

Smart Energy Code

Section K: Charging Methodology

SEC Section K provisions concern:

- SEC Parties
- Data and Communications Company

The Charging Methodology

The Data and Communications Company (DCC) Licence sets out that the DCC must have a **Charging Methodology (CM)** in force designed to achieve the **Charging Objectives** as set out in the DCC Licence and in SEC C1.4 to 1.7.

Having the CM within the SEC facilitates it being subject to the Modification Process, by reference to the Charging Objectives.

The CM also expresses that the DCC shall act reasonably and consistently with the Charging Objectives when undertaking the all the calculations and estimations required by the CM.

Fixed Charge Calculations

Fixed Charges are determined for each Regulatory Year (April – March) using the Estimated Fixed Revenue (EFR) which is calculated using:

- the **Estimated Allowed Revenue (EAR)**
- the **Estimated Elective Services Revenue (EESR)** (an estimate of the charges payable in relation to Elective Services)
- the **Estimated Explicit Charges Revenue (EECR)** (an estimate of the charges payable in relation to Explicit Charges)

$$EFR_t = EAR_t - EESR_t - EECR_t$$

What does Section K cover?

SEC Section K constitutes the Charging Methodology that the DCC is required by its licence (Condition 18) to have in force and comply with.

Service Charges

As defined within the DCC Licence, the DCC will determine the Service Charges to be payable by SEC Parties for **Mandatory Business Services** (Core, Elective and Enabling Services) using the CM.

The charges payable by each Party for each month will be calculated at the end of each month and invoiced in accordance with Section J. These charges are set out in the **Charging Statement** which the DCC issue with a worked example for Parties to use to work out the applicable charge:

- the Fixed Charges;
- any Explicit Charges and Elective Charges; and
- any Unrecovered Bad Debt Payments, Liability Payments.

The means to calculate these charges are set out in the CM and differ before, during and after the User Integration Testing and Mass Rollout period.

Estimated Revenues

The DCC is required to estimate what total income it will require for any one year through assessing what revenue it needs for delivering Mandatory Business Services and paying Pass-Through Costs – the **Estimated Allowed Revenue**. This estimate will then be used to determine charges.

Metering Charges

The charging metrics for Fixed Charges differ depending on whether the Regulatory Year occurs before, during, or after the period covering User Integration Testing and the Mass Rollout (**UITMR**).

In order to determine the applicable Fixed Charges:

- **Before the UITMR Period**, the DCC uses estimates of the number of Mandated Smart Metering Systems for Domestic Premises;
- **During the UITMR Period**, the DCC will charge in respect of estimates of Mandated Smart Metering Systems for Domestic Premises and Enrolled Smart Metering Systems for Designated Premises (Non-Domestic). The Fixed Charges in respect of Smart Metering Systems for Domestic Premises will not differ by Region in accordance with the first Charging Objective, but those in respect of Smart Metering Systems for Non-Domestic Premises may. In order to determine the applicable charges for each group, the EFR will be split into National Fixed Revenue (Domestic Premises) and Regional Fixed Revenue (Non-Domestic Premises);
- **After the UITMR Period**, the DCC will again use the EFR split into National Fixed Revenue and Regional Fixed Revenue and will determine the charges in respect of its estimate of the Enrolled Smart Metering Systems.

The CM sets out that the DCC will estimate the number of Domestic Premises and Non-Domestic Premises using Registration Data and profile classes associated with MPANs and MPRNs.

Communications Hub Charges

Like Fixed Charges and consistent with the Charging Objectives, **Fixed Communications Hub Charges** will differ between Domestic Premises (will not differ by Region) and Non-Domestic Premises (may differ by Region).

The method for calculating Fixed CH Charges will be the same during and after the UITMR Period. The DCC will use the Regional Communications Hub Revenue and an estimate of the average number of Smart Metering Systems.

The Fixed CH Charges will also include a factor to reflect the costs to the DCC of Communications Hubs being 'Withdrawn' before the costs have been recovered in full. This factor will be the same for each Charging Group and Region.

Charging Groups

Fixed Charges are payable by the Users which fall into the following Charging Groups for the Smart Metering Systems:

Export Suppliers

Import Suppliers

Gas Suppliers

Electricity Distributors

Gas Transporters

Each Charging Group has a weighting factor applied in order to reflect the relative proportion of the costs and expenses likely to be incurred by the DCC in providing the Services to the Users within that group.

Explicit Charges

Explicit Charges relate to services that are attributable to a specific Party, including:

- Security and privacy assessments;
- Gateway connections;
- Elective Service evaluations;
- Parse & Correlate Support;
- SM WAN for Testing and additional testing support;
- Communication services; and
- Communications Hub support charges including returns and test Communications Hubs.

The set Explicit Charges for each Regulatory Year will be set out in the Charging Statement for that year.

Second Comer Contributions

When the DCC provides a new Elective or Explicit service to a Party they can pass-on the 'set-up' costs as part of the Charges. If another Party(s) wishes to take up that service, then the DCC shall:

- Require the Second Comer to pay a contribution to those relevant 'set-up' costs; and
- Offer a rebate to the initial contributor.

This will not apply where:

- The relevant costs amount to less than £20,000;
- The relevant costs amount to between £20,000 and £500,000 and the second comer's offer comes five years after the initial contributors
- The relevant costs amount to over £500,000 and the second comer's offer comes ten years after the initial contributor's.

Elective Charges

Where the DCC enters into a Bilateral Agreement with a Party to provide an Elective Communication Service as requested by the Party, the Elective Charges will be payable in accordance with that Bilateral Agreement. Elective Communication Services must relate solely to the Supply of Energy or its Use.

Within Year Adjustments

The annual Service Charges payable by Users are set out in the DCC's Indicative Charging Statement.

The DCC Licence allows the DCC to alter the Charges part way through a Regulatory Year with Authority consent and in the following circumstances:

- To recover Bad Debt;
- A Liability Payment is required; or
- If a Communications Hubs Finance Acceleration Event occurs.

Disclaimer

These guides are intended to provide a simple overview of the SEC and any supporting or related arrangements and do not replace or supersede the SEC or these related arrangements in any way. The author does not accept any liability for error, omission or inconsistency with the SEC.

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