

Review of Charging Methodology

Statement of review during RY2019-2020



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1 Purpose

The purpose of this statement is to confirm that DCC has, in Regulatory Year (RY) 2019/20, reviewed the Charging Methodology for Service Charges in accordance with Part A: condition 18.7 of the Smart Meter Communication Licence.¹

2 Context and background

DCC service charges are set for each Regulatory Year and these are usually refreshed to take effect in April of each year. To allow our customers to adequately plan for subsequent and outer years, we publish revenue forecasts for future years on a quarterly basis, in the Indicative Charging Statements and Indicative Budget publications.²

In order to reset charges in April, we will usually provide three months' notice of those new charges to Ofgem and customers in December of each year. In certain circumstances, we have needed to respond to emerging issues or customer feedback by re-issuing the Charging Statement during the year. The current Charging Statement and Notice Letters to Ofgem are available on our website.³

We calculate charges in accordance with the Charging Methodology,⁴ which is set out in Section K of the SEC. To recover costs for services relevant to Charging Groups, DCC levies a Fixed Charge, Fixed Alt HAN Charge and Fixed CH Charge. An overview of these charges can be found in Section C of our Charging Statements, whilst the calculations are prescribed by SEC Sections K3-K6. Explicit Charges, set out in Section K7, enable DCC to charge for a range of User-specific or ad hoc services.

2.1 Stakeholder engagement

We host live Finance & Programme Customer Briefings, in which we explain and discuss the quarterly updates to the forecasts, cost savings planned and achieved and project/programme business case documents, whilst also inviting questions and feedback from our customers. This is part of our ongoing commitment to engage more effectively and be more transparent with customers on cost forecasts and spending decisions. You can register interest for the next quarterly event by contacting the DCC Finance Team (finance@smartdcc.co.uk).

2.2 Summary of Charging Statement Publications during RY2019/20

The following summary of Charging Statement publications provides an overview of the required changes and context, however more detail can be found in the Notice Letters to Ofgem published on the DCC website.⁵

¹ Smart Meter Communication Licence: <https://epr.ofgem.gov.uk/Content/Documents/Smart%20DCC%20Limited%20-%20Smart%20Meter%20Communication%20Consolidated%20Licence%20Conditions%20-%20Current%20Version.pdf>

² <https://www.smartdcc.co.uk/document-centre/charging-methodology-statements-budgets/>

³ DCC, 29 March 2019, 'Charging Statement for RY ending 31 March 2020 – Issue 1.0':

<https://www.smartdcc.co.uk/media/3117/charging-statement-ry1920-issue-10.pdf>

⁴ DCC, 29 November 2019, 'Charging Methodology issue 6.0': <https://www.smartdcc.co.uk/document-centre/charging-methodology-statements-budgets/charging-methodology/>

⁵ <https://www.smartdcc.co.uk/document-centre/charging-methodology-statements-budgets/charging-statements/>

2.2.1 Charging Statement RY2019/20 Issue 1.0

The RY2019/20 Charging Statement (Issue 1.0) came into effect on 1 April 2019. The key changes made to the Charging Statement from the previous year were the updates to DCC costs, revenue and Service Charges. Additionally, there were the following updates to the form of the document:

- 'SM WAN for Testing – Monthly Charges' and 'CH non-standard delivery' charge were amended to show an indicative range
- Table 13 expanded to include weighting factors for the Fixed Charge and Fixed Alt HAN Charge, in addition to the existing Fixed CH Charge

2.2.2 Draft Charging Statement RY2020/21 Issue 0.1

On 20 December 2019, we published our draft Charging Statement for RY2020/21. Aside from the updated costs, revenue and Service Charges, we have proposed the following change to the form of the document:

- Setting of explicit charges for Test Communications Hubs (TCHs) and Instrumented Test Communications Hubs (ITCHs) in Table 4; thereby removing these charges from Table 5
- Introduction of indicative explicit charge for Wired DB ITCHs for Meter Manufacturers in Table 5 (see [Section 3.2.3](#))

3 RY2019/20 review and publications

We have carried out a general review of the Charging Methodology against the Relevant Policy Objectives and we can confirm that we consider that the Charging Methodology is meeting those objectives. A summary of this review against the Charging Objectives is set out in Appendix A of this statement.

