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MP118 'Communications Hubs Finance Charges'

Modification Report

Version 1.0

19 June 2020

Corporate member of
Plain English Campaign
Committed to clearer
communication

592



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About this document

This document is a Modification Report. It currently sets out the background, issue, solution, impacts, costs, implementation approach and progression timetable for this modification, along with any relevant discussions, views and conclusions.

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This document also has two annexes:

- **Annex A** contains the redlined changes to the Smart Energy Code (SEC) required to deliver the Proposed Solution.
- **Annex B** contains the full responses received to the Refinement Consultation.

Contact

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1. Summary

This proposal has been raised by Nick Kelly from the Data Communications Company (DCC).

Currently, the SEC requires the DCC to send two invoices to SEC Parties. One invoice for its general Charges and a separate invoice for Communications Hub (CH) Finance Charges (CHFCs). Providing two invoices every month for SEC Parties and tracking payments has proven troublesome.

The DCC frequently has to reconcile payments which have been made in error, either because they have been made in the wrong amount or into the wrong accounts. The DCC is currently in the process of arranging finance for the next phase of deliveries of CHs, which will amplify the issues with the current system as volumes increase and multiple finance Parties require payment. As the DCC implements the next phase of financing of CHs and the number of monthly financing payments increase, this system will become untenable.

Consequently, the DCC is proposing that it is no longer obliged to bill CHFCs under separate invoices, as these charges form part of the DCC's standard CH pricing.

All SEC Parties will be affected as the invoices they receive will change. There are no costs to implement this modification. If approved, this is recommended for implementation as part of the November 2020 SEC Release.

2. Issue

What are the current arrangements?

Currently, the SEC requires the DCC to send two invoices to SEC Parties, one for its general Charges and a separate invoice for CHFC. This issue relates to the billing processes under SEC Section J1.2 and J1.7. The current arrangements were put in place in 2013.

What is the issue?

The DCC is required to produce two invoices for all SEC Parties every month; as a result, tracking payments has proven burdensome. The DCC frequently has to reconcile payments which have been made in error, either because they have been made in the wrong amount or to the wrong accounts (i.e. the DCC's invoices are paid to the Approved Finance Party (AFP) in error, which happens on a regular basis). It can also be confusing for new entrants and the Proposer has stated payments are difficult to track in the event of Supplier insolvency. The AFP is also required to reconcile payments from multiple SEC Parties every month rather than receiving a single payment, which increases workload and complexity for the AFP.

The DCC is currently in the process of arranging finance for the next phase of deliveries of CHs, which will amplify the issues with the current system as volumes increase and multiple finance parties require payment. The current obligation would require the DCC to issue four invoices a month (two invoices for each Communications Service Provider (CSP), North and Central & South), each of which would be payable to a different Party.

What is the impact this is having?

At present, the dual-invoicing process is manageable from the DCC's existing resources but takes up to two days a month to complete (this also includes a Senior Finance role due to the complexity of the process), which is not cost effective for the DCC, Suppliers or other SEC parties.

However, as the DCC implements the next phase of financing of CH and the number of monthly financing payments increase, this system will become untenable. It could also present a short-term cash flow issue for the DCC as it requires all payments be settled by the due date each month. Changes to the current method of invoicing would be essential to support the mass roll-out and delivery of CHs, which would also promote efficiency between the DCC and its stakeholders.

3. Solution

Proposed Solution

The proposed solution to the problem is a change to the drafting of SEC Sections J1.2 and J1.7 so that the DCC is no longer obliged to bill Communications Hub Finance Charges under separate invoices. All invoiced items will be included on one invoice and paid to one bank account. This will be easier and simpler for the AFPs and the DCC to invoice and easier for SEC Parties to pay.

If not implemented, the current 'dual' billing process will become untenable. As the mass-roll continues, the problems with the current process will amplify, increasing the risk of billing and payment errors by SEC Parties, taking up excessive management time in DCC, and reducing overall efficiency.

4. Impacts

This section summarises the impacts that would arise from the implementation of this modification.

SEC Parties

SEC Party Categories impacted			
	Large Suppliers		Small Suppliers
	Electricity Network Operators		Gas Network Operators
	Other SEC Parties	✓	DCC

All SEC Parties will be affected by the change in how invoices are issued, although this will make the invoicing process more efficient.

DCC System

There will be no DCC System changes.

