



Smart DCC Ltd

Charging Statement for Service Charges

For the Regulatory Year ending
31st March 2015

Effective from 1st April 2014 and based on
the Charging Methodology contained within
the Smart Energy Code

Issue	Revision
2 (DRAFT)	0

1 Introduction

1. This document is the Charging Statement for Service Charges (Charging Statement) for Smart DCC Ltd (DCC) for the Regulatory Year ending 31st March 2015 (RY 2014/15). This Charging Statement has been prepared and published in a form approved by the Authority (Ofgem) in accordance with Condition 19.5 of the Smart Meter Communication Licence.
2. The purpose of this document is to publish DCC Service Charges and to enable SEC Parties to anticipate their annual charges for RY 2014/15.
3. Accordingly, this document sets out the annual charges applicable for Mandatory Business Services (other than Elective Services) and Pass-Through Costs, along with the inputs used to calculate these charges.
4. The applicable Mandatory Business Services provided by DCC are:
 - Core Communication Services provided to or from a Smart Metering System that relate solely to the Supply of Energy (or its use)
 - Enabling Services that include the Enrolment Service, Communications Hub Service and Other Enabling Services.
5. Pass-Through Costs include the total annual fee paid by DCC to the Authority and payments made by DCC to SECCo Ltd for purposes associated with the governance and administration of the Smart Energy Code (SEC) designated on 23rd September 2013.
6. The algebraic approach to the calculation of charges is prescribed in Section K (Charging Methodology) of the SEC. Further details on this methodology are set out in Section J (Charges) of the SEC.
7. DCC charging documentation including the Charging Statement, Charging Methodology, Working Model and the indicative Invoicing Timetable for RY 2014/15 is available on the DCC website (www.smartdcc.co.uk).
8. DCC has produced a commentary on the Charging Statement to provide supporting information relating to the quantum of charges. This narrative is included as an Annex to this document.
9. If you require further detail on the information contained within this document or would like to provide feedback on how this document might be improved for future Charging Statements, please contact finance@smartdcc.co.uk.

2 Assumptions

10. This section contains the assumptions that are used within the determination of this Charging Statement for RY 2014/15. The acronyms within these tables are those used within the Charging Methodology of the SEC.
11. Table 1 below shows the Estimated Allowed Revenue of DCC in total and by category of service (Elective, Explicit and Fixed), along with the number of charging months. Estimated Allowed Revenue is the total amount that DCC needs to recover during RY 2014/15 to deliver the Mandatory Business Services and pay Pass-Through Costs.

Acronym	Name	Total
EAR _t	Estimated Allowed Revenue for RY 2014/15	£43,800,000
EESR _t	Estimated Elective Services Revenue for RY 2014/15	£0
EECR _t	Estimated Explicit Charges Revenue for RY 2014/15	£0
EFR _t	Estimated Fixed Revenue for RY 2014/15	£43,800,000
NM _t	Number of months in RY 2014/15	12

Table 1 - Cost Assumptions

12. Table 2 below shows the assumptions taken by DCC in relation to each Charging Group. These assumptions are used in conjunction with the Estimated Fixed Revenue to determine the Monthly Fixed Charge per meter.

Charging Groups	Name	Size of Charging Group (EMSMS _{gt})	Charging Group Weighting Factor (α_{gt})
g1	Import Electricity Suppliers	27,627,094	0.49
g2	Export Electricity Suppliers	-	0.08
g3	Gas Suppliers	22,440,902	0.37
g4	Electricity Distributors	27,870,923	0.06
g5	Gas Transporters	22,635,560	0.00

Table 2 - Charging Group Assumptions

13. Consistent with the requirements of the SEC, DCC has estimated the size of Charging Groups based on data provided by registration data providers as at 15th November 2013 (the most recent and complete data available to DCC at the time of preparing this Charging Statement) and the following assumptions:
- Import Electricity Suppliers (g1): Total meters with a profile class 1 and 2 associated with the MPAN and an identifiable chargeable Import Electricity Supplier
 - Export Electricity Suppliers (g2): These meters are currently included in Import Electricity Suppliers in accordance with Section X2.6 (a) of the SEC
 - Gas Suppliers (g3): Total meters for which there is a domestic market sector code associated with the MPRN and an identifiable chargeable Gas Supplier
 - Electricity Distributors (g4): Total meters with a profile class 1 and 2 associated with the MPAN

- Gas Transporters (g5): Total meters for which there is a domestic market sector code associated with the MPRN.
14. The Charging Group Weighting Factors specify the ratio of costs to be incurred in respect of each Smart Metering System (without regard to the number of Smart Metering Systems).
 15. DCC has derived these ratios using aggregated demand and roll-out profiles provided by energy suppliers and network operators to the Department of Energy and Climate Change (DECC) as well as contracted variable costs of DCC Service Providers.

