

To: the holder of the smart meter communication licences, and other interested stakeholders

Notice of consultation on a proposal to issue a Direction under the smart meter communication licences

1. The Gas and Electricity Markets Authority (“the Authority”)¹ proposes to issue a Direction to the Licensee under the smart meter communication licences, granted or treated as granted under section 7AB(2) and (4) of the Gas Act 1986 and section 6(1A) and (1C) of the Electricity Act 1989 (“the Licence”).
2. We are proposing this Direction in order to implement the DCC Switching Incentive Regime (‘the SIR’).
3. We published our decision on 26 January 2023 on Licence changes to establish the SIR.² Those changes will have effect from 56 days after the decision was made, so 23 March 2023. The changes will grant us:
 - powers pursuant to Condition 36.10 of the Licence to amend the value of the term “CRSM_t” through a Direction to be given to the Licensee following consultation, and
 - powers pursuant to Condition 36.10B of the Licence to amend the value of the term “CRSPA_t” through a Direction given to the Licensee following consultation.
4. On the basis that the Licence modifications set out in that 26 January 2023 decision come into force on 23 March 2023, we would propose that the SIR commences on 01 April 2023, to coincide with the start of the Regulatory Year 23/24. This consultation is intended to help enable us make an informed decision on the further detail required by the Direction in order for the SIR to operate effectively once the Licence modifications are in force.
5. The proposed Direction is set out in Schedule 1 to this Notice.
6. The proposed Direction seeks to implement the SIR through the provision of the necessary detail in relation to:
 - the calculation of DCC’s profit margin, as represented in Condition 36.10 of the Licence by the term CRSM_t, and
 - the mechanism for determining the revenue DCC can earn, as represented in Condition 36.10A of the Licence by the term CRSPA_t.
7. In summary, the effect of the Direction is to:

¹ The terms “the Authority”, “we” and “us” are used interchangeably in this document.

² <https://www.ofgem.gov.uk/publications/decision-policy-and-statutory-consultation-establish-dcc-switching-incentive-regime>

- a. define the value of profit margin that DCC are permitted to earn in their roles under the enduring Switching arrangements from 01 April 2023 onwards, and
 - b. define which of the performance measures defined in Schedule 6 in the Licence will apply in the calculation of DCC's performance adjustment from 01 April 2023 onwards.
8. A copy of the proposed Direction and associated consultation document have been published on our website (www.ofgem.gov.uk). Alternatively, they are available from foi@ofgem.gov.uk.
9. Any representations with respect to the proposed Direction must be made on or before **Friday 17 March 2023** by email to: DCCregulation@ofgem.gov.uk
10. We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be placed easily on our website.

Ayena Gupta

Head of DCC Regulation, Retail Systems and Processes
16 February 2023

Schedule 1 to Notice – Proposed Direction

To: the holder of the Smart Meter Communication Licences

DIRECTION ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY TO THE HOLDER OF THE SMART METER COMMUNICATION LICENCES ON 27 MARCH 2023 (exact date TBC)

WHEREAS

1. The Authority issues this Direction pursuant to paragraphs 10 and 10B of condition 36 of the conditions of the Smart Meter Communication Licence (“the Licence”) granted under sections 7AB(2) and (4) of the Gas Act 1986 and sections 6(1A) and (1C) of the Electricity Act 1989.
2. The company to whom this Direction is addressed (“the Licensee”) holds the Smart Meter Communication Licences granted, or treated as granted, pursuant to sections 7AB(2) and (4) of the Gas Act 1986 and sections 6(1A) and (1C) of the Electricity Act 1989 in which condition 36 (Determination of Licensee’s Allowed Revenue) has effect.
3. Paragraph 9 of condition 36 of the Licence provides that the total amount of the Licensee’s Centralised Registration Service Revenue (CRSR) will be calculated for Regulatory Year t in accordance with the following formula:
$$CRSR_t = CRSEC_t + CRSIC_t + CRSPC_t + CRSCA_t + CRSPA_t + CRSPTC_t + CRSECGS_t + CRSVASC_t + CRSM_t$$
4. The Gas and Electricity Markets Authority (“the Authority”) has the power pursuant to paragraph 36.10 of the Licence to amend the value of the term “CRSM t ”, and has the power pursuant to paragraph 36.10B of the Licence to amend the value of the term “CRSPAT”.
5. On 16 February 2023, the Authority consulted on the contents of this Direction and has carefully considered the responses to that consultation.

