



DCC Review Phase 2: Objectives, operational model, and future role of DCC

Smart DCC Response

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1 Executive Summary

The government has put delivering clean power by 2030 at the heart of one of its five missions. Beyond the obvious environmental benefits, achieving clean power has the potential to drive growth, reduce bills and underpin energy security. While much of the focus in realising this ambition has been on building new physical infrastructure to generate and transmit electricity, the digital infrastructure that underpins a smarter, greener, fairer system is equally vital.

The smart metering network, and the data transmitted across it, are part of the critical digital infrastructure required across Great Britain to make government ambitions a reality. It is already helping enable the energy system to transition to a smarter, greener future while empowering consumers to make informed choices on energy use and access the most appropriate products and services.

At the time of writing, there were more than 35.5 million meters in 21.3 million premises connected to the smart metering network, with over 2.6 billion messages sent each month. Operating at scale, with an increasingly important role to support our customers requires DCC to deliver strong operational performance. Headline performance in financial year 2024/25 has remained exceptionally strong, with service availability of 99.97% for smart metering and 100% switching success rate. Customers are looking to DCC to do everything in its power to maintain or improve these levels of performance as we continue to upgrade the network.

Since Licence award in 2013, the network DCC has built and the services it provides have changed dramatically. It has been able to adapt to help support government energy policy, including delivering a Centralised Switching Service and facilitating Market Wide Half Hourly Settlement. Looking forward, we need to plan for similar changes as the network could be deployed to deliver more services and support government policy even further. This will mean the regulatory regime needs to be flexible and capable of changing quickly.

Much of the DCC network's untapped potential resides in its data – information that DCC cannot currently access. Enabling DCC to gain access to data traversing its system has the potential to advance Net Zero aspirations in several areas, for example allowing us to diagnose and fix non-communicating meters. The DCC network has the potential to evolve in other ways to support government policy delivery, such as facilitating the move to a more distributed system, accelerating the take up of time-of-use tariffs and allowing fuel poor households to be identified more accurately so that support can be provided.

Given the pace of technological change, the need to protect GB energy bill payers' investment in the network, and to ensure DCC continues to focus on the needs of its customers and end consumers, the licence must be kept fit-for-purpose. DCC strongly supports clear objectives, more flexible and faster regulatory change, and a single point of ownership of the technological architecture of the system. Focussing DCC2's remit on Net Zero will help ensure that it is not distracted by other opportunities beyond this key government priority and will allow us to deliver the Mandatory Business as efficiently as possible.

In designing and awarding the Successor Licence, it will be important for Ofgem to consider the current status of the wider energy landscape and how it might evolve. Because of a lack of clarity on what DCC should and should not invest in over the last few years, other market participants have started to develop propositions that duplicate some of DCC's functionality. Without coordination and consolidation of this activity GB energy customers will foot the bill for inefficient and duplicative services that they are likely to have already invested in through charges paid to DCC.

2 Introduction

We are pleased to submit our response to Ofgem's consultation¹ on the future role of DCC that was published on Monday 2 June 2025.

The remainder of this document is structured as DCC's specific response to each of Ofgem's consultation questions, grouped into three main areas:

- Successor Licensee's strategy and objectives;
- Operational Model, and
- Scope and governance for the evolution of Authorised Business.

¹ <https://www.ofgem.gov.uk/consultation/dcc-review-phase-2-objectives-operational-model-and-future-role-dcc>

3 Successor Licensee's strategy and objectives

This section covers the first eight questions within Ofgem's consultation.

3.1 Ofgem Question 1 Business Strategy and Technology Roadmap document

Q1. What are your views on our proposal to set DCC2's long-term strategy through the proposed Business Strategy and Technology Roadmap document? What are your views on the document's scope, content and the timeframes?

Scope, content and timeline

DCC supports the creation of a Business Strategy and Technology Roadmap (the "**Roadmap**") to provide the overall strategy for the future of DCC2's network and systems. There should be a revised Condition 14 in the DCC2 Licence covering this requirement. We agree the Roadmap should cover the longer-term horizon (e.g. 25 years) and propose that it should only be updated every three years rather than annually. The update cycle for the Roadmap should coincide with the relevant three-year ex-ante Price Control. However, there should be flexibility to provide additional updates to the Roadmap where critical policy decisions materially influence DCC's operations.

To allow the efficient production and refinement of the Roadmap, it is important that the approval regime is properly specified and clearly understood. We propose that the new independent DCC2 Board approves the Roadmap rather than Ofgem or the Department. We believe this is an appropriate function for the independent DCC2 Board to have and does not impinge upon Ofgem's ability to scrutinise and approve DCC's planned activities because they would be funded through the ex-ante Price Control. Before the DCC2 Board's approval, the Roadmap would be subject to public consultation with stakeholders, as well as direct engagement with the Technical Architecture and Business Architecture Sub-Committee (TABASC) of the Panel, DESNZ, and Ofgem.

