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Paper Reference:	OPSG_167_1407_MP325
Action:	For Discussion
<u>Acronyms and Defined Terms SEC Glossary</u>	

MP325 'SMCL2 Code Changes'

1. Purpose

The purpose of this document is to gain feedback from Operations Group (OPSG) members in relation to the proposed solution as part of MP325 'SMCL2 Code Changes'.

2. Summary of MP325

This section summarises the key points of this Modification Proposal. More information is available in the Modification Report in Appendix A.

2.1 What is the issue?

There are two aspects to the modification that need to be addressed:

Transitional SEC Changes

The SEC was designed based on a single, continuous Party responsible for charging, invoicing, payment flows, and credit cover. It does not explicitly accommodate a scenario in which responsibility for these functions to transfer between licence holders while Business as Usual (BAU) arrangements continue uninterrupted.

The agreed business handover approach is designed to minimise impact on SEC Parties by maintaining existing charging periods, invoicing cycles, and payment arrangements. This creates transitional scenarios where:

- Charges incurred under the current Charging Statement must be invoiced and recovered by the new licensee after the transfer date;
- Credit cover held as cash must be transferred between the current licensee and the new licensee bank accounts; and
- Payments may be made to the wrong entity (e.g. the current licensee post-handover) and will require reallocation.

The SEC does not currently provide for this separation between charging authority, invoicing entity, and payment flows, nor does it provide a mechanism to recognise such arrangements once the new licensee ceases to be a SEC Party. As a result, there is no clear way within the SEC to give effect to these time limited transitional arrangements and thus, ensure clarity that Parties will not be affected, such as being subject to Event of Defaults provisions.

Enduring SEC Changes

The SEC has been developed and maintained in alignment with the existing DCC licence framework, including its structure, terminology, service constructs, and governance model. The introduction of the new DCC licence framework introduces several fundamental changes, including:

- Revised SEC Objectives, which guide governance, decision making, and compliance assessment;
- Replacement of Elective Communication Services (ECS) with Additional User Services (AUS), broadening the scope of services the DCC may provide;
- Changes to licence condition numbering and structure, affecting references embedded throughout the SEC; and
- Updates to the price control framework, including the transition from 'Allowed Revenue' to 'Required Revenue', and associated changes to methodology.

The SEC does not currently reflect these changes and, as a result, definitions, provisions, and references will be misaligned with the new licence following handover of business on the 2 November 2026. The SEC will also not accurately reflect the new arrangements as they will be based on outdated constructs, noting services, financial and governance frameworks are tied to the previous regulatory model in accordance with the existing DCC licence.

2.2 What is the impact?

Transitional SEC Changes

In the absence of SEC change, there is a risk that the agreed transition approach cannot be fully supported within the SEC, resulting in:

- **Legal and Contractual Ambiguity**
 - Uncertainty as to whether the new licensee can validly invoice for charges calculated under the current licensees Charging Statement.
 - Potential challenges to the enforceability of invoices issued post-handover.
- **Uncertainty for SEC Parties**
 - Lack of clarity on what charges relate to and who is entitled to recover them.
 - Risk that Parties question whether they remain liable to pay.
- **Financial and operational risk**

- Payments made to the “wrong” entity may not be clearly recognised under the SEC as meeting the requirements.
- Lack of transparency in payment allocation and settlement.
- **Credit cover and default risk**
 - Transfer of cash credit cover may not be recognised under SEC rules.
 - Risk of apparent shortfalls in credit cover, potentially triggering an Event of Default, despite funds being available and reconciled.
- **Delivery risk to Business Handover**
 - Absence of regulatory mechanisms to support these arrangements could undermine market confidence and operational readiness.

Enduring SEC Changes

If the SEC is not updated to reflect the new DCC licence framework, there is a risk of:

- **Regulatory Misalignment**
 - The SEC would not reflect the current licence obligations, creating inconsistency between frameworks and may increase risk of regulatory challenge or intervention.
- **Outdated references and terminology**
 - This may lead to uncertainty in interpretation and potential inconsistency in how provisions are applied in practice.
- **Decisions (e.g. modification assessments)**
 - These may be made against outdated SEC objectives.
- **Delivery Constraints**
 - ECS based requirements will may hinder delivery of broader AUS capabilities and result in reduced flexibility to support new or bespoke services for DCC customers.
- **Framework Inconsistencies**
 - Inconsistency between licence framework and SEC charging provisions as Price Control and revenue terminology no longer aligned.
- **Misinterpretation**
 - Reduced clarity for industry participants as SEC Parties may face uncertainty regarding obligations, services, and cost recovery arrangements.

2.3 Impact on Consumers

There is no expected impact on consumers as a result of this modification.

2.4 Proposed Solution

This modification seeks to make the required changes to the SEC in order to comply with the framework of the new DCC licence, due to take effect from November 2026.

The solution will address the following aspects of handovers relating to:

- Charging & Invoicing.
- Payments.
- Credit cover arrangements.
- Migrating from the ECS to the AUS.
- Revised SEC Objectives.

3. Questions for the OPSG

We seek the OPSG's input on the following questions to feed into the modification:

- Does the proposed solution suitably address the issue?
- Are there any impacts to industry that have not yet been identified within the Modification Report?

4. Next steps

The SEC Change team will carry out a Refinement Consultation to gather further industry feedback before presenting the modification to the Working Group.

5. Recommendations

The OPSG is requested to:

- **NOTE** the contents of this paper;
- **PROVIDE** feedback on the Proposed Solution

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6 July 2026

Attachments:

Appendix A: MP325 Modification Report v0.1