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MP118 'Communications Hubs Finance Charges'

Modification Report Version 0.2



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. This document will be updated as this modification progresses.

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This document also has an annexe:

- **Annex A** contains the redlined changes to the SEC required to deliver the Proposed Solution

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1. Summary

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

Currently, the Smart Energy Code (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 these SEC Sections are amended so that the DCC 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, implementation is recommended for 5 November 2020 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 for the first round of CH financing for the Communications Service Provider (CSP) North.

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 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 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 solution to the problem is a change to the drafting of SEC Sections J1.2 and J1.7 so that DCC is no longer obliged to bill Communications Hub Finance Charges under separate invoices. No business requirements need to be developed.

All invoiced items will be included on one invoice and paid to one bank account.

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 as 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 but did not have any specific comments on the proposal.

The Working Group understood the issue and agreed that it should be addressed. A 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 in cost-benefit 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. They were concerned that if one item was disputed it would mean they have to dispute the whole invoice or could they 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.

Views against the General SEC Objectives

Proposer's views

Objective (g)¹

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

Industry views

The Working Group questioned the reason for combining the invoices and how much additional work this would be for SEC Parties. They were also concerned about the dispute process.

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

Appendix 1: Progression timetable

This Proposal will be issued for Refinement Consultation. Once this has concluded and the responses are reviewed it will be presented to Panel and proceed to the Report Phase.

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

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
CSC	Change Sub-Committee
CSP	Communications Service Provider
DCC	Data Communications Company
SEC	Smart Energy Code
SECAS	Smart Energy Code Administrator and Secretariat