DCC considers the scope and content of the Roadmap should predominantly focus on principles rather than setting out specific technologies that should be adopted. For example, DCC supports a 'Cloud First' strategy, which means the use of cloud components is prioritised over traditional on-premises IT infrastructure. This principle, and similar, would avoid setting mandates for specific technologies and platform providers which could exclude potential partners and conflict with the proposed Supporting Objective to facilitate competition. Agreed principles will also enable DCC to adapt to future changes in technology and industry demands.

The Roadmap principles should also include how the planned technology procurement should maximise the network reach whilst ensuring economic efficiency (points 1 and 7 in paragraph 2.10). DCC are already working to these principles using commodity technologies as they offer a more cost-effective solution compared to proprietary technologies.

However, there is a need for DCC to understand customers' future demands and developments. Formalising principles for stakeholder input in the Roadmap along with a pragmatic and collaborative engagement with industry will further balance demand and cost, whilst also ensuring that DCC cannot be held accountable for requirements that were unknown at the point a decision needed to be made.

Unlocking the potential of the network

DCC's network is a unique component of GB's energy infrastructure and has the potential to benefit energy consumers significantly more than at present. The data moved across our network has a wide range of use cases that could be unlocked through regulatory change.

An example of a future area that may be included in the Roadmap are changes to permit network use by DCC to report on, and diagnose faults with, non-communicating devices on its network. There are economic efficiency gains from DCC undertaking such analysis across the whole network.

DCC broadly supports that the Roadmap sets out key decisions, trends and factors that are likely to affect the ongoing delivery, performance and future development of the Authorised Business (points 2 and 3 in paragraph 2.10). We also believe that these main trends must include realistic customer forecasts for the expected future usage of DCC's services to support the Roadmap (and subsequent procurement). As we have seen in the DCC1 Licence period, usage forecasts have been extremely unreliable and systematically understate the actual demands on the network.

There are areas where DCC is uniquely placed to understand future network issues, such as long-term connectivity. This is because of DCC's role in the production, ordering and delivery of Communications Hubs (which require refresh) and overseeing the transition to next generation telecommunications. It is therefore imperative that DCC owns the long-term connectivity strategy and challenges associated with the pace of technological change. Consideration should also be given to the breadth of the Roadmap as there are other important design factors that need consideration e.g. the strategic development of the Home Area Network (HAN) protocols to ensure interoperability.

A further area where DCC is uniquely placed is predicting and preventing security threats. For example, the National Cyber Security Centre has recently issued an advisory on the impact of quantum computing. Across the medium term, these quantum computing threats have wide-ranging impacts on technology in various parts of the existing and future DCC ecosystem.

DCC agrees with Ofgem's proposals in points 4, 5, and 8 (paragraph 2.10) to include market analysis, support Code Managers with the delivery of Ofgem's Strategic Direction Statement (SDS), and the interactions with other technologies. Horizon scanning should be a key part of the strategy to mitigate the impact of technology sunseting and obsolescence.

DCC is engaged in Ofgem's Energy Code Reform and has emphasised the importance of aligning the licensing of a SEC Code Manager and the regulatory review of DCC. Otherwise, there is a significant risk that there will not be sufficient bandwidth to address all the matters that Ofgem is planning (such as enhanced customer engagement) and how these align with the obligations on strategies and delivery documents.

Measurement metrics for implementation of the strategy should be part of the revised performance and delivery incentives. The incentive framework which is due to be consulted on by Ofgem in advance of business handover, should align to the principles in the agreed strategy to hold DCC2 and its Service Providers accountable.

3.2 Ofgem Question 2 - Procurement Strategy

Q2. Do you agree with our proposal to amend the approval process for the Procurement Strategy?

DCC supports Ofgem's proposal to consult stakeholders on changes to the Procurement Strategy. However, it is important that DCC and Ofgem have a common understanding of what constitutes good engagement. The Procurement Strategy should include details of how forecasts for customer usage of DCC's services are captured and validated. DCC considers this is vital for ensuring economic and efficient procurement outcomes. During the most recent update of the Procurement Strategy, DCC engaged with customers to ensure we developed a new approach that was fit-for-purpose while preserving the underlying principles of the Licence. We would reiterate that historical requirements placed on DCC1 to almost always use long, complex, expensive procurement processes for even small value contracts has not been an efficient way to run the business. While we believe there is value in a HMT Green Book style procurement process for large contracts, we are not subject to public procurement rules and believe a more balanced approach is needed.

