Department of Energy & Climate Change

Consultation Response on Alternative Home Area Network (HAN) Solutions

Government Response to the Consultation on the delivery model and regulatory requirements for Alternative HAN

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1. Executive Summary and Introduction

1.1 Introduction

1. The Government is committed to ensuring that every home and small business in the country is offered a smart meter by 2020, delivered as cost effectively as possible. The roll-out of smart meters is an important national modernisation programme that will bring major benefits to businesses and the nation as a whole.
2. Smart meters are the next generation of gas and electricity meters. They will offer a range of intelligent functions and provide consumers with more accurate information, bringing an end to estimated billing. Consumers will have near real-time information on their energy consumption to help them control and manage their energy use, save money and reduce emissions.
3. A standard smart metering installation will in most instances include gas and electricity smart meters, an In-Home Display (IHD) (for domestic premises) and a communications hub. These devices will communicate with each other via a home area network (HAN), as defined by the Smart Metering Equipment Technical Specifications (SMETS). Suppliers are required to make consumption and tariff information available to the consumer via the HAN. This will allow consumers to see energy information on their IHD, but will also allow them to link a range of other smart devices consumer access devices (CADs) to the HAN.
4. The 2.4GHz ZigBee and 868MHz HAN standards are expected to be suitable for the communications links between all smart metering equipment in approximately 96.5% of GB premises[1] without the need for range extending equipment. Alternative HAN (or 'Alt HAN') is the generic name given to the solution(s) that will be needed to provide a HAN in the remaining 3.5% of premises that are unlikely to be served by either the 2.4GHz or 868MHz solutions without range-extending equipment.
5. Alternative HAN equipment may be needed at consumer premises to ensure one or more of the following:
    - Connection of an IHD to the HAN - this allows consumers to see their consumption and tariff information.
    - Connection of a CAD to the HAN - this allows CADs to access updated consumption and tariff information direct from smart meter. CADs could include smart appliances (for example a customer could programme an appliance to switch off when the tariff is highest) or smart heating controls (for example, using consumption and tariff information from the meter will allow smart metering controls to tell consumers how much it will cost to make a change to their heating schedule).
    - Connection of a Pre Payment Metering Interface Device (PPMID) to the HAN - to facilitate the use of prepayment services by consumers whose meters are in locations which are difficult to access.
    - Connection of a distant Gas Meter to the communications hub and so the HAN.

[1] Further information on this is available in https://www.gov.uk/government/consultations/consultation-on-home-area-network-solutions

1.2 Purpose of this document

6. The Government published a Consultation on Alternative HAN Solutions[2] on 17 December 2015 (the 'December consultation'). The consultation set out proposals on the detailed design of the Alternative HAN arrangements and the regulatory provisions that will be needed to underpin them.
7. This document sets out the Government's conclusions on the proposals in the consultation. Alongside this, updated legal drafting reflecting these conclusions has also been published and is available in Annex B. These arrangements will help provide the foundation for energy suppliers to work together on Alternative HAN and drive forward delivery of Alternative HAN equipment.
8. This document also sets out further information on the set up of the Alt HAN Forum and Alt HAN Co - see Annex C of this document.

1.3 Summary of Conclusions

9. The Government received 18 responses from a range of sectors including large and small energy suppliers, device manufacturers, the Authority (Ofgem) and the Data and Communications Company (DCC) (the full list of respondents is provided in Annex A).

Alternative HAN Principles

10. In the Home Area Networks Solution Government Response on Alternative HAN[3] published in December 2015, the Government concluded that:
    - Collective action was needed to secure efficient Alternative HAN solutions - energy suppliers should be able to collaborate to develop and establish contractual arrangements for the provision of Alternative HAN equipment.
    - Regulatory intervention was needed to drive forward this collective action - suppliers should be required to work together on Alternative HAN. This acknowledged suppliers' concerns in relation to competition law.
    - A mandate on suppliers to use the centrally procured solution should not be required - the Government noted that there should be appropriate incentives to utilise the Alternative HAN solutions procured through the central arrangements without a mandate.
11. The December consultation asked some further policy questions on Alternative HAN principles including a further question on mandating use of the collectively procured solutions, a question on the role of Alternative HAN for non-domestic suppliers and the proposed scope of regulation.
12. The Government remains of the view that there will be sufficient and appropriate incentives to utilise the collectively procured solutions without a mandate. We will therefore not be introducing a mandate on suppliers to use the collectively procured Alternative HAN solutions. However we will be introducing additional requirements to address concerns around any installation of individually procured equipment - further information on this is set out in section 2.2.

[2] https://www.gov.uk/government/consultations/consultation-on-alternative-home-area-network-han-solutions%20
[3] https://www.gov.uk/government/consultations/consultation-on-home-area-network-solutions

13. The Government also concludes that the scope of regulation for Alternative HAN, through a combination of licence conditions and Smart Energy Code (SEC) provisions, will include the following (as proposed in the December consultation):
    - high level requirements on suppliers to collaborate to develop Alternative HAN solutions;
    - the governance structure for Alternative HAN decision making;
    - the contracting vehicle for Alternative HAN procurement; and
    - the charging arrangements for the recovery of Alternative HAN related costs via the DCC.

Alternative HAN Delivery Model

14. The December consultation set out two potential delivery models for Alternative HAN, with a preference for Model A:
    - Model A: A separate supplier only governance structure, established in the SEC, with a new contracting vehicle for Alternative HAN.
    - Model B: A supplier sub-committee, established under the current SEC governance structures, with the SEC Company (SECCo) providing the contracting vehicle.
15. The Government concludes that Model A is the most appropriate delivery model to deliver Alternative HAN as this approach keeps both accountability and authority for making decisions solely with suppliers. Alternative HAN will be delivered through a supplier only governance body (the Forum) established in the SEC and a supplier run contracting vehicle (the Alternative HAN Company or 'Alt HAN Co').

Alternative HAN Regulatory Provisions

16. The December consultation set out further detail on the regulatory components of Model A, supported by draft legal text.
17. This included:
    - DCC licence conditions: to extend the scope of the SEC to include Alternative HAN arrangements and to make adjustments to DCC's allowable revenues in order to allow Alternative HAN costs to be recovered from suppliers by DCC;
    - Standard licence conditions of electricity and gas supply (the 'Supply Licence Conditions'): to require each energy supplier to act in conjunction and in cooperation with other suppliers to develop and establish contractual arrangements for the provision of Alternative HAN solutions and to make consequential changes to the operational licence conditions; and
    - SEC drafting: to introduce a new supplier only governance body and contracting vehicle for Alternative HAN. It also describes the SEC modification process, charging and other arrangements associated with the Alternative HAN arrangements.
18. This document sets out stakeholder comments on each of the consultation questions and Government conclusions including any changes to the legal drafting. Key conclusions include:
    - We have concluded that the most appropriate Forum voting model is option 1: where votes are split based on amount spent on Alternative HAN. Given the evidence provided by suppliers that non-domestic suppliers are likely to require

Alternative HAN, we want to ensure that their views are appropriately represented in Forum voting and we think this approach is most likely to give fair representation to all parties.

- We have revised the composition of Alt HAN Co Board following stakeholder comments - this now comprises a minimum of three elected Directors.
- We have made some amendments to ensure the policy intention is clear in the legal drafting responding to stakeholder comments including:
    - Ensuring that the costs that fall into central costs and targeted costs respectively are clear (see section 4.9).
    - Improving the drafting to set out more clearly what information needs to be provided in the budget and how this links to charges (see section 4.11).
    - Ensuring that the timetable for the Alt HAN budget aligns with the DCC's charging statement timetable (see section 4.11).
    - Clarifying what we mean by Alt HAN usage in the charging arrangements (see section 4.9).
    - Adding provisions to set out what happens to targeted charges in a scenario where equipment is already in place and a supplier chooses to install an individually procured Alt HAN solution (see section 4.9).
    - Clarifying that certain contracts could be procured before an Exempt Premises List has been approved (see section 4.3).

1.4 Next Steps

19. The legal drafting will be laid in Parliament alongside publication of this response document and, subject to successfully completing the Parliamentary process, will be brought into legal effect in July 2016.
20. In order to ensure early set up of the Forum and Alt HAN Co, the Government is facilitating some of the initial governance set up arrangements. Further information on these processes and actions for suppliers are set out in Annex C of this document.

2. Alternative HAN Principles

2.1 Introduction

21. The Alternative HAN consultation asked some policy questions on Alternative HAN principles including:

    - A mandate on suppliers to use the centrally procured solution - in the December 2015 consultation response, we concluded that a mandate on suppliers to use the collectively procured solution should not be required but asked a further question on this topic as part of the December consultation.
    - The role of Alternative HAN in the non-domestic sector, in particular to inform decisions on Alternative HAN governance and charging.
    - Views on proposed scope of regulatory intervention i.e. what should be set out in regulation as opposed to contractual arrangements.

