Department for Energy Security & Net Zero

Department for Energy Security & Net Zero
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The Authority (Ofgem), the SEC Panel,
SEC Parties and other interested parties

8 August 2025

Dear Colleague,

Smart Metering Implementation Programme: Conclusions to the consultation on cost recovery and legal changes associated with 4G Communications Hub only exchange site visits arrangements

On 29 February 2024 we further engaged industry on 4G Communications Hub only exchange activity (i.e. where no smart meter(s) are replaced or added) in the Central and South regions of Great Britain, seeking views on the cost recovery arrangements and legal changes needed to implement the arrangements[1]. The consultation closed on 12 April 2024 with 10 responses received.

The conclusions (set out in Annexes A, B and C) reflect the feedback received from industry, and form part of the Government's support to the programme's transition to 4G in the Central and South Regions. These decisions also aim to minimise the risk of smart metering functionality interruption, owing to the sunsetting of the 2G/3G networks.

Yours sincerely,

D. Walker

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(An official of the Department for Energy Security & Net Zero authorised to act on behalf of the Secretary of State).

Annexes:
Annex A: Conclusions on 4G Communications Hub only exchange cost recovery arrangements and legal changes.
Annex B: Final amendments to the DCC Licence
Annex C: Final amendments to the Smart Energy Code

[1] February 2024 SMIP: 4G Communications Hub only exchange site visits arrangements, and further proposal on the DCC charging mechanism and legal changes.

Annex A: Conclusions on 4G Communications Hub only exchange cost recovery arrangements and legal changes

1. Background

1.1 On 29 February 2024, we published conclusions to address a market gap in the funding arrangements for site visit costs for SMETS2+ Communications Hub only swap outs (i.e. replacing a 2G/3G Communications Hub with a 4G Communications Hub) in the Central and South Regions[2]. In this, it was confirmed that the Data Communications Company (DCC) would provide centralised funding for all energy suppliers undertaking site visits to carry out such swap-outs, and that DESNZ and Ofgem would jointly establish a methodology for calculating a centralised price which would be paid to energy suppliers per site visit.

1.2 At the same time as publishing those conclusions, a further consultation on the cost recovery arrangements and legal changes to support the implementation of 4G Communications Hub only exchange site visit arrangements were published.

1.3 The consultation closed on 12 April 2024 and 10 responses were received from the following categories of respondent: four Network Operators; three Large Energy Suppliers; one Meter Asset Provider (MAP); and two Others.

1.4 The consultation posed three questions, each of which is addressed in turn below. For each question we provide a high-level summary of the responses received and set out the Government's conclusion in each of the areas.

1.5 Respondents were divided on the proposal to recover costs for 4G CH only exchange site visits via DCC Fixed Charges on a GB wide basis. Those who agreed highlighted the benefits of maintaining non-geographic DCC charging. Those who disagreed (mainly Network Operators) argued that only energy suppliers should pay for charges associated with metering equipment.

1.6 The majority of respondents supported the proposal to update the Smart Metering Inventory (SMI) status of the device ahead of carrying out an exchange. However, two respondents raised concerns, and a third suggested that this update should be a pre-requisite for payment.

1.7 Most respondents were broadly supportive of the proposed legal drafting with several suggesting minor amendments. One respondent, however, recommended more substantial changes.

2. Question 1: Do you agree with our minded to position that costs associated with the provision of the Communications Hub Replacement Reimbursement Service should be recovered via DCC Fixed Charges on a GB-wide basis?

2.1 **Background:** Our minded to position is that the costs of 4G Communication Hub only exchange site visits should be considered a fixed cost of maintaining DCC's Wide Area Network (WAN) service. These costs, like other similar expenses, should be recovered via DCC Fixed Charges on a non-geographically varying basis. We supported this view by

[2] February 2024 SMIP: 4G Communications Hub only exchange site visits arrangements, and further proposal on the DCC charging mechanism and legal changes.

asserting that this approach would not hinder the timely exchange of 4G Communications Hub, ahead of the 2G/3G switch off in the Central and South Regions and would be a more robust solution in circumstances where there is no central financing of costs.

2.2 **Energy suppliers:** Two energy suppliers agreed with the suggestion. One energy supplier agreed but caveated their response with additional suggestions which were not in scope of the question concerning DCC cost recovery.

2.3 **Mirroring MAP Arrangements:** One MAP who disagreed with the proposal suggested reinstating "option 1" from the July 2023 consultation[3], where funding would be recovered from sites at which a 4G Communications Hub only exchange had taken place. We do not agree with this suggestion. As set out in our February 2023 conclusions[4] we consider this option would be an unsuitable charging basis in circumstances where the costs are not financed, and it could potentially discourage timely exchanges.

2.4 **Network Operators:** Two Network Operators disagreed with the proposal, arguing that it goes against DESNZ's assumptions that costs should be recovered from energy suppliers. They said that energy suppliers should remain responsible for installing and replacing smart metering equipment. Two different Network Operators provided neutral responses but requested further clarity but then highlighted that Network Operators are not responsible for smart meter installation costs and the same principle should apply to Communications Hubs. We have carefully reviewed these arguments but maintain our position that the costs of replacing 2G/3G Communications Hubs with 4G Communications Hubs are costs associated with the continued provision of a Smart Metering Wide Area Network (SM WAN) service to the premises, rather than being costs associated with the Communications Hubs themselves. If, for example, rather than replacing 2G//3G technology with 4G technology, the 2G/3G service had been extended past 2033, the costs of that extension would have been recovered through DCC Fixed Charges, in line with the other costs associated with providing the SM WAN. Network Operators will benefit from the 4G transition as they require communicating smart meters to continue realising benefits.

2.5 **Setting Precedents / Overstating Network Costs:** Two Network Operators were also concerned over setting a **precedent** for future cost recovery arrangements and overstating the Network cost component of energy bills. While we have carefully considered these concerns, we continue to believe that the allocation of costs has been carried out in the most appropriate manner, as outlined in the preceding paragraph. Regarding the issue of precedence, we can confirm that any future decisions on cost recovery will be taken on their own merits using the best available evidence at that time.

Conclusion:

We therefore confirm the consultation's minded to position and will require DCC to recover costs via DCC Fixed Charges on a GB-wide basis.

[3] July 2023 SMIP: 4G Communications Hub only exchange activity financing.

[4] February 2024 SMIP: 4G Communications Hub only exchange site visits arrangements, and further proposal on the DCC charging mechanism and legal changes.

3. Question 2: Do you have any views on our proposals that where there are existing installed meters in premises that are not joined to the existing Communications Hub Function, Supplier Parties should seek to update the Smart Metering Inventory (SMI) Status of these devices to "Installed Not Commissioned" prior to replacing the Communications Hub in order that DCC does not think these meters have been installed as part of the site visit?

3.1 **Background:** In the consultation document we set out our expectation that most 4G Communications Hub only exchanges would be automatically detected by DCC each month using the information available. However, in cases where smart meters are installed but can't join the Communications Hub due to WAN issues, resulting in a "pending" SMI status, DCC will see this as a new meter installation when a Communication Hub swap-out occurs. To minimise cases where energy suppliers would have to claim reimbursement from DCC via the out of band process[5], energy suppliers are encouraged to update the SMI status of the device in advance of the site visit.

3.2 **Arguments Against:** One energy supplier disagreed with caveats raising concerns about updating the SMI status of the device, stating that the proposal could affect their ability to triage non-communicating devices and cause confusion on churn.

3.3 **Error Message:** Another energy supplier indicated that updating the SMI status might cause an error message, and they emphasised the need for further analysis and validation of the technical approach with energy suppliers to confirm its feasibility. Following investigation, a mismatch between the Smart Energy Code (SEC) and DCC User Interface Specification (DUIS) was identified which caused an 'E081105' error message. This issue has been addressed by DCC through a change to DCC Systems and DUIS to allow devices with an SMI status of "installed not commissioned" to be added to the Device Log of a Communications Hub Function[6].

3.4 **Arguments For:** Four respondents agreed or agreed with caveats to the proposal. One energy supplier agreed that our proposal would be sensible in certain circumstances but recommended testing through Initial Pallet Validation (IPV). At the time of publishing this conclusions document, IPV had already concluded so it is no longer an option for testing this.

3.5 **Prerequisite for Payment:** A respondent suggested that energy suppliers should be required to update the SMI status before payment, however they offered limited rationale to support their point. Whilst we recognise this suggestion could facilitate DCC's identification of site visits and processing of payments, we are of the view that energy suppliers are already incentivised to update the SMI status of a device in "pending" state ahead of a Communications Hub exchange, to avoid the effort of submitting an out of band payment claim. Making this mandatory could therefore be argued as unnecessary. Whilst we assume there may be concerns around possible high volumes of out of band payments to process, we do not currently have an indication of the number of out of band payments made in each RY and are unable to assume the likely scale of claims needed to be processed. Thus, we remain unconvinced that mandating the SMI status update is necessary.

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[5] Out of band is the process by which energy suppliers can make 4G Communication Hub only exchange payment claims that have not been automatically detected by DCC.

[6] March 2025 DESNZ: Redesignation of all versions of SEC Appendix AD DUIS

Conclusion:

We continue to encourage energy suppliers to update the SMI status of meters installed in premises with a “pending” state to “installed not commissioned” prior to carrying out the Communications Hub swap out. If out of band payment claims become significant, we will reconsider making this a payment prerequisite.

4. Question 3: Do you have any comments on the legal drafting for the DCC Licence and the main body of the SEC?

4.1 **Background:** We have proposed amendments to DCC Licence Condition 17 and the introduction of a new DCC service called the Communications Hub Replacement Reimbursement Service. This service was defined at a high level in the DCC Licence, with further detail provided in the SEC. Most respondents expressed support for the proposed changes. A few respondents suggested minor adjustments, while one suggested more substantial changes. All comments are addressed below:

4.2 **Definition of Successful Replacement:** We proposed, as part of the changes in the legal text, that a replacement event occurs when no meter is replaced or installed as part of the site visit, a SMETS2+ 2G/3G Communications Hub has been removed, and a 4G Communications Hub has been installed. One respondent called for the definition to be relaxed to account for future Communications Hub variants e.g. a Virtual Wide Area Network Device (VWD). They also argued that energy suppliers should not be penalised in circumstances where the Communications Hub swap out fails, and smart services are restored in the most practical way during a single visit

4.3 **4G Communications Hubs will support VWD functionality:** If an energy supplier replaces a 2G/3G Communications Hub with a 4G Communications Hub, but there is no 4G mobile network coverage at the premises, the energy supplier might install the 4G Communications Hub regardless, but then also provide a VWD connected to the consumer’s internet. In this case, the 2G/3G Communications Hub would be replaced with a 4G Communications Hub, but the 4G Communications Hub would not be using the 4G mobile network. We are of the view that energy suppliers should be compensated for such replacements and therefore agree with relaxing the definition to account for future Communications Hub variants. We have amended the definition of a 4G Communications Hub to one which is “designed to rely” on fourth generation mobile technology.

4.4 We do not agree with the suggestion to widen the definition to include circumstances where a smart meter is also replaced, as in this scenario site visits costs will be covered by existing Meter Asset Provider (MAP) commercial arrangements.

4.5 **Regulatory Treatment of Costs:** We proposed that DCC’s charges and associated reimbursement amounts should be recorded as DCC’s Revenue and External costs. A respondent suggested creating a new ‘Pass-Through Costs’ category in the Licence to allow DCC to recover and chargeback costs to SEC Parties as pass-through costs rather than as External Costs. They argued that this would ensure that the costs associated with this service are sufficiently ringfenced from DCC’s costs. There was also a suggestion to introduce a new correction factor.

4.6 We agree with the suggestion to treat any unfinanced costs as pass-through costs, and any finance costs as external costs (with any drawdown on finance being treated as a negative external cost within the relevant Regulatory Year (RY)). However, we do not agree that a new correction factor is needed. This approach has been discussed and agreed with the DCC and Ofgem.

4.7 **Ofgem Penalty Interest Regime:** Whilst there were no changes proposed to Ofgem's Penalty Interest Regime as part of our consultation, one respondent called for costs and revenues related to the provisions of the 4G Communications Hub only exchange site visit service to be excluded from DCC's existing penalty interest regime. They argued that these costs and revenues will be driven by energy supplier forecasts.

4.8 We acknowledge there will be a significant degree of uncertainty for the DCC when setting charges to recover costs associated with this activity. However, this will be for Ofgem to determine whether to apply any penal interest to DCC over/under-recovery. For cases of over-recovery, there is already a 'cumulative correction' process in place whereby the DCC can return money (and interest earned) to SEC Parties in the subsequent RY. The licence already provides flexibility (and discretion for Ofgem) on deciding what proportion of any over-recovery should be subject to penalty interest. For under-recovery, we are of the view that DCC should report serious forecasting discrepancies to Ofgem. Should persistent discrepancies occur, then DCC should be considered for in-year adjustment for the charging statement (subject to Ofgem's approval).

4.9 **Netting off Payments:** As part of the consultation, we proposed that the DCC would pay energy suppliers for each 4G Communication Hub only exchange event. We also proposed that the payment amounts would be determined monthly in arrears and would be netted off against the total amount owed by the energy supplier to the DCC. One respondent disagreed with this proposal and suggested a process where no netting would take place, stating that this would be the more efficient and better utilise DCC's existing finance systems and processes.

4.10 After further consideration, we are satisfied that this proposal would result in a less complex process than setting up a netting off system. We have therefore amended the legal drafting accordingly.

4.11 **DCC Reporting Obligations:** On DCC reporting, we proposed that the DCC should produce monthly reports for each energy supplier showing the 4G Communications Hub only exchange events which have taken place during the month. It was suggested that the DCC should include the relevant MPxN[7] in the report to enable the energy supplier to identify the premises.

4.12 An energy supplier said they expected to be able to cross-reference and audit details of 4G Communications Hub exchanges that have been reimbursed, rejected, or missed by DCC. Another respondent proposed that monthly reimbursement summaries should link payments made to unique EUI-64 references rather than to the MPxN.

4.13 Regarding the concern from one energy supplier about DCC auditing, it should be noted that DCC already has obligations to carry out audits in a coordinated efficient manner. Therefore, adding extra steps into the SEC regarding auditing activities may not be necessary. In addition, we see no issue with DCC tracking exchanges using the EUI-64 reference instead of the MPxN and have accepted this change. In addition to our original proposal, we now consider imposing reporting obligations on the DCC to send monthly summaries of 4G Communications Hub only exchange payments to DESNZ and Ofgem is necessary for monitoring purposes. We also consider that, to increase transparency, DCC should be explicitly required to state the estimated number of 4G Communications Hub only exchanges that it expects to fund in the relevant RY via their Charging Statement.

4.14 **Commencement of the Service:** As part of the legal text drafting, we proposed that the DCC shall be required to commence the service in any particular RY only if a joint

[7] MPxN is the gas or electricity meter point reference number that identified a consumer's home energy supply. MPAN - Meter Point Administration Number refers to electricity. MPRN - Meter Point Reference Number refers to gas.

DESNZ/Ofgem determination of the centralised price applying to that RY has been made.

4.15 Although one respondent indicated that they expect to incur costs, and therefore passthrough charges, from RY 2025/26, we understand that most energy suppliers are unlikely to carry out a material number of 4G Communications Hub only exchanges until 2026 (or later) as we understand they plan to focus their activity on new installations or SMETS1 to SMETS2 replacements. We have also considered the option to implement retrospective payments into the DCC licence and the SEC, however there are a significant number of complexities associated with this implementation. We are therefore of the view that DCC should be planning to provide the service from 01 April 2026 at the earliest following a joint DESNZ/Ofgem determination of the centralised price in relation to RY 26/27.

Conclusion:

To support the DCC's implementation of 4G Communications Hub only exchange activity funding, we will amend the legal drafting to reflect the position set out above. See Annex B and Annex C for the associated legal text which has been marked up against the current version of the DCC licence and SEC. Government will lay the changes before Parliament in line with the procedure under section 89 of the Energy Act 2008. Please note that there may be minor changes between the legal text versions attached to this conclusions document and the one laid before Parliament if this is necessary to reflect any SEC or licence changes that are made for other reasons in the time period between the issuing of this conclusions document and the parliamentary laying date.