Following consultation with DCC's customers and Ofgem's non-objection, DCC's Procurement Strategy has recently been revised to better reflect modern procurement standards. Consequently, we do not believe there is a pressing need for further change at this point.

DCC proposes that the change process for the Procurement Strategy should be aligned to the Charging Methodology regime (LC18.7) i.e. DCC reviews the strategy once in each Regulatory Year to determine

whether any changes are necessary to better achieve the procurement principles set out in Part B of Condition 16.

3.3 Ofgem Question 3 - Primary Objective

Q3. Do you agree with our proposal to set a Primary Objective for the Successor Licensee? What are your views on its proposed intent and wording?

DCC is supportive of a clear and unambiguous Primary Objective that focusses on delivering the Mandatory Business in an economic and efficient manner.

However, DCC considers it is important that the Primary Objective specifically refers to supporting the energy sector in achieving the transition to the Net Zero carbon target. DCC notes this is consistent with NESO's and Elexon's objectives. Additionally, Net Zero is a key tenet within Ofgem's recent decision on the framework for RIIO-ED3 where Ofgem states "*We have structured the ED3 framework so that its various elements contribute to the delivery of four consumer outcomes: networks for net zero, responsible and sustainable business, smarter networks and resilient networks.*"²

Without a clear purpose to anchor DCC2's activities, there is a risk that as the technological landscape evolves and the organisation is facing more complexity than ever before, it may make sub-optimal choices about where to invest its resources.

DCC was established to perform a key role in the delivery of Net Zero and it is important that this is reflected in our Primary Objective. As such DCC proposes the following amendment to the new Primary Objective:

The Primary Objective of the Licensee is to carry on the Mandatory Business in the manner best calculated to facilitate achievement of the UK government's Net Zero carbon target as set out in the Climate Change Act 2008 and is most likely to ensure the ongoing development, operation, and maintenance of an efficient, economical, co-ordinated, and secure system for the provision of Mandatory Business Services under the Smart Energy Code and (where relevant) the Retail Energy Code.

3.4 Ofgem Question 4 - First Supporting Objective

Q4. What are your views on the proposed First Supporting Objective? Do you agree that it should focus on enabling competition and innovation and its proposed wording? Do you agree that DCC2 should have an objective to foster competition in the services that it procures when carrying out its Mandatory Business?

In principle, DCC welcomes the inclusion of facilitating innovation in energy supply by DCC's customers in the First Supporting Objective. However, the definition of innovation is inherently broad. It would be helpful for Ofgem to be specific on what constitutes in-scope innovation in this context given previous concerns Ofgem has raised regarding DCC's prior innovation spending on such matters.

We are concerned about the proposed inclusion of competition and innovation together in the same objective. Innovation and competition are two different concepts and, to avoid unnecessary confusion, they should not coexist in the same objective. It would be prudent to split these elements into two separate objectives.

DCC disagrees with the drafting (in square brackets) that would give DCC2 an obligation to facilitate competition in the supply chain (i.e. External Service Providers). Competition between potential External Service Providers is vital but should not be in a Supporting Objective as it is already captured by the 'economic efficiency' element of the proposed Primary Objective. In addition, DCC notes that this requirement is already captured by the Procurement Strategy requirements set out in Condition 16. Thus,

² Paragraph 1.9 - <https://www.ofgem.gov.uk/decision/framework-decision-electricity-distribution-price-control-ed3>

DCC considers that this proposed element is unnecessary given the Procurement Strategy which sets out how we must procure value for money services and prescribes competition in the supply chain. DCC also notes that the Competition Act 1998 also applies and does not need augmenting in the Licence.

DCC proposes the following amendments to the First Supporting Objectives as drafted:

The First Supporting Objective of the Licensee is to carry on the Mandatory Business in the manner that is most likely to facilitate ~~innovation by its Users and~~ effective competition between ~~[External Service Providers from whom Relevant Service Capability is procured and]~~ persons engaged in, or in Commercial Activities connected with, the Supply of Energy under the Principal Energy Legislation.

The Second Supporting Objective of the Licensee is to carry on the Mandatory Business in the manner that is most likely to facilitate innovation by persons engaged in, or in Commercial Activities connected with, the Supply of Energy under the Principal Energy Legislation.

3.5 Ofgem Question 5 - Second Supporting Objective

Q5. What are your views on the proposed Second Supporting Objective? Do you agree with its focus on sustainability and the proposed wording?

Consistent with our response to Q3, DCC considers it imperative to have a primary objective to facilitate the Net Zero carbon target as set out in the Climate Change Act 2008. We consider it vital to distinguish between 'sustainability' and 'Net Zero' in the context of DCC's objectives as these are fundamentally different concepts. The proposed drafting is focussed on energy supply to be provided in a 'sustainable and secure' manner, rather than an explicit 'sustainability' objective. DCC supports the drafting of this Supporting Objective as proposed and notes it is aligned to the existing DCC objective in LC5.10 (b).

