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Paper Reference:	SECP_74_1511_15
Action:	For Decision

DP086 Problem Statement

1. Purpose

Draft Proposal [DP086 'Alt HAN Roll-Out Financing'](#) was raised by Shell Energy and has undergone the Development Stage. The Change Sub-Committee believes this Draft Proposal is ready to be converted to a Modification Proposal. This paper sets out our proposed approach for progressing this modification for the Panel's approval. We are recommending that this modification be progressed directly to the Report Phase and that the Panel approve the Modification Report, the implementation approach, and that MP086 is a Self-Governance Modification.

This paper provides a high-level summary of the key points. A copy of the problem statement submitted by the Proposer can be found in Appendix A, and the draft Modification Report can be found in Appendix B.

2. Summary of the proposal

What is the issue?

When the Alternative Home Area Network (Alt HAN) 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 as Suppliers will be burdened with high upfront costs for Alt HAN. To address this, Alt HAN Co is exploring financing to spread these costs over a longer period.

What is the proposed solution?

The proposed solution is to amend the wording in SEC Section Z 'Alt HAN Arrangements' to allow the Alt HAN Co to investigate a different financing model. The changes anticipated are to extend the length of time over which the costs will be repaid. This way, there won't be a high upfront cost for Suppliers to repay which could burden industry. The solution will also codify in the SEC the differences between Alt HAN costs associated with the design assurance and build of technical solutions, and the roll out.

3. Proposed progression

The Change Sub-Committee has agreed that this Draft Proposal is ready to be converted to a Modification Proposal. We believe that this modification should be progressed directly to the Report

Phase. This is due to the Proposed Solution being a straightforward governance amendment to SEC Section Z 'Alt HAN Arrangements' for facilitating investigations into alternative financing models.

Determination approach

We recommend that this Proposal is determined under Self-Governance, as the Proposal does not satisfy the criteria of Section D2.6 for needing an Authority decision.

Implementation approach

We recommend an implementation approach of:

- 27 February 2020 (February 2020 SEC Release) if a decision to approve is received by 20 December 2019.

4. Recommendations

The Panel is requested to:

- **AGREE** that DP086 is ready to be converted to a Modification Proposal;
- **AGREE** that MP086 should be progressed to the Report Phase;
- **APPROVE** the Modification Report;
- **APPROVE** the implementation approach; and
- **AGREE** that MP086 should be progressed as a Self-Governance Modification.

Harry Jones

SECAS Team

8 November 2019

Attachments:

- **Appendix A:** DP086 problem statement
- **Appendix B:** MP086 Modification Report
 - **Annex A:** MP086 Legal Text

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DP086 ‘Alt HAN Roll-Out Financing’

Problem statement – version 1.0

About this document

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

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

What is the issue or problem identified?

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 the 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 the Data Communications Company (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 the payment of the DAB Phase Financing Costs and 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 so 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. Independent assignments will also be given to the lenders of the Roll-out Financing of the DCC Receivable in respect of the Roll-out Financing Costs. This will allow legally ringfenced payment streams between the Roll-out Financing Costs and the 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?

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.

If left unresolved, 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?

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 the 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 Supplier Contract Governance Regulatory (SCGR) group, which is an Alt HAN sub-group consisting of Supplier regulatory specialists. It also endorsed the rationale for the SEC Modification Proposal. This has been documented in the SCGR meeting (190905_SCGRM35) minutes.

Views of DCC

The DCC has confirmed that this Draft Proposal will have no impacts on its governance or Systems.

Views of SEC Parties

SECAS received a comment from a Large Supplier. They were very supportive of the Proposal and stated that they agreed with the idea of investigating long-term financing. They said this should help Suppliers with the ways in which they can fund the delivery of Alt HAN.

Views of Panel Sub-Committees

The Panel Sub-Committees had no comments on this Draft Proposal.

Views of the Change Sub-Committee

The Change Sub-Committees had no comments on this Draft Proposal.

