Department for Energy Security & Net Zero

**Department for Energy Security & Net Zero**
3-8 Whitehall Place
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**www.gov.uk/energysecurity**

The Authority (Ofgem), the SEC Panel, SEC Parties
and other interested parties

7 March 2025

Dear Colleague,

**SMART METERING IMPLEMENTATION PROGRAMME: CONCLUSIONS ON MODIFICATIONS TO THE DCC LICENCE AND THE SEC TO PROVIDE FOR A SECCO SUBSIDIARY THAT COULD SEEK TO BECOME THE SUCCESSOR DCC LICENCE HOLDER**

1. On 3 December 2025, DESNZ issued a consultation[1] on changes to the DCC licence and to the Smart Energy Code (SEC) that would provide for an option for SECCo to establish a subsidiary company that could seek to become the successor DCC licence holder.
2. The consultation closed on 13 January 2025, and we received nine responses. Annex 1 to this letter sets out our views on the responses and our proposed next steps in this area, and annex 2 sets out the proposed drafting changes to the DCC licence and the SEC as modified after taking into account responses to the consultation.

Yours faithfully,

J Cosgrove

**James Cosgrove**
Deputy Director
Smart Metering Implementation Programme

(An official of the Department for Energy Security & Net Zero authorised to act on behalf of the Secretary of State).

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[1] https://smartenergycodecompany.co.uk/department-for-energy-security-net-zero-desnz-consultation-on-modifications-to-the-dcc-licence-and-the-sec-to-provide-for-a-secco-subsidiary-that-could-seek-to-become-the-successor-dcc-l/

Annexes:
Annex 1: Consultation response
Annex 2: Revised legal drafting

**Annex 1: Consultation Response**

**Background**

1. In the 3 December 2025 consultation[1] it was explained that Ofgem was running a process to identify a successor organisation to be the holder of the successor DCC licence[2] and that DESNZ was proposing to make changes to the DCC licence and to the SEC to provide an option for SECCo to establish a subsidiary company that could seek to participate in that process.
2. SECCo would be required to notify the department of any intention to establish such a subsidiary, and it would only be permitted to do so in the absence of an objection from the department to that proposal.
3. Changes were also proposed such that the DCC would no longer be a member of the SECCo Board and, given the congruency between the membership of the SECCo Board and the SEC Panel, that DCC would no longer be a SEC Panel Member. DCC would still be required to attend Panel meetings and would have a right to speak at those meetings, although there would be discretion for the Panel to exclude DCC from certain discussions should it be considered appropriate.

**Consultation Responses and DESNZ Views**

4. Of the nine consultation respondents, five explicitly supported the proposals and provided additional comments. The other four did not explicitly state that they agreed or disagreed with the proposal.
5. Of the four, two indicated that they had concerns over the proposal that the successor licensee should be a not-for-profit organisation, in particular that they thought that this would mean that there would likely to be few, if any, bidders for the successor role. One of these two went on to state that they recognised the intent behind the proposal to modify the SEC and the logic for SECCo to be the industry body participating in the process if a decision is taken for it to do so.
6. A third of the four respondents was supportive of there being an industry-owned bidder but raised questions over the compatibility of the proposals with the timetable being currently run by Ofgem for the appointment of the successor.
7. One respondent indicated that they did not believe that a code body holding the successor licence (via a subsidiary company) would be compatible with the governance roles that same code body has in relation to the successor licensee, for example in relation to resolving disputes under the SEC involving the successor licensee and suggested that the company should be owned directly by SEC Parties. Another respondent questioned whether a SECCo Board could own the subsidiary licensee when the Board is the same group of people that make up the SEC Panel who act on behalf of SEC Parties, and one suggested that should a SECCo subsidiary become the successor licence holder, a broader review of SEC Panel and SECCo governance arrangements might be warranted over the longer term.
8. Finally, one respondent sought clarity on where risks and liabilities would sit if a subsidiary licensee was owned by SECCo, and questioned the role that the current transitional governance arrangements might play in the management of that subsidiary.
9. Insofar as the for-profit/not-for-profit question is concerned, in our view, the most important element of appointing the successor organisation will be to ensure that its board is populated with individuals of the appropriate calibre who together can drive the success of the organisation going forwards. We are supportive of the approach that Ofgem has taken to date in appointing