DCC proposes the following drafting amendments to the Second Supporting Objective as drafted:

The ~~Third~~^{Second} Supporting Objective of the Licensee is to carry out the Mandatory Business in the manner ~~most likely to~~^{that will best} contribute to the delivery of a sustainable and secure Supply of Energy under the Principal Energy Legislation.

3.6 Ofgem Question 6 - Third Supporting Objective

Q6. What are your views on the proposed Third Supporting Objective? Do you agree with its focus on consumer impacts and the proposed wording?

DCC supports Ofgem's proposal for a Supporting Objective to focus on consumer impact. As a company funded by energy customers across GB, we are committed to providing services that are mindful of the impact on consumers. Whilst, we must be cost efficient, we also need to deliver a stable service with good geographic coverage and improving connectivity as the smart metering rollout continues.

We note that this proposed Supporting Objective is aligned to equivalent licence requirements on network operators and energy retailers regulated by Ofgem. However, it should be noted that the extent the Mandatory Business is consumer-focussed will be challenging to measure given that many elements of interaction with consumers are by DCC's customers rather than directly with DCC. Thus, we will need to engage closely with our customers and other stakeholders to ensure our services remain consumer-focussed.

We also consider that the proposed drafting in the Third Supporting Objective is confusingly circular as it requires DCC to perform our Mandatory Business to deliver the consumer-focussed Mandatory Business Services. As such, DCC proposes the following amendments to the drafting (also noting the typographical error, 'General' should be 'Supporting'):

The ~~Fourth~~^{Third} ~~General~~ ^{Supporting} Objective of the Licensee is to carry out its Mandatory Business in the manner ~~most likely to~~^{that will best} contribute to the delivery of consumer-focussed ~~Supply of Energy under the Principal Energy Legislation~~ ^{Mandatory Business Services}.

3.7 Ofgem Question 7 - Transitional Objective

Q7. Do you agree with the proposed transitional objectives and the four proposed aims of this objective? Does this objective sufficiently capture the key expected milestones during the transition?

DCC agrees that including a Transitional Objective in the DCC2 Licence is prudent. DCC notes that the government included similar objectives covering the initial establishment for the first licence award.

Ofgem do not propose any dates for completion of each element within the Transitional Objective; rather it is planned that the DCC2 Licence will include provisions to allow Ofgem to determine the timeline for each transitional outcome via direction. DCC welcomes this pragmatic approach and notes that early sight of the intended timelines would be helpful for all stakeholders.

The consultation sets out four aims for the proposed Transitional Objective and these are considered in turn. Additionally, DCC proposes an additional aim for the Transitional Objective related to the final ex-post price controls for DCC1.

3.7.1 Transitional Objective - Aim (a) Complete Handover

a) Carry out and conclude the transfer of Authorised Business in a manner most likely to ensure an effective business handover, and with no material adverse impact on the quality and efficiency with which services are delivered

DCC agrees that it will be important for DCC2 to promptly complete business handover in a manner such that the Authorised Business is not impacted adversely. In order to facilitate this transitional objective, a contractual arrangement between DCC1 and DCC2 (the 'cooperation agreement') must be established to clearly set out the rights and obligations needed between DCC1 and DCC2 to robustly deliver transfer. This 'cooperation agreement' will also document the areas of support that DCC1 will need from DCC2 to allow robust and efficient closure of DCC1 (i.e. final price controls).

3.7.2 Transitional Objective - Aim (b) Exit Transitional Arrangements

b) Ensure that any Transitional Arrangements for services provided by Smart DCC Ltd or its Affiliated or Related Undertakings are exited in a timely manner

Consistent with the Business Handover Plan, DCC will not be providing any services under the envisaged Transitional Services Agreement, these will only be provided by Capita to DCC2 and for a maximum period of 12 months. DCC agrees that any transitional services that continue to be provided by Capita under the Transitional Services Agreement are promptly replaced with an economically efficient enduring solution.

3.7.3 Transitional Objective - Aim (c) Prepare Initial Roadmap

c) Prepare the Business Strategy and Technology Roadmap document

Ofgem is proposing an enduring requirement to prepare the Roadmap on a regular basis (See Q1). Therefore, DCC proposes that the Transitional Objective should determine the schedule for production of the initial Roadmap noting that this will be a critical priority for DCC2. DCC proposes that the initial Roadmap is prepared in a timescale that aligns with the production of the second ex ante price control business plan (i.e. starting in Q2 2026).

