

To: the holder of the Smart Meter Communication licences, and other interested stakeholders

Notice of Direction under the Smart Meter Communication Licences

1. The Gas and Electricity Markets Authority (“the Authority”)¹ is issuing 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 issuing 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 came into effect 56 days after the decision was made, so 23 March 2023. The changes 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. We proposed that the SIR commences on 01 April 2023, to coincide with the start of the Regulatory Year 23/24. We therefore published a consultation on 16 February 2023 on the wording of a draft Direction ahead of the new powers entering into force, in order 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.³
5. We received three responses to that consultation. All of the responses agreed that the draft Direction appropriately gives effect to the policy design of the SIR as described, with no suggestions made for changes.
6. We are therefore now issuing the Direction with the wording as consulted on.
7. The Direction has been published on our website alongside this Notice and the decision letter (www.ofgem.gov.uk). Alternatively, they are available from foi@ofgem.gov.uk.
8. This Direction will take effect from 00:00 on 01 April 2023.

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>

³ <https://www.ofgem.gov.uk/publications/dcc-switching-incentive-regime-consultation-direction-and-associated-guidance>

9. The Direction implements 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 $CRSPA_t$.

10. In summary, the effect of the Direction is to:

- 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
- 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.

Melissa Giordano

Deputy Director, Retail Systems and Processes
29 March 2023