

A consultation on new Smart Energy Code content (Stage 2)

A response from Energy UK

29th November 2013

Introduction

Energy UK is the Trade Association for the energy industry. Energy UK has over 80 companies as members that together cover the broad range of energy providers and suppliers and include companies of all sizes working in all forms of gas and electricity supply and energy networks. Energy UK members generate more than 90% of UK electricity, provide light and heat to some 26 million homes and invested over £11 billion in the British economy in 2012.

Energy UK's members will respond on an individual basis to each of the questions included within the consultation. There is however a wider concern in relation to the proposals in Section 6 of the consultation associated with Communications Hub Financing, and Communications Hub Charging:

Communication Hub Financing:

The proposals included in the consultation appear to be catering for very specific financing provisions that industry has had very little awareness of until now. They appear to be overly complex, and provide an unnecessary and excessive level of financial protection to Communication Hub financiers, especially when considering the credit ratings of the key customers – suppliers, the associated provisions in the SEC (and sanctions on licensed parties for being in breach of the SEC for non-payment of DCC invoices), as well as the much wider Special Administration Arrangements ('step-in' rights) that DECC have committed to bring forward, that will apply equally to the DCC, as well as energy suppliers in the event of them falling into significant financial difficulty.

All DCC charges are payable within 5 days of receipt of the DCC invoices on a 'pay now, dispute later' basis, with additional provisions within the SEC that cater for defaulting parties, and recovery of any associated costs from other SEC parties. The additional requirement for a '3 month float' arrangement for comms hub charges therefore appears overly excessive. There is a real concern from Energy UK's members to what essentially results in a 'front-loading' of DCC costs/charges that have not been anticipated previously. **Energy UK and its members believe that a**

'1 month float' should be more than sufficient protection against payment default of comms hub related charges.

Similarly, Energy UK's members cannot understand the need for an ultimate 'cash-call' provision within the SEC, that allows comms hub financiers to pursue third party rights under the SEC (ultimately, calling-in all comms hub costs) in the extreme event that there is a series of financial failures of suppliers, and that the DCC is unable or unwilling to directly enforce such rights. Whilst there is no requirement for SEC parties to 'allocate' financial reserves for this extreme event, the existing SEC provisions (and other legislative provisions such as Special Administration Arrangements), and credit worthiness of both the DCC and Energy Suppliers should provide sufficient protection and assurance to comms hub financiers without the need for this ultimate 'cash-call' provision. There are no other similar arrangements in existence, to what ultimately results in Third Parties being able to by-pass existing legislative provisions. **Energy UK and its members therefore do not support the need for the inclusion of Section M11.5 of the SEC unless there is a clear, demonstrable benefit for consumers for its inclusion – to date there is no evidence of this.**

There is a general feeling of a lack of transparency on financing arrangements, which strengthens the need to ensure that SEC parties have the right tools to guarantee value for money on comms hub costs throughout the life of those assets.

Communication Hub charges:

The majority of Energy UK's members continue to agree that the principle of a single, standard, postage-stamp charging regime for comms hubs, regardless of the variant of comms hub utilised, should be taken forward into the SEC, as was confirmed in our submission 'Energy UK Commercial Workshop Paper' to DECC on 12th February this year.

The majority of our members believe that the proposals within the consultation, which suggest there should be a separate additional charge where a variant comms hub is installed appears overly complex, and is likely to result in certain suppliers facing additional costs that they are unable to forecast or anticipate. There will be some suppliers that will be forced to utilise variant comms hubs in a particular geographic area to deliver WAN connectivity – a cost which they have no control over whatsoever.

The majority of Energy UK's members therefore support the principle of a single, postage-stamp charging regime for comms hubs, regardless of the variant installed. This facilitates a level playing field in terms of costs that will help prevent consumers in certain areas, or those living in certain property types becoming exposed to additional, unnecessary costs.

I trust that this response is helpful. Should you require any further clarification on any of the issues raised, please contact.