5. Additional Points Raised

5.1 In their responses to the consultation, three respondents provided additional commentary via covering emails/letters. These comments were outside the scope of the consultation and therefore have not been considered as part of our overall conclusion. They have been addressed below:

5.2 **Value for Money and Costs:** Two energy suppliers highlighted the importance of value for money and the need for DCC to secure appropriate market terms for the financing of activities. An energy supplier and a Network Operator raised concerns regarding the lack of information on the total costs associated with 4G Communication Hub only exchanges stating that these could be significant.

5.3 **DCC Transparency and Scrutiny:** Two energy suppliers also raised concern with the level of industry transparency around the DCC's financing activities, one citing Ofgem's February 2024 decision on DCC Price Control[8] and the provision of information during audits. Similarly, one energy supplier called for additional industry scrutiny over the DCC's activities associated with negotiating and securing funding for 4G Communications Hub only exchange site visits.

5.4 **PPMID/IHD Replacements:** One energy supplier requested more information on whether costs associated with Prepayment Meter Interface Device (PPMID) and In-Home Display (IHD) replacements, in the context of 4G Communication Hub only exchanges, would be in scope of the reimbursement amount.

[8] February 2024 Ofgem: DCC Price Control decision: regulatory year 2022 to 2023

Conclusion:

Regarding the concerns raised over value for money, costs, and DCC transparency and scrutiny, we are of the view that DCC Licence Condition 37.8A (Ofgem price control process) provide sufficient control and scrutiny of the DCC's activities. DCC is accountable for determining how it delivers the services it is obligated to provide.

Conclusion:

Regarding the elements of costs that should be included as part of the reimbursement amount, additional costs will only be considered after clear and robust evidence has been identified and provided to support their inclusion in the centralised price. As such, the decision on the cost elements that will be included in the calculation of the centralised price, has been deferred to a later date and will be subject to consultation.

Annex B: Final amendments to the DCC Licence

Condition 17: Requirements for the provision of Services

Introduction

17.1. This condition requires the Licensee to provide Services or, as the case may be, to offer terms for the provision of Services, whether at the request of SEC Parties, REC Parties or otherwise, in accordance with the requirements set out in this condition and subject to such exemptions or restrictions as the condition permits.

PART A: GENERAL PROVISIONS APPLICABLE TO THIS CONDITION

17.2. Where the Licensee is required by any part of this condition to provide Services under or pursuant to an Agreement for Services on terms prescribed by, or determined in accordance with, the provisions of the SEC or REC, such terms of the SEC or REC as are expressed by the SEC or REC to be contractually binding with respect to such provision will comprise the Agreement for Services that applies between the parties by virtue of the obligation of the Licensee to provide the Services.

17.3. The Licensee may, where it would be more economical, efficient, or effective to do so, offer to enter into an Agreement for Services under or pursuant to this condition on terms that relate to the Licensee's receipt of compliant requests from more than one person for the provision of Services, provided that the terms of that offer do not exclude an option for the Services to be provided to only one of the persons making those requests.

17.4. The Licensee may offer to enter into an Agreement for Services on terms that provide, in accordance with any relevant requirement of the Licensee's Charging Methodology for Service Charges, for the allocation and reimbursement of Service Charges among and between persons whose requests for such an agreement (whether because of the timing of those requests or otherwise) would reasonably justify such treatment.

PART B: TERMS IN RESPECT OF CORE COMMUNICATION SERVICES

17.5. The Licensee must, on receiving a request from any SEC Party for the provision of any Core Communication Services that are specified and defined as such in the SEC, provide such services under or pursuant to an Agreement for Services on terms that are prescribed by, or determined in accordance with, the provisions of the SEC.

17.6. The Licensee's obligation to provide Core Communication Services under this Part B is subject to the provisions of Part D below.

PART C: TERMS IN RESPECT OF ELECTIVE COMMUNICATION SERVICES

17.7. The Licensee, on receiving a request from any SEC Party ("the Requester") for the provision of Elective Communication Services under or pursuant to the SEC, must deliver to the Requester as soon as is reasonably practicable, and in any event within 14 days after receiving the request, either**:**

(a) an initial evaluation of the technical feasibility and the likely scale of the cost of satisfying that request for such provision; or

(b) notification that the initial evaluation indicates that a further and more detailed evaluation of the request is required.

17.8. Where paragraph 17.7(a) is applicable, and insofar as the Requester wishes to proceed with the request, the Licensee must offer within 28 days (except where the Requester agrees to a longer period, or where the Authority otherwise consents) to enter into an Agreement for Services with the Requester on such terms as may be agreed.

17.9. Where paragraph 17.7(b) is applicable and the Requester wishes to proceed with the request, the Licensee must undertake and complete the further and more detailed evaluation as soon as is reasonably practicable, and for that purpose may require the Requester to pay evaluation expenses to such extent as may be reasonable in all of the circumstances of the case.

17.10. In paragraph 17.9, "evaluation expenses" means expenses of a kind that**:**

(a) are specified in or are determined in accordance with the Licensee's Charging Methodology for Service Charges; and

(b) have been reasonably incurred by the Licensee in carrying out the further and more detailed evaluation to which that paragraph refers.

17.11. Insofar as the Requester wishes to proceed with the request in the light of the further and more detailed evaluation under paragraph 17.9 and has paid to the Licensee any amount that is payable by virtue of that paragraph, the Licensee must offer within 28 days (except where the Requester agrees to a longer period, or where the Authority otherwise consents) to enter into an Agreement for Services with that person on such terms as may be agreed in respect of the provision.

17.12. Where a request received by the Licensee under paragraph 17.7 does not comply with such requirements as may be specified in the SEC in relation to the submission of requests for the provision of Elective Communication Services, the Licensee must take reasonable steps to ensure that the request does so comply before acting upon it.

17.13. The Licensee's obligation to offer terms under this Part C is subject to**:**

(a) any controls or restrictions on the quantity of services that may be provided, or on the timing with which they are to be provided, that may be in force from time to time under the SEC with respect to the provision of Elective Communication Services; and

(b) the provisions of Part D below.

Part C1: Provision of Communication Services Using Different Communication Technologies

17.13A To the extent that it is required to do so in any geographic area in accordance with (i) the terms of a plan approved by the Secretary of State under Condition 13B (Network Evolution Arrangements) for the purposes of the Network Evolution Arrangements, (ii) the provisions of the SEC, or (iii) both the terms of that plan and the provisions of the SEC, the Licensee must ensure that:

(a) the Core Communications Services and the Elective Communications Services are each made available by means of more than one External Electronic Communications Network within that area; and

(b) each of those External Electronic Communications Networks uses a different Communications Technology of the type identified in the plan or the SEC (as the case may be).

PART D: TERMS FOR THE OPERATION OF THE ENROLMENT SERVICE

17.14. The Licensee is not required to provide Core Communication Services under Part B above, or to offer terms for an Agreement for Services in respect of any Elective Communication Services under Part C above, if in either case the Smart Metering System to which such services would relate has not been enrolled (in accordance with such rules and procedures for that purpose as are specified in the SEC) into such arrangements for enrolment as are maintained under the SEC.

17.15. The Licensee must carry on the activities of the Enrolment Service (which is the service to which paragraph 17.14 refers) under or pursuant to an Agreement for Services on terms that are prescribed by, or are determined in accordance with, the provisions of the SEC.

17.16. Subject to paragraph 17.17, the Licensee must, on receiving a request from any SEC Party for the enrolment of a Smart Meter or an Advanced Meter that does not comply with the requirements of the Enrolment Service and therefore does not qualify to be enrolled, offer to enter into an Agreement for Services, in accordance with such rules and procedures as may be specified in the SEC for dealing with such requests, and on such terms as may be agreed in all the circumstances of the case, for**:**

(a) the provision of advice to the SEC Party with respect to such requirements for the reconfiguration or modification of that meter as must be satisfied to enable it to qualify for such enrolment; and

(b) where applicable, the carrying out of any reconfiguration or modification of systems operated by the Licensee that would be necessary to enable the enrolment of that meter.

17.17. The Licensee is not required to comply with paragraph 17.16 if and insofar as doing so would prejudice, or be likely to prejudice, its ability to comply with the Interim General Objective of the Licensee as set out in Condition 5 (General Objectives of the Licensee).

17.18. The Licensee may charge for services provided under paragraph 17.16 in accordance with and to the extent permitted by the provisions of its Charging Methodology for Service Charges.

17.19. Nothing in this Part D requires the Licensee to provide an Enrolment Service for the purposes of any Smart Metering System by means of which a Smart Meter Communication Service is proposed to be provided to any premises, or within any area containing premises, that falls within a category that is for the time being specified by the Licensee as a Service Exemption Category in any Statement of Service Exemptions in force under this condition.

17.20. Appendix 1 (which requires the Licensee to publish, maintain, and keep under review a Statement of Service Exemptions initially approved by the Secretary of State) has effect as part of this condition for the purposes of paragraph 17.19.

Part D1: Terms for provision of the Interoperability Checker Service

17.20A. The Licensee must, on behalf of Energy Suppliers who are SEC Parties, provide an Interoperability Checker Service, which shall:

(a) consist of making available to Energy Consumers, in a form readily accessible to them, information in relation to certain types of Smart Meters installed at premises and the use that may be made of them by Energy Suppliers;

(b) relate to such types of Smart Meters, such information and such manner of provision of information, as may be more fully described in the SEC; and

(c) be on such terms as are prescribed by, or determined in accordance with, the provisions of the SEC.

Part E: Terms for provision of the Communications Hub Service

17.21. The Licensee must, on receiving a request from any SEC Party for the provision of Communications Hubs:

(a) arrange to provide such Communications Hubs, together with ancillary or associated devices or equipment as may be specified under or pursuant to the SEC;

(b) take all reasonable steps to ensure that each such Communications Hub which is installed as a component of a Smart Metering System continues at all times to satisfy the requirements of a Version of the CH Technical Specification which is:

(i) within its Maintenance Validity Period;

(ii) Compatible with the Version of the ESME Technical Specification and the GSME Technical Specification in accordance with which the Smart Metering System, of which it is a component, is maintained by the Energy Supplier; and

(iii) where at the premises at which the Smart Metering System is installed there is installed a HCALCS, a PPMID, an Additional Electricity Smart Meter or a SAPC, Compatible with the Version of the HCALCS Technical Specification, the PPMID Technical Specification, the ESME Technical Specification or the SAPC Technical Specification (as the case may be) in accordance with which that HCALCS, PPMID, Additional Electricity Smart Meter or SAPC is maintained by the Energy Supplier; and

(c) make such other arrangements as to the ownership, delivery, installation, maintenance, repair, removal and replacement of Communications Hubs as may be specified under or pursuant to the SEC, in accordance with an Agreement for Services on terms prescribed by, or determined in accordance with, the provisions of the SEC.

17.22. The Licensee must manage its duties under and pursuant to this Part E in a manner that is consistent with, and is designed to facilitate, the full and timely installation by Energy Suppliers of Smart Metering Systems at Energy Consumers' premises in accordance with such requirements of the Energy Supply Licence as apply to the activities associated with such installation.

PART E1: TERMS FOR THE PROVISION OF THE COMMUNICATIONS HUB REPLACEMENT REIMBURSEMENT SERVICE

17.22A The Licensee must provide, to all Energy Suppliers who are SEC Parties, a service to be known as the "Communications Hub Replacement Reimbursement Service", which shall:

(a) consist of the Licensee making payments to Energy Suppliers to reimburse each such Energy Supplier for the reasonable cost of each visit carried out by it (or on its behalf) to the premises of one of its Energy Consumers during which a 2/3G Communications Hub at those premises is replaced with a 4G Communications Hub;

(b) entail a payment for each such visit of an amount determined in accordance with the methodology adopted from time to time by virtue of Appendix 2;

(c) be provided in each Regulatory Year, other than any Regulatory Year in respect of which paragraph B9 of Appendix 2 applies; and

(d) be on such terms as are prescribed by, or determined in accordance with, the provisions of the SEC.

PART F: TERMS FOR THE PROVISION OF OTHER ENABLING SERVICES

17.23. The Licensee must, on receiving a request from any person (whether or not a SEC Party) for the provision of any Other Enabling Service that is specified and defined as such, whether in Schedule 5 to this Licence (Matters associated with the grant of this Licence) or in the SEC, provide that service under or pursuant to an Agreement for Services on terms prescribed by, or determined in accordance with, the provisions of the SEC.

17.24. Where a request received by the Licensee under paragraph 17.23 does not comply with such requirements as may be specified in the SEC in relation to the submission of requests for the provision of Other Enabling Services, the Licensee must take reasonable steps to ensure that the request does so comply before acting upon it.

PART G: TERMS FOR THE PROVISION OF VALUE ADDED SERVICES

17.25. The Licensee, on receiving a request from any person for the provision of Value Added Services or Centralised Registration Service Value Added Services that have been approved by the Authority in accordance with Part D of Condition 6 (Authorised Business of the Licensee), may offer to enter into an Agreement for Services with that person on such terms (subject to paragraph 17.26) as may be agreed in respect of such provision.

17.26. Except where the Authority otherwise consents, the terms offered by the Licensee for entering into an Agreement for Services under paragraph 17.25 must include terms providing for the novation of that agreement that are substantially the same as those contained within the SEC or the REC as applicable in relation to the novation of any Agreement for Services in place by virtue of Parts B to F of this condition

17.27. Paragraphs 24(a) of Condition 22 (The Smart Energy Code) and 15 of Condition 43 (Arrangements for the handover of business) are relevant to paragraph 17.26.

PART H: CHARGES AND OTHER TERMS IN RESPECT OF SERVICES

17.28. Paragraph 17.29 applies with respect to**:**

(a) each Agreement for Services under or pursuant to this condition requiring the Licensee to provide Services on terms prescribed by, or to be determined in accordance with, the provisions of the SEC or REC as relevant; and

(b) each offer by the Licensee to enter into an Agreement for Services under or pursuant to this condition on such terms as may be agreed.

17.29. In each case to which paragraph 17.28 refers, the agreement or the offer proposing an agreement (as the case may be) must set out**:**

(a) the Service Charges to be paid under or pursuant to the relevant agreement (having regard to the requirements of paragraph 17.30); and

(b) such other detailed terms as are appropriate or necessary for the purposes of the relevant agreement and are not otherwise prescribed.

17.30. The Service Charges referred to in paragraph 17.29(a) must**:**

(a) unless clearly inappropriate, be consistent with the relevant provisions of the Charging Methodology in force under Condition 18 (Charging Methodology for Service Charges) at the time of the agreement or offer; and

(b) be presented so as to be directly referable to the provisions (if applicable) of the Charging Statement in force under Condition 19 (Charging Statement for Service Charges) at the time of the agreement or offer.

PART I: EXEMPTION FROM OBLIGATIONS IMPOSED BY THIS CONDITION

17.31. Paragraph 17.32 states the circumstances in which the Licensee is not obliged under the provisions of this condition**:**

(a) to provide Services under or pursuant to an Agreement for Services on terms prescribed by, or determined in accordance with, the provisions of the SEC or the REC; or

(b) to enter into, or offer to enter into, an Agreement for Services with a person requesting terms for such an agreement.

17.32. The circumstances to which paragraph 17.31 refers are those arising if**:**

(a) providing the Services or (as the case may be) entering into, or offering to enter into, an agreement to do so would cause, or would be likely to cause, the Licensee to be in breach of (i) any of its functions under the Principal Energy Legislation, or (ii) any applicable provision of the SEC or REC, or (iii) any of the Conditions of this Licence; or

(b) the person requesting the terms does not agree to be bound, to the extent applicable to him, by the provisions of the SEC or REC.

PART J: DETERMINATION OF DISPUTES BETWEEN THE PARTIES

17.33. Any dispute arising between the Licensee and any person that relates to the terms offered by the Licensee for entering into an Agreement for Services under or pursuant to any provision of this condition that requires the Licensee to make such an offer may be referred by either party to the Authority for determination in accordance with such of the provisions of Condition 20 (Determination of disputes by the Authority) as may be applicable to the dispute.

PART K: INTERPRETATION

17.34. For the purposes of this condition**:**

2/3G Communications Hub means a Communications Hub made available by the Licensee to an Energy Supplier which is designed to rely on second or third generation mobile cellular radio technology.

4G Communications Hub means a Communications Hub made available by the Licensee to an Energy Supplier which is designed to rely on fourth generation mobile cellular radio technology.

Advanced Meter has the meaning that is given to that term in standard condition 12 of the Energy Supply Licence.

Communications Hub Replacement Reimbursement Service has the meaning given to that term in Part E1 of this condition, but subject to any further definition or other relevant provision that may be set out in the SEC.