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MP086 'Alt Han Roll-Out Financing'

Modification Report Version 0.1

About this document

This document is the Modification Report for [MP086 'Alt HAN Roll-Out Financing'](#). It provides detailed information on the background, issue, solution, costs, impacts and implementation approach. It also summarises the discussions that have been held and the conclusions reached with respect to this Modification Proposal.

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This document also has one annex:

- **Annex A** contains the redlined changes to the Smart Energy Code (SEC) required to deliver the proposed solution.

1. Summary

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.

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

The proposed solution is to amend the wording in SEC Section Z 'Alt HAN Arrangements' to allow Alt HAN Co to facilitate financing of the roll-out in a more economic and efficient manner.

This is an enabling change which will only impact Supplier Parties. This Modification Proposal has no impact on the Data Communications Company (DCC) Systems. The costs will be limited to Smart Energy Code Administrator and Secretariat (SECAS) time and effort in updating the SEC. This Modification Proposal will be targeted for the February 2020 SEC Release.

2. Background

What is the issue?

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 the 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 lender. The external lender 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. There are two key issues that have been identified and need to be addressed which currently limit Alt HAN Co's ability to secure financing for the Alt HAN roll-out.

The first issue is that the SEC currently only 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.

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

The second issue is concerned with Alt HAN Co's Budget approval. The Alt HAN Budget is crucial to Alt HAN Co's ability to raise finance. This is due to Alt HAN Co's ability to recover its financing costs from the DCC deriving 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 lenders 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.

What is the impact of doing nothing?

If the modification proposal is not approved Alt HAN Co will be unable to spread the cost of the roll-out of the Alt HAN Technology Solutions over a longer duration.

This modification proposal will enable changes, to 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.

If the proposal is not approved, Suppliers and consumers will incur high in-year costs as a result of the Alt HAN Programme. Alt HAN Co believes this 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.

MP086 was raised by Shell Energy on 17 September 2019 to resolve this issue.

3. Solution

Proposed Solution

The Proposed Solution is to amend entries in SEC Section Z 'Alt HAN Arrangements' to allow Alt HAN Co to investigate alternative methods for financing the Alt HAN rollout. Making these changes will allow Alt HAN Co to look at new models of funding the roll-out which could return lower costs to Supplier Parties in the short term. Alt HAN Co has stated that this re-modelling of the financing is critical to ensuring the roll-out is successful and that the short-term financial impact to industry participants is reduced.

The Proposed Solution will also codify in the SEC two different definitions of financing specific to Alt HAN. These two types of financing are described below:

1. DAB Phase Financing: This will cover any debt financing associated with the design assurance and build of the technical solutions used in Alt HAN equipment; and
2. Roll Out Phase Financing: This covers any debt financing entered into by Alt HAN Co for the purpose of supporting the Alt HAN roll out and any related ancillary services.

With regard to the first point, 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. An independent assignment will also be 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 the Roll-out Financing Costs and the DAB Phase Financing Costs. This is required as lenders 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 be hit with high in-year Alt HAN costs.

With regard to the second point, the introduction of a long-term financing budget would hardwire the recovery of financing costs and eliminate budget approval risk (as perceived by a lender).

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.

Legal text

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

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 Supplier Parties are impacted by this Modification Proposal. This modification is an enabling change, which would allow Alt HAN Co the ability to pursue financing for the Alt HAN roll-out which is expressed in the Energy Supply Licence and aligned to policy intent behind SEC drafting.

Financing will benefit Supplier Parties by preventing high in-year costs relating to Alt HAN Co.

DCC System

There are no impacts on DCC Systems.

SEC and subsidiary documents

The following parts of the SEC will be impacted:

- Section Z 'Alt HAN Arrangements'

Other industry Codes

There are no impacts on other codes.

Greenhouse gas emissions

There are no impacts on greenhouse gas emissions.

5. Costs

DCC costs

There are no DCC costs to implement this modification.