DCC can confirm that initial considerations to support the subsequent production of the Roadmap by DCC2 are underway to provide input into the initial Ex Ante Business Plan.

3.7.4 Transitional Objective - Aim (d) Review External Contracts

d) Undertake a review of the External Service Provider contracts novated from the Previous Licensee with a focus on driving efficiencies and cost reduction

Ofgem is proposing that DCC2 undertakes a full review of the novated contracts with a focus on economic efficiency. There is an inconsistency in Ofgem's consultation; section 2.47 refers solely to External Service Provider contracts whereas sections 2.52 and 2.53 set out a broader scope of all novated contracts. Ofgem should clarify their exact requirement when drafting the DCC2 Licence. In principle, DCC considers this review should not be included as presently drafted (as a transitional objective) as it will not efficiently deliver economic benefits.

If a contractual review is included in the Transitional Objective, then Ofgem should clearly set out the policy rationale underpinning this proposal and capture the detailed scope of this review requirement within the DCC2 Licence drafting. Such detailed scope must also include parameters for the review (e.g. only focussing on larger contracts above a threshold where it is envisaged that tangible benefits may be realised) and require an implementation plan to ensure delivery of intended benefits.

There is also a risk that Service Providers will seek additional changes (to their advantage) alongside anything proposed by DCC2, resulting in no net benefit to customers but increased commercial resource costs to review the contracts. It will also be vital to set out the evidence requirements for the review and any requirements on assurance/reporting.

Ofgem should note that any required review activity will be factored into the initial Ex Ante Business Plan (covering the period between November 2026 and March 2028) as DCC2 would need additional external resources (over and above the current contract management resource) to support this significant additional programme of work. Additionally, to effectively deliver efficiencies and cost reductions the scope of the focussed review should be broader to take account of the SEC requirements i.e. the assessment should consider the full supply chain model i.e. how those services are contracted for and what services are delivered to customers. Without this broader scope, the likelihood of successful economic efficiency is materially reduced.

Additionally, DCC notes that many of the key Service Provider contracts are recently re-procured long term contracts where the terms have been reviewed and economic efficiency has been assessed within the award process. There are also some Service Providers that are single source (e.g. for specific SMETS1 cohorts where there is existing IPR not owned by DCC) and so further efficiency gains will be extremely limited. Given this status for the various contracts DCC considers there will be very limited benefit arising from such a broad review. Furthermore, DCC is concerned that this review requirement is a significant and resource intensive undertaking. Thus, DCC does not believe there is a robust business case to proceed with a broad contract review, and it should be a decision to be made by DCC2 following their due diligence.

Finally, Ofgem should note that this review requirement may influence the DCC2 selection process as some potential applicants may consider this transitional activity a deterrent to bidding to be DCC2.

3.7.5 Additional Transitional Objective - Aim (e) Ex post Price Controls

(e) DCC2 to provide support to complete DCC1's price control determinations covering the final two regulatory years (April 2025 to March 2026, and expected to be April 2026 to November 2026)

Following the business handover from DCC1 to DCC2 (currently planned for November 2026), there are two final ex post price controls to be completed in relation to DCC1's Licence. These price control processes will need to be completed before DCC1's Licence expires in September 2027. On the basis that the business is transferred to the DCC2 Licensee in November 2026, these are the two ex post price controls to conclude under the residual DCC1 Licence:

- Regulatory Year - April 2025 to March 2026 – finalised by February 2027; and
- Regulatory Year - April 2026 to November 2026 – finalised by September 2027.

Because all current staff and resources (including data systems and reporting) will have been transferred from DCC1 to DCC2, these final ex-post price controls will need to be supported by DCC2 to avoid inefficient duplication of efforts and data errors. Thus, to deliver these final ex post price controls, DCC1 and DCC2 must collaborate, despite the inherent misalignment within the broad business drivers (one being for profit and the other not).

As DCC1 and DCC2 will have different objectives for completing the final ex-post price control submission, collaboration and cooperation must be enforceable. This can be done directly in the Licence or via contractual arrangements that are legally binding, for example through DCC1 and DCC2's licences requiring the parties to sign a cooperation agreement. To further formalise this cooperation, we propose Ofgem includes an additional aim within the Transitional Objective related to supporting DCC1's final price control processes.

3.8 Ofgem Question 8 - Approach to Objectives

Q8. What are your views on the proposed weighting of the objectives and the possible review of the objectives? Do you have any other views on the proposed objectives?

DCC agrees that there should be a dominant Primary Objective, and the Supporting Objectives considered in the round. DCC agrees that DCC2 should be able to review and propose objectives to Ofgem; this would be possible within the regime Ofgem has set out in the consultation document. Ofgem's approach will complement the Roadmap and facilitate DCC2 having an active role in shaping its objectives.