Communications Technology means each of the communications technologies that may be used for the purposes of providing an External Electronic Communications Network, including in particular: (a) long-range radio; (b) 2G/3G mobile communications technology; and (c) 4G mobile communications technology.

Enrolment Service has the meaning given to that term in Part D of this condition, but subject to any further definition or other relevant provision that may be set out in the SEC.

Interoperability Checker Service has the meaning given to that term in Part D1 of this condition, but subject to any further definition or other relevant provision that may be set out in the SEC.

Network Evolution Arrangements has the meaning given to that term in Part D of Condition 13B (Network Evolution Arrangements).

Requester has the meaning that is given to that term in paragraph 17.7.

Service Exemption Category means either Service Exemption Category 1 or Service Exemption Category 2 (as the case may be), as described respectively at paragraph A3(a) and paragraph A3(b) of Appendix 1.

Statement of Service Exemptions means the document of that name containing the matters set out at Part A of Appendix 1.

17.35. Appendix 1 and Appendix 2 follow~~s~~ immediately below.

Appendix 1: Statement of Service Exemptions

Introduction

A1. In accordance with paragraph 17.20, this Appendix 1 has effect under this Condition 17 with particular reference to the provisions of paragraph 17.19.

Part A: Preparation and contents of the statement

A2. The Licensee must, within twelve months after the Licence Commencement Date, have prepared and put in place a Statement of Service Exemptions that:

(a) sets out, in such detail as may be appropriate for the purpose, the matters that are described at paragraphs A3 and A6; and

(b) has been approved by the Secretary of State following consultation with the Authority, External Service Providers, SEC Parties, and the Licensee.

A3. The matters to which paragraph A2(a) refers are:

(a) Service Exemption Category 1, which must specify any types or configurations of premises in Great Britain to which a Smart Meter Communication Service need not for the time being be provided by virtue of the reason that is stated in paragraph A4; and

(b) Service Exemption Category 2, which must specify any geographical areas in Great Britain within which a Smart Meter Communication Service need not for the time being be provided to premises by virtue of the reason that is stated in paragraph A5.

A4. The reason to which paragraph A3(a) refers is that, in each case falling within Service Exemption Category 1, the provision of a Smart Meter Communication Service:

(a) would be technically impracticable; or

(b) though technically practicable, could only be achieved at disproportionate cost,

because of (i) the physical or other characteristics of the specified premises, or (ii) any other relevant consideration with respect to the premises.

A5. The reason to which paragraph A3(b) refers is that, in each case falling within Service Exemption Category 2, the provision of a Smart Meter Communication Service:

(a) would be technically impracticable; or

(b) though technically practicable, could only be achieved at disproportionate cost,

because of (i) the insularity or the remoteness of the specified area, or (ii) any other relevant consideration with respect to the area.

A6. The Statement of Service Exemptions must also set out such steps as the Licensee has committed to take with a view to securing the eventual provision, by such means as may be technically practicable and at a cost that is not disproportionate, of a Smart Meter Communication Service to premises, or within areas, falling within a Service Exemption Category under paragraph A3.

A7. The Licensee must do all that it reasonably can to comply with and take the steps that it is committed to take by virtue of paragraph A6, in accordance with such estimates as are provided in the Statement of Service Exemptions of the timeframe over which those steps are expected to be taken and completed.

Part B: Licensee's duties with respect to the statement

A8. For the purpose of ensuring that the Statement of Service Exemptions is maintained as a document that accurately reflects the provisions of paragraph 17.19 as amplified by the requirements of this Appendix 1, the Licensee must**:**

(a) review the statement at least once in each full Regulatory Year following the Secretary of State's approval of it under paragraph A2; and

(b) propose to the Authority such revisions (if any) of the statement as the Licensee thinks are appropriate or necessary as a result of that review.

A8.A Where, in accordance with paragraph 17.13A, the Licensee has commenced to make available in a geographic area more than one External Electronic Communications Network, each using a different Communications Technology, it shall ensure that it proposes revisions to the Statement of Service Exemptions in accordance with paragraph A8. which:

(a) identify the different External Electronic Communications Networks available in that area; and

(b) in relation to any premises identified for the purposes of paragraph A3.(a) and any geographic area identified for the purposes of paragraph A3.(b), specify whether the exemption applies in respect of only one of the available External Electronic Communications Networks or to each of them.

A9. The Authority may at any time, after consulting the Licensee and such other persons as it considers should be consulted in relation to the matter, direct the Licensee to revise the Statement of Service Exemptions in such manner, with effect from such time, and to such extent as may be specified in the direction.

A10. The Licensee must**:**

(a) give a copy of the Statement of Service Exemptions (or of any amended such statement following a revision under paragraph A9) to any person who asks for a copy; and

(b) publish and maintain the Statement of Service Exemptions (or any amended such statement following a revision under paragraph A9) on its Website.

Part C: Assessment of provision at disproportionate cost

A11. This Part C applies for the purposes of paragraphs A4(b) and A5(b) with respect to the question of whether the provision of a Smart Meter Communication Service to premises, or within an area containing premises, that is within a Service Exemption Category under paragraph A3 can only be achieved at disproportionate cost.

A12. That question is to be resolved by the Secretary of State or the Authority (as the case may be) in such manner and by reference to such factors as he or it considers appropriate, having particular regard to the national policy objective to secure the widespread installation and operation of Smart Meters at premises in Great Britain at a reasonable overall cost to the general body of Energy Consumers.

Part D: Interpretation

A13. For the purposes of this Appendix, **Smart Meter Communication Service** has the meaning that is given to that term at paragraph 4 of Part 1 (Terms in Respect of Grant) of this Licence, but with references in that paragraph to Domestic Energy Suppliers and Domestic Premises being read as references to Energy Suppliers and premises generally.

Appendix 2: Communications Hub Replacement Reimbursement Methodology

Introduction

B1. In accordance with paragraph 17.22A, this Appendix 2 has effect under this Condition 17 with particular reference to the provisions of paragraph 17.22A(b).

Part A: The Methodology

B2. In this Appendix 2, the 'Communications Hub Replacement Reimbursement Methodology' (referred to as the **Methodology**) means a methodology which:

(a) is determined in accordance with the procedure set out in Part B or Part C;

(b) sets out the method for calculating an amount (the **Reimbursement Amount**) to be paid:

(i) by the Licensee for the purposes of the Communications Hub Replacement Reimbursement Service;

(ii) to an Energy Supplier;

(iii) in respect of each visit carried out by (or on behalf of) that Energy Supplier to the premises of one of its Energy Consumers during which a 2/3G Communications Hub at those premises is replaced with a 4G Communications Hub; and

(c) provides for the calculation of that Reimbursement Amount so that the amount shall be expressed in the form of a number of £ (pounds sterling) for each such visit.

Part B: Procedure for Determining the Methodology

The Initial Methodology

B3. The initial Methodology shall be determined jointly between the Secretary of State and the Authority, by way of mutual agreement between them, and shall apply in respect of the Regulatory Year commencing immediately following that determination.

B4. Before the initial Methodology is determined:

(a) the Secretary of State will liaise with the Authority as to the text of the draft initial Methodology on which they will consult; and

(b) the Secretary of State and the Authority shall consult on that draft Methodology with all those persons they consider to have an interest in it.

B5. The steps described in paragraph B4 may take place either before or after this Appendix 2 comes into force.

B6. The initial Methodology determined jointly by the Secretary of State and the Authority shall be so designed as to provide that the Reimbursement Amount paid by the Licensee to an Energy Supplier:

(a) is calculated so as to reflect the reasonable expected costs – in the Regulatory Year in which it applies – of a typical visit to the premises of an Energy Consumer by (or on behalf of) and Energy Supplier during which a 2/3G Communications Hub at those premises is replaced with a 4G Communications Hub; and

(b) incorporates an allowance for the reasonable expected costs – in the Regulatory Year in which it applies – of visits to the premises of Energy Consumers by (or on behalf of) Energy Suppliers with the purpose of replacing a 2/3G Communications Hub at those premises with a 4G Communications Hub, but during which it is either not possible or not reasonably practicable to carry out that replacement.

B7. The Methodology may, at the discretion of the Secretary of State and the Authority, provide that the Reimbursement Amount shall be calculated so as to incorporate an allowance for such other categories of cost incurred by Energy Suppliers in replacing 2/3G Communications Hubs with 4G Communications Hubs as the Secretary of State and the Authority may consider appropriate.

B8. The Secretary of State and the Authority:

(a) shall jointly apply the Methodology determined by them so as to calculate an agreed Reimbursement Amount for the first Regulatory Year to which that Methodology applies; and

(b) may jointly apply the Methodology determined by them so as to calculate an agreed Reimbursement Amount for any subsequent Regulatory Year to which that Methodology applies.

B9. Where, in respect of any Regulatory Year, the Secretary of State and the Authority have not exercised the function of determining a Reimbursement Amount under sub-paragraph B8(b), the Licensee shall not be required to provide a Communications Hub Replacement Reimbursement Service in that Regulatory Year.

Subsequent Methodologies

B10. The Secretary of State and the Authority shall from time to time jointly consider whether the initial Methodology determined by them requires to be amended for the purposes of any subsequent Regulatory Year after the first Regulatory Year in which it applies and, where by mutual agreement they consider that it does, they shall:

(a) jointly determine a new Methodology, by way of mutual agreement between them, to replace the initial Methodology commencing in such Regulatory Year as they may specify;

(b) for that purpose follow the procedure set out at paragraph B4; and

(c) ensure that the new Methodology is designed in accordance with paragraphs B6 and B7.

B11. For the purposes of sub-paragraphs B10(b) and (c), references in paragraphs B4 and B6 to the initial Methodology shall be treated as if they were references to the replacement Methodology.

B12. Paragraph B10 shall apply to the first and any subsequent replacement Methodology in the same manner as it applies to the initial Methodology and, where any replacement Methodology has been determined, references in paragraph B10 to the initial Methodology shall be treated as if they were references to that replacement Methodology.

The Authority

B13. The Secretary of State may, by means of a direction in accordance with this paragraph which is issued to the Authority, to the Licensee and to all Energy Suppliers, provide that the functions that are exercisable jointly by the Secretary of State and the Authority by virtue of paragraph B10 shall, from such date as may be specified in the direction, be treated as functions exercisable by the Authority alone.

B14. Where the Secretary of State has issued a direction in accordance with paragraph B13, with effect from such date as may be specified in the direction:

(a) paragraph B4 shall be treated as solely comprising a requirement for the Authority to consult on the draft Methodology with the Secretary of State and with all such other persons as it considers to have an interest in that draft; and

(b) all references in paragraphs B6 to B10 to functions that are exercisable jointly by the Secretary of State and the Authority shall be treated as references to functions that are exercisable by the Authority alone.

Part C: Interpretation

B15. In this Appendix 2:

(a) **Methodology** means the Communications Hub Replacement Reimbursement Methodology, as described in paragraph B2 (as replaced from time to time in accordance with paragraph B10); and

(b) **Reimbursement Amount** has the meaning given to it in paragraph B2.

Condition 1. Definitions

Communications Hub Replacement Reimbursement Service	means the service that is provided by the Licensee pursuant to Part E1 of Condition 17 (Requirements for the provision of Services) for the purpose of reimbursing Energy Suppliers for the reasonable cost of certain visits carried out

to premises of Energy Consumers to replace Communications Hubs.

Enabling Services means services forming part of the Mandatory Business of the Licensee that fulfil an enabling role with respect to the provision of Core Communication Services and Elective Communication Services, and that consist of**:**

(a) the Enrolment Service;

(b) the Communications Hub Service; ~~and~~

~~(b)~~(c) the Communications Hub Replacement Reimbursement Service; and

~~(c)~~(d) Other Enabling Services.

Other Enabling Services means any Enabling Services forming part of the Mandatory Business of the Licensee (other than the Communications Hub Service, the Communications Hub Replacement Reimbursement Service and the Enrolment Service) that are specified and defined as such, whether in this Licence or the SEC.

Condition 6. Authorised Business of the Licensee

Introduction

6.1 This condition sets out the composition of the Authorised Business of the Licensee and the Licensee's functions in relation to it (see Part A below), describes each of the Services that together comprise the Authorised Business (see Parts B and C below), and establishes a procedure by which the Licensee can ask the Authority to approve the enlargement of that business (see Part D below).

PART A: AUTHORISED BUSINESS AND THE LICENSEE'S FUNCTIONS

6.3 The Authorised Business of the Licensee consists of the following two businesses:

(a) the Mandatory Business (as to which, see Part B below); and

(b) the Permitted Business (as to which, see Part C below).

6.4 The functions of the Licensee with respect to the Authorised Business are:

(a) a duty to carry on the Mandatory Business at all times in accordance with this Licence; and

(b) a power to carry on the Permitted Business in accordance with this Licence and subject to such requirements of this Condition 6 as apply.

PART B: SERVICES FORMING THE MANDATORY BUSINESS OF THE LICENSEE

6.5 The Mandatory Business of the Licensee comprises the provision, for and on behalf of parties to the Smart Energy Code, where relevant, the Retail Energy Code, of the following Mandatory Business Services:

(a) Core Communication Services, being communication services (as specified and defined in the SEC) that relate solely to the Supply of Energy (or its use) under the Principal Energy Legislation, and that are provided by the Licensee under or pursuant to an Agreement for Services in accordance with Part B of Condition 17 (Requirements for the provision of Services);

(b) Elective Communication Services, being communication services (excluding Core Communication Services) that relate solely to the Supply of Energy (or its use) under the Principal Energy Legislation, and that are provided by the Licensee under or pursuant to an Agreement for Services in accordance with Part C of Condition 17;

(c) Enabling Services (as to which, see paragraph 6.6), being services that fulfil an enabling role (including making provision for the testing of services and equipment, and for ensuring the security of services) relating to the provision of Core Communication Services and Elective Communication Services,

and the procurement and utilisation of all such resources (including, in particular, the Fundamental Service Capability that is detailed at Schedule 1 to this Licence) as may be necessary or expedient for the purposes of securing such provision; and

(d) The incorporation, delivery and provision of the Centralised Registration Service, in accordance with Condition 15.

6.6 The Enabling Services to which paragraph 6.5(c) refers are these:

(a) the Enrolment Service, being the service operated by the Licensee under an Agreement for Services in accordance with Part D of Condition 17;

(b) the Communications Hub Service, being the service provided by the Licensee under or pursuant to an Agreement for Services in accordance with Part E of Condition 17; ~~and~~

(c) the Communications Hub Replacement Reimbursement Service, being the service provided by the Licensee under or pursuant to an Agreement for Services in accordance with Part E1 of Condition 17; and

(~~c~~d) Other Enabling Services, being any Enabling Services that are specified and defined as such in this Licence or the SEC (other than the Communications Hub Service and the Enrolment Service) and that are provided by the Licensee under or pursuant to an Agreement for Services in accordance with Part F of Condition 17.

6.7 In providing as a Mandatory Business Service any service that has not previously been provided as such, the Licensee must ensure that its provision of that new or amended service does not materially prejudice or impair its continuing ability to provide other Mandatory Business Services that it is obliged to provide pursuant to the requirements of this Licence and the Agreements for Services that it has entered into under it.

PART C: SERVICES FORMING THE PERMITTED BUSINESS OF THE LICENSEE

6.8 The Permitted Business of the Licensee comprises the provision, whether for and on behalf of parties to the Smart Energy Code or otherwise, of the following Permitted Business Services:

(a) such Value Added Services as the Authority may from time to time approve in accordance with the provisions of Part D below, and as may be provided by the Licensee under or pursuant to an Agreement for Services in accordance with Part G of Condition 17; and

(b) Minimal Services (which need not be approved by the Authority but must not, in total, exceed a turnover value of £500,000 in any Regulatory Year).

PART D: PROCEDURE FOR AUTHORISING ANY VALUE ADDED SERVICES

6.9 Where the Licensee wishes to provide a particular service as a Value Added Service (including Centralised Registration Service Value Added Service) forming part of its Permitted Business, it must first by Notice to the Authority, and subject to the provisions of this Part D, propose that the service should be so provided by the Licensee with effect from a date ("the Value Added Service Date") that is specified in the Notice.

