



Making a positive difference
for energy consumers

DCC, Suppliers, DCC customers
and Other Interested Parties

Email: smartmetering@ofgem.gov.uk

Date: 07 May 2019

Dear Stakeholders,

Decisions on modifications to the Smart Meter Communication Licence¹ relating to Baseline Margin Relevant Adjustments and the Baseline Margin Project Performance Adjustment

This letter sets out our decisions on the modifications to the Smart Meter Communication Licence we² consulted on from 27 March 2019 to 26 April 2019. We received two responses to this consultation both of which supported our proposed modifications. Therefore, we have decided to implement the proposed modifications, which will come into effect on 03 July 2019.

The proposed modifications to the Smart Meter Communication Licence address two issues we have identified with the current licence drafting – there is no change in policy intent. The aims of these modifications are to:

1. Clarify that Relevant Adjustments to the Baseline Margin are to be expressed in 2013/14 prices;
2. Amend the Baseline Margin Project Performance Adjustment calculation so that it is consistent with the price base of the Project Baseline Margin recovered by Smart DCC Ltd (DCC).

1. Price base of Baseline Margin Relevant Adjustments

The Baseline Margin is the margin DCC earns above its costs. This is a fixed amount each year. Adjustments to the Baseline Margin can be applied for by DCC so that it can be compensated for material changes in certain aspects of its Mandatory Business. Within the Licence, such adjustments are called Relevant Adjustments.

We proposed to include additional text in paragraphs A5 and A11 of Appendix 2 of Condition 36 to clarify that Relevant Adjustments are to be expressed in 2013/14 prices. This additional text will require Baseline Margin Relevant Adjustments to be submitted by DCC in 2013/14 prices, and to be determined by the Authority in 2013/14 prices. This will ensure the value of the Baseline Margin recovered by DCC is correct.

¹ References to the "Licence" refer to the Smart Meter Communication Licence.

² References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work.

Both respondents were supportive of these changes. One additionally noted that it believed the revised wording would avoid misinterpretation by both DCC and Ofgem, and that it will ensure the value of the Baseline Margin recovered by the DCC is correct.

Taking these views into consideration we have decided to implement these proposed changes.

2. Calculation of the Baseline Margin Project Performance Adjustment

DCC's performance on Projects is incentivised by adjusting DCC's Allowed Revenue through the Baseline Margin Project Performance Adjustment, such that DCC's revenue is reduced following poor performance. As currently drafted in the Licence, the calculation of the Baseline Margin Project Performance Adjustment is inconsistent with the price base of the Project Baseline Margin ('PBM_{n,t}') recovered by DCC.

To resolve this inconsistency we proposed to make a change to the definition of the PBM_{n,t} term in paragraph A17 of Appendix 1 of Condition 38 to reflect the fact that Relevant Adjustments to the Baseline Margin are expressed in 2013/14 prices. This will have the effect of making the PBM_{n,t} term equal to the Project Baseline Margin recovered by DCC in Regulatory Year t.

Both respondents were supportive of this change, and agreed it would achieve the stated purpose. We have therefore decided to implement the proposed change.

Next Steps

The proposed changes will take effect on 03 July 2019, and therefore will be in effect for DCC's price control submission for the Regulatory Year 2018/19 price control.

Yours faithfully,

Jacqui Russell
Head of Metering & Market Operations
Duly authorised on behalf of the Gas and Electricity Markets Authority
07 May 2019