3 Fixed Charges

16. Table 3 details the Monthly Fixed Charge applicable to each meter within each charging group from the effective date on this document. The Monthly Fixed Charges are expressed to three decimal places and presented excluding VAT.
17. Fixed Charges are only applicable to suppliers and network operators included in the Charging Groups.

Charging Groups	Name	Monthly Fixed Charge (£ / meter) (FC _{gt})
g1	Import Electricity Suppliers	£0.077
g2	Export Electricity Suppliers	£0.013
g3	Gas Suppliers	£0.058
g4	Electricity Distributors	£0.010
g5	Gas Transporters	£0.000

Table 3 - Charging Group Monthly Fixed Charge

4 Explicit Charges

18. There are no Explicit Charges relevant to RY 2014/15 and consequently the estimated Explicit Revenue for RY 2014/15 is zero.
19. Please refer to Section 3 of the Annex for further information on Explicit Charges.

5 Invoicing and Payment

20. Payment is due to DCC on the later of five working days following receipt of the invoice and eight working days following the end of the month to which the invoice relates, in accordance with Section J1.4 of the SEC.
21. Consistent with these timescales, DCC intends to issue invoices exclusively via email on or about the third working day of each month following the charging month. Should there be an unforeseen delay, DCC will advise SEC Parties of the revised invoicing date via email.
22. An indicative Invoicing Timetable is available on the DCC website.

6 Worked Example

23. This example illustrates how charges will be calculated each month for a fictional SEC Party, XYZ Electricity and Gas Ltd (XYZ). XYZ is:
- An Import Electricity Supplier with two associated Service User Codes
 - A Gas Supplier with two associated Service User Codes
 - An Electricity Distributor with two associated Service User Codes.
24. Table 4 itemises the information necessary to calculate the Monthly Fixed Charge.

Charging Groups	Name	Service User Code	A	B	A x B
			Actual Size of Charging Group (AMSMS _{pgmt})	Monthly Fixed Charge (£ / meter) (FCgt)	Total Monthly Fixed Charge
g1	Import Electricity Suppliers	ES_XXXX	3,242,724	£0.077	£249,689.75
g1	Import Electricity Suppliers	ES_YYYY	399,617	£0.077	£30,770.51
g3	Gas Suppliers	GS_XXX	5,056	£0.058	£293.25
g3	Gas Suppliers	GS_YYY	291,163	£0.058	£16,887.45
g4	Electricity Distributors	ED_XXXX	108,450	£0.010	£1,084.50
g4	Electricity Distributors	ED_YYYY	4,380	£0.010	£43.80
Total Charge Excluding VAT					£298,769.26
VAT at 20%					£59,753.85
Total Charge Including VAT					£358,523.11

Table 4 - Worked Example

25. In Table 4 above:
- Service User Code refers to the MRA codes for Charging Groups 1, 2 and 4 and to UNC codes for Charging Groups 3 and 5. The ES and GS prefixes in the body of the table are included to differentiate between Electricity and Gas codes
 - Actual Size of Charging Group is the number of meters for domestic premises according to the registration data as at the 15th day of the charging month
 - Monthly Fixed Charges are as shown in Table 3 of this Charging Statement for each Charging Group
 - Total Monthly Fixed Charge is the product of the Actual Size of Charging Group and the Monthly Fixed Charge.
26. In this example, DCC will email an invoice to XYZ for £358,523.11 including VAT. This invoice will be supported by a supplementary schedule detailing charges for each Service User Code similar to the information in Table 4.

Annex: Commentary on Charging Statement

1 Introduction

27. This Annex provides:
- Commentary relating to the Estimated Fixed Revenue for RY 2014/15
 - Commentary relating to the Estimated Explicit Revenue for RY 2014/15
 - Information in relation to VAT and Credit Cover
 - A timetable for the publication of Indicative Charging Statements and Indicative Budgets for future Regulatory Years.