6.10 In addition to specifying the Value Added Service Date, a Notice to the Authority under paragraph 6.9 must:

(a) describe in appropriate detail the nature, scope, and content of the proposed Value Added Service;

(b) confirm (with supporting evidence) that the Licensee has notified the nature, scope, and content of the proposed Value Added Service to any Relevant Regulator that should be so notified;

(c) explain how, in formulating the proposed Value Added Service, the Licensee has taken account of any advice, consent, or other representation received in response to a notification made under sub-paragraph (b);

(d) set out the Licensee's assessment of the impact of the proposed Value Added Service on the operating costs, technical efficiency, and security of all such aspects of the SEC Arrangements as would be affected by it;

(e) explain why, in the Licensee's opinion, the provision of the proposed Value Added Service (taking account of any benefits likely to accrue to the Mandatory Business of the Licensee from such provision) would be consistent with the General Objectives of the Licensee; and

(f) contain any other analysis or information that the Licensee considers may be relevant to the Authority's consideration of its proposal.

6.11 For the purpose of identifying any Relevant Regulator that should be notified under paragraph 6.10(b), the Licensee must have due regard to the substance of the proposed Value Added Service and the characteristics of the market or other environment in which that service (if approved) would be wholly or mainly provided.

6.12 The Licensee may only provide the proposed service as a Value Added Service forming part of its Permitted Business if the Authority gives the Licensee a direction approving its proposal, with or without amendment of the Value Added Service Date, and on the basis of such terms or conditions as the Authority may specify in that direction.

6.13 The terms or conditions mentioned in paragraph 6.12 may include requirements relating to the provision by the Licensee of additional financial security, pursuant to Part C of Condition 26 (Financial stability and financial security).

6.14 The Licensee may at any time before the Value Added Service Date withdraw a proposal that was the subject of a Notice under paragraph 6.9.

PART E: AUTHORITY'S GUIDANCE AND DIRECTIONS UNDER THIS CONDITION

6.15 The Authority may issue, and may from time to time revise, guidance regarding the procedure that it will follow and the criteria that it will take into account in considering whether and to what extent to exercise its power to give a direction under paragraph 6.12 allowing the Licensee to provide a Value Added Service.

6.16 A direction under paragraph 6.12 may require the Licensee to promptly initiate such modification procedures as may be applicable under the Smart Energy Code (or Retail Energy Code where applicable) with respect to the incorporation of a new Value

Added Service into the Permitted Business of the Licensee with effect from the Value Added Service Date.

PART F: INTERPRETATION

6.17 For the purposes of this condition**:**

Relevant Regulator means any person (excluding the Authority) that would have a statutory or other legal power to exercise any regulatory functions in relation to the provision (if approved) of the Value Added Service, and includes**:**

(a) the Office of Communications established by section 1 of the Communications Act 2003;

(b) the Information Commissioner appointed by section 6 of the Data Protection Act 1998; and

(c) the Water Services Regulation Authority established by section 1A of the Water Industry Act 1991.

Value Added Services Date has the meaning given to that term in paragraph 6.9.

Condition 22. The Smart Energy Code

Introduction

22.1 This condition applies for the purpose of establishing (without limitation) the scope and contents of the Smart Energy Code ("the SEC").

22.2 The Licensee must be a party to, comply with, and maintain and have in force the SEC by virtue of Part A of Condition 21 (Roles in relation to Core Industry Documents).

PART A: MANDATORY FEATURES OF THE SMART ENERGY CODE

22.3 The Smart Energy Code is the document of that name that**:**

(a) has effect under this Licence from the SEC Commencement Date;

(b) has been designated by the Secretary of State for the purposes of this condition, (i) in accordance with Part B below, (ii) having due regard to the requirement imposed by Part C below, and (iii) on the basis that the SEC is appropriately designed to achieve the General SEC Objectives set out in Part D below;

(c) makes provision for the technical, commercial, and operational arrangements set out in Part E below;

(d) makes provision in respect of the matters relating to SEC governance and SEC administration set out in Part F below;

(e) makes provision for the other matters relating to the contents of the SEC that are set out in Parts G and H below; and

(f) may be modified on and after SEC Commencement Date in accordance with the provisions of Condition 23 (Change control for Smart Energy Code).

PART B: DESIGNATION OF THE SMART ENERGY CODE

22.4 The Smart Energy Code has no effect under this Licence until it has been designated by the Secretary of State in a direction given for the purposes of this condition.

22.5 Before issuing a direction under paragraph 22.4, the Secretary of State must consult**:**

(a) the Authority;

(b) every holder of an Energy Licence who is required by a condition of that licence to be a party to and comply with the Smart Energy Code; and

(c) such other persons as the Secretary of State considers it is appropriate to consult in relation to the matter.

22.6 For the purposes of consultation under paragraph 22.5, the Secretary of State must**:**

(a) state that he proposes to designate the SEC and specify the date (or a method by which such date may be determined) on which he proposes that the SEC should have effect;

(b) set out the text of the SEC and his reasons for proposing to designate it; and

(c) allow a period of at least 28 days within which representations or objections may be made to him concerning the proposal.

22.7 The Secretary of State must have due regard to any representations or objections duly received under paragraph 22.6, and give reasons for his decisions in relation to them.

22.8 The requirements imposed by this Part B may be satisfied by consultation before, as well as consultation after, the Licence Commencement Date.

PART C: COMPATIBILITY WITH TRANSITION OBJECTIVE UNDER CONDITION 13

22.9 During the period prior to the Completion of Implementation, as defined in Part D of Condition 5 (General Objectives of the Licensee), the General SEC Objectives set out in Part D below must be read and given effect, so far as it is possible to do so, in a way that is compatible with achieving the Transition Objective in the terms set out in paragraph 1 of Condition 13 (Arrangements relating to the Transition Objective).

PART D: GENERAL OBJECTIVES OF THE SMART ENERGY CODE

22.10 The General SEC Objectives that the Smart Energy Code must be designed to achieve are as follows.

22.11 The first General SEC Objective is to facilitate the efficient provision, installation, and operation, as well as interoperability, of Smart Metering Systems at Energy Consumers' premises within Great Britain.

22.12 The second General SEC Objective is to enable the Licensee to comply at all times with the General Objectives of the Licensee, and to efficiently discharge the other obligations imposed upon it by this Licence.

22.13 The third General SEC Objective is to facilitate Energy Consumers' management of their use of Energy through the provision to them of appropriate information by means of Smart Metering Systems.

22.14 The fourth General SEC Objective is to facilitate effective competition between persons engaged in, or in Commercial Activities connected with, the Supply of Energy under the Principal Energy Legislation.

22.15 The fifth General SEC Objective is to facilitate such innovation in the design and operation of Energy Networks as will best contribute to the delivery of a secure and sustainable Supply of Energy under the Principal Energy Legislation.

22.16 The sixth General SEC Objective is to ensure the protection of data and the security of data and systems in the operation of the SEC.

22.17 The seventh General SEC Objective is to facilitate the efficient and transparent administration and implementation of the SEC.

22.18 The eighth General SEC Objective is to facilitate the establishment and operation of the Alt HAN Arrangements.

22.19 For the purposes of this condition and those of Condition 23 (Change control for the Smart Energy Code), the order in which the General SEC Objectives are listed in this Part D is of no significance.

PART E: PRINCIPAL CONTENTS WITHIN THE SMART ENERGY CODE

22.20 The SEC must include or make appropriate provision for or in connection with the following matters**:**

(a) the terms on which the Licensee will arrange with each Energy Supplier to provide, in respect of a Smart Meter that is installed at premises supplied with Energy by that supplier, a service by means of which information may be communicated to and from that meter on behalf of the supplier, whether for the purposes of compliance with the conditions of its Energy Supply Licence or otherwise;

(b) the terms on which the Licensee will contract with any other SEC Party to provide that person with a service by means of which information may be communicated to and from any Smart Meter installed at premises by that person;

(c) arrangements designed to provide assurance that all Smart Metering Systems installed at Energy Consumers' premises for the purposes of the Supply of Energy consist of the apparatus identified in, have the functional capability specified by, and comply with the other requirements of the ESME Technical Specification, the GSME Technical Specification or the CH Technical Specification (as the case may be) applicable at the date at which such systems are installed;

(d) the contractual and commercial arrangements necessary to secure the ownership, delivery, installation, repair, maintenance, and replacement of Communications Hubs pursuant to the Communications Hub Service; and

(e) arrangements for the governance, management and implementation of processes and procedures by means of which Relevant Suppliers shall be able, acting in conjunction and co-operation with each other, to ensure that the Alt HAN Activities are carried out and that the Alt HAN Services are made available to all Relevant Suppliers and are provided on reasonable terms to any Relevant Supplier which elects to acquire them (the "Alt HAN Arrangements").

22.21 The SEC must include or make appropriate provision for or in connection with the following matters**:**

(a) of all of the Mandatory Business Services (clearly distinguishing between Core Communication Services, Elective Communication Services, the Enrolment Service, the Communications Hub Service, the Communications Hub Replacement Reimbursement Service, Other Enabling Services, and, as appropriate, the Incorporation, delivery and provision of the Centralised Registration Service) that are to be provided by the Licensee under or pursuant to the SEC;

(b) procedures relating to any requirement for SEC Parties to make Smart Metering Systems available for use by other specified persons (including the Licensee) for specified purposes, whether under or pursuant to the SEC or otherwise;

(c) terms and procedures for the implementation of charging, billing, and payment arrangements in respect of (i) Services provided under or pursuant to the SEC for and on behalf of SEC Parties, and (ii) the recovery of the costs of ensuring that the Alt HAN Activities are carried on, that the Alt HAN Services are made available and provided, and that the Alt HAN Arrangements are administered; and

(d) terms and arrangements relating to (i) the ownership, licensing, and protection of any intellectual property rights created by or arising by virtue of the operation of any of the SEC Arrangements, and (ii) the treatment and allocation of any royalty revenues resulting from the exercise of such rights.

22.22 The SEC must include or make appropriate provision for or in connection with the following matters:

(a) requirements and procedures for the purposes of ensuring data protection and data and systems security in the operation of the SEC Arrangements; and

(b) terms providing for the limitation of the liability of the Licensee and SEC Parties in respect of loss or damage arising from the procurement, provision, or use of Services under or pursuant to the SEC.

22.23 The SEC must include or make appropriate provision for or in connection with the following matters:

(a) provision for or in connection with the governance and administration of the SEC (as to which, see Part F below);

(b) provision for or in connection with the incorporation of documents into the SEC (as to which, see Part G below);

(c) provision for or in connection with other SEC matters (as to which, see Part H below); and

(d) arrangements for modifying the SEC after consultation with SEC Parties (as to which, see Condition 23 of this Licence).

PART F: GOVERNANCE AND ADMINISTRATION OF THE SMART ENERGY CODE

22.24 Without prejudice to such matters as are required to be included in the SEC by virtue of Part E above, the SEC must also include:

(a) a SEC Framework Agreement, to which the Licensee, every holder of an Energy Licence that is required by that licence to be a party to the SEC, and Other SEC Participants will be required to be party with effect from the SEC Commencement Date on such terms and conditions of accession as are set out in the SEC;

(b) provision for other persons (being persons who accept the terms and fulfil all of the conditions on which accession to the SEC is offered) to be admitted subsequently as parties to the SEC by entering into an agreement (an "Accession Agreement") with SECCo Ltd acting for that purpose on behalf of all SEC Parties; and

(c) provision enabling any person who seeks to be admitted as a SEC Party pursuant to an Accession Agreement to request the Authority to determine any dispute as to whether that person has fulfilled the terms and conditions of accession.

22.25 Without prejudice to such matters as are required to be included in the SEC by virtue of Part E above, the SEC must also include:

(a) arrangements providing for the novation to a Successor Licensee (upon either the expiry of the Licence Term (or of any Additional Licence Term) within the meaning of Part 1 of this Licence, or any revocation of this Licence pursuant to a Revocation Event under its Part 2) of the whole of the Licensee's interest under the SEC, on terms that require the Successor Licensee to assume all accrued rights or obligations of the Licensee and all accrued liabilities of the Licensee, in each case in respect of any act or omission relating to the SEC Arrangements on or at any time before the date of the novation; and

(b) terms providing for the Licensee and such SEC Parties as are specified in the SEC to be contractually bound by some or all of the provisions of the SEC.

22.26 Without prejudice to such matters as are required to be included in the SEC by virtue of Part E above, the SEC must also include:

(a) arrangements for the establishment, in accordance with such procedures for the election of members as are specified in the SEC, of a representative body, the SEC Panel, which is to be responsible, by way of such proceedings as are so specified (which may include voting procedures), for the governance and administration of the SEC;

(b) provision for the appointment of an independent chairperson of the SEC Panel who is approved by the Authority;

(c) provision for the Citizens Advice or Citizens Advice Scotland to appoint to the membership of the SEC Panel two persons (neither of them being a SEC Party) to represent to the Panel the interests of Energy Consumers ("the Consumer Members");

(d) arrangements for the establishment, in accordance with such procedures as are specified in the SEC, of a body, the SMKI Policy Management Authority, which is to be responsible, by way of such proceedings as are so specified (which may include voting procedures), for the oversight and implementation of documents to be known as the Certificate Policies (whether or not incorporated into the SEC by virtue of the provisions of Part G below) that set out the roles and duties of SEC Parties and other persons in the management of the Smart Metering Key Infrastructure; and

(e) arrangements for the establishment, in accordance with such procedures as are specified in the SEC, of a body, the Alt HAN Forum, which is to be responsible, by way of such proceedings as are so specified (which may include voting procedures), for matters related to ensuring that the Alt HAN Activities are carried out and that the Alt HAN Services are made available and provided.

22.27 Without prejudice to such matters as are required to be included in the SEC by virtue of Part E above, the SEC must also include:

(a) arrangements for the establishment and funding of a Secretariat to service the SEC Panel in connection with such matters of governance and administration as are specified in the SEC, including the maintenance of a conformed and up-to-date copy of the SEC as from time to time modified in accordance with such arrangements as are in place by virtue of Condition 23;

(b) arrangements for the establishment and funding of a person to be known as the Code Administrator to advise and assist the SEC Panel (including, in particular, the Consumer Members), SEC Parties, and other interested persons with respect to the policy and administration of the SEC, to such extent and in relation to such matters as are specified in the SEC;

(c) provision for the establishment of a joint venture company, SECCo Ltd, (i) the shareholders of which are to be such SEC Parties as may be specified for that purpose in the SEC, (ii) the sole business of which is to act as a corporate vehicle to assist the SEC Panel in exercising its powers, duties, and functions (including by entering into contracts where necessary or desirable in order to implement any decision of the SEC Panel), and (iii) the affairs of which are to be conducted in accordance with good business practice;

(d) arrangements for the establishment and funding of one or more bodies that may be required to support the Certificate Policy Management Authority in the implementation of the Certificate Policy, including arrangements that provide for such bodies to become SEC Parties to such extent, for such purposes, and in such circumstances as may be specified in the SEC;

(e) terms requiring the Code Administrator to act in accordance with any Code of Practice approved by the Authority that relates to the performance of their duties by persons or bodies responsible for administering documents of the kind that are described in Condition 21 (Roles in relation to Core Industry Documents); and

(f) provision for the establishment of a joint venture company, AltHANCo Ltd, (i) the shareholders of which are to be Relevant Suppliers which are SEC Parties, (ii) the sole business of which is to act as a corporate vehicle to assist the Alt HAN Forum in exercising its powers, duties and functions (including by entering into contracts where necessary or desirable in order to implement any decision of the Alt HAN Forum), and (iii) the affairs of which are to be conducted in accordance with good business practice.

PART G: INCORPORATION OF DOCUMENTS INTO THE SMART ENERGY CODE

22.28 Without prejudice to any of the matters set out in Parts E and F above, the contents of the SEC must also include**:**

(a) provision for the incorporation into the SEC of the Charging Methodology for Service Charges as designated by the Secretary of State under Condition 18 (Charging Methodology for Service Charges) for the purposes of incorporation in accordance with the requirements of that condition;

(b) provision for the incorporation into the SEC of one or more versions of the ESME Technical specification, the GSME Technical Specification, the IHD Technical Specification, the PPMID Technical Specification, the HCALCS, the SAPC Technical Specification and the CH Technical Specification, in each case from a date designated by the Secretary of State under this condition;

(c) provision for incorporation into the SEC of any Certificate Policy as designated by the Secretary of State under this condition;

(d) provision for the incorporation into the SEC, in each case as designated by the Secretary of State under this condition, of such other technical specifications and procedural or associated documents as the Secretary of State believes are required to support the fulfilment of rights or obligations already specified in the SEC, including, in particular, documents developed by the Licensee under Schedule 5 of this Licence with respect to the following matters:

(i) the interface that is to be used to exchange Registration Data (within the meaning given to that term in the SEC) between the Licensee and the persons providing such data to the Licensee,

(ii) the specification for the interface (or the interfaces) by means of which requests (or other communications) with respect to Services are to be sent between the Licensee and SEC Parties, and vice versa,

(iii) the matters with which SEC Parties have to demonstrate compliance in order to become eligible to receive or use Services,

(iv) the application of appropriate security controls and security standards to business processes carried on under or pursuant to the SEC,

(v) the detailed policy for managing incidents relating to the provision of Services, and the associated business continuity and disaster recovery procedures, and

(vi) the procedures and arrangements required to support the trialling and testing programmes to be undertaken pursuant to the provisions of Condition 13 (Arrangements relating to the Transition Objective); and

(e) provision for the incorporation into the SEC, in each case as designated by the Secretary of State under this condition, of such other procedural or associated documents as the Secretary of State believes are required to support the Alt HAN Arrangements.

