



Making a positive difference
for energy consumers

Company Secretary
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Dear company secretary,

Approval of statement pursuant to paragraph 19.5 of condition 19 (Charging Statement for Service Charges) of the Smart Meter Communication Licence¹

This letter sets out the basis for the Authority's² decision to approve the form of the Charging Statement for Service Charges (statement) prepared by Smart DCC Limited (DCC).

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

Initial submission and DCC's proposed changes

On 31 December 2014 DCC submitted to us an updated statement for service charges due in Regulatory Year (RY) 2015/16. We consulted on the proposed changes to the statement in our letter 16 January 2015 and invited views on the form³. On 25 March 2015, we approved the form of the statement⁴.

DCC set out proposals to us to make an additional amendment to the statement on 25 June 2015⁵. The changes allow DCC to levy an explicit charge for the provision of 'SM WAN for testing' (ie availability of the smart metering wide area network to allow users to access a remote test environment.) Compared to the form of the statement that was approved on 25 March 2015, the changes were to:

- Section A (Summary of Charges for RY 2015/16), which now provides indicative explicit connection and monthly charges for SM WAN for testing in Table 4. This replaces the reference to SM WAN for testing in Table 5 which lists the DCC services which parties will be able to procure in the future when available.
- Section D (Communications Hubs Charges and Explicit Charges), which now removes the reference to amending the charging statement during RY 2015/16 to include explicit charges relating to 'SM for WAN testing'.
- Annex 3 (Estimated Explicit Charges Revenue and Explicit Charges – supporting information), which sets out further details on the indicative explicit charges related

¹ 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.

² 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').

³ Consultation is here: <https://www.ofgem.gov.uk/publications-and-updates/consultation-proposed-updated-form-smart-dcc-ltd-s-charging-statement-service-charges-charging-statement>

⁴ Approval is here: <https://www.ofgem.gov.uk/publications-and-updates/approval-statement-pursuant-paragraph-19-5-condition-19-charging-statement-service-charges-smart-meter-communication-licence>

⁵ Published on DCC's website here: http://www.smartdcc.co.uk/media/300703/draft_charging_statement.pdf

to 'SM WAN for testing' to help DCC's service users to understand more details about the service. In particular it sets out the drivers that will influence if a service user's connection and monthly charge.

The statement was in the form that DCC expected to use for the remainder of the regulatory year ending on 31 March 2016.

Ofgem's view on the changes

DCC has provided a single figure or a range of figures for the indicative SM WAN for testing charges.. We recognise that for some services DCC will need to calculate the precise charge on a user by user basis as the services are requested and the exact scope of the service is understood.

We considered the explanation of the SM WAN for testing charges which DCC proposed to incorporate in Annex 3 should help users to understand the variables that will drive the level of the charges set out in Table 4 of Section A. This explanation described one of the variables that drives the level of charges as being the technology used by the Communications Service Provider (CSP) to provide the service which may include installing a 'nano base station'. We considered that this explanation would benefit from further description of the technical term 'nano base station' for clarity. DCC have added this further description to paragraph 14.21 in Annex 3.

Given the information DCC has available regarding SM WAN for testing connections and usage, we consider that the changes to the statement provide sufficient detail in a clear enough manner to allow service users to make a reasonable estimate of the charges that would be quoted by DCC for SM WAN for testing with no obligation to pay, should they request a quote for this service.

We consider that the statement is coherent and easy to navigate. We noted a typographical error in the Estimated Allowed Revenue figure in Table 6 within the draft charging statement DCC published in June. DCC have since corrected this and we now consider that the statement is accurate in all material respects.

Authority's decision

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 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.⁶

Yours faithfully,

Laura Nell
Head of Smarter Metering

Duly authorised on behalf of the Gas and Electricity Markets Authority

⁶ We have annexed a version which shows, in tracks, the changes against the previously approved form. DCC will maintain the approved version, without track changes, on its website. <http://www.smartdcc.co.uk/>

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').⁷

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 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.⁸ On 25 March 2015 we approved the form of the 2015/16 Charging Statement. DCC levies charges on service users, and the charging statement must set out the basis on which the charges will be payable.⁹ These charges are formally known as 'service charges'. The statement must enable service users to estimate the charges they will face and must be prepared in accordance with the charging methodology in the Smart Energy Code.¹⁰

DCC's licence¹¹ 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).¹²

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.

⁷ Condition 4 of DCC's licence defines the activity that the licence authorises DCC to carry out in GB.

⁸ Licence condition 19.5.

⁹ Licence Condition 19.4.

¹⁰ 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.

¹¹ Condition 19.14.

¹² 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.