4 Operational Model

This section covers the questions 9 to 12 within Ofgem's consultation.

4.1 Ofgem Question 9 - Fundamental Service Capability

Q9. What are your views on the definition of Fundamental Service Capability? Do you agree that the distinction between fundamental and non-fundamental Relevant Service Capability remains relevant in the new regime? If not, why?

Whether the distinction between Fundamental Service Capability and Relevant Service Capability remains appropriate is a question of the regulatory outcomes that Ofgem is aiming to achieve. The current consultation does not set these out explicitly. However, we assume that the distinction is created in order to ensure that the DCC2 Licensee (or any affiliate) could not be awarded a contract to deliver a service from which it could then extract profit margin, which is misaligned to the 'not-for-profit/not-for-loss' approach to DCC2. It creates a class of goods and services that must be procured competitively, rather than provided by the Licensee from its own resources. This would have the benefits of creating a competitive market for goods and services below the monopoly Licensee. It may also have benefits relating to resilience of the ecosystem, as competitive procurement is likely to generate a variety of Service Providers, rather than a reliance on a single Service Provider. We therefore assume that some kind of distinction between goods and services that the Licensee must procure competitively, rather than deliver itself, remains relevant.

DCC has previously expressed concerns that the Licence definition of Fundamental Service Capability is insufficiently precise, causes confusion and increases the risk of compliance issues. In particular, the fact that the Licence includes in the definition of Fundamental Service Capability contract "as from time to time amended, supplemented, revised, or replaced," makes the definition vague and open to interpretation. For example, the question whether a new contractual provision for cloud hosting for a particular capability should be seen as the replacement of the previous (non-cloud) hosting arrangements (that were not specifically mentioned in the original contract) cannot be settled purely by reading the Licence or the contracts. Given the original contracts were agreed in 2013, it has become less clear whether any particular capability is meant to be classed as Fundamental Service Capability, as amendments, supplementations, revisions and replacements accumulate over time. We would welcome a contemporary version of the definition based on an updated list of contracts and a clear delineation of which parts of the ecosystem of DCC goods and services should be regarded as Fundamental Service Capability.

It would also be worthwhile to recognise a set of capabilities (horizontal or platform capabilities), such as cloud hosting, systems integration, or service management that the Licensee should not have to procure separately for each system but should be able to procure and use across a number of systems i.e. the concept of Shared Service Capability. Furthermore, DCC recommends that the definition of Relevant Service Capability is amended to be more specific. Within the current regime, all of DCC's contracts are assigned to either Fundamental Service Capability or Relevant Service Capability (whether for Smart Metering or the Switching equivalent). Thus, the definition of Relevant Service Capability currently means anything that is not Fundamental Service Capability. Therefore, low value (and internally used) services such as catering suppliers would be considered to be Relevant Service Capability and would therefore be subject to the same procurement and commercial rules as multi-million pound SMETS1 communication service contracts. It may be appropriate for there to be an additional category of capability, a "Support Service Capability" to cover such matters.

In summary, DCC considers that the service contracts should unambiguously fall into the following distinct categories:

- Fundamental Service Capability;

- Relevant Service Capability;
- Shared Service Capability; and
- Support Service Capability.

We would welcome further discussion with Ofgem on the implementation of this approach to service categories within the DCC2 Licence.

4.2 Ofgem Question 10 - Relevant Service Capability

Q10. What are your views of the proposed additions to the procurement principles for Relevant Service Capability? Do you have any other suggested areas of improvement?

DCC believes that including additional procurement principles needs to be proportionate. For example, DCC procuring some desks would not have a material impact on Greenhouse Gas Emissions. A principle on sustainability would be more appropriate for larger procurements. However, larger procurements are covered by the Green Book 5 Business Case model, which will also consider sustainability issues. It would be helpful for Ofgem to set out the policy intent regarding this matter as it is uncertain what Ofgem wants to achieve from these amendments.

Undertaking an ISO standard impact assessment is an unnecessary regulatory burden as this would slow down and increase the costs of any affected procurement without delivering major economic efficiencies. Such a requirement should be limited to the largest contracts procured by DCC2, which again are currently covered by the Green Book methodology, so again it is an unnecessary addition. Furthermore, we don't see a clear parallel between the ethical use of AI and DCC's procurement principles.

Although we support appropriate measures to protect the interests of consumers, we do not believe the proposal is needed. As with sustainability, assessing consumer impacts such as the example given of new technology resulting in site visits, would only be applicable for larger value procurements, which would be covered by the HMT Green Book model.

There is a risk that both of these principles serve no functional purpose as they are covered by HMT Green Book processes and merely add regulatory burden and confusion over which procurements and activities it should be applied to.

