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SECMP0068 Modification Report Consultation

1. Purpose

This is the Modification Report Consultation for [SECMP0068 'Alt HAN Company third party rights to enable external financing arrangements'](#). We invite you to respond to this consultation in order to help inform the Change Board in its vote on this modification.

The Modification Report is included in this consultation pack, along with a response form containing the questions we seek your views on.

This consultation will close at **17:00 on Friday 21 December 2018**. The Change Board may not be able to consider late responses.

2. Summary of the proposal

What is the issue?

As preparations for, and as the Alt HAN Technology Solutions roll-out commences, high costs of technology solutions contracted via AlthANCo will be incurred over a short period. The pass-through of these costs in-year to Energy Suppliers will not be the most appropriate funding mechanism. This is because Suppliers will be burdened with high upfront costs for Alt HAN, which will not necessarily reflect the level of benefit that current and future Suppliers will receive from Alt HAN solutions as market share changes over time.

Following direction from the Alt HAN Forum (a Forum established under SEC Section Z and consisting of all Relevant Supplier Parties), AlthANCo is investigating possible financing routes to spread and reduce in-year costs for Energy Suppliers. Currently, the preferred financing model is an assignment of receivables model where AlthANCo would assign its right to receive income for the financed costs from the DCC directly to a funder. The need for AlthANCo to be given enforceable rights to receive payments from the DCC under the SEC would be required for all financing options.

The key issue for this financing arrangement is the ability to assign rights to receive income to the funder, to provide the necessary comfort that their revenue stream is secure. As AlthANCo is not a party to the SEC, technically it does not currently have an enforceable contractual right to receive payment of the AlthANCo costs from the DCC, and therefore by extension it cannot assign these rights. However, DCC are obligated to pay AlthANCo under its licence, as per SEC Section Z4.7, or for Relevant Suppliers to pay as per SEC Section Z4.11. It is not clear how AlthANCo would enforce its purported rights, since it is not a Party to the SEC and there is no reference to AlthANCo in the Third Party Rights clause (Section M11.5(b)), through which other Third Parties (such as Communication Hub Lenders and SECCo) are permitted to enforce their rights.

As a result, it is not currently possible for funders to take an assignment of the right to the income received from the DCC, as they would have no ability to enforce that right. AlthANCo would be unable to pursue its preferred financing model as funders will not lend without a SEC Modification to give AlthANCo enforceable rights under the SEC and the ability to assign these rights. BEIS has

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confirmed that the policy intent was for AlthANCo to be able to finance, but the current SEC drafting does not support this intent.

What is the Proposed Solution?

The proposed solution is to give AlthANCo Third Party Rights to enable it to enforce and assign its rights to receive payments from the DCC. It has been agreed in principle by the Forum that AlthANCo should be given Third Party Rights to enable it to enforce its rights under Section Z4 and shall be entitled to assign the benefit of these rights.

This is the preferred solution, as it is less complex than other options considered, creates assignable and enforceable rights for AlthANCo against the DCC and (with Ofgem consent) licensed suppliers, limits AlthANCo exposure to other SEC obligations and will not bind AlthANCo to the prohibition on assignment of rights (Section M11.8). It also represents a similar approach to that used elsewhere in the Smart Meter programme as the DCC has previously used this structure for its financing activities.

What is the Progression timetable?

The Panel **agreed** to proceed this modification to the Report Phase under the following expedited timetable:

SECMP0068 Progression Timetable	
Activity	Date
Modification Proposal presented to Panel	14 Dec 18
Modification Report Consultation	17 Dec 18 – 21 Dec 18
Ad hoc Change Board vote	W/C 31 Dec 18
Authority Decision	TBC

Will I be impacted?

SECMP0068 is expected to impact the following SEC Parties:

- All Supplier Parties
- Other Users
- DCC

Full details of how this modification may impact you can be found in the Modification Report.

3. Contact

If you have any questions on this modification, please contact **Joe Hehir** on 020 7770 6874 or email sec.change@gemserv.com.