



Making a positive difference
for energy consumers

DCC2 Ltd

Email: DCCregulation@ofgem.gov.uk

Date: 23 September 2026

Dear Company Secretary,

Direction issued to DCC2 Ltd to include as Pass-Through Costs payments made by DCC2 Ltd to the Previous Licensee in complying with conditions of the Previous Licence,¹ under Condition 24 of the Smart Meter Communication Licence²

1. This letter sets out the Gas and Electricity Markets Authority's³ decision to issue a direction to DCC2 Ltd⁴ to include as Pass-Through Costs payments made by DCC2 Ltd to Smart DCC Ltd (the "Previous Licensee") as reimbursement for expenditure incurred after the Transfer Date in complying with the conditions of the Previous Licence.
2. The direction is issued under sub-paragraph 17(f) of Condition 24.
3. Capitalised terms used in this letter have the meanings assigned to them in the Licence.
4. This letter together with the Authority's September 2026 Decision⁵ constitutes notice under section 38A of the Gas Act 1986 and section 49A of the Electricity Act 1989.

Context

5. Licence Condition 24 Part A provides that the Licensee's Required Revenue in relation to Regulatory Year ("RY") t is to be determined by the Authority in accordance with the

¹ The Smart Meter Communications Licences granted by the Secretary of State to Smart DCC Ltd on 23 September 2013 pursuant to sections 7AB(2) and (4) of the Gas Act 1986 and sections 6(1A) and (1C) of the Electricity Act 1989 (such licences together referred to as 'the Previous Licence').

² The Smart Meter Communications Licences granted by the Authority to DCC2 Ltd on 14 April 2026 pursuant to section 7AB(1) of the Gas Act 1986 and section 6(1)(f) of the Electricity Act 1989 (such licences together referred to as 'the Licence').

³ The Office of the Gas and Electricity Markets (Ofgem) supports the Gas and Electricity Markets Authority ('the Authority') in its day-to-day work. In this consultation letter, 'we', 'Ofgem' and 'Authority' are often used interchangeably.

⁴ DCC2 Ltd is registered in England and Wales under Company Number 16740622.

⁵ Ofgem (2026), Determination of DCC's Required Revenue: November 2026 to March 2028. [to be published at] www.ofgem.gov.uk/consultation/dcc-price-control-november-2026-march-2028

Required Revenue formula.⁶ The Required Revenue formula, in relation to each RY t , comprises the following terms: $EC(t)$, $IC(t)$, $PTC(t)$, $VASC(t)$.

6. Under paragraph 17 of Condition 24 Pass-Through Costs means, in relation to a Regulatory Year t , the sum of the amounts paid by the Licensee to:
 - (a) the Authority under Condition 4 (Licensee's payments to the Authority),
 - (b) SECCo Ltd for purposes associated with the governance and administration of the SEC,
 - (c) AlthANCo Ltd for purposes associated with the Alt Han Arrangements,
 - (d) RECCo Ltd for the purposes associated with the Centralised Registration Service,
 - (e) Energy Suppliers as Reimbursement Amount for the purposes of the CH Replacement Reimbursement Service,
 - (f) any other person in accordance with a direction given to the Licensee by the Authority.
7. On 15 January 2026, pursuant to Condition 43 Part B of the Previous Licence, the Previous Licensee was notified by the Authority that the Handover Period was in force and that the Transfer Date⁷ would occur on 2 November 2026.⁸ On this date, the Previous Licensee will stop undertaking Authorised Business although it will remain the holder of the Previous Licence.
8. The Previous Licensee will continue to hold the Previous Licence until its expiry and will be obligated to comply with its conditions (with the exception of those conditions which the Authority has directed will cease to have effect pursuant to paragraph 24 of Condition 43 of the Previous Licence).⁹
9. In December 2025 the Authority decided¹⁰ that costs incurred by the Previous Licensee after the Transfer Date¹¹ deemed eligible by the Authority for compliance with conditions under the Previous Licence will be recoverable via the Licensee's Required Revenue. The Authority has determined the Licensee's Required Revenue under Licence Condition 24 Part A. The Authority has included in its calculation its view of economic

⁶ Under paragraph 4 of Condition 24

⁷ Transfer Date has the meaning given to that term in Condition 43 of the Previous Licence.