2 Estimated Fixed Revenue for Regulatory Year 2014/15

28. Estimated Fixed Revenue comprises:
- Costs defined within Condition 35 (Definitions for the Price Control Conditions) of the Licence, summarised as:
 - Internal Costs – the sum of costs incurred by DCC for the purposes of the provision of Mandatory Business Services under or pursuant to the SEC, excluding those costs defined as External Costs or Pass-Through Costs
 - External Costs – the costs that were incurred by DCC in procuring Fundamental Service Capability, i.e. the costs of the Data Service Provider and the Communication Service Providers
 - Pass-Through Costs – the sum of the total annual fee paid by DCC to the Authority and the amount paid to SECCo Ltd for purposes associated with the governance and administration of the SEC (including the cost of the SEC Panel and the Code Administrator and Secretariat)
 - Baseline Margin as defined within Condition 36 (Determination of the Licensee's Allowed Revenue) of the Licence
 - Prudent estimate:
 - In accordance with Part B of Condition 36 (Determination of the Licensee's Allowed Revenue) of the Licence, DCC has made an adjustment for RY 2014/15 to avoid the potential need for charges to be amended in the course of the year (except in response to a reasonably unlikely event)
 - In accordance with Condition 27 (Indebtedness and transfers of funds) of the Licence, which places restrictions on the Licensee's ability to incur debt, the prudent estimate ensures that DCC can manage cash flow and remain cash positive.
29. The estimates for Internal Costs and Pass-Through Costs include an allowance for indexation using the Retail Prices Index (RPI). Baseline Margin also includes an allowance for indexation using RPI as defined in Condition 36.8 of the Licence.

30. External Costs include an allowance for indexation using the Consumer Price Index (CPI) in accordance with the provisions of the External Service Provider Contracts.
31. This table provides Estimated Fixed Revenue by category for RY 2014/15:

Estimated Fixed Revenue by category for RY 2014/15		Total excl VAT (£m)
Internal Costs (1)	DCC Licensing Competition baseline (2)	18.6
	Changes (3)	5.5
Baseline Margin (4)		3.3
External Costs (5)	Service Provider Procurement baseline	2.6
	Changes	1.3
Pass-Through Costs	Authority	Nil
	SECCo Ltd (6)	4.9
Estimated correction factor (7)		Nil
Prudent estimate (8)		7.6
Estimated Fixed Revenue for the Regulatory Year (EFR_t)		43.8

32. With reference to the above table:
1. Internal Costs for DCC for RY 2014/15 include DCC resources that are:
 - a. Engaging with SEC Panel, SEC Parties and other stakeholders
 - b. Contract and performance managing Service Providers
 - c. Implementing the Charging Methodology
 - d. Designing, building and testing the future DCC Billing System
 - e. Applying design governance and completing the development of design documents (including those outlined in Schedule 5 of the Licence)
 - f. Assuring build and test activities of Service Providers
 - g. Implementing a Smart Metering Key Infrastructure (SMKI) Service and procuring Parsing and Correlation Software
 - h. Programme managing DCC deliverables.
 2. These are the estimated Internal Costs submitted by Capita plc to DECC during the DCC Licensing Competition prior to the grant of the Licence.

3. This is the total movement (upward and downward) of estimated Internal Costs as a result of changes to the requirements, volumes, risk, complexity or timescales in the DCC Licensing Competition baseline. This movement also includes specific exclusions from the DCC Licensing Competition that were subject to finalisation following the grant of the Licence. The most significant changes in Internal Costs include an estimate of the SMKI Service and the Parsing and Correlation Software (DCC is currently running competitive procurements for these requirements) as well as estimates for the requirements of DCC to provide financial stability and financial security in accordance with Condition 26 (Financial stability and financial security) of the Licence.
4. This is the Baseline Margin as set out in Appendix 1 to Condition 36 (Determination of the Licensee's Allowed Revenue) of the Licence. Post publication of the Charging Statement for RY 2013/14, DCC identified, and brought to the attention of the Authority, a minor issue with the phasing of Baseline Margin between Regulatory Years. DCC has proposed to the Authority that subject to DECC consultation, the Baseline Margin will be updated in a subsequent issue of the Licence. This update will have no impact on the total Baseline Margin over the term of the Licence. This Charging Statement includes the resulting amendment to Baseline Margin for RY 2014/15.
5. The External Costs for RY 2014/15 are detailed in the table below:

Estimated External Costs by category for RY 2014/15	Total excluding VAT (£m)		
	Service Provider Procurement baseline	Changes	Total
Set-up costs	Nil	Nil	Nil
Fixed Operational Costs	Nil	Nil	Nil
Performance Incentives (a)	2.6	Nil	2.6
Impact Assessments / Projects (b)	Nil	1.2	1.2
Catalogue Services (c)	Nil	0.1	0.1
Estimated External Costs for the Regulatory Year	2.6	1.3	3.9

- a) Performance Incentives are included within the baseline Service Provider contracts. DCC will make these payments to Service Providers if the criteria for payment have been met.

