

To: Smart DCC Limited

**Gas Act 1986 – Section 23(2)
Electricity Act 1989 – Section 11A(2)**

Notice of statutory consultation on a proposal to modify the conditions of the smart meter communication licence

1. The Gas and Electricity Markets Authority ('the Authority')¹ proposes to modify the conditions of the smart meter communication licence granted or treated as granted under section 7AB(2) and (4) of the Gas Act 1986 and section 6(1A) and (1C) of the Electricity Act 1989 ('the DCC Licence') by amending the following:
 - Condition 35 – Definitions for the Price Control Conditions
 - Condition 36 – Determination of the Licensee's Allowed Revenue
 - Schedule 6 – The Switching Incentive Regime (new)

The proposed modifications are set out in Schedule 1 to this Notice.

2. We are proposing these modifications in order to introduce a financial incentive regime for DCC in their roles under the enduring Switching arrangements. The proposed incentive regime will form part of the existing Price Control provisions.
3. In summary, the effect of these modifications is to establish a mechanism enabling the margin that DCC are permitted to earn in their roles under the enduring Switching arrangements to be put at risk against a performance incentive regime. This is provided for through the introduction of a new Schedule 6 in the Licence which establishes the new incentive regime, which we are calling the "Switching Incentive Regime". Some modifications are also required to the Conditions of the Licence in order to give effect to the new Schedule 6.
4. Further details on the reasons for, and the effect of, each of these modifications can be found in the consultation accompanying this Notice.
5. A copy of the proposed modifications and other documents referred to in this Notice have been published on our website (www.ofgem.gov.uk). Alternatively, they are available from foi@ofgem.gov.uk.
6. Any representations with respect to the proposed licence modifications must be made on or before **Monday 19th December 2022** by email to: DCCregulation@ofgem.gov.uk
7. We are not issuing hard copies of the modification documents, nor do we expect consultation responses by post. If, however, you do wish to receive the documents and respond by post, we are able to organise this for you. Please contact us at the email address above to request hard copies of the relevant documents and postal address for responses.
8. We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We

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

prefer to receive responses in an electronic form so they can be placed easily on our website.

9. If we decide to make the proposed modification/modifications it/they will take effect not less than 56 days after the decision is published.



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Rachel Clark
Deputy Director, Retail Systems and Processes

21 Nov 2022

Schedule 1 to Notice – Draft of proposed modifications to the conditions of the smart meter communication licence

We have included the sections of the conditions of the smart meter communication licence we are proposing to remove or amend below. Deletions are shown in ~~strike through~~ and new text is double underlined. We have only shown those licence conditions where modifications are proposed.

PART 3 OF THIS LICENCE : THE CONDITIONS

CHAPTER 9 : CONDITIONS 35 TO 41 Price Control Conditions of this Licence

Condition 35. Definitions for the Price Control Conditions

Part B: The Chapter 9 Particular Definitions

Centralised Registration Service Margin means in relation to each Regulatory Year an amount of Centralised Registration Service Revenue, over and above the sum of the Licensee's Centralised Registration Service Internal Costs and Centralised Registration Service External Costs, that the Authority has agreed shall be included in the Licensee's Centralised Registration Service Revenue, and is determined in accordance with the provisions of Part C of Condition 36.

Part D: Guide to abbreviated price control terms

Centralised Registration Service Margin

CRSM

Condition 36. Determination of the Licensee's Allowed Revenue

Part D: Centralised Registration Service Revenue term

36.9 For the purposes of the Principal Formula, the total amount of the Centralised Registration Service Revenue (CRSR) will be calculated for Regulatory Year t in accordance with the following Formula:

$$\text{CRSR}_t = \text{CRSECT} + \text{CRSICt} + \text{CRSPCt} + \text{CRSCAt} + \text{CRSPAt} + \text{CRSPTCt} + \text{CRSECGSt} + \text{CRSVASct} + \underline{\text{CRSMt}}$$

36.10 In the formula above:

CRSMt (a) means the amount of the Licensee's Centralised Registration Service Margin that is specified for the Regulatory Year t;

(b) CRSM_t will be determined in accordance with provisions developed and populated by the Authority in a direction to be given to the Licensee, following consultation with the Licensee, the REC Panel and REC Parties as appropriate.