SEC and subsidiary documents

The following parts of the SEC will be impacted:

- Section J 'Charges'

The changes to the SEC required to deliver the proposed solution can be found in Annex A.

Consumers

There is no impact on Consumers.

Other industry Codes

There is no impact on other Codes.

Greenhouse gas emissions

There is no impact on greenhouse gas emissions.

5. Costs

DCC costs

There are no estimated DCC implementation costs to implement this modification.

SECAS costs

The estimated SECAS costs to implement this modification is two days of effort, amounting to approximately £1,200. The activities needed to be undertaken for this are:

- Updating the SEC and releasing the new version to the industry.

SEC Party costs

There are no costs for SEC Parties as a result of this modification.

6. Implementation approach

Recommended implementation approach

SECAS is recommending an implementation date of:

- **5 November 2020** (November 2020 SEC Release) if a decision to approve is received on or before 22 October 2020; or
- **25 February 2021** (February 2021 SEC Release) if a decision to approve is received after 22 October 2020 but on or before 11 February 2021.

The November 2020 SEC Release is the earliest release for implementation of this Modification. However, if it misses the cut off it can be included in the February 2021 SEC Release as it does not impact any DCC Systems.

7. Assessment of the proposal

Observations on the issue

The Change Sub-Committee (CSC) members were supportive and did not have any specific comments on the proposal.

Solution Development

A Working Group member displayed concern of what the benefits would be to SEC Parties overall. One member flagged that the key goal of the modification is to make the invoicing process more efficient for both the DCC and SEC Parties. The DCC agreed and clarified that the modification aims to simplify the invoicing arrangements for both the DCC and SEC Parties.

The Working Group also raised a question about combining more than one line item on an invoice and how disputes would work. Members were concerned that if one item was disputed it would mean they have to dispute the whole invoice, and queried if a party could just dispute the one item. The Proposer confirmed that under Section J2.3 disputes could be raised about part of an invoice.

They also questioned the reason for combining invoices and paying into one bank account. If the rationale was to prevent payments for wrong amounts or to wrong accounts, they suggested that this could be resolved by simply paying all invoices into one bank account, without the need for changes to the invoices. The Proposer re-iterated that combining the invoices would lead to efficiencies in production of invoices and reconciliation of payments.

The DCC noted that the aim of the change is to simplify the current invoicing arrangements for itself and wider industry. In addition, the DCC confirmed the solution and change would have no impact on systems of further impact on processes other than invoices.

Support for Change

All three respondents to the Refinement Consultation were Large Suppliers. All respondents noted that the change would have none or very minor impacts or cost on their business. They believed that the change should be approved and would promote efficiency, and the current solution facilitates this.

Views against the General SEC Objectives

Proposer's views

The Proposer believes this modification will better facilitate SEC Objective (g)¹ as it will reduce the amount of time spent producing invoices as well as reconciling incorrect payments.

Industry views

The Working Group and Refinement Consultation respondents also agreed that this better facilitates SEC Objective (g).

¹ Facilitate the efficient and transparent administration and implementation of the SEC.

Appendix 1: Progression timetable

This Modification Report will be presented to the Panel on 19 June 2020 for approval. It will then be issued for Modification Report Consultation. The Change Board will then vote on this modification under Self-Governance on 22 July 2020.

Timetable	
Event/Action	Date
Draft Proposal raised	2 Mar 2020
Presented to CSC for initial comment	31 Mar 2020
Panel converts Draft Proposal to Modification Proposal	17 Apr 2020
Modification discussed with Working Group	6 May 2020
Refinement Consultation	11 May – 1 Jun 2020
Modification Report presented to Panel	19 Jun 2020
Modification Report Consultation	22 Jun – 13 Jul 2020
Change Board vote	22 Jul 2020

Appendix 2: Glossary

This table lists all the acronyms used in this document and the full term they are an abbreviation for.

Glossary	
Acronym	Full term
AFP	Approved Finance Party
CH	Communications Hub
CHCF	Communications Hub Finance Charges
CSC	Change Sub-Committee
CSP	Communications Service Provider
DCC	Data Communications Company
SEC	Smart Energy Code
SECAS	Smart Energy Code Administrator and Secretariat

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MP118 ‘Communications Hub Finance Charges’

Annex A

Legal text – version 1.0

About this document

This document contains the redlined changes to the SEC that would be required to deliver this Modification Proposal.

