. Additionally, one stated no objection to the proposal.

11.16 One respondent suggested transitional provisions should be drafted to ensure legal continuity across DCC1 to DCC2; another respondent, who supported the proposal, suggested that where there is already a clear plan for transition on specific elements, the drafting within the new Licence should include such detail, eg in paragraph 10.35 whereby the existing Procurement Strategy is used as the starting position for DCC2.

Decision

11.17 Upon consideration of the sequencing of Business Handover and Transfer Date, we have decided to specify that certain conditions and schedule will commence in accordance with a direction issued to the Licensee by Ofgem in the Terms in Respect of Grant. As discussed in the section on the Terms, the affected conditions are as follows: 6, 7, 9, 11, 14, 15, 18, 28, 35 and 39, and Schedules 1 and 2. We have published this direction alongside our decision.

11.18 With the exception of specific paragraphs of Condition 15 (Licensee's Board of Directors and Managers), the commencement dates of the other listed Conditions and Schedules are aligned with the Transfer Date. The different timing of the commencement of some parts of Condition 15 provides for the implementation of DCC2 enduring board following the plan the Licensee has submitted to Ofgem as part of the process of Licence grant.

⁴³ DESNZ (2025), Conclusions on 4G Communications Hub only exchange site visit DCC charging mechanism and legal changes. smartenergycodecompany.co.uk/smart-metering-implementation-programme-desnz-conclusions-on-4g-communications-hub-only-exchange-site-visit-dcc-charging-mechanism-and-legal-changes

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11.19 We have made targeted changes throughout the Licence to allow some documents, approved under the Previous Licence, which remain in acceptable form and will be required under the new Licence, to continue to be in force until Ofgem approves their updated versions prepared by the new Licensee. We consider this to be a proportionate approach to ensure a smooth handover between DCC1 and DCC2, helping to limit the amount of administrative burden during the Handover Period.

Other comments received

11.20 One respondent submitted a response which raised numerous concerns relating to smart metering accuracy, access to half-hourly consumption data, billing transparency, and the handling of individual billing disputes with a domestic energy supplier. The submission also commented on perceived transparency issues in published DCC procurement and consultancy documents, and called for additional consumer-facing protections, including mandatory access to raw half-hourly data and enhanced billing standards.

11.21 The response did not directly engage with the scope or substance of the consultation, which focused on the structure, duties, and conditions of the Smart Meter Communication Licence. Although the specific concerns raised in the consultation response do not directly relate to the Licence draft, we noted the matters the respondent commented on. We consider that the regulatory framework and the Licence will adequately support the role of DCC in the smart meter communication ecosystem but encourage parties to raise specific concerns via appropriate channels and forums.

Appendix 1. New Smart Meter Communication Licence

Please see the subsidiary documents on the Ofgem webpage for final text of the new Smart Meter Communication Licence. We have included a redlined version comparing the final text to that of our September 2025 consultation.