22.29 A document may**:**

(a) be designated under this condition by the Secretary of State for incorporation into the SEC as part of his general designation of the SEC by way of direction under Part B above, or in any circumstances and at any time thereafter up to (but not later than) Completion of Implementation;

(b) where it is a document of a type described in sub-paragraphs 22.28(b), 22.28(c), 22.28(d) or 22.28(e) of this condition and has first been designated under this condition by the Secretary of State, be re-designated by him on one or more occasions subject to such amendments as he considers requisite or expedient,

and where any document is re-designated by the Secretary of State in accordance with sub-paragraph (b) above, the other provisions of this Part G shall apply in relation to it in the same manner as if it were being designated for the first time, and references in those provisions to the document being designated shall be read as referring to it being redesignated.

22.30 The power of the Secretary of State under this condition to designate a document for incorporation into the SEC includes**:**

(a) power to make such supplementary, incidental or consequential provision with respect to the SEC as he considers necessary or expedient for the purposes of, in consequence of, or for giving full and timely effect to the incorporation of that document; and

(b) power to make such provision for the application of that document to SEC Parties, and for the subsequent governance of the document, as he believes is necessary or expedient for the purpose of facilitating the achievement of the General SEC Objectives.

22.31 The incorporation into the SEC of a document designated for such purpose under this condition is not to be treated as, and does not constitute, a modification of the SEC pursuant to any of the modification arrangements established for the SEC by virtue of the provisions of Condition 23 (Change control for the Smart Energy Code).

PART H: OTHER NECESSARY MATTERS FOR THE SMART ENERGY CODE

22.32 Without prejudice to any of the matters set out in Parts E to G above, the contents of the SEC must also include**:**

(a) provision enabling such SEC Parties (or categories of SEC Party) as are specified in the SEC to appoint agents (in accordance with such requirements regarding the eligibility of such persons as are so specified) for the purpose of exercising such functions under or in connection with the SEC, in such circumstances and subject to such restrictions, as are so specified;

(b) provision requiring SEC Parties who are also parties to one or more of the other Core Industry Documents mentioned in Condition 21 to establish arrangements for the purpose of ensuring that such information arising from activities carried on in accordance with those documents as the Licensee may reasonably require for the exercise of its functions under the Principal Energy Legislation, this Licence, and the SEC will be supplied to the Licensee at such times and in such form and manner as may be specified in the SEC;

(c) provision for the establishment and operation of the SEC Adoption Process to facilitate the activities described at Part I of Condition 16 (Procurement of Relevant Service Capability) with respect to the adoption by the Licensee of Energy Supplier Contracts within the meaning that is given to that term in Part J of that condition;

(d) provision for the Licensee to receive, from such SEC Parties as are specified in the SEC, such services or resources, for such purposes and on such terms, as are so specified;

(e) provision for the vesting, ownership, and novation of intellectual property rights in SEC Materials within the meaning of Condition 44 (Treatment of Intellectual

Property Rights) to be compliant with the requirements of that condition with respect to those matters;

(f) provision for a copy of the SEC that is compliant with paragraph 22.27(a) to be published on behalf of the SEC Panel on its website;

(g) provision for information about the operation of the SEC Arrangements to be supplied on request to the Authority or to be published by it or the SEC Panel;

(h) provision for the SEC Panel to secure the compliance of any SEC Party with the requirements of sub-paragraph (g); and

(i) provision for such other matters as may be appropriate, having regard to the requirement for the SEC to be maintained as a document that is designed to achieve the General SEC Objectives.

PART I: RELIEF FROM OBLIGATIONS UNDER THE SMART ENERGY CODE

22.33 The Authority may (after consulting with the Licensee and, where appropriate, any other person likely to be materially affected) give a direction ("a derogation") to the Licensee that relieves it of any one or more of its obligations under the Smart Energy Code to such extent, for such period of time, and subject to such conditions as may be specified in the direction.

PART J: INTERPRETATION

22.34 Any reference in this condition to a matter that the SEC must include or for which it must make appropriate provision is a reference to that matter whether as included or provided for in the SEC on the SEC Commencement Date or as so included or provided for at any time between that date and the Completion of Implementation (within the meaning that is given to that term in Part D of Condition 5).

22.35 For the purposes of this condition**:**

Accession Agreement has the meaning that is given to that term in paragraph 22.24(b).

Alt HAN Activities has the meaning that is given to that term in standard condition 55 of the electricity supply licence and standard condition 49 of the gas supply licence (Smart Metering – The Alt HAN Arrangements).

Alt HAN Services has the meaning that is given to that term in standard condition 55 of the electricity supply licence and standard condition 49 of the gas supply licence (Smart Metering – The Alt HAN Arrangements).

Certificate Policies has the meaning that is given to that term in paragraph 22.26(d).

Code Administrator has the meaning that is given to that term in paragraph 22.27(b).

Consumer Members has the meaning that is given to that term in paragraph 22.26(c).

Other SEC Participants means every party to the SEC who is neither the Licensee nor the holder of an Energy Licence that requires that person to be a party to the SEC.

Relevant Supplier has the meaning that is given to that term in standard condition 55 of the electricity supply licence and standard condition 49 of the gas supply licence (Smart Metering – The Alt HAN Arrangements).

SEC Adoption Process has the meaning that is given to that term in paragraph 37 of Condition 16 (Procurement of Relevant Service Capability).

SEC Framework Agreement has the meaning given to that term in paragraph 22.24(a).

Secretariat has the meaning that is given to that term in paragraph 22.27(a).

Smart Metering Key Infrastructure means the arrangements in place under the SEC that govern the creation, management, distribution, use, storage, and revocation of digital certificates.

SMKI Policy Management Authority has the meaning that is given to that term in paragraph 22.26(d).

Condition 30. Requirements for the Regulatory Accounts

Introduction

30.1 This condition applies to the Licensee in respect of each separate Regulatory Year of this Licence (the first of which is deemed to run from 1 April 2013 to 31 March 2014) and has effect for the purpose of ensuring that the Licensee:

(a) prepares and publishes Regulatory Accounts so as to ensure the provision to the Authority of annual regulatory accounting information that will enable it to assess the financial position of the Licensee on a consistent basis; and

(b) maintains (and ensures that any Affiliate or Related Undertaking of the Licensee maintains) such accounting records, other records, and reporting arrangements as are necessary to enable the Licensee to comply with that obligation.

PART A: PREPARATION OF THE REGULATORY ACCOUNTS

30.2 For the purposes of this condition, but without prejudice to the requirements of Part C below, the Licensee must prepare Regulatory Accounts for each Regulatory Year.

30.3 Except and so far as the Authority otherwise consents, the Licensee must comply with the obligations imposed by the following paragraphs of this Part A in relation to the preparation of Regulatory Accounts.

30.4 The Licensee must keep or cause to be kept for a period approved by the Authority, but no less than the period referred to in section 388(4)(b) of the Companies Act 2006 and in the manner referred to in that section, such accounting records and other records as are necessary to ensure that all of the revenues, costs, assets, liabilities, reserves, and provisions of, or that are reasonably attributable to, each of the Authorised Business Activities of the Licensee are separately identifiable in those records (and in those of any Affiliate or Related Undertaking of the Licensee).

30.5 The Regulatory Accounts are to be prepared on a consistent basis derived from the accounting records and other records referred to in paragraph 30.4 in respect of each Regulatory Year, and must have the contents specified in Part B below.

PART B: REQUIRED CONTENTS OF THE REGULATORY ACCOUNTS

30.6 The Regulatory Accounts prepared for each Regulatory Year must comprise:

(a) the matters set out in paragraph 30.7; supported by

(b) the matters set out in paragraph 30.8.

30.7 The matters to which paragraph 30.6(a) refers are these:

(a) an income statement and a statement of comprehensive income (or, as appropriate, a profit and loss account and a statement of total recognised gains and losses);

(b) a statement of changes in equity, if appropriate;

(c) a statement of financial position (or, as appropriate, a balance sheet);

(d) a statement of cash flows (or, as appropriate, a cash flow statement);

(e) the Corporate Governance Statement prepared by the Licensee in accordance with Part A of Condition 7 (General controls for the Authorised Business);

(f) a Directors' Report in respect of the Authorised Business of the Licensee; and

(g) a Business Review in respect of the Authorised Business of the Licensee.

30.8 The matters to which paragraph 30.6(b) refers are explanatory notes that**:**

(a) provide a summary of the accounting policies adopted by the Licensee for the purpose of producing its Regulatory Accounts; and

(b) disclose, in relation to the matters to which paragraph 30.7(a) refers, the Segmental Information for each of the Authorised Business Activities.

PART C: CONSISTENCY REQUIRED WITH THE STATUTORY ACCOUNTS

30.9 The Licensee must ensure, so far as is reasonably practicable and except where the Authority otherwise consents, that Regulatory Accounts and information prepared in accordance with Parts A and B above**:**

(a) have the same content and format as the most recent or concurrent statutory accounts of the Licensee prepared under Part 15 of the Companies Act 2006, subject to the inclusion of Segmental Information as specified under paragraph 30.8(b); and

(b) comply with the requirements applicable to a Quoted Company, whether or not the Licensee is such a company, in Chapter 4 of the Companies Act 2006 with respect to the preparation of annual accounts and the requirements of the applicable accounting framework under which it prepares them.

PART D: AUDIT AND DELIVERY OF THE REGULATORY ACCOUNTS

30.10 Except where the Authority otherwise consents, the Licensee must**:**

(a) procure an audit by an Appropriate Auditor of such parts of its Regulatory Accounts and the Directors' Report and Business Review as would be specified in the Companies Act 2006 as being required to be so audited if the Licensee were a Quoted Company and those accounts were the statutory accounts of the Licensee drawn up to 31 March and prepared under Part 15 of the Companies Act 2006;

(b) procure a report by that auditor, addressed to the Authority, that states whether in the auditor's opinion those accounts fairly present the financial position, financial performance, and cash flows of, or that are reasonably attributable to, each of the Authorised Business Activities in accordance with the requirements of Part A above; and

(c) deliver those accounts and the auditor's report required under sub-paragraph (b) to the Authority as soon as is reasonably practicable, and in any event before their publication under Part G below and not later than 31 July after the end of the Regulatory Year to which the Regulatory Accounts relate.

PART E: TERMS OF APPOINTMENT OF THE APPROPRIATE AUDITOR

30.11 For the purposes of Part D above, the Licensee must, at its own expense, enter into a contract of appointment with an Appropriate Auditor that includes a term requiring that the audit of the Licensee's Regulatory Accounts must be conducted by that person in accordance with all such relevant auditing standards in force on the last day of the Regulatory Year to which the audit relates as would be appropriate for accounts prepared in accordance with the provisions of Part 15 of the Companies Act 2006.

PART F: AGREED UPON PROCEDURES FOR THE APPROPRIATE AUDITOR

30.12 The Licensee must, at its own expense, enter into a contract of appointment with an Appropriate Auditor for the completion of Agreed Upon Procedures that are to apply for the purposes of enabling that person to review the Licensee's compliance with the requirements of Condition 11 (Duties arising from Licensee's special position) with respect to the prohibition of cross-subsidy and discrimination.

30.13 The contract of appointment must require that the Agreed Upon Procedures are to be conducted in relation to each Regulatory Year and that the Licensee will arrange for the Appropriate Auditor to address a report to the Authority by 31 July after the end of each such year that**:**

(a) states that he has, in a manner consistent with the relevant auditing standards, completed the Agreed Upon Procedures issued by the Authority in respect of the Regulatory Year under report; and

(b) sets out his findings for the Authority's attention.

PART G: PUBLICATION AND PROVISION OF THE REGULATORY ACCOUNTS

30.14 Except where the Authority after consulting with the Licensee otherwise directs, the Licensee must publish its Regulatory Accounts (excluding any information agreed by the Authority to be confidential)**:**

(a) as a stand-alone document in accordance with this condition;

(b) by 31 July after the end of the Regulatory Year to which the accounts relate;

(c) on the Licensee's Website; and

(d) in any other manner which, in the opinion of the Licensee, is necessary to secure adequate publicity for the accounts.

30.15 A copy of the Regulatory Accounts must be provided free of charge to any person who requests a copy.

PART H: INTERPRETATION

30.16 The requirement under paragraph 30.7 of this condition for the Licensee to include a Directors' Report and a Business Review in its Regulatory Accounts is to be read as if the requirement applied to the Licensee as a Quoted Company, whether or not it is such a company, such that**:**

(a) the Directors' Report has the coverage and content of the directors' report that a Quoted Company is required to prepare under section 415 of the Companies Act 2006; and

(b) the Business Review has the coverage and content of the business review that a Quoted Company is required to prepare under section 417 of that Act.

30.17 For the purposes of this condition:

Agreed Upon Procedures means procedures from time to time agreed between the Authority, the Appropriate Auditor, and the Licensee for the purpose of enabling the Appropriate Auditor to review and report to the Authority on matters relating to the requirements to which Part F of this condition refers.

Appropriate Auditor means**:**

(a) if the Licensee is a company within the meaning of section 1 of the Companies Act 2006, a person appointed as auditor under Chapter 2 of Part 16 of that Act; or

(b) in any other case, a person who is eligible for appointment as a company auditor under Part 42 of that Act.

Authorised Business Activities means each of the following activities carried on within the Authorised Business of the Licensee**:**

(a) as part of the Mandatory Business**:**

(i) the procurement and provision of Core Communication Services,

(ii) the procurement and provision of Elective Communication Services,

(iii) the operation of the Enrolment Service,

(iv) the procurement and provision of the Communications Hub Service,

(v) the procurement and provision of the Communications Hub Replacement Reimbursement Service;

~~(v)~~(vi) the procurement and provision of Other Enabling Services; and

~~(vi)~~(vii) the preparation, delivery and provision for the Centralised Registration Service.

(b) as part of the Permitted Business**:**

(i) the procurement and provision of Value Added Services, and

(ii) the procurement and provision of Minimal Services.

Quoted Company has the meaning given in section 385 of the Companies Act 2006.

Segmental Information means such financial and descriptive information about the Authorised Business Activities of the Licensee as would be disclosable under International Financial Reporting Standard 8 (or Statement of Standard Accounting

Practice 25) if each of those activities was an operating segment (or a reportable segment) of the Licensee within the meaning of those respective standards.

Condition 35. Definitions for the Price Control Conditions

…

PART B: THE CHAPTER 9 PARTICULAR DEFINITIONS

35.5 In the Price Control Conditions, unless the context otherwise requires**:**

…

External Costs	means in relation to each Regulatory Year the actual amount of the costs that were economically and efficiently incurred by the Licensee in procuring Fundamental Service Capability during that period, which may include funding and other arrangements in respect of the Communications Hub Replacement Reimbursement Service (to the extent economically and efficiently incurred).
Reimbursement Amount	has the meaning given to that expression in paragraph B2 of Appendix 2 to Condition 17 (Requirements for the provision of Services).

Condition 36. Determination of the Licensee's Allowed Revenue

…

PART C: DETERMINATION OF THE ALLOWED REVENUE (AR) TERM

…

36.8 In the Principal Formula above**:**

…

PTC_t means the total amount of Pass-Through Costs incurred by the Licensee in Regulatory Year t, and is the sum of**:**

(i) the amount that is equal to the total annual fee paid by the Licensee to the Authority during Regulatory Year t as determined in accordance with Part A of Condition 4 (Licensee's payments to the Authority);

(ii) the amount that is equal to the payments made by the Licensee during Regulatory Year t to SECCo Ltd for purposes associated with the governance and administration of the SEC; ~~and~~

(iii) the amount that is equal to the payments made by the Licensee during Regulatory Year ~~(t)~~ to AltHANCo Ltd for purposes associated with the Alt HAN Arrangements~~.~~; and

(iv) the amount that is equal to the sum of the Reimbursement Amounts paid by the Licensee during Regulatory Year t to Energy Suppliers for the purposes of the Communications Hub Replacement Reimbursement Service.

