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Paper Reference:	**SECP_78_1303_22**
Action:	**For Decision**

DP114 progression

1. Purpose

Draft Proposal DP114 'Alt HAN P2P Charging Data' is ready to be converted to a Modification Proposal. We are recommending that this modification be progressed directly to the Report Phase This paper sets out our proposed approach for progressing this modification for the Panel's approval.

The draft Modification Report setting out the detail of the modification can be found in Appendix A.

2. Summary of the proposal

What is the issue?

The Smart Energy Code (SEC) details how the Alternative Home Area Network Company (Alt HAN Co) sets out its charging methodology and how it recovers its costs in SEC Section Z 'Alt HAN Arrangements'. Currently there are nine data items that Alt HAN Co is obligated to submit to the Data Communications Company (DCC) each year to help determine the value of these charges.

Some of these data items aren't wholly obtainable and therefore the DCC can't accurately complete the calculation used to determine one of the main charges – the 'average monthly incremental cost'. This results in the DCC recovering charges from Supplier Parties that don't match to the costs it incurs. With the current text in SEC Section Z, the DCC will continue to inaccurately charge Supplier Parties.

What is the solution?

The Proposed Solution is to amend SEC Section Z 'Alt Han Arrangements' so that Alt HAN Co can ensure that the 'average monthly incremental costs' in the Charging Data is calculated accurately.

3. Proposed progression

We believe that this Draft Proposal should be progressed directly to the Report Phase. This is a straightforward issue and solution which both the Alt HAN Forum and the DCC believe resolves the problem. The problem and solution have previously been discussed and agreed in the Alt HAN Forum. We are recommending adding the Modification Proposal to the scope of the June 2020 SEC Release.

Determination approach

We are recommending a Self-Governance approach for this Draft Proposal. This Draft Proposal will not discriminate between any SEC Parties or have any material impacts on either competition nor governance. Because it is addressing a charging calculation to ensure recovered charges from Supplier Parties are accurate, rather than proposing any amendments to the methodology, we believe this constitutes a change under Self-Governance.

Implementation approach

We recommend an implementation approach of:

- 25 June 2020 (June 2020 SEC Release) if a decision to approve is received by 10 June 2020.

Although the Panel agreed to close the scope of the June 2020 SEC Release in January 2020, we believe it would be appropriate to include this modification in this release as an exception in order to ensure the SEC aligns with the agreed Alt HAN arrangements as soon as possible.

4. Recommendations

The Panel is requested to:

- **AGREE** that DP114 should be converted to a Modification Proposal;
- **AGREE** that MP114 should be progressed to the Report Phase;
- **APPROVE** the Modification Report;
- **APPROVE** the implementation approach; and
- **AGREE** that MP114 should be progressed as a Self-Governance.

Harry Jones

SECAS Team

6 March 2020

Attachments:

- **Appendix A:** MP114 draft Modification Report
    - **Annex A:** MP114 legal text

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DP114
‘Alt HAN P2P Charging Data’

Modification Report

Version 0.3

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 one annex:

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

Contact

If you have any questions on this modification, please contact:

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1. Summary

This proposal was raised by David Lyons of E.ON Energy.

The SEC details how the Alternative Home Area Network Company (Alt HAN Co) sets out its charging methodology and how it recovers its costs in SEC Section Z 'Alt HAN Arrangements'. Currently there are nine data items that Alt HAN Co is obligated to submit to the Data Communications Company (DCC) each year to help determine the value of these charges.

Some of these data items aren't wholly obtainable and therefore the DCC can't accurately complete the calculation used to determine one of the main charges – the 'average monthly incremental cost'. This results in the DCC recovering charges from Supplier Parties that don't match to the costs it incurs. With the current text in SEC Section Z, the DCC will continue to inaccurately charge Supplier Parties.

The Proposed Solution is to amend SEC Section Z 'Alt Han Arrangements' so that Alt HAN Co can ensure that the 'average monthly incremental costs' in the Charging Data is calculated accurately.

This proposal will impact Supplier Parties and the DCC (who have confirmed the impacts are only financial and regulatory). No DCC Central Systems are impacted so there are no DCC costs associated with this solution. The targeted implementation date is the June 2020 SEC Release.