⁸ This notice superseded a previous notice issued in September 2025.

⁹ Ofgem (2026), Direction on disapplication of Smart Meter Communication Licence conditions.

www.ofgem.gov.uk/decision/direction-disapplication-smart-meter-communication-licence-conditions

¹⁰ Ofgem (2025), Decision: Financing arrangements for DCC1 and DCC2 during Business Handover.

www.ofgem.gov.uk/consultation/financing-arrangements-dcc1-and-dcc2-during-business-handover

¹¹ Defined in Condition 43.7 of the Previous Licence, designated by the Authority pursuant to that condition to occur on 2 November 2026.

and efficient costs likely to be incurred by the Previous Licensee in complying with the conditions of the Previous Licence.

10. The **Authority directs that:**

(a) Payments made by the Licensee to the Previous Licensee as reimbursement for expenditure incurred after the Transfer Date in complying with the conditions of the Previous Licence are Pass-Through Costs pursuant to paragraph 17(f) of Condition 24.

(b) Amounts shall be included as Pass-Through Costs in relation to each Regulatory Year t:

(i) up to (but no more than) £1.449 million in the First Regulatory Year; and

(ii) up to (but no more than) £1.644 million in the Regulatory Year 2027/2028.

(c) The total payments made by the Licensee to the Previous Licensee as Pass-Through Costs shall not exceed £3.093 million unless the Authority issues a further direction under Condition 24.

(d) The payment of these Pass-Through Costs from the Licensee to the Previous Licensee shall be subject to a written agreement entered into by both parties for that purpose.¹²

The direction is contained in the Appendix 1 to this letter.

Yours sincerely,



Heather Stewart

Deputy Director, Retail Smart Systems & Processes

Signed on behalf of the Authority and authorised for that purpose

23 September 2026

¹² The Financial Payments Deed executed on 8 July 2026

Appendix 1 - Direction issued to DCC2 Ltd to include as Pass-Through Costs payments made by DCC2 Ltd to the Previous Licensee in complying with conditions of the Previous Licence, under Condition 24 of the Smart Meter Communication Licence

For and on behalf of the Gas and Electricity Markets Authority

DIRECTION PURSUANT TO LICENCE CONDITION 24.17(f) OF THE SMART METER COMMUNICATION LICENCES (the "Licence")¹³

To: DCC2 Ltd (16740622)

Whereas:

1. DCC2 Ltd (the "Licensee") is the holder of the Licence granted pursuant to sections 7AB(1) of the Gas Act 1986 and 6(1)(f) of the Electricity Act 1989.
2. Paragraph 17(f) of Condition 24 of the Licence allows the inclusion of payments made by the Licensee to certain persons in accordance with a direction given by the Authority as Pass-Through Costs.
3. Paragraph 10(a) of Condition 2 allows the Authority to issue directions subject to such terms and conditions as the Authority thinks will be appropriate in all the circumstances of the case.

Therefore:

4. The Authority directs that payments made by the Licensee to the Previous Licensee as reimbursement for expenditure incurred after the Transfer Date in complying with the conditions of the Previous Licence are Pass-Through Costs pursuant to paragraph 17(f) of Condition 24.
5. The Authority directs that those Pass-Through Costs in relation to each Regulatory Year shall be:
 - (a) up to (but no more than) £1.449 million in the First Regulatory Year; and
 - (b) up to (but no more than) £1.644 million in the Regulatory Year 2027/2028.

¹³ Capitalised terms used in this Direction have the meanings assigned to them in the Licence.

6. The total payments made by the Licensee to the Previous Licensee as Pass-Through Costs shall not exceed £3.093 million unless the Authority issues a further direction under Condition 24.
7. The payment of these Pass-Through Costs from the Licensee to the Previous Licensee shall be subject to a written agreement entered into by both parties for that purpose.

This Direction has effect from the date stated below.



Heather Stewart

Deputy Director, Retail Smart Systems & Processes

Signed on behalf of the Authority and authorised for that purpose

23 September 2026