

**To: Smart DCC Limited**

**Gas Act 1986 – Section 23(1)(a)  
Electricity Act 1989 – Section 11A(1)(b)**

**Modification of the conditions of the smart meter communication licence**

1. The licensee to whom this document is addressed is the holder of a smart meter communication licence granted or treated as granted under section 7AB(2) and (4) of the Gas Act 1986 ('the Gas Act') and section 6(1A) and (1C) of the Electricity Act 1989 ('the Electricity Act') ('the DCC Licence').
2. Under section 23(2) of the Gas Act and section 11A(2) of the Electricity Act the Gas and Electricity Markets Authority ('the Authority')<sup>1</sup> gave notice on 27 March 2019 ('the Notice') that we propose to modify the conditions of the smart meter communication licence. We stated that any representations to the modification proposal must be made on or before 26 April 2019.
3. A copy of the Notice was sent to the Secretary of State in accordance with section 23(4)(b) of the Gas Act and section 11A(4)(b) of the Electricity Act, and we have not received a direction that the change should not be made.
4. We received two responses to the Notice, which we carefully considered. We have placed all non-confidential responses on our website. Our response to these comments is set out at the accompanying letter.
5. We are making these licence changes because there is currently an inconsistency in the Licence Conditions between the calculation of the Project Baseline Margin recovered by the Licensee, and the Baseline Margin Project Performance Adjustment.
6. The effect of the modifications is to clarify that Relevant Adjustments to the Baseline Margin are to be expressed in 2013/14 prices and to correct the calculation of the Baseline Margin Project Performance Adjustment, such that it is consistent with the calculation of the Project Baseline Margin recovered by the Licensee.
7. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 11C of the Electricity Act and section 23B of the Gas Act, Rule 5.7 of the Energy Licence Modification Appeals: Competition and Markets Authority Rules<sup>2</sup> requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-confidential notice setting out the matters required in Rule 5.2. Smart DCC Limited is the relevant licence holders in relation to this modification. Section 11A(10) of the Electricity Act and section 23(10) of the Gas Act sets out the meaning of 'relevant licence holder'.

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<sup>1</sup> The terms "the Authority", "we" and "us" are used interchangeably in this document.

<sup>2</sup> CMA70 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/655601/energy-licence-modification-appeals-rules.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655601/energy-licence-modification-appeals-rules.pdf)

Under the powers contained in section 23(1)(b) of the Gas Act and section 11A(1)(b) of the Electricity Act, the Authority hereby modifies the licence conditions of the smart meter communication licence in the manner specified in attached Schedule 1. This decision will take effect from 03 July 2019.

This document is notice of the reasons for the decision to modify the smart meter communications licence as required by section 38A(2) of the Gas Act and section 49A(2) of the Electricity Act.

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**Jacqui Russell**  
**Head of Metering & Market Operations**  
**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**



**07 May 2019**

### Schedule 1

#### MODIFICATIONS TO THE SMART METER COMMUNICATION LICENCE

Licence Condition	Original text	Proposed text	Reason for change
A5. Appendix 2, Condition 36	<p>A5. Notice given under paragraph A2 of a proposed Relevant Adjustment must also:</p> <p>(a) detail the change (or changes) to the BM value (or values) that are proposed and the Regulatory Year (or Years) to which the change (or changes) would relate, in each case identifying separately the change (or changes) relating to the Project Baseline Margin for any Project n;</p> <p>(b) set out the basis of the calculation of those proposed changes; and</p> <p>(c) explain why, in the opinion of the person making the proposal, the Relevant Adjustment is justified in all the circumstances of the case.</p>	<p>A5. Notice given under paragraph A2 of a proposed Relevant Adjustment must also:</p> <p>(a) detail the change (or changes) to the BM value (or values) that are proposed and the Regulatory Year (or Years) to which the change (or changes) would relate, in each case identifying separately the change (or changes) relating to the Project Baseline Margin for any Project n;</p> <p><u>(aa) express each of the changes referred to in paragraph (a) in 2013/14 prices, calculated by reference to the value of PIBM<sub>t</sub> in the Regulatory Year preceding that in which the Relevant Adjustment is proposed</u></p> <p>(b) set out the basis of the calculation of those proposed changes; and</p> <p>(c) explain why, in the opinion of the person making the proposal, the Relevant Adjustment is justified in all the circumstances of the case.</p>	<p>This change makes it clear in the Licence that adjustments to the Baseline Margin values are made in 2013/14 prices, and that DCC should make its application in this price base.</p>

<p>A11. Appendix 2, Condition 36</p>	<p><i>A11. A determination under paragraph A7 may:</i></p> <p><i>(a) confirm, reject, or amend the proposed Relevant Adjustment;</i></p> <p><i>(b) include such additional or consequential adjustments (if any) as the Authority thinks appropriate to the BM value (or values) for any Regulatory Year</i></p> <p><i>(or Years) other than the Regulatory Year (or Years) set out in the proposed Relevant Adjustment; and</i></p> <p><i>(c) separately identify the value of any Project Baseline Margin that relates to a Project n, so that it is clearly distinguishable both from:</i></p> <p><i>(i) the value of any element of the Relevant Adjustment that relates to any other Project n; and</i></p> <p><i>(ii) the value of the elements of the Relevant Adjustment that do not relate to a Project.</i></p>	<p><i>A11. A determination under paragraph A7 may:</i></p> <p><i>(a) confirm, reject, or amend the proposed Relevant Adjustment;</i></p> <p><i>(b) include such additional or consequential adjustments (if any) as the Authority thinks appropriate to the BM value (or values) for any Regulatory Year</i></p> <p><i>(or Years) other than the Regulatory Year (or Years) set out in the proposed Relevant Adjustment; and</i></p> <p><i>(c) separately identify the value of any Project Baseline Margin that relates to a Project n, so that it is clearly distinguishable both from:</i></p> <p><i>(i) the value of any element of the Relevant Adjustment that relates to any other Project n; and</i></p> <p><i>(ii) the value of the elements of the Relevant Adjustment that do not relate to a Project.</i></p> <p><u><i>Providing always that each of the values specified in the determination shall be expressed in 2013/14 prices, calculated by reference to the value of the PIBM<sub>t</sub> in the Regulatory Year preceding that in which the Relevant Adjustment is determined.</i></u></p>	<p>This change makes it clear in the Licence that adjustments to the Baseline Margin values are made in 2013/14 prices, and that the determination should be made in 2013/14 prices.</p>
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<p>A17. Appendix 1, Condition 38</p>	<p><math>PBM_{n,t}</math> means the amount of the Project Baseline Margin in respect of Project n in Regulatory Year t which has been (or is deemed to have been) determined for that Regulatory Year, multiplied by the price index adjuster (PIBM) for that Regulatory Year and divided by PIBM for the Regulatory Year in which that Project Baseline Margin was (or is deemed to have been) determined,</p>	<p><math>PBM_{n,t}</math> means the amount of the Project Baseline Margin in respect of Project n in Regulatory Year t (<u>expressed in 2013/2014 prices</u>) which has been (or is deemed to have been) determined for that Regulatory Year, multiplied by the price index adjuster (PIBM) for that Regulatory Year <del>and divided by PIBM for the Regulatory Year in which that Project Baseline Margin was (or is deemed to have been) determined,</del></p>	<p>This corrects an error in the calculation of the Baseline Margin Project Performance Adjustment. The previous version was not consistent with the calculation of the Project Baseline Margin recovered by DCC.</p>
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