2.2 Mandate to Use Collectively Procured Solutions

Summary of Issue under consideration

In the Home Area Networks Solution Government Response on Alternative HAN[4], the Government concluded that a mandate on suppliers to use the centrally procured solution should not be required. The Government noted that there should be appropriate incentives to utilise the Alt HAN solutions procured through the central arrangements without a mandate.

We asked a further consultation question on this in the December Alternative HAN consultation. We noted that there were appropriate incentives in place that should encourage suppliers to use the collectively procured solutions and that ruling out other solutions was unnecessary.

Consultation Question 1: Do you agree with the proposal that we do not need to mandate the use of the collective solutions?

Summary of responses

22. Six respondents agreed that a mandate was not necessary. Arguments included that it would be too expensive for suppliers to develop their own solutions and so a mandate would not be necessary whereas others argued that suppliers should be allowed to install their own solution if it was suitable.

23. Eight respondents disagreed and argued that we should mandate suppliers to only use the collectively procured solution. Reasons given included:

    - Concerns related to interoperability of individually provided solutions.

[4] https://www.gov.uk/government/consultations/consultation-on-home-area-network-solutions

- Concerns about access to properties, engagement with landlords and the customer experience if multiple parties are trying to access buildings.
- Concerns around providing certainty on market size as part of procurement.

Government response

24. The Government concludes that we should not introduce a mandate requiring suppliers to use the collectively procured solution.

25. We believe there are appropriate incentives for suppliers to use collectively procured solutions, including:
    - Requirements on suppliers to participate in governance processes - all suppliers will have a say in which technologies are selected.
    - Suppliers developing their own alternative solutions would need to bear the costs of the alternative provision, in addition to their contribution to the central costs for the Alternative HAN arrangements.
    - When installing their own equipment, on change of supplier, suppliers may face stranded asset risks.
    - Suppliers may also be dis-incentivised by having to go through the process of gaining separate approvals from landlords.

26. We also explained in the consultation that preventing the use of alternative options would be tantamount to introducing a licence obligation on suppliers to use, where needed, the solutions procured through the collective Alternative HAN arrangements. We explained that we believed that there were a number of undesirable consequences of taking this next step including that it may preclude other genuinely more cost effective solutions and require further detailed definition of the solutions in the regulatory framework.

27. Given the above, and in accordance with the better regulation principles that it is undesirable to introduce unnecessary obligations, we do not think that it is necessary or appropriate to mandate suppliers to use the collectively procured solutions.

28. Therefore we have concluded not to introduce a mandate to use the collectively procured Alternative HAN solutions. However, in response to stakeholder concerns, we have added additional provisions around installation of individually procured equipment. These are:
    - A supply licence condition requiring any supplier installing their own solution to ensure that this does not interfere with the location, operation or maintenance of the collectively procured arrangements, both technically and with regard to access to buildings.
    - A requirement on suppliers installing their own equipment to inform the consumer that the equipment may (if applicable) need to be replaced on change of supplier in order to maintain smart functionality.
    - Requirements on suppliers installing their own solution to provide information to update the Alternative HAN inventory on what has been installed - so that on change of supplier the new supplier knows what is installed at the premises and can decide if they need to do anything. This is to address concerns from

suppliers over confusion at change of supplier if they do not know in advance what equipment is in place at the premises.

- We have also addressed concerns raised by stakeholders that collective solutions will need to be removed if a supplier decides to install their own equipment in a premises. We have clarified in the charging arrangements that the supplier will not be charged the targeted charges for the existing central equipment and will not need to remove this equipment to avoid the targeted costs (more information on this is set out in section 4.9).

29. There are a number of anticipated advantages to using the collectively procured solutions including increased efficiency, reduced risk of asset stranding and a coordinated approach to building access. Suppliers are able to raise to the Forum any solutions they would like to be adopted by the collective arrangements (and note multiple solutions can be adopted to suit different installation scenarios) and so we see the risks of a supplier acting in a way that disrupts the central arrangements are minimal.

Summary

The Government will not be introducing a mandate on suppliers to use the collectively procured Alternative HAN solutions. We will be introducing additional requirements to address concerns around installation of individually procured equipment including:

- Supply licence conditions requiring any supplier installing their own solution to ensure that this does not interfere with the collectively procured arrangements.
- Requirements on suppliers installing their own solution to update the Alternative HAN inventory with information on what has been installed.
- A requirement on suppliers installing their own equipment to inform the consumer that the equipment may need to be changed at change of supplier in order to maintain smart functionality.

Final Legal Text Affected

Section	Content
Condition 49 (electricity); Condition 43 (gas). Smart Metering Systems and In-Home Displays - Operational Requirements	- 49.6 (electricity); 43.6 (gas): Use of individual Alternative HAN equipment
SEC Section Z	- Z4.30 - Z4.34: Alt HAN Inventory

2.3 Non-Domestic Suppliers

Summary of Issue under consideration

In the consultation we set out that we do not yet know the likely scale of Alternative HAN usage in the non-domestic sector and so the level of involvement non-domestic suppliers should have in the Alternative HAN arrangements.

We asked for evidence and views, in particular to feed into positions on Alternative HAN governance and charging.

Consultation Question 2: What role do you think Alternative HAN will play in the non-domestic sector? We would welcome evidence and views from stakeholders on the role of Alternative HAN in the non-domestic sector.

Summary of responses

30. Seven respondents indicated that they expected non-domestic sites would require Alternative HAN. Some suppliers felt there could be equivalent or higher proportions of Alternative HAN in the non-domestic sector whereas others thought it might be slightly lower due to non-domestic suppliers not being required to offer an IHD to their customers so consumption information may be provided by other methods.
31. Responses noted that installation scenarios should not be any different for non-domestic premises, however there may be a bias towards point to point equipment.

Government response

32. The Government welcomes evidence from stakeholders on the role of Alternative HAN in the non-domestic sector. We are keen to ensure that there is proportionate input from the non-domestic sector and so have considered further the role of non-domestic suppliers in governance and charging sections later in this document (see section 4.5 on voting and 4.9 on charging).
33. It is worth noting that provision of an IHD is not the only reason why Alternative HAN could be needed. Paragraph 5 of this document provides further examples. We would welcome further engagement with non-domestic suppliers and encourage them to participate in the Forum governance arrangements.

Summary

Given evidence from suppliers that non-domestic premises are likely to require Alternative HAN solutions, the Government has considered the role of non-domestic suppliers further in the governance and charging sections later in this document.

2.4 Scope of Regulation

Summary of Issue under consideration

In the consultation we proposed outlining in regulation, through a combination of licence conditions and SEC provisions:

- high level requirements on suppliers to work together to develop Alternative HAN solutions;
- the governance structure for Alternative HAN decision making;
- the contracting vehicle for Alternative HAN procurement; and
- the charging arrangements for Alternative HAN related costs.

We felt this was the appropriate level of regulatory intervention - requiring energy suppliers to work together to recognise competition concerns whilst also ensuring that we provide an adequate framework for Alternative HAN to progress at pace by setting out the governance and charging arrangements.

Additional detail, for example the technical specifications, would sit outside of regulation as part of contractual arrangements, giving suppliers greater flexibility to manage their contracts with service providers.

Consultation Question 3: Do you agree with the proposed scope of regulation on Alternative HAN?

Summary of responses

34. All eleven respondents agreed with the proposed regulatory scope. We received some detailed comments, including suggestions that some areas of the drafting were overly prescriptive and requests to ensure the drafting is suitably flexible to deal with potential future changes.

Government response

35. The consultation responses supported our proposals regarding the scope of regulation on Alternative HAN. We have, therefore, concluded that we will adopt the approach proposed in the consultation. We have considered each of the detailed comments and reflected in drafting where appropriate.

Summary

The Government has concluded that the scope of regulation proposed in the consultation is appropriate to deliver the Alternative HAN arrangements.

3. Alternative HAN Delivery Models

Summary of Issue under consideration

The consultation set out two potential delivery models for Alternative HAN:

- Model A: A separate supplier only governance structure, established in the SEC, with a new supplier led contracting vehicle for Alternative HAN.
- Model B: A supplier sub-committee, established under the current SEC governance structures, with the SEC Company (SECCo) providing the contracting vehicle.

The Government's preferred approach was Model A as this approach kept both accountability and authority for making decisions solely with suppliers.

Consultation Question 4: Do you agree that we should proceed with Model A? Please provide evidence to support your position.

Summary of responses

36. The majority of respondents (nine respondents) supported Model A including all large suppliers. Stakeholders felt this would maintain accountability and authority with suppliers, which is appropriate given they have licence conditions to deliver a HAN, and also that this approach could be delivered in a timely way. Stakeholders stressed the need to keep momentum and ensure this is set up as quickly as possible. One supplier requested guidance from DECC, potentially in collaboration with the Competition and Markets Authority (CMA), on how suppliers can mitigate competition concerns.

37. Five respondents preferred Model B. They raised concerns around SEC content not being overseen by the Panel and the potential for ambiguities with the role of the Panel and the Forum, in particular given the additional SEC objective over which the Panel has no oversight. Two respondents (not suppliers) also stated they felt a single independent party should be responsible for delivering Alternative HAN in order to drive forward progress - they were concerned about the many demands already placed on suppliers.

