

Company Secretary  
Smart DCC Ltd.  
17 Rochester Row  
London  
SW1P 1QT

Direct Dial: 020 7901 7327  
Email: colin.down@ofgem.gov.uk

Date: 25 March 2015

Dear company secretary,

**Approval of statement pursuant to paragraph 19.5 of condition 19 (Charging Statement for Service Charges) of Smart DCC Limited's Smart Meter Communication Licence<sup>1</sup>**

This letter sets out the Authority's<sup>2</sup> decision to approve the form of the Charging Statement for Service Charges (statement) prepared by Smart DCC Limited (DCC) and its reasons for that decision.

Appendix 1 explains what DCC is and what its licence requires. 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.

**Initial submission and consultation**

On 31 December 2014 DCC submitted to us an updated statement for service charges that will fall due in Regulatory Year (RY) 2015/2016. Compared to the RY 2014/15 statement in place, the order of the content was re-organised, section headings and subheadings were relabelled, and points were rephrased. The material changes to the substance of the statement DCC proposed included:

- Section A (Summary of Charges for RY 2015/16)
  - inclusion of a summary section with tables setting out all of the charges proposed for 2015/16 for each charging group
- Section B (Estimated Revenue)
  - inclusion of costs related to communications hubs in DCC's estimates of external costs
- Section C (Fixed Charges)
  - explanation of how charging rates are determined for non-domestic meters, including how these charges are split by regions
- Section D (Communications Hubs Charges and Explicit Charges)
  - inclusion of charging rates related to communications hubs

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<sup>1</sup> The Smart Meter Communication Licences were granted under both the Gas Act 1986 and the Electricity Act 1989. For ease, in this letter we refer to these licences in the singular. DCC's licence can be found at <https://epr.ofgem.gov.uk/Document>

<sup>2</sup> 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').

- inclusion of further details on the explicit charges which are now applicable and the revenue DCC estimates to receive from them
- examples of explicit charges DCC anticipates it will need to update in the near future
- Section E (Invoicing)
  - introduction of a secondary invoice for a portion of the total charges for communications hubs services
- Section F (Annexes)
  - Annex 3 (Estimated Explicit Charges Revenue and Explicit Charges – supporting information) contains further description and cost breakdowns of the different explicit charges and explanation of how they have been estimated.

The statement was in the form that DCC expected to use for the regulatory year starting on 1 April 2015. We consulted on the proposed statement in our letter dated 16 January 2015 and invited views on the form, in particular on whether it:

- 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.

We received five responses to our consultation, all of which were from energy suppliers.

### **Summary of responses and subsequent changes to the statement**

#### Sufficient clarity on the charges that service users will face?

At least three of the respondents thought the statement broadly provided sufficient clarity on the charges that service users will face. However, there was one minor point raised around clarity and several broader questions around whether DCC has provided enough transparency and depth of information around high-level costs.

A respondent requested that DCC highlight the changes it has proposed to the previously approved form of the charging statement, and provide high-level explanations for these changes.

Two respondents generally requested more detail and transparency on what detailed activities (and associated costs) make up the high-level costs identified in the statement, with some detailed requests namely:

- more detail on the allocation of the proposed increase in internal cost of £15.8m due to new scope amongst the different areas of new scope described in the charging statement
- more cost breakdowns on the external costs payable to DCC's Service Providers

In response, DCC has tracked the changes from the form of the charging statement approved in January 2015, which is annexed to this letter. Going forward, DCC have said that they will provide a summary of the key changes where appropriate. DCC has maintained the high-level details provided around make-up of costs relating to re-planning and change requests in the statement, and limited the data provided on its service provider contracts to data it views as being non-sensitive.

When determining whether to approve the form of the statement, we must consider the purpose of the statement, namely to allow service users to make a reasonable estimate of what service charges they will be liable to pay DCC in 2015/16 in respect of the relevant services.

#### *Ofgem view*

We consider that the charging statement provides sufficient detail in a clear enough manner to allow service users to make a reasonable estimate of the service charges they

will be liable to pay DCC for the relevant services. While we do not think further details are necessary at this stage, we will remain open to considering further cost breakdowns in areas where they could be usefully provided by DCC. In any consideration of cost breakdowns, we would take into account their value for the purpose of the charging statement. This would include the potential negative effect that cost breakdowns could have by obscuring the key details of the charges.

The issue of transparency has significance beyond the statement. As we have said in our price control documents<sup>3</sup>, we encourage DCC to be more transparent when consulting on changes to costs. We recommend that DCC provides industry with more detail of costs in its documents. We appreciate that DCC needs to be mindful of commercial sensitivities but we see benefits in allowing industry to scrutinise the costs before they are incurred.

#### Coherent and easy to navigate format?

Only one respondent addressed this question directly in their response, noting that there had been improvement in the layout of the information compared to the 2014/15 statement.

The respondent pointed out that some defined terms in the statement were not included in the glossary. In response, DCC has added several definitions to the glossary for ease of reference in the updated version of the statement, annexed to this letter, and has reviewed the capitalisation of undefined terms in the main body of the statement.