NOW THEREFORE

6. The Authority hereby directs that the values of the terms CRSPA t and CRSM t , as defined in the Licence, shall be as set out in the Appendix to this Direction.
7. This Direction confirms how the terms CRSM t and CRSPA t will be calculated, to cover DCC’s role under the enduring Switching arrangements from 01 April 2023 onwards.
8. This Direction is issued with the intent of replacing the Direction issued on 03 May 2019. That 03 May 2019 Direction had extended the CRSPA t term to cover DCC’s roles within both 1) the Transitional Phase and 2) the Design, Build and Test Phase of the Switching Programme. As noted

in the Authority decision published on 27 March 2023 (*exact date TBC*), it is the decision of the Authority that the provisions in the 03 May 2019 Direction will expire on 31 March 2023.³

9. This Direction shall take effect on 01 April 2023 and shall continue until revoked or amended by the Authority following a period of consultation with the Licensee for not less than 28 days, beginning on the date of notice of the revocation or amendment, or such other period as may be agreed in writing by the Authority and the Licensee, during which representations with respect to the proposed revocation or amendment may be made.
10. This Direction outlines 1) the value of the maximum profit margin, and 2) the mechanism for determining the performance related revenue adjustment, that the Licensee can expect in remuneration for its role in delivering its services under the enduring Switching arrangements from 01 April 2023 onwards. This takes the form of a rate of return applied to internal costs, which is placed at risk against incentivised performance targets.
11. The following documents constitute notice pursuant to section 38A (Reasons for decisions) of the Gas Act 1986 and section 49A (Reasons for decisions) of the Electricity Act 1989:
 - a. This Direction;
 - b. Ofgem. (27 March 2023) (*exact date TBC*) “Decision on the Switching Incentive Regime Direction and guidance”
 - c. Ofgem. (16 February 2023) “Consultation on the Switching Incentive Regime Direction and guidance”⁴
 - d. Ofgem. (26 January 2022) “Ofgem Decision - DCC Switching Incentive Regime”⁵
 - e. Ofgem. (21 November 2022) “Consultation on DCC Switching Incentive Regime”⁶

These documents are available on the Ofgem website: www.ofgem.gov.uk

Dated: 16 February 2023

Signed on behalf of the Authority by Ayena Gupta

Duly authorised for that purpose by the Authority

³ <https://www.ofgem.gov.uk/publications/decision-policy-and-statutory-consultation-establish-dcc-switching-incentive-regime>

⁴ Published on the Ofgem website alongside this Direction

⁵ <https://www.ofgem.gov.uk/publications/decision-policy-and-statutory-consultation-establish-dcc-switching-incentive-regime>

⁶ <https://www.ofgem.gov.uk/publications/consultation-dcc-switching-incentive-regime>

APPENDIX

Value of CRSM_t

1. The value of CRSM_t shall be calculated according to the following formula:

$$\text{CRSM}_t = 7.5\% * \text{CRSIC}_t$$

Value of CRSPA_t - Form of the Switching Incentive Regime

2. The value of CRSPA_t shall be calculated according to the following formula:

$$\text{CRSPA}_t = \text{SIRSDM1} + \text{SIRVMM1}$$

Where:

3. Both the SIRSDM_{1t} and SIRVMM_{1t} terms will be determined as having a value of either zero, if no charges are to be applied, or a negative value if charges are to be applied. CRSPA_t will therefore be determined as having a value of zero, or a negative value.
4. The value of CRSPA_t multiplied by -1, and therefore expressed as either 0 or a positive term, cannot exceed the value of CRSM_t in a given Regulatory Year.

Interpretation:

5. In accordance with paragraph 36.10B of the Licence, the Authority may issue guidance (“Switching Incentive Regime Guidance”) regarding the process, procedures and criteria used to determine the value of the terms applied in the CRSPA_t calculation.
6. Concerning paragraph 3., as CRSPA_t is expressed as a positive term in the calculation of CRSR_t in paragraph 36.9 of the Licence, any of the individual units SIRSDM1 or SIRVMM1 determined to have a value other than 0 will therefore result in a downward adjustment to CRSR_t.
7. Concerning paragraph 4., the effect of this is that the downward performance adjustment as determined by CRSPA_t cannot exceed the value of the margin CRSM_t in a given Regulatory Year.
8. Unless a contrary intention appears, any reference to terms in this Direction is read to have the same meaning as given in the Licence.

In this Direction:

CRSM _t	has the definition provided for in condition 36 of the Licence
CRSIC _t	has the definition provided for in condition 36 of the Licence
CRSPA _t	has the definition provided for in condition 36 of the Licence
SIRSDM1	Service Delivery Measure 1. Means the total value of Performance Charges, as described in the Performance Assurance Schedule of the Retail Energy Code, incurred by the Licensee throughout Regulatory Year t
SIRVMM1	Value for Money Measure 1. Means the total value of charges, as determined by the Customer Engagement Framework, incurred by the Licensee throughout Regulatory Year t
Customer Engagement Framework	The framework through which the Licensee's performance with regards customer engagement in a Regulatory Year is incentivised
Licence	The Smart Meter Communication Licences
Licensee	has the definition provided for in Condition 1 of the Licence
Performance Charges	has the definition provided for in the Retail Energy Code
Regulatory Year	has the definition provided for in Condition 1 of the Licence
Design, Build and Test Phase	has the definition provided for in Condition 15 of the Licence
Switching Programme	has the definition provided for in Condition 15 of the Licence
Switching Incentive Regime	The framework through which the value of CRSPA _t for a given Regulatory Year is determined, as provided for by Schedule 6 of the Licence