

To: the holder of the smart meter communication licences

**VARIATION TO THE DIRECTION ISSUED BY THE GAS AND ELECTRICITY
MARKETS AUTHORITY TO THE HOLDER OF THE SMART METER COMMUNICATION
LICENCES ON 9 March 2017**

WHEREAS

1. The Authority varies the direction made pursuant to paragraph 10 of condition 36 of the conditions of the smart meter communication licence granted under sections 7AB(2) and (4) of the Gas Act 1986 and sections 6(1A) and (1C) of the Electricity Act 1989.
2. 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").
3. 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:

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

4. 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 $_t$ ", which would otherwise be zero.
5. On 16th October 2018¹, the Authority consulted on the contents of this amendment direction and has carefully considered the responses to that consultation.

NOW THEREFORE

6. The Authority hereby directs that the value of CRSPA $_t$ shall be as set out in the schedule to this direction.
7. This variation to the direction issued on 9 March 2017 extends the CRSPA term to cover DCC's role within the Design, Build and Test Phase of the Programme as set out in the October 2018 consultation¹. The variation defines and differentiates between the original CRSPA term for the Transitional Phase and the additional CRSPA term for the Design, Build and Test Phase of the Programme.
8. This direction shall take effect on 31 May 2019 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.

¹ <https://www.ofgem.gov.uk/publications-and-updates/switching-programme-regulation-and-governance-way-forward-and-statutory-consultation-licence-modifications>

9. This direction outlines the performance related revenue that the licensee can expect in remuneration for its role in delivering the CRS. This takes the form of a rate of return applied to internal costs and is placed at risk through incentivised milestones.
10. 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. (3 May 2019) "Decision on margin and incentives for DCC's role within the DBT Phase of the Switching Programme"²;
 - c. Ofgem. (October 2018) "Switching Programme: Regulation and Governance - way forward and statutory consultation on licence modifications"¹;
 - d. Ofgem. (March 2017) "Decision on margin and incentives for DCC's role within the Transitional Phase of the Switching Programme"³;
 - e. Ofgem. (November 2016) "Minded to position on margin and incentives for DCC's role within the Transitional Phase of the Switching Programme"⁴; and
 - f. Ofgem. (May 2016) "Decision: DCC's role in developing a Central Registration Service"⁵

These documents are available on the Ofgem website: www.ofgem.gov.uk

Dated: 3 May 2019

**Signed on behalf of the Authority by Rachel Clark
Duly authorised for that purpose by the Authority**

² <https://www.ofgem.gov.uk/publications-and-updates/decision-margin-and-incentives-dccs-role-within-design-build-and-test-phase-switching-programme>

³ <https://www.ofgem.gov.uk/publications-and-updates/decision-margin-and-incentives-dccs-role-within-transitional-phase-switching-programme>

⁴ <https://www.ofgem.gov.uk/publications-and-updates/minded-position-margin-and-incentives-dccs-role-within-transitional-phase-switching-programme>

⁵ <https://www.ofgem.gov.uk/publications-and-updates/decision-dccs-role-developing-centralised-registration-service>

SCHEDULE

Value of CRSPA_t

1. The value of CRSPA_t shall be calculated according to the following formula:

$$CRSPA_t = CRSPAT_t + CRSPAD_t$$

Where:

The performance adjustment term for the Transitional Phase of the Switching Programme (CRSPAT) is:

$$CRSPAT_t = 13.6\% * (CRSICT_t - TM1_t - TM2_t - TM3_t + R_t)$$

This is unchanged in this amendment from the March 2017 direction apart from amendments in terminology to further clarify and differentiate the two phases.

And

The performance adjustment term for the Design, Build and Test ('DBT') Phase of the Switching Programme (CTSPAD) is:

$$CRSPAD_t = 13.6\% * (CRSICD_t - DM1_t - DM2_t - DM3_t - DM4_t - DM5_t + DRM_t) + DDR_t$$

This is additional to this amended direction and was not covered in the March 2017 direction.

