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DP325 'SMCL2 Code Changes'

Modification Report

Version 0.1

9 Jun 2026



About this document

This document is a Modification Report. It currently sets out the background, issue, solution, impacts, implementation approach and progression timetable for this modification, along with any relevant discussions, views and conclusions. This document will be updated as this modification progresses.

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1. Summary

This proposal has been raised by Sacha Townsend from the Data Communications Company (DCC).

The DCC operates under the Smart Meter Communication Licence (SMCL) which was granted by Government and is regulated by Ofgem. The licence allows the DCC to establish and manage the smart metering Data and communications infrastructure. The SMCL came into effect on 23 September 2013 and can be modified by the Department for Energy Security and Net Zero (DESNZ) or Ofgem.

Ofgem launched a DCC review in 2022, ending with a reformed licence framework in 2025. Ofgem has awarded the Smart Meter Communications Licence 2 (SMCL2) to DCC2 Limited, a subsidiary of Smart Energy Code Company Limited (SECCo). Changes to the Smart Energy Code (SEC) are now required to reflect the transition between licences and licensees, with handover of business due to take place on 2 November 2026.

The DCC are impacted by the changes proposed in this modification. The costs of this modification will be established as the modification progresses. The implementation approach will be in line with the proposed handover of business scheduled for 2 November 2026, therefore likely requiring an Ad hoc SEC Release. This is an Authority-Determined modification.

2. Issue

What are the current arrangements?

The DCC operates under the SMCL which was granted by Government and is regulated by Ofgem. The licence allows the DCC to establish and manage the smart metering Data and communications infrastructure. The SMCL came into effect on 23 September 2013 and can be modified by DESNZ or Ofgem.

Ofgem launched a DCC review in 2022, progressing from an early scoping phase through to a detailed policy design across 2024 and 2025. Ofgem published a draft new licence in September 2025, and once finalised, carried out a competitive tender process to appoint a successor licensee. Ofgem has awarded the SMCL2 to DCC2 Limited, a subsidiary of SECCo. In line with this award and Condition 43 of the current DCC licence, business handover from the current licensee, the DCC, to the new licensee, SECCo, is expected to take place on 2 November 2026.

What is the issue?

There are two aspects to the modification that need to be addressed:

Transitional SEC Changes

The SEC was designed based on a single, continuous Party responsible for charging, invoicing, payment flows, and credit cover. It does not explicitly accommodate a scenario in which responsibility for these functions to transfer between licence holders while Business as Usual (BAU) arrangements continue uninterrupted.

The agreed business handover approach is designed to minimise impact on SEC Parties by maintaining existing charging periods, invoicing cycles, and payment arrangements. This creates transitional scenarios where:

- Charges incurred under the current Charging Statement must be invoiced and recovered by the new licensee after the transfer date;
- Credit cover held as cash must be transferred between the current licensee and the new licensee bank accounts; and
- payments may be made to the wrong entity (e.g. the current licensee post-handover) and will require reallocation.

The SEC does not currently provide for this separation between charging authority, invoicing entity, and payment flows, nor does it provide a mechanism to recognise such arrangements once the new licensee ceases to be a SEC Party. As a result, there is no clear way within the SEC to give effect to these time limited transitional arrangements and thus, ensure clarity that Parties will not be affected, such as being subject to Event of Defaults provisions.

Enduring SEC Changes

The SEC has been developed and maintained in alignment with the existing DCC licence framework, including its structure, terminology, service constructs, and governance model. The introduction of the new DCC licence framework introduces several fundamental changes, including:

- Revised SEC Objectives, which guide governance, decision making, and compliance assessment;
- Replacement of Elective Communication Services (ECS) with Additional User Services (AUS), broadening the scope of services the DCC may provide;
- Changes to licence condition numbering and structure, affecting references embedded throughout the SEC; and
- Updates to the price control framework, including the transition from 'Allowed Revenue' to 'Required Revenue', and associated changes to methodology.

