

Suppliers, gas transporters,
electricity distributors and any
other interested parties.

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Date: 9 January 2014

Consultation on proposed updated form of the Data and Communications Company's Charging Statement for Service Charges ('Charging Statement')

This letter invites views on the updated form of the Charging Statement that Smart DCC Ltd ('DCC') submitted to the Authority¹ on 24 December 2013. DCC asked for approval in accordance with Condition 19 of its Smart Meter Communication Licences granted under both the Gas Act 1986 and the Electricity Act 1989 (together, known as, the 'Licence').

The Licence details DCC's obligations for its Charging Statement and other matters. To keep this letter short and easy to read we have used general descriptions of the relevant Licence provisions rather than quoting the wording used in the Licence. Refer to the licence for a full description of DCC's obligations.²

What is DCC?

DCC is a new licensed entity that we regulate. It is a central communications body appointed to organise the communications and data transfer and management required to support smart metering. It is responsible for linking smart meters in homes and small businesses with the systems of energy suppliers, network operators and other companies ('Service Users').³

DCC plans to develop and deliver these data and communications services by contracting with external service providers ('Service Providers'). We expect DCC to start offering data and communications services to its Service Users in late 2015. In the interim, DCC is taking steps to ensure that it can provide these services. These will involve testing the systems being built by the Service Providers to make sure they work together and work with the systems of the Service Users.

What does DCC's Licence require?

The first form of the Charging Statement that DCC is required by its Licence to have was approved by the Secretary of State.⁴ Under its Licence, DCC has to maintain the Charging Statement in a form that we have approved.⁵ DCC will levy charges on Service Users, and the Charging Statement must set out the basis on which the charges will be payable.⁶ These charges are formally known as 'Service Charges'. The statement must enable Service

¹ The Office of the Gas and Electricity Markets Authority (Ofgem) supports the Gas and Electricity Markets Authority ('the Authority') in its day-to-day work (in this letter, 'we' and 'us' are used to refer to both 'Ofgem' and 'Authority').

² DCC's licence can be found at <https://epr.ofgem.gov.uk/Document>

³ Condition 4 of DCC's licence defines the activity that the licence authorises DCC to carry out in GB.

⁴ As per condition 19.6 of the licence.

⁵ Licence condition 19.5.

⁶ Licence Condition 19.4.

Users to estimate the charges they will face and must be prepared in accordance with the charging methodology in the Smart Energy Code.⁷

DCC's licence⁸ requires it to periodically review the information in the Charging Statement. Further, at least once in each regulatory year (beginning on 1 April of each year), DCC must make any changes necessary to ensure the Charging Statement continues to be accurate and reliable. The Smart Energy Code (Section J.4) creates a further obligation, which requires DCC to amend the Service Charges only once in each calendar year (subject to certain caveats).⁹

What are we consulting on?

On 24 December 2013 DCC submitted an updated Charging Statement to us. This was in the form that it expects to use for the regulatory year starting on 1 April 2014. We will consider whether to approve the form of the Charging Statement and we are seeking views on this so we can make a fully informed decision.

The proposed updated Charging Statement is attached to this letter. We are seeking views in particular on whether the Charging Statement:

- provides sufficient clarity on the charges that Service Users will face
- is in a coherent and easy to navigate format
- is accurate in all material respects.

To be clear, we have no role in approving DCC's Service Charges in advance, which are included in the updated form of the Charging Statement. As such, we are not inviting comments on the level of the Service Charges. Indicative budgets for the regulatory years starting April 2015 and April 2016 are available from DCC's website (www.smartdcc.co.uk).¹⁰

Due to DCC's unique nature and the new regime it will be operating in, an ex post price control regime was agreed as part of the competition to award the Licence. DCC must submit price control information on the previous regulatory year by 31 July in the following regulatory year. We will use this report to monitor and assess whether costs were economically and efficiently incurred. Where we determine any costs have not been economically or efficiently incurred, either:

- these costs will be excluded from the future calculation of allowed revenue, resulting in lower Service Charges for Service Users¹¹; or
- DCC could be subject to an undertaking in relation to its future management.

DCC has estimated the size of the charging groups¹² based on the registration data provided to it on 15 November 2013. We understand that more up-to-date data will be available in March 2014. DCC informed us that the allocation of costs between charging groups would be more accurate if they update the form of the Charging Statement and the Service Charges to reflect this data. Our understanding is that the Service Users would prefer certainty on the costs they will face, and so would prefer that DCC continues with the Service Charges presented in the attached Charging Statement. We also understand that any change in the allocation of Service Charges would be minimal. Do you think it is preferable for the Charging Statement to reflect the latest available data? We will consider the impact on consumers based on the responses we receive.

⁷ The Smart Energy Code is a new industry code. It is a multiparty agreement which defines the rights and obligations between DCC and Service Users.

⁸ Condition 19.14.

⁹ Condition 19.11 also sets out conditions that must be met before the Service Charges can be amended more than once in a regulatory year.

¹⁰ Required under Section J of the Smart Energy Code.

¹¹ We may consult on any costs we are considering disallowing in this way.

¹² The charging groups are import electricity suppliers, export electricity suppliers, gas suppliers, electricity distributors and gas transporters.

In accordance with published guidance on our approach to consultations, we do not consider the proposed changes to the statements to be significantly material or extensive. As such, we consider a four-week consultation period is appropriate.

How can you respond?

Please submit any views on this consultation to us no later than the end of **Wednesday, 5 February 2014**. Send responses to smartermarkets@ofgem.gov.uk, copying in colin.down@ofgem.gov.uk, or post them to the Smarter Metering Team using the address below.

Smarter Metering Team
9 Millbank
Ofgem
London
SW1P 3GE

We will publish any responses we receive on our website, except those marked as confidential. We intend to publish our decision letter by 31 March 2014.

If you wish to discuss the consultation or any issue raised in this letter, please contact Colin Down on 020 7901 7327.

Yours faithfully,

Rob Church
Associate Partner, Smarter Markets and Smart Metering