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# DP086 ‘Alt HAN Roll-Out Financing’

## Problem statement – version 0.1

### About this document

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This document provides a summary of this Draft Proposal, including the issues identified, the impacts this is having, and the context of this issue within the Smart Energy Code (SEC).

### Proposer

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This Draft Proposal has been raised by Richard Shotton-Oza from Shell Energy Retail Limited.

## What is the issue or problem identified?

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### What issue has been identified?

As preparations for, and as the Alternative Home Area Network (Alt HAN) Technology Solutions roll-out commences, high costs of technology solutions contracted via Alt HAN Co 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 reflect the level of benefit that current and future Suppliers will receive from Alt HAN solutions as market share changes over time.

Earlier this year Alt HAN Co successfully secured financing for Alt HAN technology development and operational services mobilisation costs (the Design and Build (DAB) Phase Financing). Following direction from the Alt HAN Forum (a Forum established under SEC Section Z and consisting of all Relevant Supplier Parties), Alt HAN Co has investigated financing routes to spread and reduce in-year costs for Energy Suppliers for the roll-out of Alt HAN solutions. In August 2019 Forum selected an assignment of receivables model to finance the roll-out. Under this model Alt HAN Co would assign its right to receive income for the financed costs from the DCC directly to a funder. The external funder will provide payments to Alt HAN Co as required and will recover payments from DCC over time. The assignment of receivables model was considered the most simple and cost-effective financing option.

However, currently the SEC does not facilitate the raising of long-term debt in the most economic and effective manner. As described below, two issues have been identified which prohibit and hinder Alt HAN Co's ability to secure financing for the Alt HAN roll-out.

### Identifiable Payment Streams

The SEC makes provision for a single receivable, the payment of Alt HAN Costs by the DCC, that is legally payable by DCC to AltHANCo (the "**DCC Receivable**"). This has already been assigned to the existing lender under previous financing arrangements for the DAB Phase Financing.

The SEC does not distinguish between payment of; (i) the DAB Phase Financing Costs and (ii) the Roll-out Financing Costs, which means it is not possible to legally ringfence these two payment streams such that they can be financed independently of each other.

An amendment is required such that the existing assignment of the DCC Receivable in favour of the DAB financing lender is replaced with a new assignment over the newly created DCC Receivable in respect of just the DAB Phase Financing Costs, with an independent assignment being given to the lenders to the Roll-out Financing of the DCC Receivable in respect of the Roll-out Financing Costs. This will allow legally ringfenced payment streams between (i) Roll-out Financing Costs and, (ii) DAB Phase Financing Costs. This is required as funders will not take assignment over part of a receivable.

Without this modification Alt HAN Co will not be able to finance the Alt HAN roll-out, meaning Suppliers and consumers will suffer high in-year Alt HAN costs.

### Longer-Term Financing Budgets

The Alt HAN Budget is crucial to Alt HAN Co's ability to raise finance since Alt HAN Co's ability to recover its financing costs from the DCC is derived from those costs provided in the Alt HAN Budget.

Alt HAN Co's budget is currently approved on an annual basis. This annual approval cycle has been raised by funders as an issue when considering providing long-term financing due to a perceived budget approval risk.

This perceived risk is likely to impact the terms Alt HAN Co is able to achieve during the roll-out financing and may even prevent financing from being secured. The introduction of a long-term financing budget would hardwire the recovery of financing costs and eliminate budget approval risk (as perceived by a funder).

Under this solution the current Alt HAN Budget would remain as it is for operational expenditure, with long-term financing-only budgets only being introduced to cover the repayment period of the DAB and Roll-out financing arrangements (e.g. 10 years). This would include only the financing costs, throughout the tenor of the financing debt, so that those costs were approved to give lenders better certainty over the DCC Receivable, mitigating budget approval risk.

### How does this issue relate to the SEC?

As Alt HAN's arrangements are prescribed in the SEC any changes to these will require a SEC Modification Proposal. SEC Section Z 'Alt HAN Arrangements' will therefore be impacted by this proposal.

## What is the impact this is having?

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### What is the impact of not amending the SEC?

If the modification proposal is not approved Alt HAN Co will be unable to finance the roll-out.

This modification is enabling changes, which would allow Alt HAN Co the ability to pursue financing which is expressed in the Energy Supply Licence and aligned to policy intent behind SEC drafting.

These issues will lead to Suppliers and consumers incurring high in-year costs as a result of the Alt HAN Programme which Alt HAN Co believes could hinder the Forum in meeting its objectives, such as to facilitate competition between persons engaged in, or in Commercial Activities connected with, the Supply of Energy.

## What are the views of the industry?

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### Views of the Alt HAN

#### Alt HAN Forum

It has been agreed by the Forum that the two SEC related issues discussed in this document should be pursued to enable the financing of the Alt HAN roll-out and for Alt HAN Co to achieve the most competitive financing terms possible.

Through this action Forum has approved work to pursue the SEC Modification Proposal to:

- a) Add an identifiable payment stream to the DCC receivable for a DAB and Roll-out Financing Costs elements so these can be assigned as security for the Roll-out Financing; and
- b) Introduce longer-term financing budgets in order to eliminate perceived budget approval risk.

This modification will enable changes, which would allow Alt HAN Co the ability to pursue financing which is expressed the Energy Supply Licence and aligned to policy intent.

This agreement has been documented in the Alt HAN Forum meeting (190815\_AHF\_M38) minutes in the form of a Forum decision to pursue the SEC Modification Proposal discussed in this document.

#### Alt HAN Supplier Contract Governance Regulatory Group (SCGR)

The modifications have also been agreed by the SCGR which is an Alt HAN sub-group consisting of Supplier regulatory specialists. They also endorsed the rationale for the SEC Modification Proposal. This has been documented in the SCGR meeting (190905\_SCGRM35) minutes.

### Views of DCC

The views of DCC will be gathered during the Development Stage.

### Views of SEC Parties

The views of Parties will be gathered during the Development Stage.

### Views of Panel Sub-Committees

The views of Panel Sub-Committees will be gathered during the Development Stage.

### Views of the Change Sub-Committee

The views of Change Sub-Committees will be gathered during the Development Stage.