Section J 'Charges'

These changes have been redlined against Section J version 7.0.

Amend Section J as follows:

Payment of 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) other than the Communications Hub Finance Charges:~~
 - (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) in respect of Communications Hub Finance Charges (such that there is a separate Invoice for the charges relating to each 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 ~~shall~~ may at its discretion specify a different account for amounts payable by way of the Communications Hub 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 the Communications Hub Finance Charges may be accounts held in the name of the relevant Approved Finance Party.

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Annex B

Refinement Consultation responses

About this document

This document contains the full non-confidential collated responses received to the MP118 Refinement Consultation.

Question 1: Do you agree with the solution put forward?

Question 1			
Respondent	Category	Response	Rationale
Scottish Power Energy Retail Ltd.	Large Supplier	Yes	This will be more efficient
Npower	Large Supplier	Yes	Simplified process
OVO (S) Electricity Ltd; OVO (S) Gas Ltd	Large Supplier	Yes	We agree with the solution put forward.

Question 2: Will there be any impact on your organisation to implement MP118?

Question 2			
Respondent	Category	Response	Rationale
Scottish Power Energy Retail Ltd.	Large Supplier	No	-
Npower	Large Supplier	Yes	Minor process changes to reconciliation and reporting
OVO (S) Electricity Ltd; OVO (S) Gas Ltd	Large Supplier	No	We do not envisage this change will impact us.

Question 3: Will your organisation incur any costs in implementing MP118?

Question 3			
Respondent	Category	Response	Rationale
Scottish Power Energy Retail Ltd.	Large Supplier	No	-
Npower	Large Supplier	Yes	Minor change costs as per above
OVO (S) Electricity Ltd; OVO (S) Gas Ltd	Large Supplier	No	No costs have been identified in implementing this change.

Question 4: Do you believe that MP118 would better facilitate the General SEC Objectives?

Question 4			
Respondent	Category	Response	Rationale
Scottish Power Energy Retail Ltd.	Large Supplier	Yes	We believe the proposals, if implemented, would better facilitate objective (b) by enabling the Data Communications Company's efficient discharge of the obligations imposed upon it by the Data Communications Company Licence.
Npower	Large Supplier	Yes	Process and reconciliation simplification and reduced invoicing
OVO (S) Electricity Ltd; OVO (S) Gas Ltd	Large Supplier	Yes	n/a

Question 5: Noting the costs and benefits of this modification, do you believe MP118 should be approved?

Question 5			
Respondent	Category	Response	Rationale
Scottish Power Energy Retail Ltd.	Large Supplier	Yes	The approach would be more efficient.
Npower	Large Supplier	Yes	As above
OVO (S) Electricity Ltd; OVO (S) Gas Ltd	Large Supplier	Yes	We believe this should be approved.

Question 6: How long from the point of approval would your organisation need to implement MP118?

Question 6			
Respondent	Category	Response	Rationale
Scottish Power Energy Retail Ltd.	Large Supplier	Immediate	No Impact
Npower	Large Supplier	4 weeks	As above-minor process changes
OVO (S) Electricity Ltd; OVO (S) Gas Ltd	Large Supplier	ASAP	The should be no lag in us being able to implement this once the change is made.

Question 7: Do you agree with the proposed implementation approach?

Question 7			
Respondent	Category	Response	Rationale
Scottish Power Energy Retail Ltd.	Large Supplier	Yes	No Impact
Npower	Large Supplier	Yes	As above
OVO (S) Electricity Ltd; OVO (S) Gas Ltd	Large Supplier	Yes	We do.

Question 8: Do you agree that the legal text will deliver MP118?

Question 8			
Respondent	Category	Response	Rationale
Scottish Power Energy Retail Ltd.	Large Supplier	Yes	-
Npower	Large Supplier	Yes	Text: in respect of all Charges other than those referred to in Section J1.2(b) other than the Communications Hub Finance Charges Change above now includes these invoice charges under section 1.2(b) as part of the overall DCC charging package
OVO (S) Electricity Ltd; OVO (S) Gas Ltd	Large Supplier		We believe so.

Question 9: Please provide any further comments you may have

Question 9		
Respondent	Category	Comments
Scottish Power Energy Retail Ltd.	Large Supplier	N/A
Npower	Large Supplier	-
OVO (S) Electricity Ltd; OVO (S) Gas Ltd	Large Supplier	Not at this time.