[2] The term “DCC licence” is used to refer to the Smart Meter Communication Licences. The current DCC licence is held by Smart DCC Limited. The current licence originally had a term that expired on 22 September 2025, but this has been extended by 24 months by Ofgem to 22 September 2027.

the successor organisation. We note that the design of the successor licence, and whether it should be not-for-profit is a matter for Ofgem.

10. On the timetable, the SEC and licence changes that we are proposing could take effect by early May 2025, and in response to our consultation, SECCo has indicated its willingness to take some preparatory steps in advance of this. We also note that our proposed amendments would have a potential benefit of providing a candidate for direct award of the successor licence should a competition not yield a suitable successor or should Ofgem decide that SEC based ownership of the successor licensee is the appropriate way forward.

11. Regarding compatibility of roles in relation to dispute resolution or acting in the interests of SEC Parties, we do not see this as an issue. First, it is the SEC Panel that has a role in resolving certain disputes under the SEC, not the SECCo Board and Panel members are required to act independently when carrying out their role on the Panel. Therefore, SECCo ownership of a subsidiary company holding the successor licence should have no bearing on SEC Panel decisions in relation to disputes or in discharging their duties more generally. It is already the case that in principle, the Panel might hear a dispute between two SEC Parties, one of which might be the organisation that employs one of the Panel members. It is also the case that the role of the Panel in resolving disputes between the DCC and another SEC Party is very limited under the SEC, and such matters being resolved are typically technical in nature (for example disputes regarding the provision of registration data under Section E of the SEC (which DCC largely provides to itself given its role in providing the Centralised Registration Service under the Retail Energy Code) or disputes under Section F3 of the SEC regarding the compliance of Communications Hubs with the Technical Specifications). Where disputes are resolved by the Panel, they can usually be appealed to the Authority if one of the parties disagrees with the determination of the Panel. We also note that to the extent that any disputes under the SEC between the DCC and another SEC party arose, the owner of the DCC subsidiary would not stand to gain or lose commercially as a result of the outcome of such a dispute, given its proposed not-for-profit status. In the unlikely event that incompatibility of roles did prove to be an issue over time, it would be possible to make further, future changes to the governance arrangements in the SEC to address it. In addition, an assessment of conflicts of interest is usually part of any licence award process. We expect that Ofgem will undertake this and mitigate any such risks prior to an award of a licence.

12. Linked to the point made on the dispute resolution role, one respondent raised issues over the operation of Ofgem's proposed Customer Challenge Group. This group would have a role in scrutinising and offering feedback to challenge the DCC's costed ex-ante Business Plan and would provide a written report to Ofgem of the Group's view of the plan and recommendations for Ofgem to take into account in its own assessment of the plan. The respondent suggested that it was difficult to see how the Customer Challenge Group envisaged by Ofgem could objectively carry out this role if the organisation whose plan it was scrutinising was itself a SECCo subsidiary.

13. As with previous examples, we do not see this as incompatible, in particular because the subsidiary of SECCo would be a not-for-profit separate entity, consistent with Ofgem's broader proposals for the new DCC licence. The costs of the holder of the successor licence will be passed through to other SEC Parties regardless of who is the ultimate owner of the licence holder. It is sufficient for members of the Customer Challenge Group to advise on whether any costs are being efficiently and appropriately incurred for them to be able to play a useful role. We do not consider that the fact that they work for a SEC Party that may be an ultimate collective shareholder in the not-for-profit licence holder will undermine their role. Existing codes provide for budgets of code bodies to be scrutinised by code parties (in the case of the Retail Energy Code, Parties may even appeal the budget to the Authority), in cases where the Parties are direct shareholders of those code bodies, and we are not aware of equivalent issues being raised in that context.