The scope of this review has been specific to Section K of the SEC, in line with our obligation. The topics of credit cover and other Section J requirements are outside the scope of this review, as DCC will continue to engage with industry in the relevant forums.

Sections 3.1-3.2 summarise the topics considered as part of this review. Section 4 sets out our considerations for future changes and improvements.

We have completed a review of our DCC Charges Model with regards to the calculation of the Fixed Charge, Fixed Alt HAN Charge and Fixed CH Charges. This is summarised within [Section 3.2.1](#).

3.1 Summary of changes and improvements made during RY2019/20

3.1.1 Second-Comer Contributions

In our review of the Charging Methodology RY2018/19 (last year), we identified one requirement that we proposed to remove, due to misalignment between the policy intent and the real application of the technology. The second-comer contributions mechanism (K7.8) was intended to share costs for customers requesting similar services, with respect to four explicit charge metrics. Following the successful designation of SEC Modification Proposal 71 in the November 2019 release, the requirement has now been removed with respect to gateway connections, effective from the designation of SEC v6.21 on 29 November 2019. At the time of writing, this was the only

change to Section K during this regulatory year. You can learn more about the modification on the SECAS website.⁶

3.1.2 Wired Dual Band Instrumented Test Communications Hubs for Meter Manufacturers

In response to demand from meter manufacturers, we are arranging for the provision of a Wired Dual Band Instrumented Test Communications Hubs (DB ITCHs). This is to enable testing of devices without the need for a test adapter or wireless connection; including with production Communications Hubs, increasing integration test scope and validation for the manufacturer. Manufacturers don't have access to end-to-end capabilities, such as sending uses cases wirelessly as DCC Users. Table 5 of our draft Charging Statement RY2020/21 now features the new indicative charge range for these devices.

3.1.3 Communications Hub Financing (Tranche 2)

DCC has successfully secured competitive finance costs for new SMETS2 Communications Hub devices procured from Spring 2020 onwards. This has driven down costs that are recovered through Fixed CH Charges to customers, over the asset lives of these devices.

3.2 Other charging topics to note

3.2.1 Review of DCC Charges Model

In order to calculate our service charges for use in the Charging Statements, the Charging Methodology is applied to our cost and meter-base forecasts using the DCC Charges Model and Explicit Charges Model. The Charges Model is designed to be a simple manifestation of the charge equations in Sections K3, K5 & K5A, while the Explicit Charges Model is more bespoke to the numerous explicit charge types.

We will continue to review both models on an ongoing basis and particularly following any amendment to the Charging Methodology, such as the upcoming changes to the forecasting of non-domestic Fixed Charges on the basis of mandated meters (see [Section 4.1](#)).

3.2.2 MSMS Volume Forecasting

To minimise over-recovery through the Fixed Charge and Fixed Alt HAN Charge for RY2019/20, we adopted an improved method of forecasting MSMS data, through extrapolation of historic data, to set an estimate of the MSMS figures in April 2019. We will update on the effect of this method in next year's review.

3.2.3 CH Non-Standard Delivery

In our Statement of Review for RY18/19, we noted the proposal of a new, enhanced CH non-standard delivery process, by which CSPs would hold a limited stock of Communications Hubs in the UK, to be made available for small volume orders. After further investigation, it was deemed uneconomical to implement and the proposal has been withdrawn. The conclusion to the consultation can be found on our website.⁷

⁶ MP071 Second-Comer Charging: <https://smartenergycodecompany.co.uk/modifications/second-comer-charging/>

⁷ DCC Enhanced Non-Standard Delivery Consultation Conclusion: <https://www.smartdcc.co.uk/media/3472/enhanced-non-standard-delivery-process-consultation-response-v10.pdf>

3.2.4 Baselines in the charging statement document

Whilst we continue to use LABP baselines in the Charging Statement tables, we will be considering options for more appropriate alternatives over the upcoming months, this is because we do not consider that the LABP baselines reflect the significant changes in SMETS2 programme scope and provide no reference for new programmes.