SECAS costs

The estimated SECAS implementation 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

No SEC Party costs are anticipated.

6. Implementation approach

Recommended implementation approach

SECAS is recommending an implementation date of:

- **27 February 2020** (February 2020 SEC Release) if a decision to approve is received on or before 20 December 2019.

The February 2020 SEC Release has been targeted as the ideal implementation date for this Modification Proposal. This is because with the Proposal being prepared to go straight to Report Phase in November 2019 and no lead time associated with the solution, it can be implemented in the February 2020 SEC Release.

7. Conclusions

Benefits and drawbacks

The Proposer, Alt HAN Co and the Change Sub-Committee (CSC) have identified the following benefits and drawbacks in implementing this modification:

Benefits

- This change will allow Suppliers paying for Alt HAN solutions to spread the costs over a longer period of time than currently. This will in turn lower the up-front cost that industry members will have to pay Alt HAN.

Drawbacks

- The Proposer has not identified any drawbacks in this Modification Proposal.

Proposer's rationale against the General SEC Objectives

Objective (h)¹

The Proposer believes that MP086 will better facilitate General SEC Objective (h) by ensuring the Alt HAN roll-out will be able to be financed effectively. They also believe it will assist in creating a suitable payment method to Supplier Parties using Alt HAN solutions.

Sub-Committee views

The all of Panel Sub-Committees were consulted on in the Development Stage, but they all confirmed that the Modification Proposal would not affect them.

The CSC when presented with the Draft Proposal for initial thoughts had no comment.

¹ Facilitate the establishment and operation of the Alt-HAN Arrangements.

Appendix 1: Glossary

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

Glossary	
Acronym	Full term
Alt HAN	Alternative Home Area Network
Alt HAN Co	Alternative Home Area Network Company
CSC	Change Sub-Committee
DAB	Design and Build
DCC	Data Communications Company
SEC	Smart Energy Code
SECAS	Smart Energy Code Administrator and Secretariat



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DP086 ‘Alt-HAN Roll-Out Financing’

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.

These changes have been drafted against SEC Version 6.17.

This document contains the changes required to deliver the Proposed Solution.

Section Z ‘Alt HAN Arrangements’

Amend Sections 4.2, 4.8, 4.9, 4.16, 4.17, 4.18, 4.19 and 4.20 as follows:

General

Z4.1 The costs and expenses incurred by (or on behalf of) the Forum in exercising its powers, performing its functions and discharging its duties in respect of this Section Z shall be incurred by AltHANCo, and the DCC shall provide AltHANCo:

- (a) with the funds necessary to meet such costs and expenses; and
- (b) with the funds necessary to meet all other costs and expenses incurred by AltHANCo in the exercise of its duties, powers and functions under this Section Z.

Alt HAN Costs and Expenses

Z4.2 The costs and expenses capable of recovery under this Section Z4 (the **Alt HAN Costs**) shall be all the reasonable costs and expenses incurred:

- (a) subject to Section Z4.3, by the Forum Chair, Alternate Chair, Forum Members, Board Members and Forum Sub-Group Members in their capacities as such;
- (b) by AltHANCo under or in connection with contracts that AltHANCo has entered into in accordance with this Section Z, including in particular any contracts for:
 - (i) the acquisition of any services which comprise or form a part of the Alt HAN Activities;
 - (ii) the provision of any Alt HAN Services;
 - (iii) the appointment of the Forum Chair;
 - (iv) the appointment of Forum Sub-Group Members;

(v) the appointment of the Alt HAN Secretariat; and

(vi) the appointment of advisers; ~~and~~

(c) by AltHANCo under or in connection with the DAB Phase Financing (the “DAB Phase Financing Alt HAN Costs”);

(d) by AltHANCo under or in connection with the Roll Out Phase Financing (the “Roll Out Financing Alt HAN Costs”); and

~~(e)(e)~~ by AltHANCo under or in connection with any provision of this Section Z,

(in each case) provided that such costs or expenses are provided for in, or otherwise consistent with, an Approved Alt HAN Budget or an Approved Alt HAN Financing Budget.

