

## DCC Finance FAQs

### Introduction

This document provides responses to frequently asked questions on Finance related areas and Finance documents (the Indicative Charging Statements and Indicative Budgets) DCC publishes.

The charges payable from time to time are set out in the Charging Statement applicable at the time. DCC shall only amend the Charges from time to time in accordance with the DCC Licence. DCC shall only amend Charges once in each calendar year, such amendments to have effect from the start of each Regulatory year (in accordance with Condition 19.11 of the DCC Licence<sup>1</sup>). DCC shall give notice of any proposed changes to Parties pursuant to Condition 19.9 of the Licence.

DCC shall publish on the DCC website within the first 5 working days of April, July, October and January in each year the following documents:

**1) Indicative Charging Statement** for the first Regulatory Year due to start thereafter, setting out indicative Charges for that Regulatory year based on the information available to DCC at the start of the month of publication.

**2) Indicative Budgets** for the second and third Regulatory Years due to start thereafter, setting out Indicative figures for each such Regulatory year based on the information available to DCC at the start of the month of publication. Each budget will contain indicative values for the following:

- Estimated Allowed Revenue
- Estimated Fixed Revenue
- Estimated Elective Services Revenue
- Estimated Explicit Charges Revenue
- National Fixed Revenue
- Regional Fixed Revenue
- Explicit Charge for each Explicit Charging Metric
- Regional Communications Hub Revenue.

The algebraic approach of the calculation of Service Charges is set out in Section K (charging Methodology) of the SEC. Further details on the supporting commercial arrangements are set out in Section J (Charges of the SEC).

Following the publication of these documents the DCC will hold a Quarterly Finance Update call for SEC Parties, which will address the key changes in the latest Charging Statements and highlight any changes in the outer years. This will be held around 3-4 weeks after publication of the Charging Statement and Indicative Budgets.

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<sup>1</sup> <https://www.gov.uk/government/consultations/smart-meter-data-and-communications-company-dcc-licence-conditions-and-licence-application-regulations-data-and-communications-company-dcc-licence-conditions-and-licence-application-regulations>

## Questions

### Q. How are DCC costs indexed and what measures of indexation are used?

Different cost categories of DCC are subject to the following indexation types, as per table below:

Costs	Measure used
Internal Costs	RPI
External Costs	CPI
Pass Through Costs	CPI
Communications Hub Costs	CPI
Explicit Charges	CPI

RPI and CPI for future years are calculated in accordance with the DCC Licence using data from the Office for National Statistics (ONS) [www.ons.gov.uk](http://www.ons.gov.uk).

### Q. How does DCC deal with any over/under recovery of costs in any given year?

Any over or under recovery by the DCC is managed through the Correction Factor. The estimated Correction Factor is defined in LC36<sup>2</sup> (Determination of the Licensee's Allowed Revenue) and provides a mechanism for DCC to return the difference between Allowed Revenue and Regulated Revenue to SEC Parties with respect to the prior Regulatory Year. The Correction Factor will be applied in the following Regulatory Year.

### Q. How can Service Users identify which Change Requests have been included in the current Charging Statement and in addition to the previous versions?

It is difficult to provide a breakdown in the Charging Statement, due to the high volume of Change Requests in the current programme which may apply to different Service Providers. DCC is happy to discuss the impact of various changes to the programme and its impacts on Service Users as long as this does not create any commercial complications with its Service Providers. The DCC Finance call will provide an update through its quarterly presentation.

<sup>2</sup> Condition 36, Determination of the Licensee's Allowed Revenue:  
<https://www.gov.uk/government/consultations/smart-meter-data-and-communications-company-dcc-licence>

**Q. What are the financial impacts of the re-plan to the programme and how do they impact the next three Regulatory Years?**

As the re-plan consultation has not yet been finalised, the current assumptions in the Charging Statements, Indicative Charging Statement and Indicative Budgets are based on best estimate of expected costs. DCC provides this view by taking into account Service Provider contractual obligations and input from internal and external sources as a basis for its workings. As and when the agreements are amended, these costs will be reflected in the latest Charging Statement and Indicative Budgets.