3.2.5 Communications Services

Currently not in use, section K7.5j is a metric to enable DCC to charge its Users per Service Request (SR) raised over the network. Following consultation in 2015, it was accepted that the cost of introducing a billing system capable of validating the volume of SRs that are anticipated when operating at scale, would outweigh the benefit of using the metric to charge in such a specific way.

Our position continues to be that recovering the costs of these transaction messages is most economically achieved through the Fixed Charge, as our latest forecast still indicates a total annual cost less than the cost of implementation, which would represent around 0.07% of costs recovered through the Fixed Charge during the next 5 regulatory years.

4 Upcoming charging topics

4.1 UITMR and COMR Charging Periods

The Charging Methodology is currently prescribed relative to the User Integration Testing and Mass Rollout (UITMR) period. This is defined as commencing 1 April 2015, when DCC began making regular monthly payments to our Service Providers; and concluding in December 2020, as per Paragraph 1 Condition 39 of the Electricity Supply Licences. From December 2020 onwards, DCC is required to levy the Fixed Charge and Fixed Alt HAN Charge, for domestic premises, using forecasts of ESMS volumes, as opposed to the current base of MSMS volumes.

In September 2019, BEIS proposed changes to the smart metering charging phases, including a 3-month extension to UITMR phase⁸ and the introduction of a new Completion of Mass Rollout (COMR) phase.⁹ It is currently expected that these changes will be designated later in 2020 and we expect to reflect the changes in the Charging Statement RY2021/22.

The first proposal would update the requirement to effectively extend the UITMR period to 31 March 2021, in the interest of simplicity of charging during RY2020/21, as the Charging Statement would not need to be re-issued in-year. In our response to the consultation, we supported the proposal for the same reason.

During the new COMR period, effective from 1 April 2021, the Charging Methodology would require:

1. Allocation of costs to domestic premises using the current base of MSMS volumes, through the Fixed Charge and Fixed Alt HAN Charge
2. Allocation of costs to non-domestic premises using the new base of MSMS volumes, excluding Advanced Meters, through the Fixed Charge and Fixed Alt HAN Charge

⁸ [BEIS Consultation on changes to the Smart Energy Code and DCC Licence Conditions](#) (September 2019)

⁹ [BEIS consultation on Smart Meter Policy Framework Post-2020](#) (September 2019)

In preparation for the new method of non-domestic charging, we have liaised with BEIS and the bodies responsible for the provision of registration data, to ensure that Advanced Meters can be identified and excluded from the MSMS volumes. A follow-up BEIS consultation in January 2020 sought views on the proposed changes to SEC Sections A and E, the Uniform Network Code and Master Registration Agreement, to facilitate this change to the registration data provided to DCC.¹⁰ The registration data will be used as the basis for allocating costs through the non-domestic Fixed Charges from RY2021/22 until the conclusion of the COMR period.

4.2 Charging Group Weighting Factors

The Charging Groups (K3.10) and application of Charging Group Weighting Factors (K3.11-3.15) are intended to recover DCC's costs by spreading the cost appropriately across DCC's customers. During the UITMR period, this is based on MSMS data for domestic premises, indicative of market share, or Enrolled Smart Meter System (ESMS)¹¹ data for non-domestic premises. During the new COMR period, this will be based on MSMS data for both domestic and non-domestic premises (excluding Advanced Meters).

During the rollout period, analysis of true demand of the DCC network by our Users is constrained by the number of Users that have onboarded and the number of enrolled meters in our network. We will continue to use the Charging Groups and Weighting Factors that were determined by government prior to the rollout period but will consider a review when the data becomes available, after the COMR period closes.