2. Issue

What are the current arrangements?

The SEC sets out how Alt HAN Co recovers its costs, via both Fixed and Explicit Charges. Fixed charges cover all Alt HAN Activities e.g. establishment and maintenance of a database and inventory log. Explicit charges cover all Alt HAN Services such as the manufacture and installation of Alt HAN equipment etc. The process for determining charges is set out in SEC Section Z.

SEC Section Z sets out the nine data items that Alt HAN Co is required to submit to the DCC each year, as part of the Approved Charging Data. These are sets of data points for Shared Installations, Point to Point (P2P) Installations and P2P stock. Each set has a 'total incremental cost' (a), 'average number of solutions' (b) and 'average monthly incremental cost' (c) component.

Alt HAN Co's understanding of the policy intent is that:

- The Charging Data items are defined prescriptively, with limited room for interpretation.
- The 'average monthly incremental cost' (c) should be used by the DCC to determine the monthly Explicit Charges.
- The 'average monthly incremental cost' (c) should be calculated with transparent arithmetic, through using the prior two data points (i.e. (a) / (b) / 12 = (c)).

What is the issue?

In practice, the P2P data points are partially unobtainable and do not facilitate the intended calculation approach of the 'average monthly incremental cost'. Delivering the Charging Data as it is prescribed in SEC, whilst also preserving the intended arithmetic, would result in the DCC recovering charges from Supplier Parties that bear no relation to the actual costs incurred by Alt HAN Co. Some of the main issues are outlined below and are all a result of the current text used with SEC Section Z4.21 onwards under the heading "Provision of Information to the DCC":

- Alt HAN Co will incur costs for P2P devices upon delivery, and this cost cannot be broken down into a pre-install and post-install component.
- Alt HAN Co will incur costs for P2P devices that have been provided prior to that Regulatory Year.
- P2P equipment will not be issued in 'Sets'.
- There is no clear rationale for using 'total' rather than 'average'.
- Alt HAN Co may not have enough confidence in the installation forecast data, should it be requested from Suppliers to calculate the average monthly cost.
- Due to limitations of data items, it is not possible to calculate an appropriate average monthly incremental cost using the intended calculation approach.

What is the impact this is having?

If no action is taken Alt HAN Co will be unable to obtain the appropriate data points in order to facilitate the intended calculation approach of the ‘average monthly incremental cost’.

This modification would allow Alt HAN Co to fulfil the requirements of the SEC by delivering the Charging Data as prescribed, whilst also preventing the DCC from recovering inaccurate charges from Supplier Parties that bear no relation to the actual costs incurred by Alt HAN Co.

It would also allow the Forum to meet objective b(i), outlined in SEC Section Z1.3, ‘to facilitate the economic and efficient carrying out of the Alt HAN Activities and provision of the Alt HAN Services’.

3. Solution

Proposed Solution

The Proposed Solution is to amend SEC Section Z 'Alt Han Arrangements' so that Alt HAN Co can ensure that the 'average monthly incremental costs' in the Charging Data is calculated accurately.

The proposed amendments are:

- Combining the 'total annual incremental cost' for installed and in-stock P2P Equipment in to one single data item.
- Ensuring the 'total annual incremental cost' does not exclude costs that relate to devices provided in prior regulatory years (e.g. credit repayments owed to an external funder).
- Removing the requirement for Alt HAN Co to submit installation forecasts for P2P Equipment.

By making these amendments, Alt HAN Co can ensure that the required Charging Data that is codified in the SEC results in the DCC recovering charges from Supplier Parties which is more accurate than at present, whilst still retaining the original calculation and methodology. By removing the reference to P2P data points due to their partially unobtainable nature, this will be a more realistic analysis of the costs uncured by Alt HAN Co. This solution has been confirmed to align with the Government Department for Business, Energy and Industrial Strategy's (BEIS) intent to ensure that charging does not become burdensome for Supplier Parties.

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

Supplier Parties are impacted by this modification by the change to the Charging Data which will result in an alteration in the way DCC recovers charges from them.

The DCC is impacted by this modification due to this proposed change to the Charging Data which will be used to recover these charges from Supplier Parties. This impact to the DCC is limited only to regulatory and financial changes.