Z4.3 Subject to the terms of those contracts referred to in Section Z4.2(b):

- (a) the Forum Chair, Alternate Chair, Forum Members, Board Members and Forum Sub-Group Members shall be entitled to recover all reasonable travel expenses properly incurred by them in their roles as such (and the Board shall adopt a policy that sets out guidelines regarding what constitutes reasonable travel expenses);
- (b) no Alternate Chair, Forum Member or Board Member shall be entitled to a salary in respect of his or her role as such, or to any payment in respect of the time he or she spends in performing that role; and
- (c) no Forum Sub-Group Member shall be entitled to a salary in respect of his or her role as such, or to any payment in respect of the time he or she spends in performing that role, except to the extent that the Forum has approved any such payment.

Z4.4 Where the Forum Chair, Alternate Chair or any Forum Member, Board Member or Forum Sub-Group Member wishes to recover any cost or expense (excepting, in the case of the Forum Chair, any regular payment of salary for which no claim is required

to be made) he or she shall submit evidence of the cost or expense in question to the Board (or a named person approved by the Board) for approval.

Z4.5 Any cost or expenses referred to in Section Z4.4 shall only be approved to the extent that it is an Alt HAN Cost, and only if the evidence is submitted in a timely manner (and in any event on or before the 20th Working Day following the end of the relevant Regulatory Year). Once approved, the evidence of the Alt HAN Cost shall be submitted to AltHANCo for payment.

Z4.6 Within 20 Working Days following receipt of evidence of an Alt HAN Cost that has been approved in accordance with Section Z4.5, AltHANCo shall pay the relevant amount to the Forum Chair, Alternate Chair, Forum Member, Board Member or Forum Sub-Group Member making the claim.

Alt HAN Costs to be Reimbursed by the DCC

Z4.7 The Alt HAN Costs incurred by AltHANCo shall be reimbursed to AltHANCo by the DCC. Nothing in Section M2 (Limitations of Liability) shall limit the DCC's liability to reimburse AltHANCo for the AltHANCo Costs.

Z4.8 AltHANCo may periodically invoice the DCC for the Alt HAN Costs incurred, or reasonably expected to be incurred, by AltHANCo in accordance with the Approved Alt HAN Budget or Approved Alt HAN Financing Budget, provided that AltHANCo shall deduct from such invoice any amounts that represent previous overpayments by the DCC (due to the inaccuracy of AltHANCo estimates, or otherwise) on the basis that AltHANCo shall:

(a) only deduct from an invoice for DAB Phase Financing Alt HAN Costs any previous overpayment in respect of a BAD Phase Financing Alt HAN Cost; and

~~(a)~~(b) only deduct from an invoice for Roll Out Financing Alt HAN Costs any previous overpayment in respect of a Roll Out Financing Alt HAN Cost.

~~Z4.8~~Z4.9 The DCC shall pay each invoice submitted by AltHANCo in accordance with Section Z4.7 within 10 Working Days of receipt of such invoice by the DCC, to the account or accounts for payment specified by AltHANCo to the DCC from time to time.

~~Z4.9~~Z4.10 It is acknowledged that the DCC is entitled to recover amounts paid by it to AltHANCo in accordance with this Section Z4 through the Charges (subject to the requirements of the DCC Licence).

~~Z4.10~~Z4.11 In the event that the DCC does not pay AltHANCo in accordance with Section Z4.9, and subject to prior approval from the Authority, AltHANCo may invoice the Relevant Supplier Parties for the unpaid amount (and those Parties shall pay the invoiced amounts to AltHANCo as if they were Charges).

~~Z4.11~~Z4.12 Where Section Z4.11 applies, the amount to be paid by each Relevant Supplier Party shall, unless the Authority approves or directs the use of an alternative methodology, be the same as the amount that the Relevant Supplier Party would have paid in Fixed Alt HAN Charges and in Explicit Charges under Section K7.6(j), calculated in accordance with the Charging Methodology, had the amounts been recovered by the DCC through the Charges.