Government response

38. The Government concludes that delivery Model A is the most appropriate delivery model to deliver Alternative HAN, in particular as it helps ensure that accountability and authority for driving forward the work and making decisions rests with suppliers.

39. The Government acknowledges suppliers' competition law concerns. Whilst suppliers will need to come to their own view on the implications of a collective approach, we anticipate that the collaborative Alternative HAN arrangements will lead to overall efficiency gains, including cost savings, economies of scale and supporting innovation in Alternative HAN solutions, and that consumers should receive a fair share of the resulting benefits through lower bills.

40. The legal drafting sets out clearly that the Alt HAN Forum is a separate governance vehicle and therefore we anticipate relatively little need for interaction between the Forum and the Panel. In order to address stakeholder comments, we have set out below the Panel duties where there is some interaction with Alternative HAN:

    - The Panel has a duty to oversee and coordinate the modifications process set out in SEC Section D[5]. Any modifications to the SEC content on Alternative HAN will be made using the existing SEC modification process through the Change Board as set out in section 4.8 of this document. The new Alternative HAN objective will be used when considering these modification proposals. Note this process will only be used for modifications to the Alternative HAN SEC content - the majority of detail on the Alternative HAN arrangements is likely to be outside of the SEC in contractual arrangements and therefore be subject to separate contractual change processes.
    - The Panel has a duty to prepare and publish a report on the implementation of the SEC and activities of the Panel during the regulatory year, including setting out whether the SEC continues to meet the SEC objectives[6]. We have included additional drafting into the SEC to make clear that the Forum will provide the Panel with information for this report on how the SEC is meeting the new SEC Objective to facilitate the establishment and operation of the Alt HAN Arrangements[7].

41. The Forum will ultimately be the group responsible for ensuring delivery of the Alternative HAN arrangements. However, the regulatory framework that supports the Forum means there are a number of ways they can allocate out activity, for example they may contract a service manager to manage the day to day delivery of Alternative HAN and/ or they may set up sub-groups or contract staff through Alt HAN Co and delegate decisions to these groups. This means that although suppliers will have ultimate responsibility, they can choose to allocate work and decision making to the appropriate places to ensure that delivery of Alternative HAN can continue at pace.

Summary

The Government concludes that delivery Model A is the most appropriate delivery model to deliver Alternative HAN. Alternative HAN will be delivered through a supplier only governance body (Forum) established in the SEC and Alternative HAN procurement will be run through a supplier led contracting vehicle (Alt HAN Co).

[5] SEC reference: C2.3(d)
[6] SEC reference: C2.3(h)
[7] SEC reference: C1.1(h)

4. Alternative HAN Regulatory Provisions

4.1 Introduction

42. The consultation set out further detail on the components of Model A, supported by draft legal text.
43. This included:
    - **DCC licence conditions:** to extend the scope of the SEC to include Alternative HAN arrangements and to make adjustments to DCC's allowable revenues in order to allow Alternative HAN costs to be recovered from suppliers by DCC;
    - **Supply licence Conditions:** to require energy suppliers to collaborate to develop and establish contractual arrangements for the provision of Alternative HAN solutions and to make consequential changes to the operational licence conditions;
    - **SEC drafting:** to introduce a new supplier only governance body and contracting vehicle for Alternative HAN. It also describes the SEC modifications process, charging and other arrangements associated with Alternative HAN.
44. Updated legal text is annexed to this consultation - see Annex B.

4.2 DCC Licence Conditions

Summary of Issue under consideration

In the consultation we set out proposed amendments to the DCC Licence in order to expand the scope of the SEC to include these Alternative HAN arrangements and changes to DCC's price control conditions.

Consultation Question 5: Do you agree with the proposed amendments to the DCC licence?

Summary of responses

45. All twelve respondents to this question supported the proposed amendments. We received some detailed drafting comments which are addressed in the Government response below.

Government response

46. The proposed amendments to the DCC Licence that were set out in the consultation will be made.
47. We received the following comments including:
    - One respondent questioned why the term 'good business practice' was used (reference DCC Licence Condition 22.27(f)) rather than 'good industry practice'. This condition sets out that the SEC should contain provisions to establish Alt HAN Co

and that the affairs should be conducted in accordance with good business practice. 'Business' is used in this instance as it refers to having good corporate practices in place, whereas the term 'industry' would be used if it was about provision of a service. Note that this is consistent with the drafting used for SECCo[8].

- One respondent suggested that there should be a broader obligation on the DCC to facilitate the timely development of any communications hub variants that may be required in the future for Alternative HAN. If the need for a new communications hub variant emerged, then the obligation on the DCC to provide the variant as well as defining the variant would need to be developed as part of a SEC modification (principally of the CHTS) progressed under the enduring modification process.

Summary

The Government concludes that the DCC Licence will be amended to:

- Extend the scope of the SEC to include Alternative HAN
- Add Alternative HAN costs to the list of allowed revenue

Final Legal Text Affected

DCC Licence	Content
Condition 22	- Condition 22.18: Additional SEC objective for Alternative HAN - Condition 22.20(e), 22.21(c), 22.26(e) 22.27(f), 22.28(e): To extend content of the SEC to include Alternative HAN - Condition 22.35: Definitions
Condition 36	- Condition 36.8: Determination of Allowed Revenue expanded to include Alternative HAN

[8] Reference DCC Licence Condition 22.27(c)

4.3 Supply Licence Conditions

Summary of Issue under consideration

The consultation set out proposed drafting to extend the supplier operational licence condition in order to recognise that it may be necessary for a supplier to install Alternative HAN equipment to meet the requirements of this condition.

In addition, new Supply Licence Condition drafting was proposed to require energy suppliers to work together to develop Alternative HAN services and equipment. This drafting set out the scope of the Alt HAN arrangements, required energy suppliers to ensure the arrangements were economic and efficient and set out rights to establish an Exempt Premises List for properties at which it would be technically impracticable or disproportionately costly to provide an Alternative HAN solution.

Consultation Question 6: Do you agree with the proposed drafting for supplier licence conditions? Do you agree with the proposal to include a process for suppliers to apply to Secretary of State/ Ofgem for exemptions where the costs are prohibitively expensive?

Summary of responses

48. We received a small number of general drafting comments including requests to make the definitions for Alt HAN Services and Service Capacity clearer.

49. The majority of comments focused on the Exempt Premises List drafting. These included:

- Requests to make the timing requirements for the Exempt Premises List more flexible.
- One supplier questioned whether the Exempt Premises List was necessary. They queried what it added above the all reasonable steps requirement in the operational licence conditions and were concerned it may be administratively burdensome.
- A number of respondents asked for further detail on what information would be required by DECC or the Authority to approve the Exempt Premises List (for example guidance on the information requirements, timing and assessment criteria) so that the Forum can gather the right level of evidence.
- A couple of respondents suggested that properties on the Exempt Premises list should be exempt from the operational licence conditions and that this link should be explicitly called out in the legal text.
- One respondent asked for clarification that the drafting would mean that the list will be updated over time so that as new technologies emerge some premises that were previously too expensive may be able to be taken off the list. Another respondent commented that they didn't think an annual review was appropriate and instead it should be a living document that changes as required.

Government response

50. The Government has reviewed comments by stakeholders and has made amendments to the drafting where appropriate. In addition, changes to the Supply licence conditions have been proposed as part of section 2.2 above.

51. In response to the comments that it was not clear from the drafting what the distinction was between Alt HAN Service Capacity and Alt HAN Services, we have updated the drafting to make this clearer and in summary the differences are:

    - 'Alt HAN Service Capacity' has been renamed 'Alt HAN Activities' - this sets out the activities that suppliers need to carry out together (either directly or through procuring parties to do these activities). This change reflects the fact that not all of the "activities" will necessarily be directly related to the capacity to provide services. We have also linked this to the central charges as these are the activities should be captured by this charging group. The Alt HAN Activities include:
        - activities to determine which premises may need Alternative HAN for example through surveys;
        - activities to establish which type of Alternative HAN equipment are likely to be the most cost effective, for example this could include pilot projects;
        - the development, design and testing of shared solution equipment;
        - the development and design of point to point equipment. Where it is cost effective to procure this equipment centrally, this can also include the testing of point to point equipment;
        - the establishment and maintenance of a database of Alternative HAN equipment and individually procured equipment (one use of this database is for identifying who to charge);
        - associated financing arrangements; and
        - any legal, managerial, technical, financial, risk management or other professional services required.
    - 'Alt HAN Services' sets out the services that need to be made available to suppliers. The Services describe what is set out in the targeted charges including all of the costs to actually provide the equipment. This could be through Alt HAN Co directly providing a service to suppliers or through a third party contract. The services include:
        - Provision, installation, operation, maintenance and decommissioning of the shared solution equipment;
        - Where it is economic to procure this equipment (as opposed to suppliers procuring it individually), it can also include the provision, installation, operation, maintenance and decommissioning of point to point equipment.
    - We have also made a minor amendment, in response to a stakeholder comment, to the definition of Relevant Premises in order to make it clear that Alternative HAN equipment may be installed before, at the same time as, or after a Smart Metering System has been installed at a premises.

