

# Investigation summary and outcome

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Investigation into how Smart DCC Ltd (DCC) procured services from other companies.

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Ofgem's investigation reviewed DCC's procurement of five contracts awarded between 2021 and 2024. Of these, we determined that one contract was procured through a non-competitive process, but in accordance with the Principles of Procurement, and one contract was awarded to DCC's parent company, Capita. In considering these arrangements, Ofgem examined both the procurement processes followed, prevailing contextual factors and the outcomes achieved.

When considering the evidence presented to us in respect of a contract awarded to Capita, Ofgem concluded that DCC technically breached LC 16.4 when it awarded a Fundamental Service Capability (FSC) contract to its parent company Capita. The matter was resolved prior to this investigation, when Ofgem set out its position on the issue and DCC reprocured the contract with a different company.

**While Ofgem recognises that the procurement with parent company Capita did not lead to any identifiable consumer detriment, it notes that DCC should have processes in place to ensure that future FSC contracts are not awarded to companies where DCC is a Related Undertaking.**

Further to review of the evidence available to us in respect of the procurement of the other four contracts Ofgem has concluded, on the balance of probabilities, DCC did not breach the licence conditions within the scope of this investigation. In reaching this view, Ofgem has taken into account the specific facts of the procurements in question, including evidence provided by DCC in relation to pricing and delivery considerations.

During the course of the investigation Ofgem identified weaknesses in DCC's approach to documenting procurement decisions. Ofgem's investigative efforts were, in some instances, constrained by the availability and quality of contemporaneous records. In these cases, Ofgem relied in part on explanations provided retrospectively by DCC. Ofgem considers that this fell short of its expectations for a licensee of DCC's scale and role.

DCC has acknowledged that, as a monopoly provider procuring high-value and long-term services, ultimately funded by consumers, it must maintain clear and robust records of both procurement activity and the rationale underpinning its decisions in order to comply with LC 16.34 and 16.35.

In accordance with Ofgem's Enforcement Guidelines, Ofgem has decided to close this investigation by way of alternative action.

In recognition of the shortcomings identified, DCC has been working on improvements, and has agreed to complete the following actions:

1. DCC will make a payment of £200,000 into Ofgem's Voluntary Redress Fund.

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2. DCC will undertake the following programme of process improvement with regard to its procurements:

- a. improving procurement record-keeping standards;
- b. strengthening consistency in procurement decision-making;
- c. introducing additional procurement assurance checkpoints;
- d. enhancing procurement compliance training; and
- e. implementing independent validation of procurement controls.

DCC will provide evidence of progress against these workstreams to Ofgem and complete them by 31 March 2027.

Ofgem recognises that DCC has already commenced this program of work to enhance governance and provide greater assurance that its procurement activities appropriately reflect licence requirements and protect consumer interests.

Ofgem also notes that, through its separate annual price control processes, it has already disallowed a total of £402,000 of costs with future estimated cost disallowances totalling an additional £2.271 million<sup>1</sup> associated with the contracts under investigation awarded over the period 2021 to 2024. Taking account of these disallowed costs, together with DCC's payment to the Voluntary Redress Fund and its commitment to process improvements with regard to its procurement processes, and in accordance with Ofgem's Enforcement Guidelines, Ofgem has decided that it is appropriate to close this investigation by way of Alternative Action.

**Cathryn Scott, Regulatory Director of Market Oversight & Enforcement said:**

“Our regulatory framework places clear obligations on licensees to ensure that procurement decisions are fair, transparent and capable of withstanding scrutiny. This is particularly important where decisions involve affiliates or related parties, and where consumers ultimately bear the cost.

In this case, a breach in respect of a contract being awarded to a Related Undertaking has been noted but did not result in identifiable detriment to consumers. While not the subject of the investigation the enforcement team also saw evidence that record keeping in respect of high value procurement decisions was not at the level we would expect for a monopoly licensee funded by consumers.

Ofgem expects DCC to make further improvements in this area and be able to demonstrate that they comply with licence conditions in the future. Ofgem will monitor

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<sup>1</sup> [DCC Price Control Decision RY2223.pdf](#) - p.33, table 2.2, Contract 2

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progress against the program of agreed remedial activity to ensure it is completed to agreed timelines.

Ofgem recognises that DCC has cooperated with the investigation team and provided responses to information requests to agreed timelines in accordance with its obligations under Section 28 of the Electricity Act.”