The SEC does not currently reflect these changes and, as a result, definitions, provisions, and references will be misaligned with the new licence following handover of business on the 2 November 2026. The SEC will also not accurately reflect the new arrangements as they will be based on outdated constructs, noting services, financial and governance frameworks are tied to the previous regulatory model in accordance with the existing DCC licence.

What is the impact this is having?

Transitional SEC Changes

In the absence of SEC change, there is a risk that the agreed transition approach cannot be fully supported within the SEC, resulting in:

- **Legal and Contractual Ambiguity**
 - Uncertainty as to whether the new licensee can validly invoice for charges calculated under the current licensees Charging Statement.
 - Potential challenges to the enforceability of invoices issued post-handover.
- **Uncertainty for SEC Parties**
 - Lack of clarity on what charges relate to and who is entitled to recover them.
 - Risk that Parties question whether they remain liable to pay.
- **Financial and operational risk**
 - Payments made to the “wrong” entity may not be clearly recognised under the SEC as meeting the requirements.
 - Lack of transparency in payment allocation and settlement.
- **Credit cover and default risk**
 - Transfer of cash credit cover may not be recognised under SEC rules.
 - Risk of apparent shortfalls in credit cover, potentially triggering an Event of Default, despite funds being available and reconciled.
- **Delivery risk to Business Handover**
 - Absence of regulatory mechanisms to support these arrangements could undermine market confidence and operational readiness.

Enduring SEC Changes

If the SEC is not updated to reflect the new DCC licence framework, there is a risk of:

- **Regulatory Misalignment**
 - The SEC would not reflect the current licence obligations, creating inconsistency between frameworks and may increase risk of regulatory challenge or intervention.
- **Outdated references and terminology**
 - This may lead to uncertainty in interpretation and potential inconsistency in how provisions are applied in practice.
- **Decisions (e.g. modification assessments)**
 - These may be made against outdated SEC objectives.
- **Delivery Constraints**

- ECS based requirements will may hinder delivery of broader AUS capabilities and result in reduced flexibility to support new or bespoke services for DCC customers.
- **Framework Inconsistencies**
 - Inconsistency between licence framework and SEC charging provisions as Price Control and revenue terminology no longer aligned.
- **Misinterpretation**
 - Reduced clarity for industry participants as SEC Parties may face uncertainty regarding obligations, services, and cost recovery arrangements.

Impact on consumers

There is no expected impact on consumers as a result of this modification.

What is the priority of this modification?

The priority of this modification has been determined as **High**. This rating is based on perceived impacts on:

- Code Reform & Net-Zero
- Smart & Retail Operations
- Digitalisation

Please refer to **Appendix 3** for a full breakdown of how the priority score was calculated.

3. Solution

Proposed Solution

This modification seeks to make the required changes to the SEC in order to comply with the framework of the new DCC licence, due to take effect from November 2026.

The solution will address the following aspects of handovers relating to:

- Charging & Invoicing.
- Payments.
- Credit cover arrangements.
- Migrating from the ECS to the AUS.
- Revised SEC Objectives.

4. Impacts

This section summarises the impacts that would arise from the implementation of this modification.

SEC Parties

SEC Party Categories impacted			
	Large Suppliers		Small Suppliers
	Electricity Network Operators		Gas Network Operators
	Other SEC Parties	✓	DCC

The DCC will be impacted by these changes as they will be required to amend existing business processes, and establish new ones.

DCC Systems

DCC System changes

There are no DCC System changes expected as a result of this modification.

DCC System traffic

There are no impacts expected to DCC System traffic as a result of this modification.

SEC and subsidiary documents

The following parts of the SEC will be impacted:

- Section A 'Definitions and Interpretation'
- Section H 'DCC Services'
- Section J 'Payment of Charges'
- Section M 'General'

The changes to the SEC required to deliver the proposed solution will be established as the modification progresses.

Consumers

There is no expected impact on consumers as a result of this modification.

Other industry Codes

There is no expected impact on Other industry Codes as a result of this modification.

Greenhouse gas emissions

There is no expected impact on greenhouse gas emissions as a result of this modification.

5. Costs

Any costs associated with this modification will be updated as the modification progresses.