52. We received one comment suggesting that a deadline for provision of Alternative HAN should be included. However we do not consider that this is necessary as the obligations in the operational licence condition[9] link to the rollout licence conditions[10] - therefore the deadline to provide a functional HAN (and so Alternative HAN equipment where necessary) is the same as the rollout deadline - 31 December 2020.

53. We considered the range of comments provided on the Exempt Premises List. One stakeholder questioned if the Exempt Premises List was necessary, instead suppliers could rely on their all reasonable steps obligation in the operational licence conditions. However, the supply licence conditions set out that suppliers need to collectively procure Alternative HAN equipment for any property that needs it. The Exempt Premise List gives suppliers the exemption to not have to procure equipment for properties that are set out on this list. This process is therefore separate to the all reasonable steps obligation. The Exempt Premises List safeguards against prohibitively expensive equipment being procured. We also envisaged it might be necessary to provide suppliers with comfort on what level of service to procure from their service providers and so reduce the risks of contract changes later down the line.

54. Some respondents suggested that there should be a carve out from the operational licence conditions for premises included in the Exempt Premises List. We do not think this is necessary - suppliers will be making the judgement on what is economic and efficient as part of developing the Exempt Premises List and can use this as evidence if Ofgem challenges whether they have meet the all reasonable steps requirement to provide a HAN under the operational licence condition. Note also that just because a premises is on the Exempt Premises List, this does not mean that suppliers are not required to try to establish any HAN at all, simply that their obligation to 'take all reasonable steps' might not require them to install Alternative HAN.

55. We expect that the content of this list will become clearer once suppliers have started procuring Alternative HAN equipment and services. For example, there might be an obvious spike in costs to provide equipment to a certain types of premises. We therefore do not propose to add additional detail into the legal drafting on the contents of the Exempt Premises List. The Forum can engage with DECC and the Authority as they develop this list.

56. We have retained the drafting that the list should be updated at least annually – this will ensure that at least on an annual basis suppliers review the list and remove premises from it where installing Alternative HAN it has become cost effective or technically possible. The drafting allows for this review to be done more frequently if it is required.

57. Some stakeholders suggested some reworking to the requirement that set out that the Exempt Premises List must be approved prior to entering into any contracts for Alternative HAN. Responses noted that suppliers will need to procure some contracts in order to develop the Exempt Premises List, for example the survey and potentially pilot projects. We have therefore amended the legal text to make it clear that these types of contracts can be entered into before the Exempt Premises List is established.

[9] Condition 49 in the standard conditions of electricity supply and condition 43 in the standard conditions of gas supply.
[10] Condition 39 in the standard conditions of electricity supply and condition 33 in the standard conditions of gas supply

Summary

The supply licence conditions have been updated where appropriate to reflect comments from stakeholders. The final drafting sets out:

- An amendment to the operational licence condition to recognise that it may be necessary for a supplier to install Alternative HAN equipment in order to meet the requirements of this condition.
- The scope of what suppliers should work in collaboration to deliver, including defining the Alt HAN Activities and Alt HAN Services.
- Requirements on energy suppliers to take all reasonable steps to ensure the Alternative HAN arrangements are economic and efficient.
- Requirements on suppliers to establish an Exempt Premises List which specifies categories of premises where Alternative HAN is either technically not practical or would only be practicable at a disproportionate cost. The Exempt Premises List will be approved by the Secretary of State or, from such date set by the Secretary of State, the Authority. The document must be updated at least annually and resubmitted for approval.

Final Legal Text Affected

Gas & Electricity Supply Licence Conditions	Content (electricity references below, equivalent in gas supply licence conditions)
Condition 49 (electricity); Condition 43 (gas). Smart Metering Systems and In-Home Displays - Operational Requirements	- 49.4(c) (electricity); 43.4(c) (gas): amendment to recognise that a supplier may need to install Alternative HAN to meet this condition - 49.5 (electricity); 43.5 (gas): amendment to set out that suppliers may not recover costs directly from a consumer for provision of Alternative HAN - 49.6 (electricity); 43.6 (gas): Use of individual Alternative HAN
Condition 55 (electricity); Condition 49 (gas). Smart Metering - The Alt HAN	- 55.1 - 55.4 (electricity); 49.1 - 49.4 (gas): Requirements on suppliers to work together to deliver Alternative HAN

Gas & Electricity Supply Licence Conditions	Content (electricity references below, equivalent in gas supply licence conditions)
Arrangements	- 55.5 (electricity); 49.5 (gas): Requirement to ensure Alternative HAN is economic and efficient - 55.6 (electricity); 49.6 (gas): Sets out the scope of Alternative HAN Activities - 55.7 (electricity); 49.7 (gas): Sets out the scope of Alt HAN Services - 55.8 (electricity); 49.8 (gas): Defines Alternative HAN equipment - 55.9 - 55.20 (electricity); 49.9 - 49.20 (gas): Sets out provisions for the Exempt Premises List including that is should be approved by the Secretary of State or the Authority and that it should be updated at least annually.

4.4. Smart Energy Code: Alternative HAN Governance Body

Summary of Issue under consideration

The consultation set out proposals to establish under the SEC a new body called the Alternative HAN Forum (the 'Forum'). The Forum would provide a way for all energy suppliers to come together and make decisions on Alternative HAN arrangements.

The drafting set out the Forum's constitution, functions and powers, objectives and proceedings.

Consultation Question 7: Do you agree with the policy proposals and legal drafting for the Alternative HAN Forum?

Summary of responses

58. Nine stakeholders were supportive of these proposals. We received a number of comments including:

- A suggestion to add an objective that relates to safety during installation.

- A request for further guidance on how to determine if the Alt HAN Arrangements are economic.
- One respondent asked for clarity on the interaction between the SEC Panel, Change Board and Forum. Other respondents also suggested the Forum and Technical Architecture and Business Architecture Sub-Committee (TABASC) should update each other.
- DCC requested a seat on the Forum, in particular to input on issues related to charging.
- One respondent asked for clarity on the role of DECC and Ofgem on the Forum.

59. Stakeholders also stressed that the work of the Transitional Forum should continue to ensure that progress on Alternative HAN continues at pace.

Government response

60. The Government has considered comments from stakeholders and made amendments to the drafting where appropriate, noting the following:
    - We do not propose to provide further guidance on how to ensure the arrangements are 'economic and efficient'. This will be for suppliers to consider through the Forum.
    - We do not think it is necessary to add a further objective on safety - it is implicit that the usual health and safety legislation will apply.
    - We agree that there may be instances where it is helpful for the TABASC, Security Sub-Committee (SSC) and Forum to exchange information and have added some additional drafting to set this out. We added further information on the interactions between the Forum and the Panel in paragraph 40.
    - We do not consider it necessary to add a seat for DCC on the Forum - the Forum can invite any party to attend the Forum as necessary and so can invite DCC to discussions on charging where appropriate.
    - To confirm, DECC and the Authority will have non-voting seats on the Forum - representatives will be able to attend meetings and contribute to discussions but will not be able to vote on proposals.

Summary

With the addition of the minor clarifications, we consider the proposed SEC drafting on the Forum is appropriate.

In summary, the key areas to note are:

- A new body will be established under the SEC called the Alternative HAN Forum (the 'Forum'). The Forum will provide a way for all energy suppliers to come together and make decisions on Alternative HAN arrangements.
- Each relevant supplier can have a seat on the Forum (and one person can represent more than one supplier).
- A chair will be elected to help manage the meetings. The Chair could either be a

Forum member or a separate appointment.

- DECC and Ofgem will be entitled to non-voting seats on the Forum. The Forum and the Forum Chair will be able to invite any other parties to attend as necessary.
- The Forum will be responsible for making all decisions related to Alternative HAN arrangements - this includes decisions on which contracts to let, who to let them to and any subsequent contractual changes.
- The Forum will have the power to create sub-groups to delegate work or decision making where it is appropriate i.e. where the decision does not need the input of all suppliers. It will also be able to appoint professionals to aid decision making; for example, legal advice.
- In addition to decision making and delegating work to sub-groups, the Forum will have a role in:
    - inputting to SEC modification proposals that relate to Alternative HAN;
    - determining the Alternative HAN budget; and
    - determining any appeals raised against decisions made by the Forum's sub-groups or Alt HAN Co.
- The Forum has a range of objectives including to ensure that the Alt HAN Arrangements are economic and efficient.
- Suppliers will be able to appeal decisions made by the Forum to the Authority for final determination. Suppliers can also appeal any decision made by Forum sub-groups or Alt HAN Co to the Forum. Appeals can be made based on non-compliance with the Forum objectives and the Authority will determine whether or not the decision was consistent with the objectives.