14. Regarding ownership of the subsidiary, were it to be owned by SEC Parties, rather than being a subsidiary of SECCo, given the large number of SEC Parties, we consider that there would

still need to be a subset or representative group that met periodicity to enable the decisions required of the shareholders to be taken. However SECCo already acts as such a group, so creating a different ownership structure and a second group seems unnecessary.

15. As regards governance, accountability and liabilities, we note that Ofgem has consulted and decided upon the proposed governance model for the successor DCC licence holder and the proposed role of the owner/shareholder of that licence holder.[3] Given the proposed not-for-profit nature of the licensed business, and that the majority of the Board will comprise independent directors, the role of the shareholder and its accountability and liabilities should be viewed in that context.

16. One respondent suggested that it would be important for RECCo to be represented on the Board of any subsidiary seeking to become the successor licence holder. It will be important to ensure that the board of the successor DCC licence holder includes persons with an understanding of the activities that the licence holder carries. Ultimately though details of how the enduring board is structured and appointed is a matter that is being considered by Ofgem as part of its development of the successor licence.

17. A number of respondents believed that more clarity was needed over the process by which SECCo would decide on whether to create a subsidiary to participate in the Ofgem process. One respondent did not think it would necessarily be appropriate for all SEC Parties to pay for the costs of progressing a bid in circumstances where some had not supported the proposals to establish a subsidiary. Clarity was also sought over how SECCo and subsidiary costs associated with bidding would be funded.

18. We do not wish to be more prescriptive with regard to the process that SECCo will follow in order to make a decision over whether or not to seek to create the subsidiary over and above requiring them to consult with SEC Parties. We expect that SECCo will be engaging with stakeholders on the consultation process that it intends to follow. We do not consider it appropriate, for example, to place a percentage limit on how many SEC Parties, or types of SEC Parties must agree with any such proposal in order for SECCo to be able to make a decision to proceed. Instead, a decision to proceed should be based on the strength of the arguments in support of or against it; simply basing a decision on the number of supporting or opposing parties without considering the underlying arguments might be superficial. We think that SECCo should be able to follow an appropriate process and arrive at a reasoned recommendation following a consultation. As was noted in responses, any decision to proceed would be subject to a non-objection from the Department. In notifying the Department of a proposal to proceed with setting up a subsidiary, SECCo must set out its reasons for doing so, alongside the views of the SEC parties that responded to its consultation. The views of SEC Parties would of course be a relevant factor in both the decision of SECCo to proceed, and whether or not the Department objected to any proposal to do so.

19. As far as socialisation of costs is concerned, we do not think that a model under which, for example, only those SEC Parties who agreed with a proposal to establish the subsidiary would need to pay for the costs associated with doing so is appropriate. It might encourage one or more parties to express disagreement even if they actually agreed with a proposition to establish a subsidiary. It would also introduce potential additional complexities into the charging arrangements. Consequently we do not propose to make further provision for how costs would be socialised. In terms of funding, the SECCo subsidiary would need to be funded by SECCo until such time as it was awarded the licence (if successful) or otherwise until such time as it was wound up. SECCo funding would need to be secured in the same manner as other SECCo costs.

20. One respondent believed that SEC Parties' views on whether any subsidiary should continue to participate in the Ofgem process might change over time and envisaged a scenario where SEC Parties have specifically instructed SECCo to withdraw from the Ofgem-led process, but the

[3] Ofgem (2024), DCC Review Phase 2: Governance arrangements – conclusions: https://www.ofgem.gov.uk/decision/dcc-review-phase-2-governance-arrangements-conclusions

licence is granted before the SECCo subsidiary has not been dissolved. They suggested that this could result in the appointment of a “Reluctant Licensee”.

21. Whilst SEC Parties would be consulted on any decision by SECCo to establish a subsidiary to participate in the process, we do not envisage there being a power for SEC Parties to subsequently instruct SECCo or its subsidiary to withdraw from the process in the event that it has been established and is participating, although this does not preclude an ongoing dialogue between SEC Parties, SECCo and the subsidiary on these matters. The willingness of the subsidiary itself to be awarded the licence will doubtless be a factor that is taken into account by Ofgem when deciding whether or not to grant it the licence, but that would be based on the wishes of the board of the subsidiary.

