

DCC, Suppliers, DCC customers
and Other Interested Parties

Email: smartmetering@ofgem.gov.uk

Date: 27 March 2019

Dear Stakeholders,

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

This consultation proposes modifications to the Smart Meter Communication Licence to address two issues we² have identified with the current licence drafting – there is no change in the 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).

This consultation is likely to be of most interest to 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.

It is implicit within the Licence that Relevant Adjustments to the Baseline Margin should be expressed in 2013/14 prices. Our proposed amendment would make this explicit.

Paragraph A1 of Appendix 2 of Condition 36 of the Licence recognises that adjustments may be made to the values of Baseline Margin set out in the table in Appendix 1 of that condition. By default, the values of Baseline Margin in Table 1 (including any Relevant Adjustments) are treated as if they are expressed in 2013/14 prices, since in Condition 36, the value of BM_t included within the Licensee's Allowed Revenue includes indexation by the $PIBM_t$ term for the relevant Regulatory Year from Regulatory Year 2013/14.

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.

We propose 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.

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. 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 recovered by DCC. Our proposed amendment would address this inconsistency.

Under current licence drafting, where any such margin is the subject of a Baseline Margin Project Performance Adjustment Scheme, the Project Baseline Margin is assumed to be expressed in prices relevant to the Regulatory Year in which the Project Baseline Margin was determined. This is reflected in the definition of the $PBM_{n,t}$ term in paragraph A17 of Appendix 1 of Condition 38 which currently includes a division by the value of the $PIBM_t$ term for the Regulatory Year in which the Project Baseline Margin was (or is deemed to have been) determined. As the Project Baseline Margin is in fact expressed in 2013/14 prices, there should be no division by that term.

We propose 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 .

Next Steps

We intend for this licence change to take effect by early July 2019 such that these changes will be in effect for DCC's price control submission for the Regulatory Year 2018/19 price control.

If you wish to give a response, please send it to smartmetering@ofgem.gov.uk by 26 April 2019.

Yours faithfully,

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