Final Legal Text Affected

SEC	Content
Z: The Alt HAN Arrangements	- Z1.1 - Z1.2: Establishment of the Alt HAN Forum - Z1.3: Forum Objectives, Functions and Powers - Z1.4: Forum Functions - Z1.5: Exchanging information with the Panel, Security Sub-Committee and Technical Architecture and Business Architecture Sub-Committee - Z1.6: Forum Powers

SEC	Content
	- Z1.7 - Z1.9: Forum Membership - Z1.10 - Z1.13: Election of Forum Chair and Alternate Chair - Z1.14 - Z1.17: Meetings of the Forum - Z1.18 - Z1.22: Alternates - Z1.23 - Z1.24: Quorum and Forum Chair - Z1.33 - Z1.36: Meeting Notice and Papers - Z1.37 - Z1.41: Attendance by other persons and Minutes - Z1.42 - Z1.60: Forum Sub-Groups - Z1.61 - Z1.67: Appeals from Decisions of Forum - Z5.1 - Z5.6: Transitional Provisions for Forum
C: Governance	- C2.3(h): Panel can rely on information provided by Forum
F1: Technical Architecture and Business Architecture Sub-Committee	- F1.4(k): Interaction with Technical Architecture and Business Architecture Sub-Committee
G7: Security Sub Committee	- G7.18(h): Interaction with Security Sub-Committee

4.5 Smart Energy Code: Alternative HAN Forum Voting

Summary of Issue under consideration

The consultation set out two potential options for Forum voting:

- Option 1: Domestic and non-domestic voting - with votes split based on amount spent on Alternative HAN (as a proxy for 'Alt HAN usage' levels). This would ensure that all types of suppliers get a vote equivalent to their usage.
- Option 2: Domestic only voting - with votes split on market share. This was considered the simplest model, in the absence of any information on whether the non-domestic sector would require Alternative HAN. Non-domestic suppliers could still input to the work of the Forum and appeal any decisions if needed.

Consultation Question 8: Which of the Forum voting proposals do you prefer? Are there any alternative voting mechanisms you would propose, for example that provide for a greater number of votes for non-domestic suppliers during mass rollout?

Summary of responses

61. The responses to this question were mixed - there was support for each of the models proposed and an alternative model of one vote per supplier was proposed.

62. As described earlier, we asked a question in the consultation to gather evidence on the role of Alternative HAN in the non-domestic sector. A number of respondents stated that they expected non-domestic suppliers will also use Alternative HAN equipment and therefore should be able to vote on Forum proposals. However, one supplier noted that a lot of non-domestic suppliers' views could be represented through domestic suppliers as many of the domestic suppliers are also non-domestic suppliers and also the installation scenarios and technology types are not expected to differ between domestic and non-domestic premises.

Government response

63. The Government has considered the responses to this question and concludes that option 1 is the most appropriate voting model. Given the evidence provided by suppliers that non-domestic suppliers are likely to require Alternative HAN, we want to ensure that their views are appropriately represented in Forum voting and we think this approach is most likely to give fair representation to all parties. We encourage all suppliers, including non-domestic suppliers, to engage with the Forum as early as possible.

64. Given that there is a seat for every domestic and small non-domestic supplier[11] on the Forum, we do not think a one vote per supplier model would be appropriate, as it could mean suppliers with little or no Alternative HAN usage could dominate the voting.

[11] All domestic and small non-domestic suppliers as captured by the rollout licence conditions

65. One concern raised by a supplier was whether small suppliers' voices would be heard - we have mitigated this by ensuring all small suppliers have a seat on the Forum and so can contribute to discussions, every Forum member has at least one vote and any supplier can also appeal Forum decisions to the Authority if required. We therefore consider that there are adequate provisions in place for all suppliers to engage and raise views, regardless of their size or level of Alternative HAN activity.
66. The legal drafting provided in the consultation set out option 1. We have made minor amendments following comments from stakeholders including:
    - Adding that the Forum Voting Protocol may set out obligations on the DCC to provide the necessary information for the Forum to calculate voting shares. This should include weighted allocations for voting purposes, as oppose to absolute registration data volumes.
    - Amending the Relevant Preceding Period set out in the drafting to align with the DCC Charging Period dates for consistency and to make it easier for DCC to provide this information.
    - Fixing an error flagged by responses in the drafting that included 'enrolled smart metering systems' rather than general metering market share as the base of the votes for the initial calculation.

Summary

The Government has concluded that the most suitable Forum voting model is option 1.

The Forum voting process is summarised below:

- Each Forum Member has the right to vote.
- Each Forum member will have a minimum of one vote. The remaining votes will be distributed based on amount spent on Alternative HAN - this includes both the central and targeted charges.
- The DCC will provide the Forum with the necessary data in order for them to calculate the number of votes each supplier is entitled to. This calculation will happen twice per year.
- In order for a resolution to be passed, based on the Forum members present at the meeting, the number of votes in favour of the resolution should be more than 50%.
- Initially, the above process will not be possible as the amount spent on Alternative HAN will be zero. Therefore the drafting in section Z1.29 of the SEC sets out that initially the votes will be allocated based on domestic market share. All relevant suppliers (including non-domestic suppliers) will have a minimum of one vote and the ability to appeal. Once suppliers start paying the charges, the voting moves to the arrangements described above.
- The Forum will develop a Forum Voting Protocol to outline the mechanics of how the voting works in practice.

Final Legal Text Affected

SEC	Content
Z: The Alt HAN Arrangements	- Z1.25 - Z1.32: Forum Voting

4.6 Smart Energy Code: Alternative HAN Contracting vehicle

Summary of Issue under consideration

The consultation set out provisions to establish the Alternative HAN Company (Alt HAN Co) - the contracting vehicle for Alternative HAN. We proposed that the Alt HAN Co would be used by the Forum as a corporate vehicle to enter into contractual arrangements with service providers and as the body that goes on to provide the services to suppliers.

Key elements of Alt HAN Co included:

- all suppliers are shareholders in Alt HAN Co; and
- a group of individuals would be elected as the Board of Alt HAN Co - the consultation proposed that the Board should be made up of five large and two small supplier representatives.

Consultation Question 9: Do you agree with the policy proposals and legal drafting for the Alternative HAN Company?

Summary of responses

67. Six responses to this question were in general supportive of the proposals.

68. The key comments were around the Board composition which some respondents felt was disproportionately large. Suggestions included that there should be fewer Board members than the seven proposed and that they do not necessarily need to be split by small and large supplier representatives. One supplier suggested it should be reflective of industry with representatives from large, medium and small suppliers.

Government response

69. The Government has reviewed the comments from stakeholders regarding the Alt HAN Co Board composition. We have concluded that the Alt HAN Co Board should have a minimum of three members. Whilst reducing the number required, this approach adds in the flexibility that the Forum can decide to increase the number if necessary at a later date without amending the SEC if that is considered appropriate. We have also removed the requirement that a certain number of members are nominated by small or

large suppliers - given Alt HAN Co will be acting on behalf of the Forum, which has representation from all suppliers, we accept that this distinction is not necessary.

70. One respondent queried how in practice the Alt HAN Co will be established - further details are set out later in this document in Annex C.

Summary

We have revised the composition of the Alt HAN Co Board to a minimum of three members. Otherwise we consider the proposed SEC drafting is appropriate.

Final Legal Text Affected

SEC	Content
Z: The Alt HAN Arrangements	- Z2.1 - Z2.4: Establishment of Alt HAN Co - Z2.5 - Z2.7: Alt HAN Co Objectives, Duties and Powers - Z2.8 - Z2.22: Board Members - Z2.23 - Z2.45: Proceedings of the Board - Z2.46 - Z2.48: Appeals from Decisions of the Board - Z5.7: Transitional Provisions for Board - Annex (to section Z): Alt HAN Co

4.7 Smart Energy Code: Alternative HAN Secretariat

Summary of Issue under consideration

The consultation included drafting to allow the Forum to appoint persons to carry out secretariat functions. There were a number of areas where secretariat support for the Forum, Alt HAN Co and Forum Sub-Groups was expected; such as minute taking, arranging meetings and facilitating votes.

Consultation Question 10: Do you agree with the policy proposals and legal drafting for the Alternative HAN Secretariat?

Summary of responses

71. The majority of respondents (seven responses) were supportive of these proposals.
72. One response set out that there are no clear provisions for secretariat support in the transitional period and questioned how Alt HAN Co would be set up.

Government response

73. In light of the general support for the proposals, we intend to adopt the consultation drafting on Alt HAN Secretariat support.
74. Annex C of this documents sets out further information on the set up of Alt HAN Co, in particular setting out what DECC is doing to facilitate its set up so it is in place once the legal text is in force. We have also worked with the Transitional Alternative HAN Forum who are considering if other activities need to happen to complete the set up of Alt HAN Co.

Summary

The SEC drafting will contain the Alt HAN Secretariat drafting proposed in the consultation.