Annex C: Final amendments to the Smart Energy Code

SECTION A: DEFINITIONS AND INTERPRETATION

2G/3G Communications Hub means a Communications Hub which is designed to be capable of using 2G and/or 3G mobile cellular radio technology to connect to the SM WAN.

4G Communications Hub means a Communications Hub which is designed to be capable of using 4G mobile cellular radio technology to connect to the SM WAN.

4G DBT/DSP DBT/CHRR Finance Acceleration Event means, in respect of each 4G DBT Finance Facility, ~~/~~ DSP DBT Finance Facility, and CHRR Finance Facility, that:

an acceleration of repayment of the indebtedness thereunder occurs such that it is immediately due and payable by the borrower in circumstances where the DCC is liable for the same under the Direct Agreement; or

the DCC becomes liable under the Direct Agreement to immediately pay the unamortised asset value (and any associated finance costs in respect) of any assets to which that facility relates.

4G DBT/DSP DBT/CHRR Finance Charges means, in respect of each 4G DBT Finance Facility, ~~/~~DSP DBT Finance Facility, and CHRR Finance Facility, the DCC's charge to recover the applicable 4G DBT/DSP DBT/CHRR Finance Costs (being a subset of the Fixed Charges), in an amount each month determined by the DCC at the time it produces an

	Invoice for that month (having regard to the requirements of Condition 36.5 of the DCC Licence).
4G DBT/DSP DBT/CHRR Finance Costs	means, in respect of each 4G DBT Finance Facility, /DSP DBT Finance Facility, and CHRR Finance Facility, the costs the DCC incurs in respect of that facility.
4G DBT Finance Facility	means a facility, other than a Communications Hub Finance Facility or a DSP DBT Finance Facility or a CHRR Finance Facility, arranged by the DCC or a DCC Service Provider with an Approved Finance Party for the funding of the development costs (including design, build and testing costs) of any solutions or services which DCC procures in order to enable or facilitate its provision and/or operation of 4G Communications Hubs, such costs being incurred in respect of activities undertaken up to the point of volume manufacture of the 4G Communications Hubs (such point as further described in the plan produced pursuant to condition 13B of the DCC Licence), and being costs which DCC is entitled to recover via the Fixed Charges under this Code, including by way of a loan facility, an equity subscription, or an assignment or sale of receivables.
4G DBT/DSP DBT/CHRR Finance Facility	means a 4G DBT Finance Facility or a DSP DBT Finance Facility or a CHRR Finance Facility.
CH Replacement Reimbursement Amount	has the meaning given to that expression in Section F14 (CH Replacement Reimbursement Service).
CH Replacement Reimbursement Event	has the meaning given to that expression in Section F14 (CH Replacement Reimbursement Service).

CH Replacement Reimbursement Service	means the Communications Hub Replacement Service provided for in the DCC Licence, as further described in Section F14 (CH Replacement Reimbursement Service).
CHRR Finance Facility	means a finance facility arranged by the DCC with an Approved Finance Party to fund (or refinance) the payment of CH Replacement Reimbursement Amounts, thereby spreading the cost of paying those amounts across multiple Regulatory Years.
DCC Finance Facility	means a Communications Hub Finance Facility, ~~or~~ a 4G DBT Finance Facility, ~~or~~ a DSP DBT Finance Facility or a CHRR Finance Facility.
DSP DBT Finance Facility	means a facility, other than a 4G DBT Finance Facility, ~~or~~ a Communications Hub Finance Facility or a CHRR Finance Facility, arranged by the DCC or a DCC Service Provider with an Approved Finance Party for the funding of the development costs (including design, build and testing costs) of any solutions or services which DCC procures in order to enable or facilitate its provision and/or operation of limb (b) of the definition of the Network Evolution Arrangements under the DCC Licence, such costs being incurred in respect of activities undertaken up to the point of "Data Systems – Transition and Migration Complete" (such point as further described in the plan produced pursuant to condition 13B of the DCC Licence), and being costs which DCC is entitled to recover via the Fixed Charges under this Code, including by way of a loan facility, an equity subscription, or an assignment or sale of receivables.

Enabling Services	means one or more of the Enrolment Service, the Communications Hub Service, the CH Replacement Reimbursement Service, and the Other Enabling Services.
Other Enabling Services	means the Services other than the Enrolment Services, the Communications Hub Services, the CH Replacement Reimbursement Services and the Communication Services.
Services	means the services provided, or to be provided, by the DCC pursuant to Sections F5 (Communications Hub Forecasts and Orders) to F10 (Test Communications Hubs), Section F14 (CH Replacement Reimbursement Service), Section H (DCC Services), Section L (Smart Metering Key Infrastructure and DCC Key Infrastructure) or Section N6 (Transition and Migration Approach Document), including pursuant to Bilateral Agreements.

SECTION F – SMART METERING SYSTEM REQUIREMENTS

After the end of Section F13, add a new Section F14 (CH Replacement Reimbursement Service) as follows:

F14. CH REPLACEMENT REIMBURSEMENT SERVICE

Overview

F14.1 The DCC shall provide the CH Replacement Reimbursement Service, which shall consist of the DCC paying the CH Replacement Reimbursement Amount to the Lead Supplier for a Communications Hub on the occurrence of a CH Replacement Reimbursement Event in respect of that Communications Hub (subject to and in accordance with this Section F14).

F14.2 The CH Replacement Reimbursement Service shall apply only in respect of CH Replacement Reimbursement Events occurring during the Regulatory Years for which a CH Replacement Reimbursement Amount is determined under the DCC Licence.

CH Replacement Reimbursement Amount

F14.3 The **"CH Replacement Reimbursement Amount"** for each CH Replacement Reimbursement Event occurring during a given Regulatory Year, shall be the reimbursement amount for the given Regulatory Year determined in accordance with the methodology established under Appendix 2 (Communications Hub Replacement Reimbursement Methodology) of Condition 17 (Requirements for the provision of Services) of the DCC Licence.

CH Replacement Reimbursement Event

F14.4 A **"CH Replacement Reimbursement Event"** shall be taken to have occurred in respect of a Communications Hub when all of the following requirements are satisfied:

(a) a previously installed 2G/3G Communications Hub was removed from a premises and that 2G/3G Communications Hub was a SMETS2+ Communications Hub;

(b) during the site visit to remove the 2G/3G Communications Hub, no new Energy Meters were installed to serve the premises which were previously served by the 2G/3G Communications Hub;

(c) during such site visit, a 4G Communications Hub was installed to serve the premises which were previously served by the 2G/3G Communications Hub; and

(d) such site visit occurred during a Regulatory Year to which the CH Replacement Reimbursement Service applies (as per Section F14.2).

Supplier Party Forecasts

F14.5 The DCC may, from time to time, require Supplier Parties to provide forecasts of how many CH Replacement Reimbursement Events the Supplier Party expects to occur in respect of Communications Hubs for which the Supplier Party is the Lead Supplier. The DCC shall act reasonably in determining the forecasts which it requires Supplier Parties to provide.

F14.6 Each Supplier Party shall provide to the DCC such forecasts as the DCC requires under Section F14.5. Each Supplier Party shall provide each such forecast in respect of such periods as the DCC may reasonably require, on or before such date as the DCC may reasonably require, and in such form as the DCC may reasonably require.

F14.7 Each Supplier Party shall ensure that its forecasts under this Section F14 are prepared in accordance with Good Industry Practice.

Payments by the DCC

F14.8 The DCC shall pay CH Replacement Reimbursement Amounts to Supplier Parties as follows:

(a) for each CH Replacement Reimbursement Event occurring in respect of a Communication Hub, the DCC shall pay the CH Replacement Reimbursement Amount to the Lead Supplier for that Communications Hub;

(b) the DCC shall pay the CH Replacement Reimbursement Amounts monthly in arrears for the CH Replacement Reimbursement Events which are identified during that month;

(c) for each Supplier Party to which one or more CH Replacement Reimbursement Amounts are payable, the DCC shall issue to such Supplier Party a statement detailing the relevant amount at or around the same time as the DCC issues Invoices for the relevant month;

(d) the DCC shall pay each Supplier Party the CH Replacement Reimbursement Amounts for a month at or around the same time as the Invoices for that month are due to be paid (to such UK bank account as the Supplier Party may notify to the DCC in writing from time to time on not less than 15 Working Days' prior notice); and

(e) Supplier Parties shall not be entitled to set-off the CH Replacement Reimbursement Amounts against the Charges (which must be paid in full).

F14.9 If the DCC identifies that it has paid a CH Replacement Reimbursement Amount to a Supplier Party in error (including if an event which was initially identified as a CH Replacement Reimbursement Event is subsequently identified as not having been one), then the Supplier Party shall reimburse the DCC for the same. The DCC shall deal with such reimbursement via an adjustment payment in an Invoice.

Identifying CH Replacement Reimbursement Events

F14.10 The DCC shall initially identify CH Replacement Reimbursement Events by monitoring the Smart Metering Inventory and other information available to the DCC, and shall use this initial identification for the purposes of Section F14.8 (subject to Sections F14.11 and F14.12). Without limitation, the following shall indicate that a CH Replacement Reimbursement Event has occurred:

(a) a 2G/3G Communications Hub which is a SMETS2+ Communication Hub is Decommissioned;

(b) a 4G Communications Hub is contemporaneously Commissioned and listed against the MPAN and/or MPRN against which the 2G/3G Communications Hub was previously listed; and

(c) there is no change to the Device ID of the Energy Meter or Energy Meters listed for that MPAN and/or MPRN and no new Energy Meter Device IDs are listed for that MPAN and/or MPRN.

F14.11 The DCC shall establish, manage and operate a reasonable process whereby Supplier Parties can report and provide evidence of additional CH Replacement Reimbursement Events which were not originally identified by the DCC. Where this process leads to the DCC identifying additional CH Replacement Reimbursement Events, the corresponding CH Replacement Reimbursement Amounts shall be paid under Section F14.8.

F14.12 Each Supplier Party which is paid one or more CH Replacement Reimbursement Amounts shall, in accordance with Good Industry Practice, check that a corresponding CH Replacement Reimbursement Event did occur. A Supplier Party which identifies that it was paid a CH Replacement Reimbursement Amount in error shall inform the DCC, who shall then make an adjustment under Section F14.9.

DCC Reports on Identified CH Replacement Reimbursement Events

F14.13 The DCC shall produce and provide to each Supplier Party a monthly report showing the CH Replacement Reimbursement Events which the DCC has identified as having occurred for Communications Hubs for which that Supplier Party was the Lead Supplier. The DCC shall include in such reports the relevant Device IDs to enable the Supplier Party to identify the Devices. Each such report shall cover the events identified as having occurred in the previous 12 months, as updated pursuant to Sections F14.11 and F14.12.

DCC Reports to Secretary of State and/or the Authority

F14.14 The DCC shall produce and provide to the Secretary of State and/or the Authority such reports concerning the CH Replacement Reimbursement Service as they may request from time to time.

Audit

F14.15 The Panel may (and shall at the request of the Authority) appoint an independent auditor to audit the operation of this Section F14. Such audit may be of general application or in relation to one or more specified Supplier Parties. Such audit may include an audit of the CH Replacement Reimbursement Events in relation to which a Supplier Party has been paid CH Replacement Reimbursement Amounts, to identify whether those events did occur. The DCC and each Supplier Party shall provide reasonable co-operation in relation to any such audit, including access to records.

SECTION J: CHARGES

J1 PAYMENT OF CHARGES

Charges

J1.1 Each Party shall pay the Charges to the DCC, which Charges shall be determined in accordance with the Charging Statement applicable from time to time.

Invoicing of Charges

J1.2 Following the end of each month in which one or more Parties incurs Charges in accordance with the Charging Statement, the DCC shall prepare and submit to each such Party one or more invoices or one or more invoices with a separate accompanying statement (in either case, an **"Invoice"**) showing:

(a) in respect of all Charges other than those referred to in Section J1.2(b):

(i) the date by which payment is due pursuant to Section J1.5;

(ii) a breakdown (in reasonable detail) of the Charges incurred by that Party in that month;

(iii) subject to Section J1.4, the amount of VAT payable on the above amounts;

(iv) any adjustment required pursuant to Section J1.9; and

(v) the total amount payable by that Party in respect of the above; and

(b) (only following a Communications Hub Finance Acceleration Event and/or a 4G DBT/DSP DBT/CHRR Finance Acceleration Event) in respect of any Communications Hub Finance Charges and/or 4G DBT/DSP DBT/CHRR Finance Charges (as applicable) which are required to be invoiced separately under the terms of a Direct Agreement with an Approved Finance Party:

(i) the date by which payment is due pursuant to Section J1.5;

(ii) a breakdown (in reasonable detail) of the Charges incurred by that Party in that month;

(iii) subject to Section J1.4, the amount of VAT payable on the above amounts;

(iv) any adjustment required pursuant to Section J1.9; and

(v) the total amount payable by that Party in respect of the above.

J1.3 The DCC is not obliged to issue an Invoice to a Party in respect of a month under Section J1.2 where the aggregate Charges incurred by that Party in respect of that month are less than the Minimum Monthly Charge (inclusive of VAT). Where the DCC opts not to issue an Invoice to Party in respect of a month in reliance on this Section J1.3, the DCC shall carry forward the Charges incurred in respect of that month and aggregate them with the Charges incurred by that Party in respect of the following month for the purposes of Section J1.2. Notwithstanding the other provisions of this Section J1.3, the DCC must, in respect of each Party that has incurred Charges in respect of a Regulatory Year, issue at least one Invoice to that Party in respect of that Regulatory Year.

J1.4 The Charges stated in each Invoice shall be stated exclusive of VAT, which shall be added if appropriate at the rate prevailing at the relevant tax point. A Party shall only be required to pay VAT where the DCC provides an appropriate VAT invoice.

Payment of Charges

J1.5 Each Party shall pay the amount set out in an Invoice issued to it by the DCC by the **"Due Date"** for payment; being the later of:

(a) 5 Working Days following receipt of such invoice; and

(b) 8 Working Days following the end of the month to which such invoice relates.

J1.6 Without prejudice to a Party's right to dispute the Charges in accordance with Section J2 (Payment Default and Disputes), each Party shall pay the amount set out in each Invoice addressed to it by the Due Date for such payment regardless of any such dispute. Nevertheless, where the DCC agrees that an Invoice contains a manifest error, the DCC shall cancel that Invoice (which will not therefore be payable) and promptly issue a replacement Invoice.

J1.7 Payments shall be made in pounds sterling by transfer of funds to the credit of the account specified in the Invoice, and shall not be deemed to be made until the amount is available as cleared funds. Each payment shall identify within its reference the Invoice number to which that payment relates. The paying Party shall be responsible for all banking fees associated with the transfer of funds. The DCC may at its discretion specify a different account for amounts payable by way of the Communications Hub Finance Charges or 4G DBT/DSP DBT/CHRR Finance Charges relating to each Approved Finance Party (separately from amounts payable in relation to each other Approved Finance Party and/or all other Charges). The accounts specified by the DCC for the purposes of amounts payable by way of the Communications Hub Finance Charges or 4G DBT/DSP DBT/CHRR Finance Charges may be accounts held in the name of the relevant Approved Finance Party.

Estimation of Charges

J1.8 If any information that the DCC requires in order to prepare an Invoice is not available at the time that Invoice is prepared, then the DCC may prepare that Invoice based on its reasonable estimate of that information.

Adjustment of Charges

J1.9 Where:

(a) the DCC prepared an Invoice based on its estimate of any information, and the actual information subsequently becomes available to the DCC;

(b) there is a change to the information used by the DCC to prepare an Invoice (including following a reconciliation or amendment of Registration Data); or

(c) it is agreed (or determined), in accordance with Section J2.4 (Resolution of Payment Default), that there was an error in an Invoice,

then the DCC shall include an adjustment in the next Invoice for the relevant Party to be produced thereafter (or, where no Invoice is due to be produced, the DCC shall produce a separate Invoice for such purpose).