DCC System

There are no impacts to DCC Central Systems. Changes are required to DCC finance systems but the DCC has confirmed that these do not require an Assessment and will not be an explicit charge to industry.

SEC and subsidiary documents

The following parts of the SEC will be impacted:

- Section Z 'Alt HAN Arrangements'

The changes to the SEC required to deliver the Proposed Solution can be found in Annex A.

Consumers

Consumers will be positively impacted through not picking up any pass-through of costs incurred by Supplier Parties if they are incorrectly charged by the DCC.

Other industry Codes

This modification will have no impact on any other industry Codes.

Greenhouse gas emissions

This modification will have no impact on greenhouse gas emissions.

5. Costs

DCC costs

There are no DCC costs to implement this modification.

SECAS costs

The estimated Smart Energy Code Administrator and Secretariat (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 associated with the implementation of this modification.

6. Implementation approach

Recommended implementation approach

SECAS is recommending an implementation date of:

- **25 June 2020** (June 2020 SEC Release) if a decision to approve is received on or before 10 June 2020.

Due to the nature of this change being limited to just Alt HAN governance, there is no lead time associated with the change that would otherwise be the case if it were impacting the DCC Central Systems. Furthermore, this modification will not have any impacts on the SEC arrangements and is required to deliver agreed changes under the Alt HAN governance.

The June 2020 SEC Release is the next available Release this change could be incorporated into. The Panel has previously agreed the scope of this release, which did not include this modification; its inclusion in this release would therefore be subject to the Panel's approval to add it to the scope.

7. Assessment of the proposal

Observations on the issue

The Panel Sub-Committees stated that they had no interest in the Draft Proposal as it had no relevance to their areas of discussion.

The Alt HAN Forum commented on the Draft Proposal stating that it agreed with it being raised and implemented at the soonest possible time. This was to ensure an accurate calculation is possible for the Charging Data and that the DCC can therefore recover more accurate charges from Supplier Parties. Additionally, two Alt HAN Forum sub-groups also endorsed both the rationale for the Draft Proposal and the Proposed Solution – the Alt HAN Supplier Contract Governance Regulatory Group and the Alt HAN Finance Sub-Group.

When taken to the Change Sub-Committee (CSC), there were no comments on the Draft Proposal and it only noted that it should proceed to Panel for conversion as it helps to solve an Alt HAN related issue to its governance.

Views against the General SEC Objectives

Proposer's views

Objective (h)

The Proposer believes this Draft Proposal better facilitates SEC General Objective (h)[1], believing that this will help to better fulfil the operation of Alt HAN's arrangements with the DCC concerning the calculation and accuracy of Charging Data.

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

Appendix 1: Progression timetable

If approved for conversion to a Modification Proposal after being presented to Panel, it will go directly to the Report Phase. A Modification Report Consultation will be issued shortly afterwards with the intention of being taken to the April 2020 Change Board meeting.

Progression timetable	
Action	**Date**
Change Sub-Committee meeting	25 February 2020
Modification Report to Panel meeting	13 March 2020
Modification Report Consultation	16 March 2020 – 3 April 2020
Change Board vote	22 April 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**
Alt HAN Co	Alternative Home Area Network Company
BEIS	Government Department for Business, Energy and Industrial Strategy
CSC	Change Sub-Committee
DCC	Data Communications Company
P2P	Point to Point
SEC	Smart Energy Code
SECAS	Smart Energy Code Administrator and Secretariat

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DP114 'Alt HAN P2P Charging Data'

Annex A

Legal text – version 0.2

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 7.0.

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

Section Z 'Alt HAN Arrangements'

Amend Sections Z4.23 – Z4.27 as follows:

Draft Alt HAN Charging Data

Z4.22 The Board shall during each Regulatory Year prepare and circulate to all Relevant Supplier Parties, the Secretary of State and the Authority draft information in respect of the Explicit Charges for Alt HAN Equipment for the next Regulatory Year commencing thereafter (the **Draft Alt HAN Charging Data**).

Z4.23 Each set of Draft Alt HAN Charging Data shall consist of the information:

(a) referred to in Section Z4.24 in respect of ~~Smart Metering Systems that will use (or be capable of using) installed~~ Central Shared Solution Alt HAN Equipment; and

(b) referred to in Section Z4.25 in respect of ~~Smart Metering Systems that will use (or be capable of using) installed~~ Central Point-to-Point Alt HAN Equipment~~; and~~.