Final Legal Text Affected

SEC	Content
Z: The Alt HAN Arrangements	- Z3: Alt HAN Secretariat

4.8 Smart Energy Code: Alternative HAN Modifications

Summary of Issue under consideration

The consultation proposed that the Alternative HAN SEC content would be subject to the existing modifications process as set out in section D of the SEC. A new SEC Objective to facilitate the establishment and operation of Alternative HAN arrangements was included to be used in conjunction with the other SEC Objectives when considering modifications that affect this part of the SEC. The Forum would be asked to input to any modification proposal that may have an impact on Alternative HAN.

Consultation Question 11: Do you agree with the policy proposals and legal drafting in regards to modifications?

Summary of responses

75. The majority of respondents to this question (nine responses) were supportive of the drafting.

76. Detailed comments included:

- Two responses noted that it will be important to ensure that SEC Panel prioritises Alternative HAN modifications.
- SEC Panel noted that where there are modifications to section Z, the Panel will be responsible for the Smart Energy Code Administrator and Secretariat (SECAS) implementing, publishing and distributing the changes as part of configuration and release management of the SEC. One respondent also noted that this should be a minimal burden to SECAS and is no different to modifications relating to any other content in the SEC.
- One supplier suggested that only suppliers should be able to vote on Alternative HAN SEC modifications.

Government response

77. We acknowledge that SECAS will have a role in distributing changes in the event there is a modification to section Z. We agree with comments from stakeholders that this is the same as for all other modifications.

78. We think it is acceptable that all parties can vote on modifications to SEC content on Alternative HAN. As with all SEC modifications, different topics will affect different stakeholders to varying degrees - we do not restrict votes for other aspects of the SEC and we do not think we need different arrangements for Alternative HAN.

Summary

The SEC will be modified to incorporate the drafting proposed in the consultation. Modifications to Alternative HAN elements of the SEC will go through the usual SEC modifications process outlined in SEC Section D. The new SEC objective to facilitate the establishment and operation of Alternative HAN will be considered as part of the modifications process and the Forum will be asked to input into the modification proposals.

Note that this will be the process for modification of SEC content only. Contractual provisions will be managed outside of the SEC and so the Forum will need to manage any changes to contracts through their own contractual change processes - they will not need approval via the SEC modifications process.

Final Legal Text Affected

SEC	Content
C: Governance	- C1.1(h): SEC objective on Alternative HAN
D: Modification Process	- D6.8(h): Alt HAN Forum input into Alternative HAN modifications

4.9 Smart Energy Code: Alternative HAN Central & Targeted Enduring Charging

Summary of Issue under consideration

The consultation set out that the proposed charging arrangements aim to balance a number of considerations including:

- Ensuring the charges are cost reflective whilst having regard to the costs of administrating these arrangements - the charging arrangements should not be so complicated that the costs of administering them become disproportionate.
- Facilitate competition in supply and do not distort competition in associated services.
- Do not deter timely installation of Alternative HAN equipment.
- Are non-discriminatory.

The charges were split into two categories; central charges and targeted charges.

The charging arrangements were described for the enduring period (post 31 December 2020) and some amendments were proposed for the transitional arrangements (between now and 31 December 2020) - question 12 dealt with the enduring arrangements.

The consultation proposed that the central charges are socialised across all suppliers. The central charges cover all the costs up to the point of deciding to use a particular technology for example costs of the Alt HAN Forum, developing the solution, procurement, drafting the contract and developing capacity to manufacture. The consultation proposed a non-domestic ratio to split the central costs.

The consultation proposed the targeted charges (for shared solution and point to point equipment) should be paid based on Alt HAN usage and so cost reflective – these charges cover the equipment costs and costs of installing and maintaining the equipment. To simplify the charging, it was proposed that there should be an average charge per installation i.e. it won't vary between installations of the same type (point to point or shared).

Consultation Question 12: Do you agree with the policy proposals and legal drafting in regards to the enduring Alternative HAN Charges?

Summary of responses

79. Responses to this question were varied. Some respondents were concerned that the arrangements were overly complex and there were a number of detailed drafting comments, for example a respondent questioned what was meant by Alternative HAN usage.

80. On the central charges, respondents were generally content with the proposals. One respondent questioned whether we needed the non-domestic ratio proposal. They argued that they did not think usage in the non-domestic sector would be different enough to the domestic sector to warrant this extra complexity. Two respondents also asked if we could set out more clearly in the legal drafting what should be part of the central costs and the targeted charges respectively.

81. On the targeted charges, we received a mixed response with support for each of the potential options highlighted in the consultation:
    - A few suppliers had a preference for targeted costs to be socialised. Arguments included concerns it will increase the cost to serve certain premises which could distort the market. They also questioned the administration costs required for a more cost reflective approach.
    - Some respondents supported the preferred option in the consultation - to adopt a cost reflective approach with an averaged cost to avoid an overly complex administrative process.
    - One supplier preferred a fully cost reflective model with charges based on costs for each specific installation. They argued that this would incentivise innovation and create stronger price signals to only install equipment where it is cost effective. They also argued that they did not think there was evidence that this would be administratively burdensome.
82. In addition, some respondents questioned what happens to the targeted charges where a collectively procured solution is in place but a supplier decides to install their own equipment. They asked if they would need to remove the collectively procured solution to avoid paying the targeted charge for this equipment.

Government response

83. The Government has considered the responses to the consultation. We agree with suggestions that the legal text could set out more clearly our policy intention for what should be captured by the central costs and the targeted costs respectively. We have therefore added additional text to clearly link the central costs with the 'Alt HAN Activities' and the targeted costs to the 'Alt HAN Services' as set out in the supplier licence conditions. The targeted charges cover the equipment costs and costs of installing and maintaining the equipment. The central charges cover all of the other Alternative HAN related costs which includes all of the overhead costs and costs of developing the solutions, for example governance costs, survey and database costs and developing capacity to manufacture the Alternative HAN equipment.
84. The central charges also include any elements of financing costs associated with the provision of the Alt HAN Services (but not associated with the Alt HAN Activities). The intention of this approach is to provide greater clarity on which costs should be targeted and which should not, whilst at the same time retaining maximum flexibility for the Forum in its contracting arrangements. This allows (but does not require) the Forum to source any financing independently from other services. By way of a simple example, we envisage that costs may be incurred in establishing the capability to provide Alt HAN Equipment and separately costs will be incurred in the provision of that equipment. Permitting separate financing arrangements allows suppliers to source any financing separately from the contracts used to procure the equipment. Whilst any financing costs associated with establishing the capability to provide the services would be recovered through central charges, financing costs associated with provision of the equipment would be included in the Explicit Charges. Hence, the Explicit Charge in any year might be expected to include the depreciation and interest and operational costs associated with the actual provision of the equipment irrespective of the contract structure adopted by the Forum.

85. The Government concludes that the central costs should be socialised, as proposed in the consultation. This means that on an enduring basis, a monthly central cost will be charged to energy suppliers for each smart metering system they have enrolled with the DCC. All suppliers may benefit from these activities and so it is appropriate that these costs are split across all suppliers. Further because these costs do not vary as a consequence of a marginal decision to install an additional Alternative HAN solution in a particular premises, recovering these costs only across Alternative HAN installations would distort the economics of the marginal decision to install Alternative HAN.

86. The consultation also proposed that the central costs were split between domestic and non-domestic suppliers based on the ratio of domestic to non-domestic Alternative HAN usage. One respondent commented that this might not be necessary. We agree that once more evidence is available on non-domestic usage, it may be possible that the domestic and non-domestic central usage will be similar and so the ratio will not be needed. However, given we do not yet have enough evidence to be sure of the levels of Alternative HAN in the non-domestic sector, plus given this is part of the enduring arrangements so only applies post 2020, we have concluded that we should keep this drafting at present. Any SEC party can raise a modification to remove the ratio if evidence emerges that it is not necessary between now and 2020.

87. We have considered the responses from stakeholders on the targeted charges and the Government concludes that the most appropriate model is to have an average marginal charge as proposed in the consultation. We believe it is important that these costs are where possible cost reflective - this fits in with the wider charging arrangements for smart metering. However, we want to avoid creating a disproportionate administrative process and so think it is appropriate that an average charge is applied. This obviates the need to collect and manage site specific cost information as part of the charging arrangements and hence results in a significant reduction in the administrative requirements of the charging solution. We agree with the respondent that argued that a cost reflective approach will encourage innovation and ensure suppliers are incentivised to minimise costs. We recognise concerns from suppliers regarding additional costs to serve Alternative HAN premises however there are different costs to serve different premises for a variety of reasons and we do not consider that Alternative HAN costs should be treated differently. The provisions in the operational licence conditions[12] set out that suppliers cannot directly charge a consumer for Alternative HAN costs and so we do not think that any individual consumer should be adversely impacted. Overall we think that our proposal for an average charge balances both cost-reflectivity and administrative efficiency.