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:

As applied to the Transitional Phase of the Switching Programme under the CRSPAT _t term	
CRSCBT _t	means the total cost base associated with the delivery of all the identified Transition 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 _t	has the definition provided for at condition 36 of the licence
CRSICT _t	means CRSIC _t as applied to the Transitional Phase of the Switching Programme
R _t	Means the recovery mechanism for margin previously lost at milestone 1 and 2 which has the value of

	<ul style="list-style-type: none"> • $TM1 + TM2$ if the TM3 Specified Criteria are achieved on or by T3; • $(TM1 + TM2) \times (TD - TA3) \times 5\%$ if the TM3 Specified Criteria are achieved after T3 but up to and including T3 + TD; • 0 if the TM3 Specified Criteria are not achieved before or on date T3 + TD
Relevant Days	Excludes weekends, bank holidays and the period between December 27 th -31 st (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 TM1 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 TM2 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 TM3 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
TM1 _t	means the amount of costs no longer eligible to earn margin for Transition Milestone 1, which has the value of:

	<ul style="list-style-type: none"> • 0 if the TM1_t Specified Criteria are achieved on or by T1; • $\frac{1}{3}^6$ CRSCBT_t x TA1 x 5%⁷ if the TM1 Specified Criteria are achieved after T1 but up to and including T1 +TD; • $\frac{1}{3}$ CRSCBT_t if the TM1_t Specified Criteria are not achieved before or on T1 + TD;
TM2 _t	<p>means the amount of costs no longer eligible to earn margin for Transition Milestone 2, which has the value of:</p> <ul style="list-style-type: none"> • 0 if the TM2_t Specified Criteria are achieved on or by T2; • $\frac{1}{3}$ CRSCBT_t x TA2 x 5% if the TM2 Specified Criteria are achieved after T2 but up to and including T2 + TD; • $\frac{1}{3}$ CRSCBT_t if the TM2 Specified Criteria are not achieved before or on T2 + TD
TM3 _t	<p>means the amount of costs no longer eligible to earn margin for Transition Milestone 3, which has the value of:</p> <ul style="list-style-type: none"> • 0 if the TM3 Specified Criteria are achieved on or by T3; • $\frac{1}{3}$ CRSCBT_t x TA3 x 5% if the TM3 Specified Criteria are achieved after T3 but up to and including T3 + TD; • $\frac{1}{3}$ CRSCBT_t if the TM3 Specified Criteria are not achieved before or on date T3 + TD
TM1 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>
TM2 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>

⁶ 1/3 is based on the CRSCBT_t costs being split evenly across the three incentivised milestones. Represents the total cost base for each incentivised milestone that margin is placed at risk

⁷ Represents the level of margin lost per a Relevant Day. Calculated as 100%/TD. Where TD = 20 this is 5%

	The acceptance criteria for approval has the meaning given in the Tender Pack Product Description document, as may be amended from time to time
TM3 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>

As applied to the DBT Phase of the Switching Programme under the CRSPAD _t term	
CRSCBD _t	<p>means 70% of the total CRSICD_t summed across all Regulatory Years (t) of the DBT Phase of the Switching Programme.</p> <p>The aggregate value of this term will be assessed through DCC's annual price control submissions over the DBT Phase with the final calculation and adjustment being made following the final submission of the DBT Phase</p>
CRSIC _t	has the definition provided for at condition 36 of the licence
CRSICD _t	means CRSIC _t as applied to the DBT Phase of the Switching Programme
D1	is a date set for DM1 within the DBT Switching Incentivised Milestone Dates document. This may be amended from time to time in line with the Switching Programme Change Control Process
D2	is a date set for DM2 within the DBT Switching Incentivised Milestone Dates document. This may be amended from time to time in line with the Switching Programme Change Control Process
D3	is a date set for DM3 within the DBT Switching Incentivised Milestone Dates document. This may be amended from time to time in line with the Switching Programme Change Control Process
D4	is a date set for DM4 within the DBT Switching Incentivised Milestone Dates document. This may be amended from