J1.10 Each adjustment to be included pursuant to Section J1.9 shall be:

(a) the difference between the amount included in the previous Invoice, and the amount that should have been included (being, as applicable, either an additional amount payable to the DCC, or a credit in favour of the relevant Party); plus

(b) interest on the amount of such difference calculated from day-to-day from the Due Date of the previous Invoice to (but excluding) the Due Date of the Invoice in which such adjustment is to be included (compounded monthly).

Interest Rate

J1.11 The interest rate applying for the purposes of Section J1.10 shall be the Non-Default Interest Rate.

Further Supporting Information

J1.12 The DCC shall, where requested by a Party, provide such additional information as that Party may reasonably request regarding the calculation of the Charges payable by that Party.

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J4 <u>REVIEW AND FORECASTING OF CHARGES</u>

Review of Charges

J4.1 The Charges payable from time to time are set out in the Charging Statement applicable at that time.

J4.2 The DCC shall only amend the Charges from time to time in accordance with the DCC Licence. The DCC shall only amend the Charges once in each calendar year, such amendments to have effect from the start of each Regulatory Year (save for amendments permitted or required in accordance with Condition 19.11 of the DCC Licence). This Section J4.2 is without prejudice to the requirements of Condition 19 of the DCC Licence, and (unless the Authority gives consent under Condition 19.10 of the DCC Licence) the DCC shall give notice of any proposed changes to Parties pursuant to Condition 19.9 of the DCC Licence.

Indicative Charging Statements

J4.3 Within the first five Working Days of April, July, October and January in each year, the DCC shall create and publish on the DCC Website an 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 the DCC at the start of the month of publication.

Indicative Budgets

J4.4 Within the first five Working Days of April, July, October and January in each year, the DCC shall create and publish on the DCC Website a budget 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 the DCC at the start of the month of publication.

J4.5 Each such budget will contain indicative values for the following (as each such expression is defined in the Charging Methodology):

Acronym	Name
EAR_t	Estimated Allowed Revenue
EFR_t	Estimated Fixed Revenue
$EESR_t$	Estimated Elective Services Revenue
$EECR_t$	Estimated Explicit Charges Revenue
NFR_t	National Fixed Revenue
$AHFR_t$	Alt HAN Fixed Revenue
RFR_{rt}	Regional Fixed Revenue
EC_{it}	Explicit Charge for each Explicit Charging Metric
$RCHFR_{rt}$	Regional Communications Hub Fixed Revenue
$RCHDR_{hrt}$	Regional Communications Hub Device Revenue
$ECRRR_t$	Estimated CH Replacement Reimbursement Revenue

J4.6 In addition to the values in Section J4.5, each budget published pursuant to Section J4.4 will contain indicative values for the following:

(a) The forecasted inflation rates for the Regulatory Year across the Consumer Price Index (CPI) including owner/occupier housing costs (CPI-H) and Retail Price Index (RPI);

(b) The number of Communications Hubs installed for such Regulatory Year based on the information available to the DCC at the start of the month of publication;

(c) The number of Communications Hubs expected to be installed for such Regulatory Year and for the second and third Regulatory Years due to start thereafter.

J4.7 Where any costs or Charges have changed from any previous budget published on the DCC Website pursuant to Section J4.4, the DCC shall:

(a) Provide the overall movement in charges from the last quarter noting that these are driven by changes in forecast assumptions and programme delivery timelines with an explanation provided at the Quarterly Finance Forum; or

(b) State that no changes have been made to DCC's overall charges versus the last quarter's publication.

J4.8 Where an error is identified in a budget published pursuant to Section J4.4, the DCC shall

(a) Take reasonable steps to notify Parties and acknowledge the error within five Working Days of the error being identified.

(b) Re-publish the updated indicative Charging Statement on the DCC website as soon as reasonably practicable.

Working Model

J4.9 The DCC shall publish a working model which allows Parties to estimate their indicative Charges based on their view of input data relevant under the Charging Methodology, and which allows Parties to test potential modifications to the Charging Methodology. The DCC shall publish such model in an open-access or off-the-shelf software format, and hereby authorises the Parties to use and modify the model for the purposes set out in this Section J4.10 (subject to the relevant software licence). Such model shall not form part of the Charging Methodology.

Invoicing Timetable

J4.10 The DCC shall, from time to time, publish an indicative timetable of the dates on which the DCC intends to submit invoices pursuant to Section J1.2.

Minimum Monthly Charge and Credit Cover Threshold

J4.11 The DCC shall publish, with the indicative Charging Statement published in January and with the actual Charging Statement for each Regulatory Year, the values of the Minimum Monthly Charge and the Credit Cover Threshold for that Regulatory Year.

SECTION K: CHARGING METHODOLOGY

K2 ESTIMATED REVENUES

Estimated Allowed Revenue

K2.1 In respect of each Regulatory Year, the DCC shall estimate the Allowed Revenue for that Regulatory Year. Such estimate for each Regulatory Year shall be the "**Estimated Allowed Revenue**" for that Regulatory Year.

Estimated Elective Service Revenue

K2.2 In respect of each Regulatory Year, the DCC shall estimate the amount that will be payable to it in respect of the provision of Elective Communication Services during that Regulatory Year. Such estimation shall be based on the Charges payable under the relevant Bilateral Agreements, the DCC's estimate of the frequency at which the DCC will provide such Services (to the extent such Charges are payable on that basis), and any other relevant factors.

K2.3 The DCC's estimate in accordance with Section K2.2 for each Regulatory Year shall be the "**Estimated Elective Service Revenue**" for that Regulatory Year.

Estimated Explicit Charges Revenue

K2.4 In respect of each Regulatory Year, the DCC shall estimate the amount that will be payable to it in respect of the Explicit Charging Metrics during that Regulatory Year, based on the Explicit Charges (calculated in accordance with Section K7) and the DCC's estimate of the frequency at which the Explicit Charging Metrics will occur during that year.

K2.5 The DCC's estimate in accordance with Section K2.4 for each Regulatory Year shall be the "**Estimated Explicit Charges Revenue**" for that Regulatory Year.

Estimated Fixed Revenue

K2.6 In respect of each Regulatory Year (t), the "**Estimated Fixed Revenue**" shall be calculated as follows:

$$EFR_t = EAR_t - EESR_t - EECR_t$$

Where:

EFR_t = the Estimated Fixed Revenue for the Regulatory Year t

EAR_t = the Estimated Allowed Revenue for the Regulatory Year t

$EESR_t$ = the Estimated Elective Services Revenue for the Regulatory Year t

$EECR_t$ = the Estimated Explicit Charges Revenue for the Regulatory Year t.

K2.7 In respect of each Regulatory Year, the DCC shall estimate the number of CH Replacement Reimbursement Events that will occur and the resulting amount that will be payable by it to Supplier Parties by way of CH Replacement Reimbursement Amounts. Where the DCC has entered into a CHRR Finance Facility in respect of some or all of the CH Replacement Reimbursement Amounts, then the DCC's estimate for a Regulatory Year shall not include those amounts, and shall instead include the debt service cost under that facility during that Regulatory Year.

K2.8 The DCC shall then, for each Regulatory Year, calculate an amount of revenue equal to the costs under Section K2.7, being the **"Estimated CH Replacement Reimbursement Revenue"** for that Regulatory Year. For clarity, this Estimated CH Replacement Reimbursement Revenue is part of the Estimated Fixed Revenue, and is to be recovered as part of the Fixed Charges.

K3 FIXED CHARGE, FIXED CH CHARGE AND FIXED ALT HAN CHARGE CALCULATIONS

Introduction

K3.1 The DCC will determine the Fixed Charges, the Fixed CH Charges and the Fixed Alt HAN Charges for each Regulatory Year using the Estimated Fixed Revenue determined in accordance with Section K2, which is to be translated into:

(a) Fixed Charges in accordance with Section K5 (if the Regulatory Year occurs during either the UITMR Period or the COMR Period) or Section K6 (if the Regulatory Year occurs after the COMR Period);

(b) Fixed CH Charges in accordance with Section K6A (which are payable in respect of Smart Metering Systems); and

(c) Fixed Alt HAN Charges in accordance with Sections K5A, K5B and K6B (depending upon whether the Regulatory Year occurs during the UITMR Period or during or after the COMR Period).

K3.2 The Fixed Charges and Fixed Alt HAN Charges are payable in respect of:

(a) during the UITMR Period, Mandated Smart Metering Systems for Domestic Premises and Enrolled Smart Metering Systems for Non-Domestic Premises;

(b) during the COMR Period, Mandated Smart Metering Systems for Domestic Premises, and Mandated Non-Domestic Smart Metering Systems for Non-Domestic Premises; and

(c) after the COMR Period, Enrolled Smart Metering Systems (whether for Domestic Premises or Non-Domestic Premises),

and each reference in this Section K3 (or in the definitions of defined terms used directly or indirectly in this Section K3) to '**Smart Metering Systems**' shall accordingly be construed as a reference to Mandated Smart Metering Systems, Mandated Non-Domestic Smart Metering Systems or Enrolled Smart Metering Systems (as applicable).

K3.3 As further described in this Section K3, the Fixed Charges potentially differ so as to distinguish between Smart Metering Systems for Domestic Premises and for Non-Domestic Premises, and between persons within different Charging Groups.

Domestic or Non-Domestic Premises

K3.4 The Charging Objectives require the DCC to impose Fixed Charges and Fixed CH Charges in respect of Smart Metering Systems: (a) for Domestic Premises that do not distinguish (whether directly or indirectly) between Domestic Premises located in different parts of Great Britain; and (b) for Non-Domestic Premises that do not distinguish (whether directly or indirectly) between Non-Domestic Premises located in different parts of Great Britain. However, consistent with the Charging Objectives, the methodology provides for different means of calculating the Fixed Alt HAN Charges depending upon whether a Smart Metering System is for Domestic Premises or for Non-Domestic Premises. The DCC shall estimate the numbers of Domestic Premises and Non-Domestic Premises based on Registration Data (using profile class in the case of Smart Metering Systems associated with an MPAN and market sector code in the case of Smart Metering Systems associated with an MPRN, or some other sensible proxy to the extent that the Registration Data does not readily identify whether a premises is a Domestic Premises and Non-Domestic Premises).

Cost-reflectivity

K3.5 One of the Charging Objectives is that the Charges are cost reflective (insofar as reasonably practicable in the circumstances of the case, having regard to the cost of implementing the methodology and subject to the objective referred to in Section K3.4). Consistent with the Charging Objectives, the methodology provides (subject to Section K3.4) for:

(a) the Fixed Charges in respect of a Smart Metering System to be set proportionately to the costs and expenses of providing the Services (other than the Communications Hub Services, the Elective Communication Services and the Explicit Charging Metrics) in respect of that Smart Metering System by Charging Group;

(b) the Fixed CH Charges in respect of a Smart Metering System to be set proportionately to the costs and expenses of providing the Communications Hub Services (other than the Explicit Charging Metrics) in respect of that Smart Metering System by Charging Group; and

(c) the Fixed Alt HAN Charges in respect of a Smart Metering System to be set proportionately to the costs of reimbursing AltHANCo for the Alt HAN Costs (other than the Explicit Charging Metrics) in respect of that Smart Metering System by Charging Group,

in each case as set out in the remainder of this Section K3.

Regions

K3.6 The costs and expenses of providing the Services (ignoring the Elective Communication Services and ignoring the costs and expenses designed to be recovered pursuant to the Explicit Charges) in respect of a Smart Metering System for a premises may vary depending upon the Region in which such premises is located. For the reasons described in Section K3.4, the Fixed Charges and Fixed CH Charges in respect of Smart Metering Systems will not differ by Region.

K3.7 In order to provide a degree of transparency of costs, the DCC must split the Estimated Fixed Revenue for Regulatory Year (t) between:

(a) revenue relating to the cost and expenses of providing the Services that should be recovered on a uniform basis across all the Regions (the **National Fixed Revenue**);

(b) revenue relating to the reimbursement of Alt HAN Costs (the **Alt HAN Fixed Revenue**); and

(c) revenue relating to the cost and expenses of providing the Services that should be recovered on a basis that differentiates between Regions (for each Region, the **Regional Fixed Revenue**).

K3.8 In order to provide a degree of transparency of costs, the DCC shall apportion the Estimated Fixed Revenue between:

(a) the National Fixed Revenue, the Alt HAN Fixed Revenue and the Regional Fixed Revenue for each Region so as to reflect the relative proportion of the cost and expenses that the DCC incurs across all Regions or in particular Regions in providing the Services and in reimbursing the Alt HAN Costs (ignoring the Communications Hub Services, the Test CH Services and the Elective Communication Services and ignoring the costs and expenses designed to be recovered pursuant to the Explicit Charges);

(b) the Regional Communications Hub Fixed Revenue for each Region so as to reflect the cost and expenses that the DCC incurs in providing, in respect of that Region, the Communications Hub Services and the Test CH Services (ignoring the incremental costs and expenses incurred in providing individual Communications Hubs, and also ignoring the costs and expenses designed to be recovered pursuant to the Explicit Charges); and

(c) the Regional Communications Hub Device Revenue for each Region so as to reflect the incremental cost and expenses that the DCC incurs in providing, in respect of that Region, each individual Communications Hub which is available for that Region (ignoring the costs and expenses designed to be recovered pursuant to the Explicit Charges),

in each case, so that any revenue restriction correction factor adjustment contained within the Estimated Fixed Revenue is apportioned between (a), (b) or (c) above on the basis of the extent to which it arose in relation either to the Services referred to in (a), (b) or (c) respectively. To add a further layer of transparency, the DCC shall identify the amount of the National Fixed Revenue which equates to the Estimated CH Replacement Reimbursement Revenue.

K3.9 The apportionment described in Sections K3.7 and K3.8 shall be such that:

$$EFR_t = NFR_t + AHFR_t + \sum_{\forall r} RFR_{rt} + \sum_{\forall r} RCHFR_{rt} + \sum_{\forall} RCHDR_{rt}$$

Where:

EFR_t = the Estimated Fixed Revenue (estimated in accordance with Section K2) for Regulatory Year (t).

NFR_t = the National Fixed Revenue (estimated in accordance with Section K3.7 and K3.8) for Regulatory Year (t).

$AHFR_t$ = the Alt HAN Fixed Revenue (estimated in accordance with Section K3.7 and K3.8) for Regulatory Year (t).

RFR_{rt} = the Regional Fixed Revenue (estimated in accordance with Section K3.7 and K3.8) within each Region (r) for Regulatory Year (t).

$RCHFR_{rt}$ = the Regional Communications Hub Fixed Revenue (estimated in accordance with Section K3.7 and K3.8) within each Region (r) for Regulatory Year (t).

$RCHDR_{rt}$ = the Regional Communications Hub Device Revenue (estimated in accordance with Section K3.7 and K3.8) within each Region (r) for Regulatory Year (t).

Charging Groups

K3.10 The methodology recognises the following five categories for Smart Metering Systems. The Fixed Charges are payable by Parties in all five categories (each a **Charging Group**). The Fixed CH Charges are payable by Parties in only the first three categories (each a **CH Charging Group**). The Fixed Alt HAN Charges are payable by Parties in only the first and third categories (each an **Alt HAN Charging Group**):

(a) the Import Suppliers (**Charging Group g1**);

(b) the Export Suppliers (**Charging Group g2**);

(c) the Gas Suppliers (**Charging Group g3**);

(d) the Electricity Distributors (**Charging Group g4**); and

(e) the Gas Transporters (**Charging Group g5**).

Application of Charging Group Weighting Factors

K3.11 For the reasons described in Section K3.5, the Fixed Charges, Fixed CH Charges and Fixed Alt HAN Charges payable by each Charging Group may need to differ. This is achieved through the Charging Group, CH Charging Group and Alt HAN Charging Group Weighting Factors.

K3.12 The Weighting Factors are designed:

(a) to reflect the relative proportion of the costs and expenses likely to be incurred by the DCC in providing the Services and in reimbursing the Alt HAN Costs (ignoring the Elective Communication Services and ignoring the costs and expenses designed to be recovered pursuant to the Explicit Charges) to the persons in each Charging Group;

(b) to specify the ratio of the costs and expenses to be incurred in respect of each Smart Metering System (without regard to the number of Smart Metering Systems); and

(c) so that the sum of the Charging Group, CH Charging Group and Alt HAN Charging Group Weighting Factors shall in each case be equal to one (1).