88. The Forum will be responsible for deciding on the most cost effective approach for point to point equipment. For example they may decide to just provide specifications for suppliers to procure equipment against individually, they may decide to procure the equipment and provide it to suppliers for installation or the arrangements may cover procurement, installation and maintenance. Whilst the Alt HAN Arrangements envisage a single Explicit Charge for any Point to Point Alt HAN Equipment, in practice it is recognised that the scope of Alt HAN Services, if there are multiple Point to Point solutions, could vary significantly. In such circumstances it may be appropriate to further break down the Explicit Charges for different types of Alt HAN Point to Point Equipment.

[12] Condition 49 in the standard conditions of electricity supply and condition 43 in the standard conditions of gas supply

Rather than complicating the drafting at this stage for a situation that may not arise, we would expect suppliers to consider whether it is appropriate to bring forward an appropriate modification to the charging arrangements if it does.

89. A number of respondents were concerned by the term 'use of Alternative HAN equipment' in a number of places through the charging drafting - they commented that they did not know if it would be possible to know if a piece of equipment was being used or not and questioned how this would be tracked. We have updated the text to better reflect the policy intent. The drafting now sets out:

- The targeted charges are charged out to every MPXN in relation to which Alternative HAN equipment has been installed (this is drafted as 'using or capable of using').
- This includes where Alternative HAN has been installed to serve a premises but the smart metering system has not yet been installed or commissioned i.e. suppliers may be charged for Alternative HAN equipment that has been installed to serve an MPXN before they installed the smart metering systems that will rely on that Alternative HAN equipment. This is why we used the term 'potential to use' - if suppliers have the potential to use the equipment they are still charged the targeted charge. This is to avoid disadvantaging early movers.
- The only exception will be where a supplier has installed their own Alternative HAN equipment, and so are no longer eligible for the targeted charge at that site. We have made this policy intent clearer in the legal drafting as it was flagged by some respondents. In a scenario where both collectively procured Alternative HAN equipment and a supplier's own Alternative HAN solution is in place and the supplier choses to use their own solution, they will no longer be eligible to pay the targeted charges at that site. Suppliers installing individually procured Alternative HAN solutions must provide information to the Alternative HAN inventory relating to the equipment installed. Any costs for the shared equipment that is not being used will be socialised across the central charging base. This means that suppliers do not need to remove the collectively procured equipment to avoid paying the extra targeted costs - they can leave it in place so on change of supplier it can be used if needed. However, this scenario is unlikely as where a collectively procured solution is in place it is likely to be more cost effective to make use of this equipment.

Summary

The Government has concluded that:

- The central charges should be socialised across all suppliers, with a non-domestic ratio added to split the costs fairly between domestic and non-domestic suppliers.
- The targeted charges should be paid based on Alternative HAN usage and so cost reflective, but with an average monthly cost.

In summary, the charging arrangements are set out below:

Central Charges

- As part of the Alternative HAN budget each year:

  - The Forum sets out an annual estimate of central costs
  - The DCC uses the latest real figures for number of domestic and non-domestic meter points using Alternative HAN - this is used to split the total estimated central costs into two pots a) a domestic pot and b) a non-domestic pot.
- The DCC then calculates a monthly charge and sets this out in their charging statement:
  - For domestic suppliers, DCC calculate a monthly charge using the domestic central pot and an estimate of the charging base (enrolled domestic market share)
  - And same for non-domestic suppliers, using the non-domestic pot and an estimate of the charging base (enrolled non-domestic market share)
- The DCC then, using registration data, charge suppliers:
  - The domestic monthly charge is charged out to domestic suppliers for each domestic smart metering system they have enrolled in the DCC.
  - The non-domestic monthly charge is charged out to non-domestic suppliers for each non-domestic smart metering system they have enrolled in the DCC.

Targeted Charges

- The Forum should set out a unit price for each of the following:
  - Targeted Shared Solution Charge
  - Targeted Point to Point Charge
  - Targeted Point to Point Stock Charge - this covers point to point equipment that has been delivered to a supplier but not yet installed.
- The DCC will include these prices in its charging statement.
- Each month Alt HAN Co provides DCC with a list of:
  - MPXNs where shared solution equipment has been installed.
  - MPXNs where point to point equipment has been installed.
  - Suppliers who have received a delivery of point to point equipment but it is not yet installed. The Alternative HAN inventory will therefore also need to keep a record of stock level.
- The DCC will use registration data to charge suppliers the appropriate monthly targeted charges.

Final Legal Text Affected

SEC	Content
Section K: Charging Methodology	Note: ➢ the **Fixed Alt HAN Charges** set out in section K cover the Central Charges described above; and ➢ the **Explicit Charges** set out in section K cover the Targeted Charges described above. - K3 sets out the Alt HAN Fixed Charges (Central Charges) including: o K3.10: Alt HAN Fixed Charges payable by Import Suppliers and Gas Suppliers o K3.15: Alt HAN Charging Group Weighting Factors to split costs between Import Suppliers and Gas Suppliers o K3.20: Calculation of non-domestic ratio - K6B: Calculation on Alt HAN Fixed Charges after the UITMR Period (enduring charges) for domestic and non-domestic suppliers - K7 sets out determining the Explicit Charges (Targeted Charges) including: o K7.5(t): Shared Solution Charge o K7.5(u): Point to Point Charge o K7.5(v): Stock level Point to Point Charge

4.10 Smart Energy Code: Alternative HAN Transitional Charging

Summary of Issue under consideration

In the consultation, we set out that we will need some transitional charging provisions as initially some of the information required to set the charges will not be available. The transitional charging period would apply until the end of mass rollout (end of 2020) to align with the enduring DCC charging regime.

We proposed the following amendments to the charging arrangements in the transitional period:

- There would not be a non-domestic ratio in the transitional period - as we would not yet have data on Alternative HAN usage in the non-domestic sector. There would therefore be just one central charge that would apply to both domestic and non-domestic suppliers.
- For domestic suppliers, the central charges would be charged out based on their domestic market share (i.e. the total number of meter points), rather than their market share of Smart Metering Systems enrolled with DCC (as would be the case for the enduring arrangements). This would spread the central charges across all domestic suppliers and so avoid disadvantaging early movers consistent with the DCC's existing charging regime.
- For non-domestic suppliers, the central charges would be charged out across non-domestic suppliers based on market share of Smart Metering Systems enrolled with DCC. This would mean that non-domestic suppliers would still pay a share of the central costs in advance of us knowing what ratio they will have. This is also consistent with the DCC's existing charging methodology.
- The targeted charges will apply during the transitional period in the same way that they do in the enduring model. The targeted charge would apply from the point that the Alternative HAN equipment is installed in the building and so the supplier has the opportunity to use the equipment (i.e. potential to use), regardless of if they have a smart metering system installed yet. This is to avoid disadvantaging early movers.

Consultation Question 13: Do you agree with the policy proposals and legal drafting in regards to transitional charging?

Summary of responses

90. The majority of respondents to this question agreed with the proposals.

91. One respondent did not agree that non-domestic central charges should be based on enrolled market share - they were concerned this would disadvantage early movers.

Government response

92. The Government has concluded that it is appropriate to make these transitional changes to the charging framework.

93. In response to the concern about the charging base for non-domestic suppliers, this mirrors the arrangements set out for other non-domestic DCC charges. This is the most reliable proxy to use to determine which non-domestic suppliers are installing smart metering systems, as opposed to advanced meters - it would not be appropriate to charge by reference to the non-domestic market share.

Summary

The SEC drafting will contain the transitional amendments to the charging regime as proposed in the consultation.

Final Legal Text Affected

SEC	Content
Section K: Charging Methodology	- K5A: Determination of Fixed Alt HAN Charges (Central Charges) in UITMR Period (Transitional Period)

4.11 Smart Energy Code: Alternative HAN Budgeting and Invoicing

Summary of Issue under consideration

In the consultation, we recommended utilising invoicing through the DCC in order to avoid unnecessary expenditure driven by the duplication of billing systems and processes. The process set out in the proposed drafting included:

- The Forum would determine an annual budget for Alt HAN Co and consult with suppliers.
- Alt HAN Co would give this budget to DCC as a forecast of Alternative HAN costs. DCC would use this when updating their annual charging statement.
- DCC would invoice suppliers monthly and suppliers would pay the DCC when invoiced.
- Alt HAN Co would invoice DCC. Alt HAN Co would distribute money to their service providers as appropriate.
- Charges would be updated annually within the standard review process to account for any over or under recovery.
- The DCC would only be able to recover the costs of running the invoicing system (and not recover a margin on Alternative HAN costs).
- Alt HAN Co Board would arrange an annual audit of Alt HAN Co. The Authority can also request that Alt HAN Co be audited if they need to collect information to determine that the requirement to ensure that the arrangements are economic and efficient is being met.

Consultation Question 14: Do you agree with the policy proposals and legal drafting in regards to Alternative HAN budgeting and invoicing?

Summary of responses

94. The majority of respondents to this question were supportive of the proposals (10 responses) and all were supportive of utilising DCC's invoicing systems.