22. Some respondents raised issues with the capability of SECCo in its current form to oversee the process. Comments in this sphere included suggestions that there should be a wider review of the SECCo Board structure including potentially decoupling it from the SEC Panel structure and introducing independent directors. Another questioned whether SECCo had the capability to address the challenges associated with establishing and maintaining a subsidiary company. They also raised the risk of strategic misalignment/ reputational impacts arising, suggesting that creating a subsidiary could present a risk of fragmenting SECCo’s strategic focus. They also considered that any misstep in the subsidiary’s operations could negatively impact the reputation of SECCo.

23. We think that in essence there are three questions here; first, is the current SECCo Board the right structure to oversee the process of establishing a subsidiary that can participate in the Ofgem process; second, is the current SECCo Board an appropriate holding board for a licensed subsidiary over the longer term; and third is the structure of the SECCo Board more generally appropriate on an enduring basis.

24. We see no reason why the current SECCo Board is not capable of overseeing the process of establishing a subsidiary whose purpose is to participate in a licence award process, recognising that SECCo has the ability within its current governance structure to secure funding for and source any additional skills/expertise required in support of this. This should enable it to expand its focus as required, without compromising on its other responsibilities. Should such a subsidiary be successful in being awarded the successor licence, the question of whether the SECCo Board is the appropriate holding board over the longer term we view as a matter that can be reviewed and considered over the longer term, with amendments being brought to the SEC to change corporate structures should this be a preferred outcome. Equally, the structure of the SECCo Board on a more enduring basis is something that can be considered and amended over the longer time as required.

25. One respondent said that whilst they could understand the conflict of interest concerns that have resulted in the proposal that DCC ceases to be a SECCo Board Member and SEC Panel Member, they were concerned that the remedy being proposed was a disproportionate way of addressing the conflict of interest issue. Instead they proposed that the DCC person should remain as a Panel Member and SECCo Board Member but be required to recuse themselves when requested by the Panel/Board Chair. Having considered their proposal, we agree that placing a requirement on the DCC member to recuse themselves from SEC Panel or SECCo Board meetings in circumstances where matters associated with any subsidiary that seeks to become or is the holder of the successor DCC licence are being discussed is a more proportionate way of giving effect to the proposals. We have accordingly amended the proposed SEC changes to that effect. We have also made changes such that the DCC is not counted as being a member of the SEC Panel or SECCo Board for the purposes of determining whether the meetings are quorate when considering such matters. Please note that whilst we have made changes to the arrangements relating to the SEC Panel to give effect to this, paragraphs 8.1 and 8.2 of Schedule 4 to the SEC clarify that the composition and procedural rules of the SECCo Board are identical to those of the Panel, and so the changes made to the SEC Panel arrangements in this regard will also track through to those of the SECCo Board.

26. One respondent commented that should there be more than one not-for-profit industry code body considering participation in the DCC licence award process, that the Department should have criteria for assessing the most suitable candidate Code body. Another noted that other industry bodies might have a more suitable track record for a DCC licence role than SECCo. As noted in our consultation, if approached by other industry code bodies we would consider making enabling changes to their respective codes for their participation. We remain open to any approaches to do so from other code bodies, and we would consider any such approach on its merits at that time.

**Next Steps**

27. We have amended the proposed drafting changes to the SEC to reflect the fact that the DCC will continue to be a member of the SEC Panel and SECCo Board but will be excluded from discussions relating to the subsidiary (and not be provided with papers associated with such matters) as well as making minor associated changes to the procedural rules of the SEC Panel and SECCo Board when discussing such matters.

28. We will now take steps to lay the proposed DCC licence and SEC changes before Parliament in accordance with the requirements of section 89 of the Energy Act 2003.

Annex 2: Revised legal drafting.

This Annex is published separately.