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Date: 11 January 2017

Consultation on proposed updated form of Smart DCC Ltd'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 22 December 2016. 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

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

What are we consulting on?

On 22 December 2016 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 2017. 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 as an annex to this letter along with a version tracking changes from the last charging statement we approved. 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.

Please note that we have no role in approving DCC's service charges. As such, we are not inviting comments on the level of the service charges.

Due to DCC's unique nature and the new regime it is operating in, an ex post price control regime was agreed as part of the competition to award the licence. DCC must submit price

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://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

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 DCC's allowed revenue, resulting in lower service charges for service users³; or
- DCC could be subject to an undertaking in relation to its future management of those costs and its procurement of relevant service capability.

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

We do not intend to consult on DCC's proposed updates to the form of the charging statement after this year. We urge DCC to continue to adopt a transparent approach to updating their charging statement, and will consider further regulatory intervention if necessary having regard to the objectives of the licence.

How can you respond?

Please submit any views on this consultation to us no later than 17:00 on **8 February 2017**. Send responses to robyn.daniell@ofgem.gov.uk, copying in cathy.cui@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 2017.

If you wish to discuss the consultation or any issue raised in this letter, please contact Robyn Daniell on 020 7901 3000.

Yours faithfully,

Rob Salter-Church

Partner, Consumers and Competition

³ We have reviewed the costs DCC reported under its price control for regulatory year 2014/15. We are consulting on our proposals and welcome views by 20 January 2016.

<https://www.ofgem.gov.uk/publications-and-updates/dcc-price-control-consultation-regulatory-year-201415>

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

What is DCC?

DCC is a 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').⁴

What does DCC's licence require?

Under its licence, DCC has to maintain the charging statement in a form that we have approved.⁵ On 24 March 2016 we approved the form of the 2016/17 charging statement⁶. DCC levies charges on service users, and the charging statement must set out the basis on which the charges will be payable.⁷ These charges are formally known as 'service charges'. The charging statement must enable service users to make a reasonable estimate the charges they will face and must be prepared in accordance with the charging methodology in the Smart Energy Code.⁸

DCC's licence⁹ 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 in all material respects. The Smart Energy Code (Section J.4) creates a further obligation, which requires DCC to not amend the service charges more than once in each calendar year (subject to certain caveats).¹⁰

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. As part of our price control determination, we will have a role in assessing whether costs were economically and efficiently incurred.

⁴ Condition 6 of DCC's licence sets out the activity that the licence authorises DCC to carry out in GB.

⁵ Licence condition 19.5.

⁶ <https://www.ofgem.gov.uk/publications-and-updates/approval-statement-pursuant-paragraph-19-5-condition-19-charging-statement-service-charges-smart-meter-communication-licence-1>

⁷ Licence condition 19.3.

⁸ Licence condition 19.1. The Smart Energy Code is an industry code. It is a multiparty agreement which defines the rights and obligations between DCC and service users.

⁹ Licence condition 19.14.

¹⁰ 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.