K3.13 For Fixed Charges, the "**Charging Group Weighting Factors**" to apply to each Charging Group in respect of each Regulatory Year are to be determined by the DCC in accordance with Section K3.12, and set out in the Charging Statement for that Regulatory Year. The DCC shall make such determination based on its estimate of the demand of persons within each Charging Group for each of the Services other than the Elective Communication Services. Prior to the start of the UITMR Period, such estimates of demand will be based on assumptions for the Regulatory Year starting on 1st April 2021. Once data on usage becomes available the estimates will be determined as the average of the previous two full Regulatory Years of actual data plus the DCC's forecasts for the two Regulatory Years ahead.

K3.14 For Fixed CH Charges, the "**CH Charging Group Weighting Factors**" to apply to each CH Charging Group in respect of each Regulatory Year are to be determined by the DCC on the basis of the relative proportion of their Charging Group Weighting Factors, such that:

$$\beta_{gt} = \frac{\alpha_{gt}}{\sum_{g=1 \ldots 3} \alpha_{gt}}$$

Where:

β_{gt} = the CH Charging Group Weighting Factor for applicable to Regulatory Year (t) and each Charging Group (g)

α_{gt} = the Charging Group Weighting Factor applicable to Regulatory Year (t) and each Charging Group (g).

K3.15 For Fixed Alt HAN Charges, the "**Alt HAN Charging Group Weighting Factors**" to apply to each Alt HAN Charging Group in respect of each Regulatory Year are to be determined by the DCC on the basis of an expectation of equal use of Alt HAN services per Enrolled Smart Metering System by Import Suppliers and Gas Suppliers, such that:

$\gamma_{gt} = 0.5$ where g =1 or 3

$\gamma_{gt} = 0$ where g =2, 4 or 5.

Where:

γ_{gt} = the Alt HAN Charging Group Weighting Factor for applicable to Regulatory Year (t) and each Charging Group (g).

Determining the Fixed Charges

K3.15A In determining the Fixed Charges, the DCC shall have regard to the need, for the purposes of making a prudent estimate in accordance with Condition 36.5 of the DCC Licence, to provide for the availability at all times of a contingency fund in respect of the 4G DBT/DSP DBT/CHRR Finance Charges relating to each 4G DBT/DSP DBT/CHRR Finance Facility that is equal to the DCC's estimate of three months of the 4G DBT/DSP DBT/CHRR Finance Costs relating to that facility.

Determining Fixed CH Charges

K3.16 In determining the Fixed CH Charges, the DCC shall have regard to the need, for the purposes of making a prudent estimate in accordance with Condition 36.5 of the DCC Licence, to provide for the availability at all times of a contingency fund in respect of the Communications Hub Finance Charges relating to each Communications Hub Finance Facility that is equal to the DCC's estimate of three months of the Communications Hub Finance Costs relating to that facility.

Description of Approach to Determining Fixed Alt HAN Charges for Smart Metering Systems for Domestic Premises and Non-Domestic Premises during the UITMR Period and after the COMR Period

K3.17 The "**Alt HAN Cost Domestic Allocation**" is a factor between zero and one that is determined by the DCC based on information provided by AltHANCo to reflect the proportion of usage of Alt HAN Equipment in Domestic Premises expressed as a fraction of the total usage across both Domestic Premises and Non-Domestic Premises and is represented by μ_t for Regulatory Year (t) such that:

$$\mu_t = \frac{DAHU_t}{DAHU_t + NAHU_t}$$

Where:

$DAHU_t$ is the number of MPANs and MPRNs associated with the use of Alt HAN Equipment in Domestic Premises, derived by the DCC from the data provided to it by AltHANCo in accordance with Section Z4.35 (Provision of Information to the DCC) and available to it one month prior to the issue of the most recent Charging Statement and the Registration Data prevailing at that time.

$NAHU_t$ is the number of MPANs and MPRNs associated with the use of Alt HAN Equipment in Non-Domestic Premises, derived by the DCC from the data provided to it by AltHANCo in accordance with Section Z4.35 (Provision of Information to the DCC) and available to it one month prior to the issue of the most recent Charging Statement and the Registration Data prevailing at that time.

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K9 <u>WITHIN-YEAR ADJUSTMENTS</u>

Introduction

K9.1 The revenue restriction contained in the DCC Licence allows the DCC to carry forward any under or over recovery in respect of one Regulatory Year to the following Regulatory Year. Therefore, there is no absolute need for the DCC to alter the Charges part way through a Regulatory Year.

K9.2 Nevertheless, subject to compliance with Condition 19 of the DCC Licence, the DCC may alter the Charges part way through a Regulatory Year, including in one of the following two ways:

(a) where this Charging Methodology is amended and the amendment has effect part way through a Regulatory Year; or

(b) where the requirements of this Section K9 are met, by applying within-year adjustments for the matters set out in this Section K9.

Amending this Charging Methodology

K9.3 Where the Authority consents in accordance with Condition 19 of the DCC Licence, the DCC may recalculate the Charges in accordance with this Charging Methodology (including so as to take into account any modification of this Charging Methodology). In such circumstances, the references herein to a Regulatory Year shall be interpreted as meaning the remaining period of such Regulatory Year from the time at which the modified Charges in question are to apply.

Within-Year Adjustment for Bad Debt

K9.4 Where a Party fails to pay to the DCC an amount due by way of Charges such that an Event of Default has occurred, and provided the DCC has complied with its obligations under Section J (Charges) in respect of the same, the DCC may (where it reasonably considers it appropriate to do so, taking into account the matters referred to in Section K9.1) determine the **Unrecovered Bad Debt Payment** ($UBDP_{pemt}$) to be paid by every Compliant Party (p) in respect of that Event of Default (e) in one or more subsequent months (m) of such Regulatory Year (t) as the DCC may determine. $UBDP_{pemt}$ shall be calculated as follows:

$$UBDP_{pemt} = \frac{UBP_e \times DS_{pe}}{BM_e}$$

Where:

BM_e is the number of months in the balance of the Regulatory Year over which the DCC decides it is to recover the amount owing in respect of the Event of Default

UBP_e is the amount owing in respect of the Event of Default (e) or such smaller amount as DCC decides to recover over the remainder of the Regulatory Year (t)

DS_{pe} is the share of the debt owing in respect of the Event of Default (e) to be paid by each Compliant Party (p), which is to be calculated as follows.

$$DS_{pe} = \frac{TMP_{pe}}{\sum_{\forall p} TMP_{pe}}$$

where TMP_{pe} is the total amount paid or payable by way of Charges by each Compliant Party (p) in respect of the 12 months preceding the month in respect of which the Event of Default (e) occurred

$\sum_{\forall p}$ represents a sum over all Compliant Parties for the Event of Default.

K9.5 Where the DCC:

(a) has levied a charge for an Unrecovered Bad Debt Payment; and

(b) subsequently recovers from the defaulting Party any or all of the unpaid debt to which the Unrecovered Bad Debt Payment related,

then the DCC shall return the money it has recovered from the defaulting Party to the Compliant Parties in proportion to their contributions to $UBDP_{pemt}$. In order to return such money, the DCC shall include a negative $UBDP_{pemt}$ amount in the Charges for the month following the month in which the DCC received payment (or part payment) from the defaulting Party.

Within-Year Adjustment for Liability Events

K9.6 If a Liability Event arises, the DCC may (where it reasonably considers it appropriate to do so, taking into account the matters referred to in Section K9.1 and having consulted with the Authority and the Panel) determine the **Liability Payment** (LP_{plmt}) to be paid by (or, in the case of negative Liability Sums, paid to) every other Party (p) in respect of that Liability Event (l) in one or more subsequent months (m) of such Regulatory Year (t) as the DCC may determine. LP_{plmt} shall be calculated as follows:

$$LP_{plmt} = \frac{TLP_l \times LS_{pl}}{BM_l}$$

Where:

BM_l is the number of months in the balance of the Regulatory Year over which the DCC decides it is to recover the amount owing in respect of the Liability Event

TLP_l is the Liability Sum arising in respect of the Liability Event (l) or such smaller amount as DCC decides to recover over the remainder of the Regulatory Year (t)

LS_{pl} is the share of the liability owing in respect of the Liability Event (l) to be paid by (or, in the case of negative Liability Sums, paid to) each Party (p), which is to be calculated as follows.

$$LS_{pl} = \frac{TMP_{pl}}{\sum_{\forall p} TMP_{pl}}$$

where TMP_{pl} is the total amount paid or payable by way of Charges by each Party (p) in respect of the 12 months preceding the month in which the Liability Sum for the Liability Event (l) is payable to or by the DCC Service Providers

$\sum_{\forall p}$ represents a sum over all Parties.

Within-Year Adjustment for Finance Acceleration Events

K9.7 For the purposes of Section K9.6:

(a) a Communications Hub Finance Acceleration Event and a 4G DBT/DSP DBT/CHRR Finance Acceleration Event are each a Liability Event;

(b) the amount due and payable by the DCC as a result of a Communications Hub Finance Acceleration Event and/or 4G DBT/DSP DBT/CHRR Finance Acceleration Event is a Liability Sum to the extent the DCC estimates that such amount will be recoverable by the DCC as Allowed Revenue;

(c) the reference to "Charges" in the definition of LS_{pl} shall (in the case of a Communications Hub Finance Acceleration Event) be interpreted as a reference to "Communications Hub Charges" and in the case of a 4G DBT/DSP DBT/CHRR Finance Acceleration Event be interpreted as a reference to "Fixed Charges"; and

(d) the amount payable by each Party in respect of such Liability Event shall (for the purposes of invoicing and payment under Section J (Charges) or Section M11.5(b)

(Third Party Rights)) be treated as an amount due by way of Communications Hub Finance Charges relating to the Communications Hub Finance Facility in respect of which the Communications Hub Finance Acceleration Event has occurred and/or as an amount due by way of 4G DBT/DSP DBT/CHRR Finance Charges in respect of which the 4G DBT/DSP DBT/CHRR Finance Acceleration Event has occurred (as the case may be).

M11 MISCELLANEOUS

Entire Code

M11.1 This Code and any document referred to herein represents the entirety of the contractual arrangements between the Parties in relation to the subject matter of this Code. This Code and any document referred to herein supersedes any previous contract between any of the Parties with respect to the subject matter of this Code.

M11.2 Each Party confirms that, except as provided in this Code and without prejudice to any claim for fraudulent misrepresentation, it has not relied on any representation, warranty or undertaking which is not contained in this Code or any document referred to herein.

Severability

M11.3 If any provision of this Code shall be held to be invalid or unenforceable by a judgement or decision of any Competent Authority, that provision shall be deemed severable and the remainder of this Code shall remain valid and enforceable to the fullest extent permitted by law.

Waivers

M11.4 The failure by any Party to exercise, or the delay by any Party in exercising, any right, power, privilege or remedy provided under this Code or by law shall not constitute a waiver thereof nor of any other right, power, privilege or remedy. No single or partial exercise of any such right, power, privilege or remedy shall preclude any future exercise thereof or the exercise of any other right, power, privilege or remedy.

Third Party Rights

M11.5 The following persons shall be entitled to enforce the following rights in accordance with the Contracts (Rights of Third Parties) Act 1999:

(a) the person referred to in Sections C3.12 (Protections for Panel Members and Others) and M2.13(a) (Other Matters) shall be entitled to enforce the respective rights referred to in those Sections;

(b) the Approved Finance Party for each Communications Hub Finance Facility shall be entitled to exercise and/or enforce the following rights of the DCC in respect of the

Communications Hub Finance Charges relating to that facility where a Communications Hub Finance Acceleration Event has occurred in respect of that Communications Hub Finance Facility and the Authority has determined that the DCC is unwilling or unable to do so:

(i) the right to calculate the amount of the Communications Hub Finance Charges arising as a result of that event (provided in such circumstances that the Approved Finance Party must demonstrate to the satisfaction of the Authority that the amount of the charges so calculated will in aggregate be no more than the amount contractually due and payable (but unpaid) by the DCC to the Approved Finance Party in respect of that event);

(ii) the right to invoice the Users in respect of the Communications Hub Finance Charges arising as a result of the Communications Hub Finance Acceleration Event (whether in the amount calculated by the DCC in accordance with this Code, or in the amount calculated by the Approved Finance Party and approved by the Authority under Section M11.5(b)); and/or

(iii) the right to enforce payment by the Users in accordance with this Code of the amount of Communications Hub Finance Charges invoiced in accordance with this Code,

and the payment of any amount by a User to an Approved Finance Party pursuant to this Section M11.5(b) shall satisfy that User's obligation to pay that amount to the DCC; and

(c) the Approved Finance Party for each 4G DBT/DSP DBT/CHRR Finance Facility shall be entitled to exercise and/or enforce the following rights of the DCC in respect of the 4G DBT/DSP DBT/CHRR Finance Charges relating to that facility where a 4G DBT/DSP DBT/CHRR Finance Acceleration Event has occurred in respect of that 4G DBT/DSP DBT/CHRR Finance Facility and the Authority has determined that the DCC is unwilling or unable to do so:

(i) the right to calculate the amount of the 4G DBT/DSP DBT/CHRR Finance Charges arising as a result of that event (provided in such circumstances that the Approved Finance Party must demonstrate to the satisfaction of the Authority that the amount of the charges so calculated will in aggregate be no more than the amount contractually due and payable (but unpaid) by the DCC to the Approved Finance Party in respect of that event);

(ii) the right to invoice the Users in respect of the 4G DBT/DSP DBT/CHRR Finance Charges arising as a result of the 4G DBT/DSP DBT/CHRR Finance Acceleration Event (whether in the amount calculated by the DCC in accordance with this Code, or in the amount calculated by the Approved Finance Party and approved by the Authority under Section M11.5(c)); and/or

(iii) the right to enforce payment by the Users in accordance with this Code of the amount of 4G DBT/DSP DBT/CHRR Finance Charges invoiced in accordance with this Code,

and the payment of any amount by a User to an Approved Finance Party pursuant to this Section M11.5(c) shall satisfy that User's obligation to pay that amount to the DCC; and

(d) AltHANCo (as defined in Section Z (Alt Han Arrangements)) shall be entitled to enforce all rights which are conferred upon it under Section Z4 (Alt HAN Costs and Budgets), and shall (notwithstanding Section M11.8) be entitled to assign the benefit of these rights.

M11.6 Subject to Section M11.5, the Parties do not intend that any of the terms or conditions of this Code will be enforceable by a third party (whether by virtue of the Contracts (Rights of Third Parties) Act 1999 or otherwise).

M11.7 Notwithstanding that a person who is not a Party has the right to exercise and/or enforce particular rights in accordance with Section M11.5, the Parties may vary or terminate this Code in accordance with its terms without requiring the consent of any such person.

Assignment and Sub-contracting

M11.8 Without prejudice to a Party’s right to appoint agents to exercise that Party’s rights, no Party may assign any of its rights under this Code without the prior written consent of the other Parties.

M11.9 Any Party may sub-contract or delegate the performance of any or all of its obligations under this Code to any appropriately qualified and experienced third party, but such Party shall at all times remain liable for the performance of such obligations (and for the acts and omissions of such third party, as if they were the Party's own). It is expressly acknowledged that the DCC has sub-contracted a number of its obligations under this Code to the DCC Service Providers.

Agency

M11.10 Nothing in this Code shall create, or be deemed to create, a partnership or joint venture or relationship of employer and employee or principal and agent between the Parties and no employee of one Party shall be deemed to be or have become an employee of another Party.

M11.11 No Party shall:

(a) pledge the credit of another Party;

(b) represent itself as being another Party, or an agent, partner, employee or representative of another Party; or

(c) hold itself out as having any power or authority to incur any obligation of any nature, express or implied, on behalf of another Party.

Derogations

M11.12 A Party that holds an Energy Licence shall not be obliged to comply with its obligations under this Code to the extent to which such Party has the benefit of a derogation from the obligation to do so granted by the Authority under such Energy Licence.

Law and Jurisdiction

M11.13 This Code and any dispute or claim arising out of or in connection with it (including non-contractual claims) shall be governed by, and construed in accordance with, the laws of England and Wales.

M11.14 In relation to any dispute or claim arising out of or in connection with this Code (including in respect of non-contractual claims), each Party (subject to Section M7 (Dispute Resolution)) irrevocably agrees to submit to the exclusive jurisdiction of the courts of England and Wales and of Scotland. For the avoidance of doubt, the foregoing shall not limit a Party's right to enforce a judgment or order in any other jurisdiction.

SECCo

M11.15 The provisions of this Section M11 (and the definitions used in this Section) shall apply to SECCo as if SECCo was a Party.