

To the customers of the Data
Communications Company and
other interested parties

Metering and Market Operations
Email: smartmetering@ofgem.gov.uk

Date: 1 February 2021

Dear colleagues,

**Call for evidence: Review of the regulatory arrangements for the Data
Communications Company**

Ahead of taking decisions on future DCC licence arrangements, we are initiating a review of the current regulatory framework for the Data Communications Company (“the DCC review”). The aim of the DCC review is to determine the appropriate future regulatory arrangements for DCC, and we anticipate that any changes would come in to place when the current licence expires in September 2025.¹ For avoidance of doubt, we do not anticipate making any changes to the current DCC licence arrangements through this review. However, we will continue to monitor and drive DCC performance against its licence, including through the existing price control assessment process and the OPR performance regime.²

The first phase of the DCC review will focus on agreeing and defining our scope; in particular, during this phase we are seeking to:

- establish the outcomes we want DCC to contribute to in the period 2025-2040;

¹ Subject to extension of the current licence by the Authority under Part 1 Section C of the [Smart Meter Communication Licence](#).

² In October 2020, we published our [decision on the revised OPR](#). We are currently [consulting](#) on guidance to enable its implementation.

- assess the effectiveness of the current regulatory arrangements in light of experience to date, agree key issues and identify what we would like future arrangements from 2025 to achieve;
- determine which parts of the current DCC regulatory arrangements will be subject to review; and
- develop principles and objectives that will guide the review.

We invite stakeholders to share views and evidence to inform our approach towards, and the scope of, the DCC review. This call for evidence provides an early opportunity for stakeholders to influence the trajectory of the DCC review. We will continue to engage stakeholders throughout the review to ensure that all parties have visibility of our work and know how to get involved.

We are keen to hear views and receive contributions from the full range of stakeholders, including DCC's present and potential future customers, consumer groups, and other interested parties to ensure a variety of perspectives are represented. We have set out terms of reference to inform feedback in *Annex 1*, which stakeholders should consider when providing views and evidence, and an overview of DCC's current regulatory arrangements and our rationale for the review in *Annex 2*.

Indicative timeline

Alongside this call for evidence, we will also invite further targeted engagement with stakeholders. We anticipate holding a workshop before consulting on our preliminary findings and minded-to position on the scope and principles of the review in autumn 2021.

In the following phases, we will identify, develop, and consult on specific options for the future DCC regulatory arrangements. We will continue regular engagement with the industry and maintain a collaborative relationship with stakeholders. Specific timelines will be shaped by the outcomes of the scoping phase; nevertheless, our aim is to deliver a comprehensive review of the DCC regulatory model in time to inform decisions and actions to address the end of the current licence term.³

To inform our thinking and approach throughout, we will also draw on lessons and principles of other reviews, such as the recent review of GB energy system operation.⁴

³ Part 1 Section A of the [Smart Meter Communication Licence](#)

⁴ You can find the full report here: [Review of GB energy system operation](#), Ofgem, January 2021

How to respond

You can respond to this call for evidence by emailing smartmetering@ofgem.gov.uk by 26 March 2021. We will publish the non-confidential responses we receive on our website. Please indicate in your response whether its contents, whole or in part, should be treated as confidential, and, if possible, please place the confidential material in separate appendices to your response. For more information on data protection and confidentiality, please see the *Appendix*. Should you wish to discuss the DCC review further, please contact Leigh Rafferty directly at Leigh.Rafferty@ofgem.gov.uk.

Yours sincerely,

Jacqui Russell
Head of Metering and Market Operations

Annex 1: Terms of Reference

This call for evidence focuses on the initial stage of the DCC review, expected to run until autumn 2021, during which we are looking to agree and define our scope. The outcome of this first phase will be crucial to informing our subsequent work on the review.