~~Z4.12~~Z4.13 Any amounts paid by a Relevant Supplier Party in accordance with Section Z4.12 shall be reimbursed by AltHANCo to that Relevant Supplier Party (plus interest at the Non-Default Interest Rate) at such time as the Authority may determine.

Budgets and Work Plans

Timetable

~~Z4.13~~Z4.14 The Board shall take all reasonable steps to give effect to the provisions of Sections Z4.15 to Z4.19 so that a copy of each Approved Alt HAN Budget is provided to the DCC by no later than 1 December in the year prior to the commencement of the first Regulatory Year to which that Approved Alt HAN Budget relates.

Draft Budgets and Work Plans

~~Z4.14~~Z4.15 The Board shall during each Regulatory Year prepare and circulate to all Relevant Supplier Parties, the Secretary of State and the Authority a draft budget in respect of Alt HAN Costs for the next two Regulatory Years commencing thereafter (a **Draft Alt HAN Budget**).

~~Z4.15~~Z4.16 Each Draft Alt HAN Budget:

- (a) shall set out the Board's good-faith estimate of the Alt HAN Costs that it anticipates will be incurred (or committed to) during each of the relevant Regulatory Years (but excluding DAB Phase Financing Alt HAN Costs and Roll Out Financing Alt HAN Costs to the extent that the Board is satisfied those costs are or will be covered by a separate budget as contemplated under Section Z4.17A);
- (b) shall set out how that estimate is composed of the Board's estimates of the total costs and expenses that it anticipates will be incurred (or committed to) during each of the relevant Regulatory Years in relation to:
 - (i) the carrying out of the Alt HAN Activities;
 - (ii) the provision of Alt HAN Services in respect of:
 - (A) Smart Metering Systems that will use (or be capable of using) installed Shared Solution Alt HAN Equipment;
 - (B) Smart Metering Systems that will use (or be capable of using) installed Point-to-Point Alt HAN Equipment; and
 - (C) Point-to-Point Alt HAN Equipment that is provided to, but not installed by, Relevant Supplier Parties;
- (c) shall be accompanied by a detailed work plan showing the activities and projects to which the relevant costs and expenses relate; and
- (d) may make reasonable provision for contingencies.

~~Z4.16~~Z4.17 Each Draft Alt HAN Budget must provide for limits (both individually and in the aggregate) on costs and expenses not expressly provided for in the budget which can be incurred without having to amend the budget.

Z4.17A The Board may prepare and circulate to all Relevant Supplier Parties, the Secretary of State and Authority separate budgets in respect of:

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(a) the DAB Phase Financing Alt HAN Costs (a **Draft Alt HAN (DAB Phase) Financing Budget**); and

~~(a)~~(b) the Roll Out Financing Alt HAN Costs (a **Draft Alt HAN (Roll Out) Financing Budget**).

Z4.17B Each Draft Alt HAN Financing Budget that the Board decides to prepare and circulate:

(a) shall set out the Board's good-faith estimate of the DAB Phase Financing Alt HAN Costs or, as applicable, Roll Out Financing Alt HAN Costs, that the Board anticipates will be incurred (or committed to) over whatever period the Board may determine ~~9~~provided such period shall be no longer than necessary to support the DAB Phase Financing or Roll Out Phase Financing, as relevant);

(b) shall be accompanied by evidence showing the basis for any estimate provided in accordance with paragraph (a) above; and

~~(a)~~(c) may make reasonable provision for contingencies.