#### *Ofgem view*

We consider that the statement is coherent and easy to navigate. Respondents did not raise any issues with the format and layout of the statement.

#### Is the statement accurate in all material respects?

Only one respondent addressed this question directly in their response. This respondent said it did not have sufficient additional supporting information to confirm accuracy of the information provided in the statement.

#### *Ofgem view*

We consider that the statement is accurate in all material respects.

#### Issues not relevant to statement

We received various comments that were not directly relevant to the content of the statement for 2015/16, including regarding:

- the formal governance structure for decision-making related to change management and additional requirements for DCC services
- whether DCC would start a charging forum that the industry can attend.

#### *Ofgem view*

In response to the issues raised around transparency, we see benefits in allowing industry to scrutinise costs before they are incurred. More visibility around costs to enable scrutiny could be provided in different formats. We recommend that DCC and service users continue to engage on these points.

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<sup>3</sup> DCC: Price control consultation 2013/14: <https://www.ofgem.gov.uk/ofgem-publications/91527/dccpricecontrolconsultation.pdf>;  
DCC: Price control decision 2013/14: <https://www.ofgem.gov.uk/ofgem-publications/93650/1502dccdecisionfinal.pdf>

## Impact of Authority's price control decisions, directions and determinations for RY 2013/14

Alongside our decision and directions relating to the price control assessment for RY 2013/14<sup>4</sup>, we provided DCC with consent having a notice period of less than 3 months for making amendments to the service charges for RY 2015/16<sup>5</sup>. This consent was granted to enable DCC to amend its service charges to reflect the price control decisions so that consumers could benefit from reduced charges from 1 April 2015. DCC issued notice of this change to the charges on 23 March 2015, to come into effect on 1 April 2015. Therefore, some of the charges in the approved form of the statement, annexed to this letter, are lower than the charges which we published alongside the consultation.

### **Authority's decision**

Having had regard to all responses received to our consultation, we have considered whether the proposed changes contained in the statement submitted by DCC are consistent with the requirements of condition 19 of DCC's licence and DCC's wider licence and statutory obligations. We have also had regard to our principal objective and general duties in considering whether to approve the form of the statement. We are satisfied that approval of the form of the statement is consistent with the above.

Pursuant to paragraph 19.5 of condition 19, the Authority hereby approves the form of the statement annexed to this letter.

This letter constitutes Notice of the Authority's reasons for the decision pursuant to section 38A Gas Act 1986 and s.49A Electricity Act 1989.

Yours sincerely,

**Laura Nell**  
**Head of Smarter Metering**

**Duly authorised on behalf of the Gas and Electricity Markets Authority**

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<sup>4</sup> DCC: Price control decision 2013/14: <https://www.ofgem.gov.uk/ofgem-publications/93650/1502dccdecisionfinal.pdf>

Notice of Price Control Decisions, Determinations and Directions: <https://www.ofgem.gov.uk/ofgem-publications/93651/pricecontroldirections27-02-15final.pdf>.

<sup>5</sup> Consent to reduce the notice period for proposing an amendment to the Service Charges in respect to price control determinations for Regulatory Year 2013/14: <https://www.ofgem.gov.uk/ofgem-publications/93652/consenttochangechargesfinal.pdf>. Licence condition 19.9 and 19.10 set out the terms of DCC's obligations to give notice to the Authority before amending its service charges.

## Appendix 1: What is DCC and what does its licence require?

### 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).<sup>6</sup>

DCC plans to develop and deliver these data and communications services by contracting with external service providers. We expect DCC to start offering data and communications services to its service users in 2016. 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?

Under its licence, DCC has to maintain the charging statement in a form that we have approved.<sup>7</sup> On 28 March 2014 we approved the form of the 2014/15 charging statement, and on 23 January 2015 we approved additional changes that DCC proposed to the form of the statement for the same regulatory year (2014/15). DCC levies charges on service users, and the charging statement must set out the basis on which the charges will be payable.<sup>8</sup> These charges are formally known as 'service charges'. The charging statement must enable service users to make a reasonable estimate of the charges they will face and must be prepared in accordance with the charging methodology in the Smart Energy Code.<sup>9</sup>

DCC's licence<sup>10</sup> 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 Licence and the Smart Energy Code (Section J.4) contains a further obligation, which limits the ability of DCC to amend the service charges more than once in each calendar year (subject to certain caveats).<sup>11</sup>

### What are we approving?

To be clear, we have no role in approving DCC's service charges (which are included in the updated form of the statement) in advance of the regulatory year commencing. Our approval is of the *form* of the statement. Ex post, we will have a role in assessing whether costs were economically and efficiently incurred.

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<sup>6</sup> Condition 4 of DCC's licence defines the activity that the licence authorises DCC to carry out in GB.

<sup>7</sup> Licence condition 19.5.

<sup>8</sup> Licence condition 19.4.

<sup>9</sup> 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.

<sup>10</sup> Licence condition 19.14.

<sup>11</sup> Licence 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.