95. There were a number of detailed drafting comments including:

- The need to ensure the timing of the Alternative HAN budget aligns with the DCC's timetable to develop their annual charging statement.
- DCC commented that the initial Alt HAN Co budget will need to be provided to the DCC in sufficient time for an in year change to the charging statement to be made, noting they will need sufficient time to prepare a revised charging statement and submit it for approval with a three month notice period which is required under licence.
- DCC commented that it uses the quantities at the 15th of each month for billing purposes. They suggested that Alt HAN Co should provide quantities to DCC for

billing suppliers no later than 5 working days following the end of the charging period to provide sufficient time for DCC to process via the billing system and generate invoices.

Government response

96. The Government has concluded that the budgeting provisions should be adopted and Alternative HAN charges will go through the DCC's charging system.
97. We have made updates to the drafting as suggested by stakeholders to map into the DCC's timetable, including requiring that the Alternative HAN budget is submitted to the DCC by the 1st December each year so it can be incorporated into the DCC's annual charging statement.
98. In order to address concerns raised about the complexity of the drafting, we have made updates to Z4 to more clearly set out the content of the Alternative HAN Budget and further information that needs to be provided to the DCC for them to develop their Charging Statement and appropriately charge suppliers.

Summary

The Alternative HAN costs will utilise invoicing through the DCC's billing system and follow the process set out in the legal drafting. The Government have made changes to align with the DCC timetable and set out information provisions requirements more clearly.

Final Legal Text Affected

SEC	Content
Z: The Alt HAN Arrangements	- Z4.1 - Z4.6: Alt HAN Costs and Budgets - Z4.7 - Z4.13: Alt HAN Costs to be Reimbursed by the DCC - Z4.14 - Z4.20: Budgets and Work Plans - Z4.21 - Z4.29: Provision of information to the DCC - Budgets - Z4.30 - Z4.34: Alt HAN Inventory

SEC	Content
	- Z4.35 - Z4.36: Provision of information to DCC - for charging - Z4.37 - Z4.41: Reports and Audits

Annex A: Consultation Responses

The Alternative Home Area Network (HAN) Solutions consultation launched on 17 December 2015 and closed on 25 February 2016.

The consultation was available on the Department of Energy and Climate Change (DECC) website and a paper version of the consultation document was made available on request. Respondents were invited to submit their comments to a consultation email address (smartmetering@decc.gsi.gov.uk).

In total, 18 written responses were received – all electronically. Respondents, broken down by sector, were as follows:

Sector	Number of responses
Code Administration	1
Communications and Technology	3
Consumer Group	1
Energy Network	2
Energy Supplier	8
Other	3
Total	18

The following organisations responded to the consultation:

British Gas	Citizens Advice
DCC	EDF Energy
Electricity North West	Energy UK
E.ON Energy Solutions	Geo
Northern Powergrid	Ofgem
Ovo Energy	RWE Npower
SEC Panel	Siemens Managed Services
SSE	Tempus Energy Supply Ltd
Theobroma Systems GmbH	Utilita Energy Ltd

Annex B: Updated legal drafting

The updated legal drafting is attached separately.

Annex B1: DCC Licence Conditions
Annex B2: Gas Supply Licence Conditions
Annex B3: Electricity Supply Licence Conditions
Annex B4: Smart Energy Code

Annex C: Alternative HAN Governance Set Up

Introduction

1. This part of the document sets out the processes that DECC is following to put in place some of the initial governance for the Alternative HAN arrangements. There are two sections:
    - The **first section** covers arrangements for the appointment of the first Alt HAN Forum.
    - The **second section** outlines the work that DECC is undertaking to establish Alt HAN Co, including activities that suppliers will need to undertake in relation to:
        - Appointing the Board of Directors; and
        - Issuing shares.
2. We will engage separately with suppliers on each of these topics in the run up to the governance arrangements being in place later this year.

Alternative HAN Forum Set Up

3. The Forum will provide a way for all energy suppliers to come together and make decisions on Alternative HAN arrangements. DECC facilitated the set up of the Transitional Alternative HAN Forum - this group has been progressing work in advance of the legal text being in place. All relevant supplier parties were invited to take a seat on the Forum.
4. Whilst the Transitional Alternative HAN Forum has already been established, the enduring Forum will be established at the point the legal drafting comes into effect, planned for July 2016. The transitional provisions set out in the SEC drafting (reference Z5) outline that where a supplier has nominated a person to be a member of the Forum prior to the legal text being in place, they will, by default, become an enduring Forum Member once the legal text comes into force.
5. Unless suppliers provide alternative nominations, the Transitional Alternative HAN Forum members will be deemed to be the enduring Alt HAN Forum once the legal text is in place.
6. In addition, all suppliers who have not yet taken a place on the Transitional Alternative HAN Forum are able to nominate a representative for the enduring Forum. All nominations should be sent to smartmetering@decc.gsi.gov.uk.
7. Important points to note include:
    - All relevant energy suppliers can nominate a representative to take a seat on the Forum - this includes all domestic and small non-domestic suppliers captured by the rollout licence conditions.
    - One person can represent more than one supplier so a group of suppliers could nominate one person to represent their views.

- The enduring Forum will need to elect a Chair at their first Forum meeting.
- Each Forum member will also be asked to nominate an alternate - suppliers may include an alternate in any nominations emailed to DECC.

Important note for stakeholders

Absent any replacement nominations to the contrary, supplier representatives on the Transitional Forum will become the enduring Forum members once the legal text is in place.

If a supplier with a seat on the Transitional Alternative HAN Forum would like to change the name of the representative, they should email DECC at: smartmetering@decc.gsi.gov.uk before the legal text is in place (expected July 2016).

If a supplier who has not yet joined the Transitional Alternative HAN Forum would like to nominate a representative for the transitional and/or enduring Forum, they should email DECC at: smartmetering@decc.gsi.gov.uk before the legal text is in place (expected July 2016).

Once the legal text takes effect, change and additions can still be made by contacting the Forum directly.

Alt HAN Company Set Up

8. In order to ensure Alt HAN Co is in place when the legal text takes effect, DECC will be providing some support to setting up the company. Government appointed lawyers have already incorporated Alt HAN Company Limited as a private limited company registered in England and Wales. It is currently being held by their nominee company ready for handover at the point of the legal drafting comes into force.
9. In advance of handover, there are three key areas of activity:
   - Alt HAN Co Directors
   - Alt HAN Co Shares
   - Alt HAN Co Articles of Association

Alt HAN Co Directors

10. Earlier in this document, we set out that the Alt HAN Co Board will be made up of at least three directors. The legal drafting[13] sets out that the first Board Members will be appointed following an election process administered by the Secretary of State prior to section Z coming into effect.
11. The timetable for election of the Board members is set out below:

[13] Reference SEC Z2.10

Date	Action
April 2016	DECC issues request for nominations to supplier parties
May 2016	Suppliers submit nominations Suppliers are then asked to vote
June 2016	Alt HAN Co Directors will be selected and asked to complete forms to agree to take on the role
July 2016	The new directors are officially appointed as part of the handover process, once the legal text is in place.

12. The first action for suppliers is to nominate Alt HAN Co Directors. Nominations should be sent by **20th May 2016** to **smartmetering@decc.gsi.gov.uk**

13. Important points to note include:

- The Alt HAN Co Board will be made up of at least three persons nominated by relevant supplier parties.
- One of these Board members will serve for 12 months and the other two for 24 months, after which the Forum shall run a further election.
- Provisions for resignation and removal of Board members are set out in section Z2.
- Board members must act independently, exercise reasonable skill and care in line with the Companies Act 2006 and act in a manner designed to facilitate the functions set out in section Z.
- Provisions for appointment of a Chair, alternates, quorum, voting, meeting papers and minutes are set out in Z2.
- Decisions made by the Board can be appealed to the Forum.
- The Forum will be responsible for giving directions to Alt HAN Co including deciding which decisions to delegate to Alt HAN Co.

Important note for stakeholders
All suppliers are entitled to submit nominations for Alt HAN Co Directors. Nominations should only include individuals who are happy to be considered for this role. Nominations should be sent by **20th May 2016** to **smartmetering@decc.gsi.gov.uk**

Alt HAN Co Shares

14. Once the legal text is in force, all relevant suppliers will be deemed to have applied to become a shareholder in Alt HAN Co.
15. In advance of this, we are asking all relevant suppliers to complete a Shareholder letter which will be issued by DECC shortly. This is so we can track that suppliers are aware that they will become shareholders for Alt HAN Co.
16. Currently Alt HAN Co is owned by DECC's legal representatives. It is planned to hand this over to relevant suppliers in a two-stage process. Initially the shares will be transferred to one supplier who will then allocate additional shares to all other relevant suppliers. We will be working with suppliers to identify a volunteer to be the initial shareholder and collect the relevant paperwork to allocate the shares. Once the shares have been allocated at handover, each supplier will be sent a Share Certificate.

Alt HAN Co Articles of Association

17. DECC appointed lawyers will draft the Articles for Association, to reflect the drafting in section Z. These drafts will be shared with suppliers through the Transitional Forum and will be adopted at handover.

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