4.3 Communications Hub Re-Financing

Building on the success of completing the tranche 2 CH financing agreements (see [Section 3.1.3](#)), DCC will now look at whether further savings can be achieved for customers through the re-financing of tranche 1 Communications Hub device costs. This may result in a further reduction of the Fixed CH Charges, for all SMETS2 CH devices. It is expected that this activity will take place during RY2020/21.

4.4 Faster Switching Programme

Since management of the Design, Build & Test (DBT) and Early-life Operations phases of the Faster Switching Programme were awarded to DCC, we have recovered the relevant costs through the Fixed Charge. This is in line with the proposal by Ofgem in paragraph 5.30-5.31 of its June 2018 consultation¹²:

"5.31: [...] Given the relatively short period until the enduring REC should come in to effect and the time to enact changes we believe it is proportionate to continue to use the existing charging methodology set out within the SEC for the DBT and Post Implementation period"

The enduring method for recovering Switching costs will be prescribed in the Retail Energy Code (REC)¹³ and will be managed directly by the Retail Energy Code Company (RECCo). Although the exact method is under development, to be issued in REC v2.0, we are engaging regularly with Ofgem around the development of this Charging Methodology. At this time, we do not expect this transition to require modifications to SEC Section K and any further review of the developing REC

¹⁰ BEIS, 14 January 2020, 'Consultation on changes to Standard Conditions of Gas and Electricity Supply Licences, conditions of the DCC Licence, the SEC, the UNC and the MRA': <https://smartenergycodecompany.co.uk/latest-news/consultation-on-changes-to-standard-conditions-of-gas-and-electricity-supply-licenses-conditions-of-the-dcc-licence-the-sec-the-unc-and-the-mra/>

¹¹ This relates to smart meters that have been installed and enrolled onto the DCC network.

¹² Ofgem, 5 June 2018, 'Switching Programme: Proposed modifications to regulation and governance': <https://www.ofgem.gov.uk/publications-and-updates/switching-programme-proposed-modifications-regulation-and-governance>

¹³ Ofgem, 1 February 2019, 'Designation of the Retail Energy Code Company and related matters': https://www.ofgem.gov.uk/system/files/docs/2019/02/retail_energy_code_designation.pdf

will not be included in the scope of this or future reviews. A change to the Charging Statement will be required to account for this, however, we will aim to align this with the first publication for RY2022/23, rather than re-issue the Charging Statement during RY2021/22.

4.5 Alt HAN

We have continued to work closely with AlthANCo to determine how the new Alt HAN specific Explicit Charges will be levied from April 2021. At the time of review, it is understood that the existing Alt HAN Explicit Charges, intended to recover the cost per MPxN for the shared or point-to-point solutions (K7.5t & K7.5u) and the point-to-point stock charge (K7.5v), are still relevant and do not require changes to Section K.

AlthANCo have identified and engaged with their customers on updating the point-to-point Solution and associated stock charge data requirements under SEC Section Z4, to correct the method of recovery of forecasted costs when setting charges. The original Charging Data requirements include items that are not wholly attainable, such as the forecast of Alt HAN devices expected to be installed, due to installation forecasts not being a requirement for Alt HAN customers. The use of “total annual cost incurred” rather than “average annual cost incurred” also does not allow for accurate and appropriate cost forecast information that Alt HAN and its Technical Service Provider could produce. By changing the requirement, AlthANCo can ensure that the Charging Data submission can result in the DCC being able to calculate point-to-point/stock charges that are cost reflective. This will be achieved through SEC Modification Proposal 114, which was progressed by the Change Sub-Committee on 25 February 2020. Please direct any questions around the Alt HAN solutions to AlthANCo.

4.6 Innovation and growth

DCC’s primary focus continues to be to deliver the Smart Metering programme in line with the needs of industry. DCC has a licence obligation to innovate on the DCC platform, to promote re-use and reduce costs for existing customers. We commenced some early thinking on this and have developed a set of pricing principles for any Value Added Services potentially offered in the future. We do not envisage this impacting the charging methodology in the SEC.