6. Implementation approach

Recommended implementation approach

The SEC Change team is recommending an implementation date of:

- 2 November 2026: **Ad hoc SEC Release** in line with, or prior to, the handover of business following Authority-Determination.

The formal date for the handover of business between the two licensees has been established as 2 November 2026. Therefore, the associated changes need to be made to the SEC either before or on 2 November 2026. There is no available SEC Release between now and 2 November 2026, so an Ad hoc SEC Release will be required to facilitate the changes.

7. Assessment of the proposal

Areas for assessment

Sub-Committee input

The SEC Change team will engage with the Chairs from the Operations Group (OPSG), the Technical Architecture and Business Architecture Sub-Committee (TABASC), the Security Sub-Committee (SSC), the Smart Metering Key Infrastructure Policy Management Authority (SMKI PMA), the Performance Assurance Board (PAB), the Finance Sub-Committee (FSC), the Privacy Sub-Committee (PSC) and the Testing Advisory Group (TAG) to confirm what input is required from these forums. The SEC Change team believes the following Sub-Committees will need to provide the following input to this modification:

Sub-Committee input	
Sub-Committee	Input sought
FSC	<i>Any unforeseen financial impacts.</i>

Sub-Committee input	
OPSG	<i>Any unforeseen operational impacts.</i>
PAB	No input required.
PSC	No input required.
SMKI PMA	No input required.
SSC	No input required.
TABASC	No input required.
TAG	No input required.

Views against the General SEC Objectives

Proposer's views

These will be gathered as the modification progresses.

Industry views

These will be gathered following any associated consultations relating to this modification.

Appendix 1: Progression timetable

Timetable	
Event/Action	Date
Draft Proposal raised	9 Jun 2026
<i>Presented to Change Sub-Committee (CSC) for initial comment</i>	<i>16 Jun 2026</i>
<i>CSC converts Draft Proposal to Modification Proposal</i>	<i>16 Jun 2026</i>
<i>Modification discussed with Working Group</i>	<i>1 Jul 2026</i>
<i>Modification discussed with OPSG</i>	<i>7 Jul 2026</i>
<i>Refinement Consultation</i>	<i>8 Jul 2026 – 29 July 2026</i>
<i>Modification Report approved by CSC</i>	<i>18 Aug 2026</i>
<i>Modification Report Consultation</i>	<i>19 Aug 2026 – 16 Sep 2026</i>
<i>Change Board Vote</i>	<i>23 Sep 2026</i>

Italics denote planned events that could be subject to change

Appendix 2: Glossary

This table lists all the acronyms used in this document and the full term they are an abbreviation for.

Glossary	
Acronym	Full term
AUS	Additional User Services
BAU	Business as Usual
CSC	Change Sub-Committee
DCC	Data Communications Company
DESNZ	Department for Energy Security & Net-Zero
ECS	Elective Communication Services
FSC	Finance Sub-Committee
OPSG	Operations Group
PAB	Performance Assurance Board
PSC	Privacy Sub-Committee
SDS	Strategic Direction Statement
SEC	Smart Energy Code
SECCo	Smart Energy Code Company Limited
SMCL	Smart Metering Communications Licence
SMCL2	Smart Metering Communications Licence 2
SMKI PMA	Smart Metering Key Infrastructure Policy Management Authority
SSC	Security Sub-Committee
TABASC	Technical Architecture & Business Architecture Sub-Committee
TAG	Testing Advisory Group

Appendix 3: Prioritisation Matrix

Strategic Direction Statement Prioritisation				
SDS Alignment	Importance	Complexity	Overall Total	Priority
3	3	2	8	HIGH

SDS Alignment – The Proposed Solution of this modification would support three aspects of the Strategic Direction Statement (SDS), which are:

- Consumers, Vulnerability and PSR.
- Smart & Retail Operations.
- Digitalisation.

Importance – This will allow the SEC to reflect all DCC licences accurately.

Complexity – This change requires processes across the DCC and SEC to be updated efficiently but also with accuracy to ensure a smooth and seamless handover of business.