



Making a positive difference  
for energy consumers

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Date: 28 February 2017

Dear Company Secretary

**Smart Meter Communication Licence<sup>1</sup> (“the Licence”)  
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.<sup>2</sup>**

Conditions 19.9 and 19.10 of the Licence prohibits Smart DCC Ltd (“the Licensee”) from amending its Service Charges unless it has given Notice in the specified manner to the Gas and Electricity Markets Authority (“the Authority”). That Notice must be given not less than three months before the date when the Licensee proposes to amend its Service Charges<sup>3</sup>, except where the Authority otherwise consents.<sup>4</sup>

On 22 December 2016, the Licensee submitted Notice to the Authority of DCC’s Service Charges for the Regulatory Year ending 31 March 2018.

Under Licence Condition 36.4 the Licensee, in setting Service Charges for its Mandatory Business Services, must take all reasonable steps to secure that, in Regulatory Year t, its Regulated Revenue does not exceed a prudent estimate of its Allowed Revenue for that Regulatory Year. Under part G of licence condition 36, DCC is now subject to a ‘Report and Direct’ penalty interest rate regime for any over-recovery from users beyond 110% of Allowed Revenue.<sup>5</sup>

On 28 February 2017 the Authority made a decision under Part B of Licence Condition 37 to exclude certain costs from any future calculations of the Licensee’s Allowed Revenue. The Authority determined an adjustment to the Baseline Margin Values specified in

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<sup>1</sup> The Smart Meter Communications Licences granted to the Licensee pursuant to Section 7AB(2) and (4) of the Electricity Act 1989 and Sections 6(1A) and (1C) of the Gas Act 1986 (such licences together referred to as ‘the Licence’).

<sup>2</sup> All terms used in this Notice shall have the meaning given to them under the Licence, unless expressly stated otherwise.

<sup>3</sup> Defined under Licence Condition 1.4 of the Licence

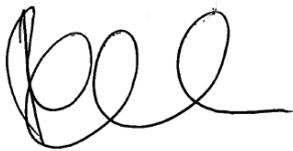
<sup>4</sup> Pursuant to condition 19.10 of the Licence

<sup>5</sup> [https://www.ofgem.gov.uk/system/files/docs/2016/05/decision\\_to\\_modify\\_smart\\_meter\\_communication\\_licence\\_for\\_dcc\\_penalty\\_interest\\_rate\\_web\\_version.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/05/decision_to_modify_smart_meter_communication_licence_for_dcc_penalty_interest_rate_web_version.pdf)

Licence Condition 36 Appendix 1, which has the effect of increasing the total sum by £1.109 million for RY 2017/18. The Authority also determined an adjustment to the External Contract Gain Share term in accordance with Licence Condition 39, which has the effect of increasing Allowed Revenue by total of £2.911m over RY2017/18-2019/20.

In accordance with Licence Condition 19.10 the Authority hereby consents to the Licensee giving less than three months' notice in respect of proposing an amendment to Service Charges for the Regulatory Year ending 31 March 2018 to reflect our determinations under the price control for Regulatory Year 2015/16.

Yours sincerely

A handwritten signature in black ink, appearing to read 'RS', with a long horizontal flourish extending to the right.

**Rob Salter-Church**

**Partner, Consumers and Competition**

**Duly authorised on behalf of the Gas and Electricity Markets Authority**

**28 February 2017**

**Consent given by the Gas and Electricity Markets Authority ( the "Authority") pursuant to Licence Condition 19 (Charging Statement for Service Charges) 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 to Smart DCC Ltd ("the Licence").**

Whereas:

1. Smart DCC Ltd<sup>6</sup> (the "Licensee") is the holder of the Licence.
2. Under Condition 19.10 of the Licence, the Licensee may only amend its Service Charges in respect of any Agreement for Services if it does so in accordance with condition 19.9, except if the Authority otherwise consents.
3. Under Condition 19.9 of the Licence, the Licensee must give the Authority a Notice of its proposals to amend its Service Charges in respect of any Agreement for Services not less than three months before the date on which the Licensee proposes to make the amendments.
4. On 22 December 2016 the Licensee published its Services Charges for Regulatory Year 2017/18. These will be in effect between April 2017 and March 2018.
5. On 28 February 2017 the Authority gave its price control decision in relation to Regulatory Year 2015/16<sup>7</sup> (the "2015/16 price control"). This found that:
  - £0.579 million of internal costs were not economically and efficiently incurred (the "Unacceptable Costs"); and
  - the proposed Relevant Adjustment to the Baseline Margin Values specified in Licence Condition 36 Appendix 1 shall be amended such that those Values are adjusted by increasing the total sum of £1.109 million for RY 2017/18 (the "Baseline Margin Adjustment")
  - The proposed Relevant adjustment to the External Contract Gain Share term in accordance with Licence Condition 39, which has the effect of increasing Allowed Revenue by total of £2.911m over RY2017/18-2019/20
6. As a consequence of the 28 February 2017 price control decision the Authority directed the Licensee to:
  - exclude the Unacceptable Costs from the calculation of its Allowed Revenue under Licence Condition 36. This affects the value of the Allowed Revenue for Regulatory Year 2015/16, which in turn affects the calculation of Allowed Revenue for subsequent Regulatory Years; and
  - reflect the Baseline Margin Adjustment in the calculation of Allowed Revenue in Regulatory Year 2017/18.
  - reflect the proportion of the External Contract Gain Share adjustment in the calculation of Allowed Revenue in Regulatory Year 2017/18 amounting to £1.653m.

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<sup>6</sup> Registered as a Company in England and Wales under Company Number 08641679.

<sup>7</sup> The DCC Price Control Direction is available at:

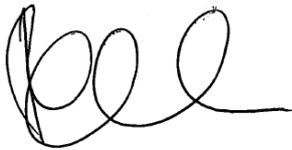
[https://www.ofgem.gov.uk/sites/default/files/docs/dcc\\_price\\_control\\_decision\\_regulatory\\_year\\_201415.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/dcc_price_control_decision_regulatory_year_201415.pdf)

7. The Authority notes that the Licensee has not been able to adjust its Services Charges for Regulatory Year 2015/16 to reflect these price control decisions of the Authority. The Authority therefore considers that consent should be given to the Licensee to amend the Services Charges in Regulatory Year 2017/18 to reflect these decisions.

**Now** the Authority consents as follows:

8. Pursuant to Licence Condition 19.10 of the Licence, the Licensee may give less than three months' Notice of proposed amendments to the Service Charges to reflect the outcome of the Authority's decisions in respect of the 2015/16 price control.
9. This document also constitutes a notice under section 38A of the Gas Act 1986 and section 49A Electricity Act 1989 of the reasons for the decision of the Authority to give this consent pursuant to the Condition.

Dated: 28 February 2017

A handwritten signature in black ink, appearing to read 'Rob Salter-Church', with a long horizontal tail stroke extending to the right.

Rob Salter-Church

Partner, Competition and Consumers

Duly authorised on behalf of the Gas and Electricity Markets Authority