

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 29 MARCH 2023, TO TAKE EFFECT ON 01 APRIL 2023

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 replaces the Direction issued on 03 May 2019. The Direction of 03 May 2019 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 29 March 2023, it is the decision of the Authority that the provisions in the 03 May 2019 Direction will expire at 23:59 31 March 2023.¹

9. This Direction shall take effect at 00:00 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. (29 March 2023) “Decision on the Switching Incentive Regime Direction and guidance”
 - c. Ofgem. (16 February 2023) “Consultation on the Switching Incentive Regime Direction and guidance”²
 - d. Ofgem. (26 January 2022) “Ofgem Decision - DCC Switching Incentive Regime”³
 - e. Ofgem. (21 November 2022) “Consultation on DCC Switching Incentive Regime”⁴

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

Dated: 29 March 2023

Signed on behalf of the Authority by Melissa Giordano

Duly authorised for that purpose by the Authority

¹ <https://www.ofgem.gov.uk/publications/decision-policy-and-statutory-consultation-establish-dcc-switching-incentive-regime>

² Published on the Ofgem website alongside this Direction

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

⁴ <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