Approval of Budgets

~~Z4.17~~**Z4.18** In relation to (1) the Draft Alt HAN Budget circulated in any Regulatory Year in respect of the next two Regulatory Years commencing thereafter and (2) any Draft Alt HAN Financing Budget, the Board shall:

- (a) arrange for the circulation to all the Relevant Supplier Parties of the comments received from each Relevant Supplier Party regarding the Draft Alt HAN Budget or Draft Alt HAN Financing Budget during the 20 Working Days following the date of its circulation;
- (b) consider and respond to those comments, and circulate its responses to all Relevant Supplier Parties;
- (c) to the extent that it considers it appropriate to do so, amend the Draft Alt HAN Budget and/or the accompanying work plan or the Draft Alt HAN Financing

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Budget in the light of those comments; and

- (d) submit that Draft Alt HAN Budget or Draft Alt HAN Financing Budget to the Forum for its approval, subject to any amendments that the Forum may determine,

and (1) the Draft Alt HAN Budget in such form as it may be approved by the Forum shall be the **Approved Alt HAN Budget** for the relevant Regulatory Year and (2) any Draft Alt HAN Financing Budget in such form as it may be approved by the Forum shall be an Approved Alt HAN Financing Budget for the period covered by any such Approved Alt HAN Financing Budget.

~~Z4.18~~Z4.19 The Board shall, promptly upon its approval by the Forum, provide the DCC with a copy of the Approved Alt HAN Budget and any Approved alt HAN Financing Budget, -together (in each case) with such supporting information as may reasonably be requested by the DCC.

Amendments to Budgets

~~Z4.19~~Z4.20 The Approved Alt HAN Budget relating to each Regulatory Year may be amended from time to time (whether before, during or after that Regulatory Year, and including in respect of Alt HAN Costs already incurred) and any Approved Alt HAN Financing Budget may be amended from time to time (including in respect of Alt HAN Costs already incurred), provided that, (in each case):

- (a) the Board has first followed the procedure set out in Section Z4.18 in relation to the amendment as if it were a Draft Alt HAN Budget or a Draft Alt HAN Financing Budget; and
- (b) the Forum has approved either the proposed amendment or such alternative amendment as it may determine.

Add to Section Z6 as follows:

Z6.1

Z6.1 For the purpose of this Section Z, unless the context otherwise requires, the following words shall have the meaning given to them below:

Alt HAN Activities has the meaning given to that expression in Standard Condition 55.6 of the Electricity Supply Licence and Standard Condition 49.6 of the Gas Supply Licence

Alt HAN Costs has the meaning given to that expression in Section Z4.2 (Alt HAN Costs and Expenses).

Alt HAN Equipment has the meaning given to that expression in Standard Condition 55.8 of the Electricity Supply Licence and Standard Condition 49.8 of the Gas Supply Licence.

Alt HAN Inventory has the meaning given to that expression in Section Z4.30 (Establishment and Maintenance of the Alt HAN Inventory).

Alt HAN Secretariat has the meaning given to that expression in Section Z3.1 (Alt HAN Secretariat).

Alt HAN Services has the meaning given to that expression in Standard Condition 55.7 of the Electricity Supply Licence and Standard Condition 49.7 of the Gas Supply Licence.

Alternate Chair has the meaning given to that expression in Section Z1.10 (Election of Forum Chair and Alternate Chair).

AltHANCo has the meaning given to that expression in Section Z2.1 (Establishment of AltHANCo).

AltHANCo Election Protocol has the meaning given to that expression in

Section Z2.14 (Election of Board Members).

AltHANCo Objectives has the meaning given to that expression in Section Z2.5 (AltHANCo Objectives).

Approved Alt HAN Budget has the meaning given to that expression in Section Z4.18 (Approval of Budgets).

Approved Alt HAN Charging Data has the meaning given to that expression in Section Z4.28 (Approved Alt HAN Charging Data).

Approved Alt HAN Financing Budget has the meaning given to that expression in Section Z4.18 (Approval of Budgets).

Board has the meaning given to that expression in Section Z2.3 (Establishment of AltHANCo).

Board Member has the meaning given to that expression in Section Z2.8 (Board Composition).

