Review of Charging Methodology

Statement of review during RY2022-2023

Date: 31 March 2023
Classification: DCC Public

Contents

1 Purpose

The purpose of this statement is to confirm that DCC has, in Regulatory Year (RY) 2022/23, reviewed the Charging Methodology for Service Charges in accordance with Part A: condition 18.7 of the Smart Meter Communication Licence.[1] We have carried out a general review of the Charging Methodology against the Relevant Policy Objectives; we consider that the Charging Methodology is meeting those objectives. We have found that the Charging Methodology is compliant with the licence and will continue to be a guide for future publications and calculations until further updates are required.

2 Context and Background

DCC service charges are set for each Regulatory Year and 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.

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.[2]

We calculate charges in accordance with the Charging Methodology,[3] which is set out in Section K of the Smart Energy Code (SEC). To recover costs for services relevant to Charging Groups, DCC levies a Fixed Charge, Fixed Alt HAN Charge, and Fixed Communications Hub (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 have hosted live Quarterly Finance Forums from March 2022 to March 2023. These have continued to be fully remote. In these sessions, we explain and discuss the quarterly updates to the forecasts, both at an overall and project/programme level, whilst also inviting questions and feedback from our customers.

Customer attendance has continued to be higher this past year than in previous years; this is because of the efforts we have made to reach out to customers, and customers seeking to engage on our forecasts directly. Furthermore, we have seen an increase in attendance by 100 per cent over the previous two Quarterly Finance Forums (Oct 22 and Jan 23).

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 our Stakeholder Engagement team (customerengagement@smartdcc.co.uk).

[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] Document Centre | Smart DCC
[3] DCC, 'Charging Methodology issue 12.0': https://www.smartdcc.co.uk/document-centre/charging-methodology-statements-budgets/charging-methodology/

2.2 Summary of Charging Statement Publications during RY2022/23

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.[4]

2.2.1 Charging Statement RY2022/23 Issue 1.0

The RY2022/23 Charging Statement (Issue 1.0) came into effect on 1 April 2022. The key changes made to the Charging Statement from the previous year were the updates to DCC costs, revenue, and Service Charges.

2.2.2 Charging Statement RY2022/23 Issue 2.0

On 11 October 2022, we published Issue 1.1 of the Charging Statement, in which we proposed to reduce the monthly Fixed Alt HAN Charges for the final five months, to return costs Alt HAN no longer expected to invoice DCC for in RY2022/23. In addition, we proposed to return £50m in forecast underspend back to customers.

The RY2022/23 Charging Statement (Issue 2.0) came into effect on 1 November 2022.

2.2.3 Charging Statement RY2023/24 Issue 0.1

In December 2022, we published Issue 0.1 of the Charging Statement. This is a draft Charging Statement based on the same data as the fourth quarter of the Indicative Charging Statement (which was subsequently published in January 2023) and based on the indicative costs for RY2023/24. In this publication we have also removed the costs associated with the Switching programme. This change was necessary as the Switching programme is now live and as of April 2023, the associated costs will be charged directly to RECCo and RECCo will recover those costs from the industry line with its own Charging Methodology.

2.2.4 Draft Charging Statement RY2023/24 Issue 0.2

On 30 March 2023, we published our draft Charging Statement for RY2023/24 (Issue 0.2), to take effect from 1 April 2023. Aside from the updated costs, revenue, and Service Charges (reflecting the RY21/22 Price Control decision), we proposed the following changes to the actual costs in the document:

- Inclusion of the Penalty Interest charge into the Main Correction Factor.
- Updated SBCH and DBCH numbers from the 0.1 publication.

2.2.5 Charging Statement RY2023/24 Issue 1.0

The RY2023/24 Charging Statement (Issue 1.0) will come into effect on 1 April 2023. The key changes made to the Charging Statement from the previous year were the updates to DCC costs, revenue, and Service Charges.

[4] Document Centre | Smart DCC

3 RY2022/23 review and publications

We have carried out a general review of the Charging Methodology against the Relevant Policy Objectives; 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. DCC will continue to engage with industry in the relevant forums.

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

3.1 Summary of changes and improvements made during RY2022/23

3.1.1 Alt HAN Point to Point Solution Explicit Charge

DCC has worked with Alt HAN Co to determine charges and costs for the new Point-to-point Alt HAN equipment as an explicit charge. Alt Han offers four mixed media communication devices (Bridge 1, 2, 3, & 4) intended to "bridge" the so called "AltHAN gap" - primarily the physical distances and other obstacles to radio performance that prevent the use of the standard Zigbee radio-based SMETS HAN between SMETS devices.

These are accessory devices to standard GB smart metering components that "bridge" components of the GB smart metering "home area network" (energy meters, in-home devices and communications hub) in such a way that they are able to be connected to each other effectively in many more premises and difficult locations and thereby provide GB smart metering benefits to consumers in premises where they otherwise may not have been able to do so.

3.1.2 Explicit Charges (SECMP0181 Meter Asset Providers)

In 2022, DCC worked internally to create a SEC Modification Explicit Charge called SECMP0181 also known as MAPs (Meter Asset Providers).

Meter Asset Providers (MAPs) and Meter Manufacturers wish to access smart asset-related data held by the DCC to allow them to assess and manage asset health for any smart assets they own. MAPs and Manufacturers are currently unable to access DCC held data relating to the assets that they own (MAPs) or that they built (Manufacturers). This limits their ability to manage their asset portfolios effectively and efficiently, leading to increased volumes of faulty Devices due to out of date firmware or failed Device commissioning. MAPs and Manufacturers are seeking access to firmware data and DCC status information which will allow them to work with Responsible Suppliers to help identify and facilitate firmware updates and Device commissioning. This would reduce the risk that Devices provide a diminished smart service to the end consumers

The SECMP0181 solution enables the DCC Data Science and Analytics team to provide reports tailored to each MAP and Meter Manufacturer.

The reporting is managed as an Explicit Charge-based data service whereby MAPs and Device Manufacturers must opt into the service and pay an annual subscription fee to receive the reports. This Explicit Charge will be included in the revised publication in April 2023. It will be charged at £4,375 per MAP.

4 Upcoming charging topics

4.1 4G Communications Hub Charging

We are in discussions both within DCC and with the Department on this at the moment to identify the most appropriate charging methodology, so this is work in progress and no conclusions have yet to be reached.

4.2 DP218

In September 2022, DCC was asked to sponsor SEC modification DP218 on behalf of SEC Panel to review current charging arrangements. DCC will implement any changes that are required as the result of this modification once it has concluded. More information is available on the SEC website (link).[5]

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).

[5] Modifications » (smartenergycodecompany.co.uk)

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. We also levy Fixed Charges to customers to be indiscriminate of SMETS1 and SMETS2 meters i.e. customers pay the same charge for either meter type.
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