

**To: the holder of the smart meter communication licences  
DIRECTION ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY  
PURSUANT TO PARAGRAPH 10 OF CONDITION 36 OF THE CONDITIONS OF THE  
SMART METER COMMUNICATION LICENCES GRANTED PURSUANT TO SECTIONS  
7AB(2) AND (4) OF THE GAS ACT 1986 AND SECTIONS 6(1A) AND (1C) OF THE  
ELECTRICITY ACT 1989**

**WHEREAS**

1. The company to whom this Direction is addressed ("the licensee") holds the smart meter communication supply licences granted, or treated as granted, pursuant to sections 7AB(2) and (4) of the Gas Act 1986 and sections 6(1A) and (1C) of the Electricity Act 1989 in which condition 36 (Determination of Licensee's Allowed Revenue) has effect ("the licence").
2. Paragraph 9 of condition 36 of the licence provides that the total amount of the licensee's Centralised Registration Service Revenue (CRSR) will be calculated for Regulatory Year t in accordance with the following formula:

$$CRSR_t = CRSEC_t + CRSIC_t + CRSPC_t + CRSCA_t + CRSPA_t$$

3. The Gas and Electricity Markets Authority ("the Authority") has the power pursuant to paragraph 10 of condition 36 of the licence to amend the value of the term "CRSPA<sub>t</sub>", which would otherwise be zero.
4. On 24<sup>th</sup> November 2016, the Authority consulted on the contents of the direction and has carefully considered the responses to that consultation.

**NOW THEREFORE**

5. The Authority hereby directs that the value of CRSPA<sub>t</sub> shall be as set out in the schedule to this direction.
6. This direction shall take effect on 9 March 2017 and shall continue until revoked or amended by the Authority following a period of consultation with the licensee for not less than 28 days, beginning on the date of notice of the revocation or amendment, or such other period as may be agreed in writing by the Authority and the licensee, during which representations with respect to the proposed revocation or amendment may be made.
7. This direction outlines the performance related revenue that the licensee can expect in remuneration for its role in delivering the CSR. This takes the form of a rate of return applied to internal costs and is placed at risk through incentivised delivery milestones.
8. The following documents constitute notice pursuant to section 38A (Reasons for decisions) of the Gas Act 1986 and section 49A (Reasons for decisions) of the Electricity Act 1989:
  - a. This direction;
  - b. Ofgem. (March 2017) "Decision on margin and incentives for DCC's role within the Transitional Phase of the Switching Programme";
  - c. Ofgem. (November 2016) "Minded to position on margin and incentives for DCC's role within the Transitional Phase of the Switching Programme"; and
  - d. Ofgem. (May 2016) "Decision: DCC's role in developing a Central Registration Service"

These documents are available on the Ofgem website: [www.ofgem.gov.uk](http://www.ofgem.gov.uk)

Dated: 9 March 2017

**Signed on behalf of the Authority by Rob Salter-Church  
Duly authorised for that purpose by the Authority**

## SCHEDULE

### Value of CRSPA<sub>t</sub>

1. The value CRSPA<sub>t</sub> shall be calculated according to the following formula:

$$CRSPA_t = 13.6\% * (CRSIC_t - DM1_t - DM2_t - DM3_t + R_t)$$

### Interpretation

2. Unless a contrary intention appears, any reference to terms in this direction is to be read to have the same meaning given in the licence.
3. Differences between forecast and allowed margin will be adjusted through subsequent price control (t+1).
4. In this direction:

CRSCB <sub>t</sub>	means the total cost base associated with the delivery of all the identified Delivery Milestones over the lifetime of the Transitional Phase of Switching Programme. The aggregate value of this term will be assessed through DCC's annual price control submissions over the Transitional Phase with the final calculation and adjustment being made following the final submission of the Transitional Phase
CRSIC <sub>t</sub>	has the definition provided for at condition 36 of the licence
DM1 <sub>t</sub>	means the amount of costs no longer eligible to earn margin for Delivery Milestone 1, which has the value of: <ul style="list-style-type: none"> <li>• 0 if the DM1<sub>t</sub> Specified Criteria are achieved on or by T1;</li> <li>• <math>1/3^1</math> CRSCB<sub>t</sub> x TA1 x 5%<sup>2</sup> if the DM1 Specified Criteria are achieved after T1 but up to and including T1 +TD;</li> <li>• 1/3 CRSCB if the DM1<sub>t</sub> Specified Criteria are not achieved before or on T1 + TD;</li> </ul>
DM2 <sub>t</sub>	means the amount of costs no longer eligible to earn margin for Delivery Milestone 2, which has the value of: <ul style="list-style-type: none"> <li>• 0 if the DM2<sub>t</sub> Specified Criteria are achieved on or by T2;</li> <li>• <math>1/3</math> CRSCB<sub>t</sub> x TA2 x 5% if the DM2 Specified Criteria are achieved after T2 but up to and including T2 + TD;</li> </ul>