Central Point-to-Point Alt HAN Equipment means Point-to-Point Alt HAN Equipment which is not Opted-out Alt HAN Equipment.

Central Shared Solution Alt HAN Equipment means Shared Solution Alt HAN Equipment which is not Opted-out Alt HAN Equipment.

Chair has the meaning given to that expression in Section Z2.23 (Appointment of the Chair).

DAB Phase Financing means any debt financing entered into by AltHANCo for the purpose of financing Alt HAN Costs in respect of:

(a) the design assurance and build phase of the technological solution development of the

Alt HAN Equipment;

(b) the operational mobilization work necessary for the roll-out of the chosen Alt HAN Equipment; and

(c) fees, costs and expenses in connection with the same.

DAB Phase Financing Alt HAN Costs has the meaning given that expression in Section Z4.2(c) (Alt HAN Costs and Expenses)

DCC Licence means the licence for the provision of a smart meter communication service granted pursuant to sections 6(1A) and (1C) of the Electricity Act 1989.

Draft Alt HAN Budget has the meaning given to that expression in Section Z4.15 (Draft Budgets and Work Plans).

Draft Alt HAN Charging Data has the meaning given to that expression in Section Z4.22 (Draft Alt HAN Charging Data).

Draft Alt HAN Financing Budget means a Draft Alt HAN (DAB Phase) Financing Budget, or a Draft Alt HAN (Roll Out) Financing Budget.

Draft Alt HAN (DAB Phase) Financing Budget has the meaning given to that expression in Section Z4.17A (Draft Budgets and Work Plans)

Draft Alt HAN (Roll Out) Financing Budget has the meaning given to that expression in Section Z4.17A (Draft Budgets and Work Plans).

Exempt Premises has the meaning given to that expression in Standard Condition 55.10 of the Electricity

Supply Licence and Standard Condition 49.10 of the Gas Supply Licence.

Exempt Premises List has the meaning given to that expression in Standard Condition 55.12 of the Electricity Supply Licence and Standard Condition 49.12 of the Gas Supply Licence.

Explicit Charges has the meaning given to that expression in Section K11.1 (Definitions).

Explicit Charging Metrics has the meaning given to that expression in Section K11.1 (Definitions).

Forum Chair has the meaning given to that expression in Section Z1.10 (Election of Forum Chair and Alternate Chair).

Forum Member has the meaning given to that expression in Section Z1.7 (Appointment of Members).

Forum Objectives has the meaning given to that expression in Section Z1.3 (Forum Objectives).

Forum Sub-Group has the meaning given to that expression in Section Z1.42 (Establishing Forum Sub-Groups).

Forum Sub-Group Member has the meaning given to that expression in Section Z1.46 (Membership of Forum Sub-Groups).

Forum Voting Protocol means the SEC Subsidiary Document of that name set out in Appendix [TBC].

Opted-out Alt HAN means Alt HAN Equipment which is installed

Equipment	and maintained at premises otherwise than under and in accordance with the arrangements set out at this Section Z.
Relevant Preceding Period	has the meaning given to that expression in Section Z1.30 (Voting).
Relevant Supplier Party	means a Supplier Party which is required in accordance with standard condition 39 of an Electricity Supply Licence or standard condition 33 of a Gas Supply Licence (in each case entitled 'Smart Metering System – Roll-out, Installation and Maintenance') to install a Smart Metering System at any premises.
<u>Roll Out Financing Alt HAN Costs</u>	<u>has the meaning given that expression in Section Z4.2(d) (Alt HAN Costs and Expenses).</u>
<u>Roll Out Phase Financing</u>	<u>means any debt financing entered into by AltHANCo for the purpose of raising finance to support the roll out of the Alt HAN Equipment, related ancillary services and any fees, costs and expenses in connection with the same.</u>
Supplier Weighted Vote	has the meaning given to that expression in Section Z1.27 (Voting).
Transitional Decision	has the meaning given to that expression in Section Z5.3 (Forum Decisions).