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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 Licence¹

This letter sets out the Authority's² 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 22 December 2016 DCC submitted to us an updated statement for service charges that will fall due in Regulatory Year (RY) 2017/2018. Compared to the RY 2016/17 statement in place, the key changes to the form of the statement DCC proposed included³:

- Section A (Summary of Charges for RY 2016/17)
 - inclusion of an additional four new charges relating to Alt HAN, as follows:
 - Fixed Alt HAN Charge (Table 2)
 - Shared solution Alt HAN equipment (Table 6)
 - Point-to-point Alt HAN equipment (Table 6)
 - Stock level point-to-point Alt HAN equipment (Table 6)
- Section B (Estimated Revenue)
 - Changes to Table 8 (now Table 9) which now breaks down costs by programme (Smart Metering Implementation Programme (SMIP), Dual Band Communications Hubs (DBCH), SMETS1 and the Switching Programme).
 - Inclusion of a new cost line relating to External Contract Gain Share (Table 9)

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

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 https://www.smartdcc.co.uk/media/414068/2016_12_22_dcc_letter_of_notice_of_service_charges_for_ry1718.pdf

- Inclusion of a new cost category under Pass-Through Cost relating to AltHANCo (Table 9)
- Inclusion of a new Alt HAN Fixed Revenue category under Estimated Fixed Revenue
- Inclusion of a new category of correction factor relating to Alt HAN.

The statement was in the form that DCC expected to use for the regulatory year starting on 1 April 2017. We consulted on the proposed statement in our letter dated 11 January 2017 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 four responses to our consultation.

Summary of responses and subsequent changes to the statement

Clarity on the charges that service users will face

Two respondents requested more detail on the changes to charges in the statement. The specific requests called for provision of:

- detailed in depth information regarding all changes to financial charges
- an additional, more granular section on the key drivers behind the changes

Respondents commented that this would be helpful in order to provide justification of additional costings to the industry and ultimately, the consumer.

In response, DCC have explained:

- The charging statement is designed to be a public document which sets out the charges due to apply throughout the relevant regulatory year, and they present this information in a form which is as clear and concise as possible.
- They recognise that it is helpful for parties to understand any movements in costs from quarter to quarter. For this reason, they host a quarterly finance update via a webinar session which explains the movement in costs since the previous quarter.
- The webinar is open to SEC Parties only, reflecting the fact that the explanation of movements can sometimes be commercially sensitive and so would not be appropriate for wider publication.

One respondent requested that the format of the charging statement should be redesigned to separate core service costs from the additional areas of work DCC has been requested to carry out e.g. Centralised Registration Services, Enrolment & Adoption. The respondent commented that the Charging Statement would then transparently reflect the true cost of providing the SMETS2 Smart Metering Implementation Charges.

In response, DCC have explained:

- In the latest version of the charging statement, they have separated internal and external costs which relate to 'new programmes' and they aim to continue to do this going forward.
- They will consider how best to allocate central costs to those programmes and subsequently how best to present this in the charging statement going forward.

Ofgem view

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 2017/18 in respect of the relevant services.

Specifically, on identifying new programme costs, we welcome DCC's commitment to consider if they can present this information in the charging statement in more detail. More

generally, we consider that the 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. If further detail is required, we encourage service users to participate in DCC's finance webinars and if necessary request that further detailed information is disseminated to meet their needs.

Beyond the charging statement itself, we encourage DCC to continue to improve the level of transparency provided when consulting with industry on changes to costs. We appreciate that DCC needs to be mindful of commercial sensitivities but we see significant benefits in allowing industry to scrutinise costs before they are incurred and in service users having sufficient detail on cost drivers to anticipate how it will impact their businesses.

Coherent and easy to navigate format

All respondents were supportive of the format and structure of the statement and commented that it was easy to navigate.

One respondent suggested that a more transparent approach would be for the DCC to highlight the key changes. They commented that the approach that the DCC has taken in track-changing the Charging Statement means that each change (however trivial) has been included, making it difficult to establish the key changes that they should be focussing on.

In response, DCC have explained:

- They recognise that the tracked changes document is not as clear as it could be; this is primarily due to the software used to produce the charging statement.
- They are considering changing the software used to produce the charging statement to make it easier to track changes in future.

Ofgem view

We consider that the statement is coherent and easy to navigate. In response to the issue raised around transparency of changes DCC made in the Charging Statement, we welcome DCC's consideration of how to make it easier and clearer to identify key changes in the document.

Statement accuracy

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.

Impact of Authority's price control decisions, directions and determinations for RY 2015/16

Alongside our decision and directions relating to the price control assessment for RY 2015/16⁴, which was published in February 2017, we provided DCC with consent to having a notice period of less than 3 months for making amendments to the service charges for RY 2017/18⁵. Note that we also provided the same consent in respect to the direction defining the CRSPA term.⁶ This consent was granted to enable DCC to amend its service charges to reflect the price control decisions from the start of RY 2017/18 on 1 April.

⁴ <https://authors.ofgem.gov.uk/publications-and-updates/dcc-price-control-decision-regulatory-year-201516>

⁵ Consent to reduce the notice period for proposing an amendment to the Service Charges in respect to price control determinations for Regulatory Year 2015/16. 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.

⁶ <https://authors.ofgem.gov.uk/publications-and-updates/decision-margin-and-incentives-dccs-role-within-transitional-phase-switching-programme>

DCC has updated the charging statement to reflect the amendments resulting from the 15/16 price control determinations and switching margin arrangements. The net effect of these changes is nil as DCC has reduced the prudent estimate by the corresponding amount. DCC issued a further notice of Service Charges to this effect to the Authority and SEC parties on 20 March 2017⁷. The Estimated Fixed Revenue for 2017/18 remains unchanged from the previous draft statement at £291.7m. The draft charging statement will come into effect on 1 April 2017.

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.

As signalled in the January consultation⁸, we no longer consider that it is necessary for us to consult on all future changes to the form of DCC's Charging Statement. We expect DCC to ensure that any proposed amendments to the Charging Statement are made in a transparent way before being submitted to the Authority for approval. This may include DCC carrying out its own consultation where proposed amendments are material.

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,

Jacqui Russell
Head of Smarter Metering

Duly authorised on behalf of the Gas and Electricity Markets Authority

⁷ <https://www.smartdcc.co.uk/charges/charging-statements/>

⁸ <https://www.ofgem.gov.uk/publications-and-updates/consultation-proposed-updated-form-smart-dcc-ltd-s-charging-statement-service-charges>

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

What is DCC?

DCC is a central communications body licensed to provide the communications, 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.

What does DCC's licence require?

Under its licence, DCC has to maintain the charging statement in a form that we have approved.⁹ DCC levies charges on service users, and the charging statement must set out the basis on which the charges will be payable.¹⁰ 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.¹¹

DCC's licence¹² 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 aspects. 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).¹³

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.

⁹ Licence condition 19.5.

¹⁰ Licence condition 19.3.

¹¹ Licence condition 19.1. 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.

¹² Licence condition 19.14.

¹³ 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.