We are therefore looking to understand your views and gather evidence on the following matters, which will be central to the first phase of our work:

- the future role of a DCC, the scope of its objectives and of its authorised business post-2025 to support smart metering across GB;
- the extent to which the regulatory framework should enable DCC to offer additional services to the broader energy sector, and to non-energy sector users, and the potential nature of such services;
- the extent to which DCC should deliver its services through contracted service providers or directly itself;
- the effectiveness of the current regulatory framework and enduring governance structures in ensuring DCC meets its objectives and provides value for money. We invite evidence in support of alternative approaches which could drive performance in the future;
- the key aspects of DCC's business that stakeholders consider crucial to their own activities in the present and future energy market over the timeframe to 2040;
- DCC's role in enabling the transition to net-zero by 2050;⁵ and
- optimal arrangements for DCC's compliance, cost control, and incentive regimes, among others.

This list is non-exhaustive, and we remain open to all views and evidence that you deem relevant.

Our initial view is that the regulation and delivery of the central registration service (switching) and DCC's activities in support of this programme should remain outside the scope of this review. However, we are interested in your views on this matter.

⁵ See [Energy White Paper](#), BEIS, December 2020

Annex 2: DCC Regulatory Overview and Rationale for the Review

The Data Communications Company (DCC) is responsible for establishing and operating a secure national communications network for smart metering in Great Britain. It operates under the conditions of the Smart Meter Communication Licence, which was originally awarded by the government in 2013 and which defines DCC's objectives and business.⁶

DCC's mandatory business⁷ focuses on facilitating the rollout of smart meters to energy consumers in GB, and the maintenance of a functional infrastructure enabling secure two-way communications between smart meters and DCC users (suppliers, network companies and other third parties). Within that, the DCC procures and manages a number of service providers, working to maximise and maintain the smart network coverage across GB geography, facilitate the enrolment and adoption of the first generation (SMETS1) meters, and is the delivery partner for Ofgem's centralised registration service (switching) programme.

As a monopoly company, it is crucial that DCC face appropriate controls and incentives to deliver quality service and value for money to its users and energy consumers. Ofgem oversees DCC's compliance with the provisions set out in the licence, the Smart Energy Code (SEC)⁸ and the Retail Energy Code (REC).⁹ Under the licence, Ofgem carries out an annual *ex-post* price control to ensure that the costs, which DCC incurs in each regulatory year, are economic and efficient. DCC is also incentivised under performance regimes, putting DCC's margin at risk. These comprise the Operational Performance Regime (OPR), which currently assesses DCC's system performance against a set of metrics, and the Baseline Margin Project Performance Adjustment Schemes (BMPPAS), which are determined by BEIS for specific projects.

To offset a portion of its costs, DCC is also permitted to offer additional value-added services (VAS), provided that these services do not prejudice DCC's ability to carry out its mandatory business. This allows DCC to offer services which are not solely related to the supply of energy, with the aim of using additional revenue generated to help reduce charges payable by DCC's customers. At present DCC does not offer such services and their provision is subject to Ofgem's approval.¹⁰

⁶ Conditions 5 and 6 of the [licence](#)

⁷ As defined in LC 6 Part B

⁸ SEC is a multi-party agreement which enshrines the rights and responsibilities of parties involved in the end-to-end management of smart metering in Great Britain. For more information, see [Smart Energy Code](#).

⁹ REC sets out the transitional requirements on suppliers, DNOs and Gas Transporters to play their part in the design, build and test of the new systems and processes for faster, more reliable switching. For more information, see <https://www.retailenergycode.co.uk/>

¹⁰ Under LC 6.12

The licence also sets out specific conditions with regards to how DCC conducts itself in a number of areas. This includes, for example, conditions relating to the nature and conduct of DCC's business, conditions relating to financial and ring-fencing provisions, and conditions regarding the provision of regulatory information, among others.

These regulatory arrangements were put in place when DCC was first established in 2013, when the Smart Meter Communication licence was granted. Now that the smart metering system is up and running, and with the current DCC licence due to expire in 2025, we are reviewing these arrangements and, as a result, anticipate introducing reforms to ensure that they remain fit for the future.

Appendix: Your response, data and confidentiality

You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

If the information you give in your response contains personal data under the General Data Protection Regulation 2016/379 (GDPR) and domestic legislation on data protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000.

If you wish to respond confidentially, we will keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.