**Q. How can Service Users easily identify the changes in internal and external costs between the Charging Statement documents?**

As per the DCC Licence Condition 19, DCC must set out indicative Charges for that Regulatory year based on the information available to the DCC at the start of the month of publication. Key movements by costs category from previous versions will be explained at the Quarterly DCC Finance Update calls.

**Q. When will all Explicit Charges be defined and finalised?**

The latest Explicit Charges are detailed in the Charging Statement. There are currently three main categories for Explicit Charges:

- Set Explicit Charges
- Indicative Explicit Charges
- Explicit Charges yet to be determined.

As Explicit Charges are identified and defined they will be added to the Charging Statement.

**Q. On what basis would DCC change the in year Charging Statement?**

DCC must give the Authority a notice of no less than three months before the date on which it proposes to amend its Service Charges in respect of any agreement for Services (as per Licence 19.9). DCC must give the Authority a Notice that sets out those proposals, together with an explanation of them (detailing any assumptions the proposals are based upon).

A shorter notice period to amend Service Charges may be given by the Authority if the amendment, when made, conforms to the proposals that were set out in that Notice (except for any necessary revisions resulting from the occurrence of a material change in any of the matters on which the assumptions set out in the statement to which the Notice refers were based, and then only to such extent as is necessary to reflect the change in such matters). (LC19.10).

DCC may only amend Service Charges more than once in a Regulatory Year if:

(a) DCC has given the Authority a statement of the factors that have led it to conclude that an additional amendment is necessary, explaining in particular why it did not (or could not) take account of those factors when giving Notice under paragraph 19.9 with respect to the immediately preceding amendment of Service Charges; or

(b) the Authority has directed DCC to make an additional amendment as a consequence of a decision by the Authority under Part B of Licence Condition 37 (Assessment of Mandatory Business costs) to exclude certain costs from any future calculations of DCC's revenues.

### Q. How are SEC Parties Credit Cover arrangements determined?

Each Party shall procure that one or more of the following forms of Credit Support is delivered to DCC, and thereafter maintained, such that the aggregate value of such Credit Support is equal to or greater than the Party's Credit Cover requirement (as notified by DCC to the Party from time to time)<sup>3</sup>:

- A Bank Guarantee
- A letter of Credit
- A Cash Deposit.

### Q. In the Indicative Charging Statement the DCC mention 'extended coverage in the North Region', is this a new change and what does it relate to?

This relates to the additional network coverage that will be available in the North Region by the Service Providers. This is not a new change and has been mentioned in previous versions of the Charging Statements.

### Q. How often will invoices be sent and when is payment due?

SEC Parties will be invoiced monthly; invoices will be issued by the DCC by the third working day of the month. SEC parties will receive 12 invoices per annum, (or 24 invoices where a SEC Party incurs Communication Hubs costs, as an additional Secondary invoice is issued). Payment of all invoices must be made to DCC no later than 5 working days following receipt of such invoices or 8 working days following the end of the month to which the invoices relate to. A timetable of invoicing dates in regulatory Year 2015/16 can be found on the DCC website: [www.smartdcc.co.uk/documents-and-publications](http://www.smartdcc.co.uk/documents-and-publications)

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<sup>3</sup> Section J3 – Credit Cover (SEC4a)

**Q. Are comms Hubs charges within Fixed Costs?**

Comms Hubs charges are shown within the Estimated Fixed Revenue sections of the Indicative Charging Statements and Indicative Budgets. These casts are now split out regionally and costs in the latest Charging Statements and Indicative budgets are based on the volume profile submitted by SEC Parties in November 2014. Individual rates apply to the different regions, which are detailed in the Indicative Budgets.

**Q. How are Transaction Messaging costs recovered and where do they feature in the Charging Statements and Indicative Budgets?**

Transaction messages are recovered via Fixed costs, in the 1<sup>st</sup> Year of Live Operations DCC estimates these costs to be c. £20k. When the volume of messages increases the DCC will assess this and may move to a variable cost methodology for Transaction Messages. DCC will inform Service Users if this change is to occur.

If you have any further finance related questions please email: [finance@smartdcc.co.uk](mailto:finance@smartdcc.co.uk).