	time to time in line with the Switching Programme Change Control Process
D5	is a date set for DM5 within the DBT Switching Incentivised Milestone Dates document. This may be amended from time to time in line with the Switching Programme Change Control Process
DA1	means the actual time in Working Days after D1 that the DM1 Specified Criteria are met.
DA2	means the actual time in Working Days after D2 that the DM2 Specified Criteria are met.
DA3	means the actual time in Working Days after D3 that the DM3 Specified Criteria are met.
DA4	means the actual time in Working Days after D4 that the DM4 Specified Criteria are met.
DA5	means the actual time in Working Days after D5 that the DM5 Specified Criteria are met.
Design, Build and Test (DBT) Phase	has the definition provided for at condition 15 of the licence
DDR _t	<p>Means the Discretionary Data Reward. The DDR has the meaning given to it within the DDR Guidance document, as may be amended from time to time.</p> <p>The DDR has a capped reward / penalty of +/- £200k based on achieved data quality standard.</p>
DM1 _t	<p>means the amount of costs no longer eligible to earn margin for DBT Milestone 1, which has the value of:</p> <ul style="list-style-type: none"> • 0 if the DM1_t Specified Criteria are achieved on or by D1; • $[2\%^8 \times DA1 \times 30\%^9 \times CRSCBD_t]$ if the DM1_t Specified Criteria are achieved after D1 but up to and including D1 + 5 Working Days; • $[[10\% + (6\%^{10} * (DA1-5))]] \times 30\% \times CRSCBD_t]$ if the DM1_t

⁸ Represents the proportion of margin lost over the initial margin loss period. For milestones 1, 2 and 4 margin decreases to zero over a 20 Working Day period with 10% being lost over the first 5 Working Days = 2% per Working Day

⁹ Represents the weighting for each DBT milestone: 30%, 20%, 25%, 10% and 15% for DBT milestones 1 to 5 respectively.

¹⁰ Represents the proportion of margin lost over the final margin loss period. For milestones 1, 2 and 4 margin decreases to zero over a 20 Working Day period. Following the 10% lost over the initial 5 Working Days the remaining 90% is lost over the final 15 Working Days = 6% per Working Day

	<p>Specified Criteria are achieved after D1 + 5 Working Days but up to D1 + 20 Working Days; or</p> <ul style="list-style-type: none"> • $[30\% \times CRSCBD_t]$ if the DM1_t Specified Criteria are not achieved before or on D1 + 20 Working Days.
DM2 _t	<p>means the amount of costs no longer eligible to earn margin for DBT Milestone 2, which has the value of:</p> <ul style="list-style-type: none"> • 0 if the DM2_t Specified Criteria are achieved on or by D2; • $[2\% \times DA2 \times 20\% \times CRSCBD_t]$ if the DM2_t Specified Criteria are achieved after D2 but up to and including D2 + 5 Working Days; • $[[10\% + (6\% * (DA2 - 5))] \times 20\% \times CRSCBD_t]$ if the DM2_t Specified Criteria are achieved after D2 + 5 Working Days but up to D2 + 20 Working Days; or • $[20\% \times CRSCBD_t]$ if the DM2_t Specified Criteria are not achieved before or on D2 + 20 Working Days.
DM3 _t	<p>means the amount of costs no longer eligible to earn margin for DBT Milestone 3, which has the value of:</p> <ul style="list-style-type: none"> • 0 if the DM3_t Specified Criteria are achieved on or by D3; • $[(10\%/3)^{11} \times DA3 \times 25\% \times CRSCBD_t]$ if the DM3_t Specified Criteria are achieved after D3 but up to and including D3 + 3 Working Days; • $[[10\% + ((90\%/7)^{12} * (DA3 - 3))] \times 25\% \times CRSCBD_t]$ if the DM3_t Specified Criteria are achieved after D3 + 3 Working Days but up to D3 + 10 Working Days; or • $[25\% \times CRSCBD_t]$ if the DM3_t Specified Criteria are not achieved before or on D3 + 10 Working Days.