<sup>1</sup> 1/3 is based on the CRSCB<sub>t</sub> costs being split evenly across the three incentivised milestones. Represents the total cost base for each incentivised milestone that margin is placed at risk

<sup>2</sup> Represents the level of margin lost per a Relevant Day. Calculated as 100%/TD. Where TD = 20 this is 5%

	<ul style="list-style-type: none"> <li>1/3 CRSCB<sub>t</sub> if the DM2 Specified Criteria are not achieved before or on T2 + TD</li> </ul>
DM3 <sub>t</sub>	<p>means the amount of costs no longer eligible to earn margin for Delivery Milestone 3, which has the value of:</p> <ul style="list-style-type: none"> <li>0 if the DM3 Specified Criteria are achieved on or by T3;</li> <li>1/3 CRSCB<sub>t</sub> x TA3 x 5% if the DM3 Specified Criteria are achieved after T3 but up to and including T3 + TD;</li> <li>1/3 CRSCB<sub>t</sub> if the DM3 Specified Criteria are not achieved before or on date T3 + TD</li> </ul>
DM1 Specified Criteria	<p>means approval of the CRS Detailed Design including independent assurance that the acceptance criteria have been met</p> <p>The acceptance criteria for approval has the meaning given in the CRS Detailed Design Product Description document, as may be amended from time to time</p>
DM2 Specified Criteria	<p>means approval of the CRS Tender Packs for the final major procurement project. This includes independent assurance that the acceptance criteria have been met</p> <p>The acceptance criteria for approval has the meaning given in the Tender Pack Product Description document, as may be amended from time to time</p>
DM3 Specified Criteria	<p>means approval of The Contract Award Recommendation Report for the final major procurement project. This includes independent assurance that the acceptance criteria have been met</p> <p>The acceptance criteria for approval has the meaning given in the Contract Award Recommendation Report Product Description document, as may be amended from time to time</p>
R <sub>t</sub>	<p>means the recovery mechanism for margin previously lost at milestone 1 and 2 which has the value of</p> <ul style="list-style-type: none"> <li>DM1 + DM2 if the DM3 Specified Criteria are achieved on or by T3;</li> <li>(DM1 + DM2) x (TD - TA3) x 5% if the DM3 Specified Criteria are</li> </ul>

	<p>achieved after T3 but up to and including T3 + TD;</p> <ul style="list-style-type: none"> <li>• 0 if the DM3 Specified Criteria are not achieved before or on date T3 + TD</li> </ul>
Relevant Days	excludes weekends, bank holidays and the period between December 27 <sup>th</sup> -31 <sup>st</sup> (inclusive)
T1	is a date set within the Switching Incentivised Milestone Dates document to be set following independent external assurance. This may be amended from time to time in line with the Switching Programme Change Control Process
T2	is a date set within the Switching Incentivised Milestone Dates document following independent external assurance. This may be amended from time to time in line with the Switching Programme Change Control Process
T3	is a date set within the Switching Incentivised Milestone Dates document following independent external assurance. This may be amended from time to time in line with the Switching Programme Change Control Process
TA1	<p>means the actual time in Relevant Days after T1 that the DM1 Specified Criteria are met.</p> <p>Where TA1 is greater than TD then TA1 will be taken to equal TD</p>
TA2	<p>means the actual time in Relevant Days after T2 that the DM2 Specified Criteria are met.</p> <p>Where TA2 is greater than TD then TA2 will be taken to equal TD</p>
TA3	<p>means the actual time in Relevant Days after T3 that the DM3 Specified Criteria are met.</p> <p>Where TA3 is greater than TD then TA3 will be taken to equal TD</p>
TD	Means the time after date T at which all the margin at risk is lost and has the value of 20 Relevant Days