4.7 Elective Communication Services

DCC customers can now request an ‘Elective Communication Service (ECS) via our website¹⁴. We will issue a short survey/consultation, which will include some high-level proposals on charging for elective services. Please do respond to this by the end of April 2020.

5 Next steps

DCC will continue to review the Charging Methodology to ensure its compliance with the Relevant Policy Objectives. If you would like to discuss any part of this statement, please contact finance@smartdcc.co.uk. This statement is available to download from DCC’s website (www.smartdcc.co.uk).

¹⁴ DCC Elective Communication Services requests: <https://www.smartdcc.co.uk/smart-future/elective-communication-services/>

Appendix A – Assessment of charging methodology against objectives

Table 1 below sets out the assessment of the Charging Methodology against the charging objectives in the Licence.

Licence ref	Objective	Evidence that Charges are consistent
First relevant objective - 18.15 (a)	applies in relation to Smart Metering Systems installed (or to be installed) at Domestic Premises and Non-Domestic Premises	As set out in the Charging Statement, charges are set for a given charging group across all domestic and non-domestic premises
First relevant objective - 18.15 (b)	requires the Charging Methodology to ensure that Service Charges imposed under or pursuant to the SEC in respect of the operation or provision of Mandatory Business Services (excluding Elective Communication Services) for the purposes of such Smart Metering Systems do not distinguish (whether directly or indirectly) between Energy Consumers at Domestic Premises in different parts of Great Britain	As set out in the Charging Statement, charges are set for a given charging group across all domestic and non-domestic premises, and therefore do not distinguish between energy consumers at domestic premises in different parts of Great Britain
Second relevant objective - 18.16 (a)	result in Service Charges that are the same for SMETS1 Meters as they are for Other Smart Metering Systems, save that no Service Charges for Communications Hub Services will apply to SMETS1 Meters	We are using SMETS1 migration status data to ensure SMETS1 meters are excluded from the enrolled meter volume base (ESMS). This ensures that the Fixed CH Charge is only levied on SMETS2 meters which communicate with DCC Communications Hubs.
Second relevant objective - 18.16 (b)	notwithstanding (a) above (where the Costs of Communications for a SMETS1 Meter exceeds the Costs of Communications for an Other Smart Metering System, and where an Original Supplier for the Energy Supplier Contract relating to that SMETS1 Meter is (and has at all times since the adoption of the Energy Supplier Contract been) a supplier of Energy to the premises at which that SMETS1 Meter is installed), result in Service Charges that ensure that the excess Costs of Communications are recovered from the Original Supplier from time to time (in addition to the Service Charges referred to in (a) above)	As discussed in our Statement of Review RY2018/19, this requirement is no longer relevant, due to DCC's negotiation of new SMETS1 SMSO contracts.
Third relevant objective - 18.17 (a)	facilitate effective competition in the Supply of Energy (or its use) under the Principal Energy Legislation	Charges are set according to the charging group weighting factors which are determined in accordance with K3 of the SEC. This ensures that charges are not above what a party can/should bear and therefore should not prevent the facilitation of effective competition in the supply of energy
Third relevant objective - 18.17 (b)	do not restrict, distort, or prevent competition in Commercial Activities that are connected with the Supply of Energy under that legislation	As above
Third relevant objective - 18.17 (c)	do not deter the full and timely installation by Energy Suppliers of Smart Metering Systems at Energy Consumers' premises in accordance with their obligations under the Energy Supply Licence	As above
Third relevant objective - 18.17 (d)	do not unduly discriminate in their application and are reflective of the costs incurred by the Licensee, as far as is reasonably practicable in all of the circumstances of the case, having regard to the costs of implementing the Charging Methodology.	We regularly review the appropriateness of charges and always consider the costs of implementing changes against the other licence objectives. An example of this is the decision not to levy an explicit charge based on service request volume, and CH installer training.

Table 1 – Assessment of charging methodology against objectives