¹¹ Represents the proportion of margin lost over the initial margin loss period. For milestones 3 and 5 margin decreases to zero over a 10 Working Day period with 10% being lost over the first 3 Working Days

¹² Represents the proportion of margin lost over the final margin loss period. For milestones 3 and 5 margin decreases to zero over a 10 Working Day period. Following the 10% lost over the initial 3 Working Days the remaining 90% is lost over the final 7 Working Days

DM4 _t	<p>means the amount of costs no longer eligible to earn margin for DBT Milestone 4, which has the value of:</p> <ul style="list-style-type: none"> • 0 if the DM4_t Specified Criteria are achieved on or by D4; • $[2\% \times DA4 \times 10\% \times CRSCBD_t]$ if the DM4_t Specified Criteria are achieved after D4 but up to and including D4 + 5 Working Days; • $[[10\% + (6\% * (DA4 - 5))] \times 10\% \times CRSCBD_t]$ if the DM4_t Specified Criteria are achieved after D4 + 5 Working Days but up to D4 + 20 Working Days; or • $10\% \times CRSCBD_t]$ if the DM4_t Specified Criteria are not achieved before or on D4 + 20 Working Days.
DM5 _t	<p>means the amount of costs no longer eligible to earn margin for DBT Milestone 5, which has the value of:</p> <ul style="list-style-type: none"> • 0 if the DM5_t Specified Criteria are achieved on or by D5; • $[(10\%/3) \times DA5 \times 15\% \times CRSCBD_t]$ if the DM5_t Specified Criteria are achieved after D5 but up to and including D5 + 3 Working Days; • $[[10\% + ((90\%/7) * (DA5 - 3))] \times 15\% \times CRSCBD_t]$ if the DM5_t Specified Criteria are achieved after D5 + 3 Working Days but up to D5 + 10 Working Days; or • $[15\% \times CRSCBD_t]$ if the DM5_t Specified Criteria are not achieved before or on D5 + 10 Working Days.
DM1 Specified Criteria	<p>means approval of DBT Readiness (Production of the Physical Interface Design) including assurance that the acceptance criteria have been met</p> <p>The acceptance criteria for approval has the meaning given in the DBT Readiness Milestone Description document, as may be amended from time to time</p>
DM2 Specified Criteria	<p>means approval of DCC (including DSP) and CSS Pre-Integration Testing Exit. This includes assurance that the acceptance criteria have been met</p>

	<p>The acceptance criteria for approval has the meaning given in the DCC (including DSP) and CSS Pre-Integration Testing Exit Testing Exit Milestone Description document, as may be amended from time to time</p>
DM3 Specified Criteria	<p>means approval of System Integrator Readiness for System Integration Testing. This includes assurance that the acceptance criteria have been met</p> <p>The acceptance criteria for approval has the meaning given in the System Integrator Readiness for System Integration Testing Milestone Description document, as may be amended from time to time</p>
DM4 Specified Criteria	<p>means approval of End to End Testing Exit. This includes assurance that the acceptance criteria have been met</p> <p>The acceptance criteria for approval has the meaning given in the End to End Testing Exit Milestone Description document, as may be amended from time to time</p>
DM5 Specified Criteria	<p>means approval of Transition Stage 2 Exit. This includes assurance that the acceptance criteria have been met</p> <p>The acceptance criteria for approval has the meaning given in the Transition Stage 2 Exit Milestone Description document, as may be amended from time to time</p>
DRM _t	<p>Means the Discretionary Recovery Mechanism. The DRM has the meaning given to it within the DRM Guidance document, as may be amended from time to time.</p> <p>The maximum value of the DRM is 30% of the margin lost on the preceding 5 DBT milestones. The DRM can only be applied for if the programme Go Live window has been achieved</p>
Working Days	Means Working Days and excludes weekends and bank holidays