In summary, DCC does not support these proposed amendments.

4.3 Ofgem Question 11 - Shareholder Services

Q11. Do you agree with our proposal to require shareholder services to be provided on the same terms as other Relevant Service Capability contracts, and the requirement for the Successor Licensee to produce a register of contracts and services that are provided by any Related Undertaking?

The existing differences in the provision of essential corporate services provided by Capita (and affiliates) arose as a result of the licence award to Capita during the government's initial application process for the Smart Metering Communication Licence. Ofgem is able to specify an alternative approach for the provision of essential corporate services within the application process for DCC2.

DCC accepts that any future provision of essential corporate services for DCC2 should be undertaken in a manner consistent with all other Relevant Service Capability contracts (i.e. in line with the procurement strategy and including novation and exit clauses) thereby ensuring economic efficiency. In principle, this approach should not prevent the successful DCC2 applicant from being able to deliver economies of scale i.e. where the prudent sharing of essential corporate services will deliver clear economic efficiency. If DCC2

is required to procure essential corporate services on the same basis as all other services provided by a third party, it may also make it easier to maintain a register of contracts and services.

4.4 Ofgem Question 12 - Employment Status

Q12. Do you agree that staff who work on the Authorised Business under the Successor Licence should be employed by the Successor Licensee

As the existing Licensee, DCC has no view on this matter.

5 Scope and governance for the evolution of Authorised Business

This section covers the questions 13 to 17 within Ofgem's consultation.

5.1 Ofgem Question 13 - Mandatory Business

Q13. Do you agree with the proposed scope of Mandatory Business in the Successor Licence? If not, which specific services or activities should be reclassified, added or removed?

DCC supports Ofgem's proposal to carry forward the full scope of the existing Mandatory Business into the DCC2 Licence. DCC has no concerns regarding Ofgem's proposal that the Mandatory Business is categorised into the following areas:

- (1) Core Communication Services;
- (2) Enabling Services;
- (3) Additional User Services;
- (4) Mandated Business Services (However, DCC considers this would be better titled as 'Additional Business Services' to improve clarity as there is scope for confusion between 'Mandatory Business' and 'Mandatory Business Services'); and
- (5) Other Services defined within SEC/REC or the Licence.

DCC will review the revised Licence drafting for Part B of Condition 6 that will capture these proposals within the draft DCC2 Licence.

5.2 Ofgem Question 14 - Additional User Services

Q14. What are your views on Additional User Services: Which improvements to Elective Communication Services would be most likely to increase their uptake and deliver good outcomes for consumers? What other on-demand User Services could DCC2 provide?

The existing controls for Additional User Services (i.e. Elective Communication Services) arise from the rigidity of the regulatory framework that defines DCC's role – i.e. the inability to be a SEC Party, the slow speed of change via the SEC, restrictions on the status of DCC as data processor but not controller. Economically speaking these are barriers to entry that are restricting the development of a consumer-focussed set of arrangements. Without these changes, the licence would be internally inconsistent, with DCC having objectives on innovation and consumer-focus, but without any of the practical mechanisms to achieve them.

DCC considers there are several improvements that could be made to the scope and approach for Additional User Services. The current definition for Elective Communication Services restricts the scope to new communication messages (DUIS Service Request Variants) and there would be merit in a broader definition. Possible options include:

- bespoke analytics services which provide DCC's customers with the ability to diagnose issues or opportunities to optimise their usage of DCC's existing suite of communications services;
- procurement of a 'proof of concept' to allow DCC to build prototype Additional User Services for customers to explore before committing to a fully tested deployment to DCC's production environment (this is expected to reduce customers initial financial commitment when exploring Additional User Services); and

- provision of bespoke testing services, whereby DCC Users can procure additional Testing Services and associated defect resolution in order to assist customers to develop and optimise their usage of DCC's services.

Ofgem set out three reform options for the existing Elective Communications Services which are explored below.

- Ofgem's Option A proposes to expand the 'exclusivity period' for Elective Communications Services from the current 6 months to 12 months to give the requestor more time to develop a competitive business offering and realises the associated benefits from their initial investment. DCC considers this option would have benefits and should be adopted.
- Ofgem's Option B proposes that the costs of design and implementation for Elective Communications Services could be socialised across a range of SEC Parties at the end of the 'exclusivity period' as the entire cost is initially borne by the requestor. In principle DCC agrees this option is necessary. However, DCC notes that the existing Charging Methodology covers aspects of this approach via the 'second comer' rules. DCC would be pleased to explore this option in more detail with Ofgem.
- Ofgem's Option C proposes that the development of Elective Communications Services could be funded via provision in the ex-ante price control budget. DCC2 would be able to explore options for new Elective Communications Services via pre-agreed funding. DCC considers that the existing modification process already provides for some aspects of this option.