- b) DCC has estimated the costs of Impact Assessments and Projects that are necessary to deliver Mandatory Business Services. DCC will manage Impact Assessments and Projects in accordance with Transitional Governance arrangements and the External Service Provider Contracts.
- c) DCC may procure the Catalogue Services set out in the External Service Provider Contracts. Costs relating to Catalogue Services that will benefit all Service Users will be included within Fixed Costs, e.g. Testing Software Licences to support the End-to-End Testing for a given number of concurrent Service Users.
6. The Pass-Through Costs relating to SECCo Ltd are based on an indicative budget approved by the SEC Panel on 13th December 2013, which incorporates some activities that are transferring from DECC to the SEC Panel. For RY 2014/15 this indicative budget has been used in lieu of the Draft Budget that SEC Panel will produce in January each year as outlined in C8.11 of the SEC.
7. The estimated correction factor is defined within Condition 36 (Determination of the Licensee's Allowed Revenue) and relates to the prior Regulatory Year. In RY 2014/15 the correction factor is estimated to be zero.
8. The prudent estimate represents sufficient operating liquidity for DCC to remain cash positive and meet its financial commitments during RY 2014/15.
33. Fixed Charges for RY 2014/15 only apply to the five Charging Groups outlined within Section K3.8 of the SEC.

3 Estimated Explicit Revenue for Regulatory Year 2014/15

34. Explicit Charges are payable in respect of Explicit Charging Metrics, which represent those Core Communication Services and Enabling Services (other than Elective Communication Services) that are to be charged for separately from Fixed Charges.
35. These Services are, or will be, outlined in Section H of the SEC.
36. As outlined in Section X2.1 of the SEC, Section H has not yet come into effect. Consequently, there are no Explicit Charges relevant to RY 2014/15 and the estimated Explicit Revenue for RY 2014/15 is zero.
37. DCC recognises that there are a number of services that DCC intends to provide to SEC Parties for which it would be appropriate to introduce an Explicit Charge to the Charging Methodology to meet part (d) of the Second Relevant Policy Objective.
38. There are a limited number of these services that may apply within RY 2014/15. These include:
- Charges to provide DCC User Gateway Means of Connection
 - Charges to provide Test Sets, testing consultancy and test lab connections
 - Charge for additional Communications Hub training
 - Charges for Communications Hubs for testing purposes
 - Charges for assistance related to the Parsing and Correlation Software.

- 39. DCC will work with DECC to introduce drafting to the SEC to allow for the provision of these Services and to introduce the appropriate Explicit Charges to the Charging Methodology.
- 40. Due to the uncertainty in uptake of these services in RY 2014/15 and in the absence of Explicit Charges within the Charging Methodology, DCC has not included an estimate for Explicit Revenue for RY 2014/15.
- 41. Should the Charging Methodology be updated to include Explicit Charges that come into effect during RY 2014/15, DCC will issue a revised Charging Statement.

4 VAT and Credit Cover

- 42. All charges outlined in the Charging Statement are shown excluding VAT.
- 43. In accordance with Section J3 of the SEC, each User is required to provide credit cover. For the purpose of calculating the Credit Cover Requirement, DCC considers the Charges inclusive of VAT as outlined in Section J3.3.

5 Indicative Charging Statement and Indicative Budgets for future Regulatory Years

- 44. In accordance with Sections J4.3 and J4.4 of the SEC, every quarter DCC must create and publish on the DCC website an Indicative Charging Statement for the next Regulatory Year and Indicative Budgets for the second and third Regulatory Years thereafter.
- 45. DCC will publish Indicative Charging Statements and Indicative Budgets within the first five Working Days of the months set out below:

Month	Indicative Charging Statement	Indicative Budgets	
January 2014	RY 2014/15	RY 2015/16	RY 2016/17
April 2014	RY 2015/16	RY 2016/17	RY 2017/18
July 2014	RY 2015/16	RY 2016/17	RY 2017/18
October 2014	RY 2015/16	RY 2016/17	RY 2017/18
January 2015	RY 2015/16	RY 2016/17	RY 2017/18