~~(c) referred to in Section Z4.26 in respect of Central Point-to-Point Alt HAN Equipment that is provided to, but not installed by, Relevant Supplier Parties.~~

Shared Solution Alt HAN Equipment

Z4.24 The information referred to in this Section Z4.24 is the Board's best estimate of:

(a) the total annual incremental cost of the provision of Alt HAN Services in the relevant Regulatory Year in respect of Smart Metering Systems that will use (or be capable of using) installed Central Shared Solution Alt HAN Equipment;

(b) the average number of Smart Metering Systems during the relevant Regulatory Year that will use (or be capable of using) installed Central Shared Solution Alt HAN Equipment (excluding any in relation to which the Responsible Supplier has elected to use Opted-out Alt HAN Equipment); and

(c) the average monthly incremental cost (expressed in £ per Smart Metering System per month) of the provision of Alt HAN Services in the relevant Regulatory Year in respect of each Smart Metering System that will use (or be capable of using) installed Central Shared Solution Alt HAN Equipment during that Regulatory Year (excluding any in relation to which the Responsible Supplier has elected to use Opted-out Alt HAN Equipment).

Point-to-Point Alt HAN Equipment

Z4.25 The information referred to in this Section Z4.25 is the Board's best estimate of:

(a) the total annual incremental cost of the provision of Alt HAN Services in the relevant Regulatory Year in respect of ~~Smart Metering Systems that will use (or be capable of using) installed~~ Central Point-to-Point Alt HAN Equipment that will be (or will have been) provided to Relevant Supplier Parties by the end of the relevant Regulatory Year (whether provided during the relevant or previous Regulatory Year);

(b) the average number, during the relevant Regulatory Year, of items of~~Smart Metering Systems during the relevant Regulatory Year that will use (or be capable of using) installed~~ Central Point-to-Point Alt HAN Equipment that will have been provided to Relevant Supplier Parties (whether provided in the relevant or any previous Regulatory Year) ~~(excluding any in relation to which the Responsible Supplier has elected to use Opted-out Alt HAN Equipment); and~~;

~~(b)~~(c) the average monthly incremental cost (expressed in £ per item of Central Point-to-Point Alt HAN Equipment) of the provision of Alt HAN Services in the relevant Regulatory Year in respect of Central Point-to-Point Alt HAN Equipment that will have been provided to Relevant Supplier Parties by the end of the Regulatory Year (whether provided during the relevant or any previous Regulatory Year); and

~~(c)~~(d) the average monthly incremental cost (expressed in £ per Smart Metering System) of the provision of Alt HAN Services in the relevant Regulatory Year in respect of each Smart Metering System that will use (or be capable of using) installed Central Point-to-Point Alt HAN Equipment during that Regulatory Year (excluding any in relation to which the Responsible Supplier has elected to use Opted-out Alt HAN Equipment).

~~*Stock Level Point-to-Point Alt HAN Equipment*~~

Z4.26 Not used~~The information referred to in this Section Z4.26 is the Board's best estimate of:~~.

~~(a) the total annual incremental cost of the provision of Alt HAN Services in the relevant Regulatory Year in respect of Central Point-to-Point Alt HAN Equipment that will be provided to, but not installed by, Relevant Supplier Parties during that Regulatory Year;~~

~~(b) the total number of sets of Central Point-to-Point Alt HAN Equipment that will be provided to, but not installed by, Relevant Supplier Parties during that Regulatory Year; and~~

~~(c) the average monthly incremental cost (expressed in £ per set of Point-to-Point Alt HAN Equipment) of the provision of Alt HAN Services in the relevant Regulatory Year in respect of each set of Point-to-Point Alt HAN Equipment that will be provided to, but not installed by, Relevant Supplier Parties during that Regulatory Year.~~

Z4.27 The incremental costs referred to in Sections Z4.24 ~~to~~and Z4.2~~6~~5 shall include all the costs of making available and providing the relevant Alt HAN Services but shall not include any costs or expenses in relation to the carrying out of the Alt HAN Activities.