

**To: Smart DCC limited**

**Gas Act 1986 – Section 23(1)(a)  
Electricity Act 1989 – Section 11A(1)(a)**

**Modification of the conditions of the smart meter communication licence**

1. The licensee to whom this document is addressed is the holder of a smart meter communication licence granted or treated as granted under section 7AB(2) and (4) of the Gas Act 1986 ('the Gas Act') and section 6(1A) and (1C) of the Electricity Act 1989 ('the Electricity Act') ('the DCC Licence').
2. Under section 23(2) of the Gas Act and section 11A(2) of the Electricity Act the Gas and Electricity Markets Authority ('the Authority')<sup>1</sup> gave notice on **21 November 2022** ('the Notice') that we proposed to modify the conditions of the smart meter communication licence. We stated that any representations to the modification proposal must be made on or before **19 December 2022**.
3. A copy of the Notice was sent to the Secretary of State in accordance with section 23(4)(b) of the Gas Act and section 11A(4)(b) of the Electricity Act, and we have not received a direction that the change should not be made.
4. We received **eight** responses to the Notice, which we carefully considered. We have placed all non-confidential responses on our website. Our response to these comments is set out in the accompanying letter.
5. It is necessary to make a number of minor alterations to the modifications set out in the Notice. These alterations are shown in yellow highlight in the attached Schedule 1. The reasons for the differences between the modifications set out in the Notice and the modifications reflected in Schedule 1 are to address minor issues and corrections raised in consultation responses.
6. We are making these licence changes in order to introduce a financial incentive regime for DCC in their roles under the enduring Switching arrangements. The incentive regime will form part of the existing DCC Price Control provisions.
7. 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.
8. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 11C of the Electricity Act and section 23B of the Gas Act, Rule 5.7 of the Energy Licence Modification Appeals: Competition and Markets Authority Rules<sup>2</sup> requires that the appellant must send to

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

<sup>2</sup> CMA70 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/655601/energy-licence-modification-appeals-rules.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655601/energy-licence-modification-appeals-rules.pdf)

any relevant licence holders who are not parties to the appeal a non-confidential notice setting out the matters required in Rule 5.2. Section 11A(10) of the Electricity Act and section 23(10) of the Gas Act sets out the meaning of 'relevant licence holder'.

9. Under the powers contained in section 23(1)(a) of the Gas Act and section 11A(1)(a) of the Electricity Act, the Authority hereby modifies the licence conditions of the smart meter communication licence in the manner specified in attached Schedule 1. This decision will take effect from **23 March 2023**.
10. This document is notice of the reasons for the decision to modify the smart meter communications licence as required by section 38A(2) of the Gas Act and section 49A(2) of the Electricity Act.



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**Rachel Clark**  
**Deputy Director, Retail Systems and Processes**

**26 Jan 2023**

# Schedule 1 – 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 removing or amend below. Deletions are shown in ~~strike through~~ and new text is double underlined. New changes we have made after the consultation are marked up in yellow highlight. 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

<u>Centralised Registration Service Margin</u>	means in relation to each Regulatory Year <u>an amount of a component in the calculation of the term</u> <u>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 <u>C D</u> of Condition 36</u>
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##### 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:

$$\text{CRSRt} = \text{CRSEct} + \text{CRSICt} + \text{CRSPct} + \text{CRSCat} + \text{CRSPAt} + \text{CRSPTct} + \text{CRSECGSt} + \text{CRSVASct} + \text{CRSMt}$$

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) CRSMt 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 and relevant stakeholders as appropriate.
- CRSPAt (a) means in relation to each Regulatory Year a performance adjustment;
- (b) the value of the term  $\text{CRSPA}_{t-1}$  will be zero unless directed by the Authority, as set out in (c);
- (c) until the end of the Regulatory Year 2022/23, CRSPA<sub>t</sub> 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<sub>t</sub> 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:

$$\text{CRSPAt} = [\text{SIRSUM 1-4}] + [\text{SIRSDM 1-4}] + [\text{SIRDIM 1-4}] + [\text{SIRVMM 1-4}]$$

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 and relevant stakeholders 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 and relevant stakeholders 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 D2 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 SIRSUM, SIRSDM, SIRDIM, and SIRVMM.

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 36.10A that determines the value of the CRSPA term in Regulatory Year t.

#### **Part A: Service User Measure (SIRSUM)**

SIRSUM 1

SIRSUM 2

SIRSUM 3

SIRSUM 4

see  
Part E  
below

#### **Part B: Service Delivery Measure (SIRSDM)**

SIRSDM 1

SIRSDM 2

SIRSDM 3

SIRSDM 4

see  
Part E  
below

**Part C: Development and Improvement Measure (SIRDIM)**

SIRDIM 1

SIRDIM 2

SIRDIM 3

SIRDIM 4

see  
Part E  
below

**Part D: Value for Money Measure (SIRVMM)**

SIRVMM 1

SIRVMM 2

SIRVMM 3

SIRVMM 4

see  
Part E  
below

**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.