5.3 Ofgem Question 15 - New Service Funding

Q15. What are your views on the possibility to enable DCC2 to apply for funding to develop new services that could become part of its Mandatory Business if approved via a SEC/REC or licence modification?

We support a flexible regulatory regime that responds to changing priorities in the smart metering and energy sectors. Ordinarily a regulated network company would have the freedom to develop new services, subject to funding scrutiny in the Price Control. In DCC's regulatory regime the scope of our activities is heavily constrained and defined by our external service provider contracts. In the context of ex ante price controls, DCC is committed to working flexibly with stakeholders to deliver future services that meet the needs of our customers. As such, it would be prudent to define DCC's scope more broadly given stakeholder scrutiny of our plans.

5.4 Ofgem Question 16 - Public Good Initiatives

Q16. What are your views on the proposed process for funding and governance of Permitted Business: innovative (public good) initiatives and commercial services?

As per the response to Q15, there will be appropriate scrutiny of DCC's financial plans through the ex-ante Price Control process. Whilst the price control process for DCC2 will efficiently capture broad stakeholder input and be well understood, DCC proposes that an individual application/adjustment process is also implemented for specific initiatives. This project-based approach is proposed given the need to respond promptly to specific public good projects. Our recent experience in these matters indicates that it would be entirely infeasible to fully determine these costs on an ex-ante basis (i.e. up to three years in advance given the ex ante cost control process will be a three-year cycle after 1 April 2028). We consider it vital for DCC2 to retain the ability to participate in externally funded projects of this nature and are extremely concerned that the proposed approach would essentially prevent DCC2 from engaging with and supporting the evolving needs of customers and the industry.

Ofgem should also note that there may also need to be the scope for Permitted Business to transition into the Mandatory Business e.g. where a pilot public good initiative is subsequently rolled out across the entire sector. The process for Permitted Business within the DCC2 Licence should account for this situation.

Consistent with the 'not-for-profit/not-for-loss' approach for DCC2, Ofgem's proposals on changes to Value-Added Services are based on a principle that profits are shared between the third-party investor and DCC2; with DCC2's profits from such services being entirely redistributed to DCC2's customers via lower charges. While not the focus of DCC2's activities, we see the benefit in having the flexibility to do this where conditions are appropriate. We also support the scope for some initial funding through the ex-ante price control process (consistent with the approach to public good initiatives).

Ofgem are proposing three conditions (Condition 1 = "Maturity" level; Condition 2 = Network capacity and security; and Condition 3 = Funding & fair risk and benefits distribution) for the funding and implementation of Value-Added Services. DCC considers that these conditions appear reasonable and would allow DCC2 to bring forward feasible commercial projects for further consideration. DCC proposes that details of the conditions are provided via guidance from Ofgem rather than captured directly in the DCC2 Licence. This will provide Ofgem and DCC2 with flexibility if demand for commercial re-use arise.

5.5 Ofgem Question 17 - Minimal Services

Q17. Do you agree with the proposed removal of Minimal Services in lieu of the ringfenced funding?

In recent years, Ofgem and DCC have agreed that Minimal Services would be used to track DCC's participation in several "public good" initiatives (e.g. participation in government-sponsored trial for identification of energy poverty). DCC accepts these initiatives would be better captured as elements of permitted business.

However, in the development of the original licence, Minimal Services was intended to cover minor activities outside the scope of regulatory intervention (e.g. subletting part of an office). Paragraph 4.51 of the government's consultation³ on the Licence Condition (5 April 2012) describes this intent and this matter was concluded⁴ by government in November 2012.

"Minimal Services are those which do not exceed a turnover of more than £500,000 per annum and which are not provided to any material extent from the capability or resources that DCC uses to carry out the Mandatory Business. The purpose of this service category is to set a de minimis threshold for regulatory intervention, to avoid unnecessary burdens on the Authority and the DCC."

On this basis, DCC considers that there is still merit in retaining the Minimal Services category with the existing £500,000 threshold.

³ 5 April 2012 DECC Consultation

<https://webarchive.nationalarchives.gov.uk/ukgwa/20121217194022mp/http://www.decc.gov.uk/assets/decc/11/consultation/smart-metering-imp-prog/4937-cons-draft-dcc-licence-smart-meters.pdf>

⁴ 8 November 2012 DECC Conclusion

<https://webarchive.nationalarchives.gov.uk/ukgwa/20121217194049mp/http://www.decc.gov.uk/assets/decc/11/consultation/smart-meters-security-risk-assess/6894-gov-resp-consultation-dcc-lic.pdf>