- CRSPAT
- (a) means in relation to each Regulatory Year a performance adjustment;
 - (b) the value of the term CRSPA_t will be zero unless directed by the Authority, as set out in (c);
 - (c) until the end of the Regulatory Year 2022/23, CRSPA_t will be determined in accordance with provisions developed and populated by the Authority in a direction to be given to the Licensee following consultation with the Licensee, the SEC Panel, SEC Parties and REC Parties as appropriate;
 - (d) thereafter, CRSPA_t will be determined in accordance with the provisions of paragraph 36.10A.

Part D1: Calculation of the CRS Performance Adjustment (CRSPA) term

36.10A For the purposes of 36.9, the value of the CRSPA term in Regulatory Year t is to be calculated in accordance with the following formula:

$$\text{CRSPAT} = [\text{SUM 1-4}] + [\text{SDM 1-4}] + [\text{DIM 1-4}] + [\text{VMM 1-4}]$$

where the amount of each of those terms will be zero unless determined otherwise in accordance with such calculations as may apply to the term under the Switching Incentive Regime (being the regime that is set out at Schedule 6 to this Licence and that has effect in relation to this condition for illustrative purposes only, until it is modified by the Authority pursuant to paragraph 36.10B).

36.10B The provisions of Schedule 6 will be developed and populated (subject to paragraph 36.10C) by the Authority in a direction to be given to the Licensee for the purposes of paragraph 36.10A following consultation with the Licensee, the REC Panel, and REC Parties as appropriate.

(a) Following the initial population of the provisions of Schedule 6, these provisions may be amended subject to paragraph 36.10C in any given regulatory year by the Authority in a direction to be given to the Licensee for the purposes of paragraph 36.10A, following consultation with the Licensee, the REC Panel, and REC Parties as appropriate.

(b) The Authority may issue (and may from time to time revise after consulting with the Licensee), guidance ("Switching Incentive Regime Guidance") regarding the process, procedures and criteria used to determine the value of the terms applied in the CRSPA calculation. The new, or revised, Switching Incentive Regime Guidance must be published before the beginning of the Regulatory Year in which it is to take effect.

36.10C Without limiting the general effect of paragraph 36.10B, the Switching Incentive Regime established by Schedule 6:

(a) must not allow the amount of the Licensee’s revenues that are at risk under that regime in Regulatory Year t to be less, in total, than 100% of the value of CRSMt;

(b) must not, in terms of its structure and contents, differ substantially from the illustrative provisions of Parts A to D of Schedule 6.

SCHEDULES TO THIS LICENCE

Schedule 6: The Switching Incentive Regime

Introduction

6.1 In accordance with Part D1 of Condition 36 (Calculation of the CRS Performance Adjustment (CRSPA) term), this Schedule 6 establishes the Switching Incentive Regime under which the operational performance of the Licensee will be monitored against the four headings outlined below as SUM, SDM, DIM, and VMM.

6.2 The performance monitoring to which paragraph 6.1 refers is for the purposes of calculating the amount of each of the algebraic terms within the formula set out in paragraph 10A of Condition 36 that determines the value of the CRSPA term in Regulatory Year t.

Part A: Service User Measure (SUM)

<u>SUM 1</u>	<u>see</u>
<u>SUM 2</u>	<u>Part E</u>
<u>SUM 3</u>	<u>below</u>
<u>SUM 4</u>	

Part B: Service Delivery Measure (SDM)

<u>SDM 1</u>	<u>see</u>
<u>SDM 2</u>	<u>Part E</u>
<u>SDM 3</u>	<u>below</u>
<u>SDM 4</u>	

Part C: Development and Improvement Measure (DIM)

<u>DIM 1</u>	<u>see</u>
<u>DIM 2</u>	<u>Part E</u>
<u>DIM 3</u>	<u>below</u>
<u>DIM 4</u>	

Part D: Value for Money Measure (VMM)

<u>VMM 1</u>	<u>see</u>
<u>VMM 2</u>	<u>Part E</u>
<u>VMM 3</u>	<u>below</u>
<u>VMM 4</u>	

Part E: Interpretation

6.3 In accordance with 36.10B, this Schedule 6 is to be read for illustrative purposes only, pending the further development and populating of the above provisions by the Authority pursuant to and in accordance with paragraphs 36.10B and 36.10C.