



Department
of Energy &
Climate Change

Smart Metering Implementation Programme

**Government response and further consultation:
provisions in the Smart Energy Code concerning
financing of communications hubs and
consequential changes to the DCC Licence.**

16 December 2013

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This document is also available from our website at www.gov.uk/decc.

General information

Purpose of this consultation:

This consultation is intended to update the DCC licence so that it supports provisions in the Smart Energy Code around the financing of communications hubs.

Issued: 16 December 2013

Respond by: 20 January 2014

Enquiries to:

Smart Metering Implementation Programme - Regulation

Department of Energy & Climate Change

Orchard 3, Lower Ground Floor

1 Victoria Street

London, SW1H 0ET

Telephone: 0300 068 5953

Email: smartmetering@decc.gsi.gov.uk

Territorial extent:

This consultation applies to the gas and electricity markets in Great Britain.

Responsibility for energy markets in Northern Ireland lies with the Northern Ireland Executive's Department of Enterprise, Trade and Investment.

How to respond:

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Responses to this consultation should be sent to smartmetering@decc.gsi.gov.uk no later than 20 January 2014.

Additional copies:

You may make copies of this document without seeking permission. An electronic version can be found at <https://www.gov.uk/government/consultations/new-smart-energy-code-content-stage-2-consequential-consultation-on-changes-to-the-dcc-licence>.

Other versions of the document in Braille, large print or audio-cassette are available on request. This includes a Welsh version. Please contact us under the above details to request alternative versions.

Confidentiality and data protection:

DECC intends to summarise all responses and place this summary on our website at www.decc.gov.uk/en/content/cms/consultations/. This summary will include a list of names or organisations that responded but not people's names, addresses or other contact details. In addition DECC intends to publish the individual responses on its website and you should therefore let us know if you are not content for the response or any part of it to be published. We will not publish people's personal names, addresses or other contact details. If you indicate that you do not want your response published we will not publish it automatically but it could still be subject to information requests as detailed below.

Further, information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you do not want your individual response to be published on the website, or to otherwise be treated as confidential please say so clearly in writing when you send your response to the consultation. For the purposes of considering access to information requests it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

Quality assurance:

This consultation has been carried out in accordance with the Government's guidance on consultation principles, which can be found here:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/60937/Consultation-Principles.pdf

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

DECC Consultation Co-ordinator
3 Whitehall Place
London SW1A 2AW
Email: consultation.coordinator@decc.gsi.gov.uk

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1 Summary

1. 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.
2. On 23 September 2013, a new licensed entity, the Data and Communications Company (DCC), was established. Together with its sub-contractors, the Data Service Provider (DSP) and Communications Service Providers (CSPs), the DCC will provide a Smart Meter communications service. The DCC will offer a means by which Suppliers, Network Operators and others can communicate remotely with Smart Meters in Great Britain.
3. The Smart Energy Code (SEC) is a new industry code which has been created through, and came into force under, the DCC Licence. The SEC is a multiparty contract which sets out the terms for the provision of the DCC's Smart Meter communications service, and specifies other provisions to govern the end-to-end management of Smart Metering.
4. The DCC, Suppliers and Network Operators are required by licence to become a party to the SEC and comply with its provisions. Other bodies who wish to use the DCC's services, such as energy efficiency and energy service companies, must accede to the code to do so.
5. Consistent with other industry codes, the SEC is self-governed, enabling participants to raise change proposals, debate issues, and resolve disputes without the need for day-to-day regulatory intervention. It is managed by a Panel of experts drawn from SEC Parties, with oversight where appropriate from Ofgem.
6. In October 2013 we consulted on the SEC drafting with respect to a range of issues ('the October consultation'). This Government response document offers our conclusions on one specific aspect of that consultation, namely the proposed provisions in the SEC around communications hubs financing charges to support the first tranche of communications hubs in the northern CSP region (5% of the total or approximately 1.4m communications hubs).
7. This document also includes a further consultation on some minor modifications to the DCC Licence; these modifications are necessary to support the policy proposals concluded on here. The Government will respond separately on the remainder of the October consultation in due course.

2 Response to October 2013 proposals

2.1 Proposals

8. The October consultation explained that the cost of communications hubs will be funded by the DCC's Communications Service Providers (CSPs) in advance before being recovered over the course of their operational lifetime via charges to the DCC, recovered by monthly charges on DCC service users.
9. Bidders for the CSP contracts were required, as part of the procurement process, to provide firm prices for an initial tranche of 15% of the communications hubs ultimately required. They also had to identify strategies for providing future tranches of communications hubs in a way that secured best overall value for money once communications hubs were proven operationally as an asset class.
10. Bidders responded to this requirement with a range of solutions for the first and subsequent tranches. These encompassed approaches financed directly by the CSP, as well as approaches employing third party finance to fund the purchase of these assets. The successful bid for one of the three CSP regions involved a third party finance model.
11. In order to secure the improved value for money offered by the third party finance solution, we proposed four provisions within the overall charging arrangements that were designed to ensure a clear chain of obligation between the asset funders (the financiers) and the DCC users paying for the use of the communications hubs via the DCC. By creating this chain of obligation, the provisions helped minimise credit risk and therefore allow the most economic financing rates to be obtained for the first and potentially future tranches of communications hubs, to the benefit of DCC service users and ultimately energy consumers.
12. The four proposed provisions were:
 - First Provision: to allow the DCC to invoice separately for communications hubs financing charges, and require service users to pay these charges into a separate ring-fenced bank account;
 - Second Provision: to permit the DCC to recover from service users all outstanding monies due on deployed communications hubs in the event of a default in payments;
 - Third Provision: to allow the DCC to budget prudently in setting its charges to ensure that there is sufficient working capital to avoid an inadvertent default, in practice achieved through a float covering the cost of three months' payments for the communications hubs concerned; and

- Fourth Provision: to give financiers limited third party rights under the SEC to pursue outstanding sums direct from service users, but only in the circumstance that Ofgem determines that the DCC is unable or unwilling to do this.
13. We are concluding on this specific issue ahead of the other matters in the October consultation because we have identified minor consequential changes required to the DCC Licence. We are now consulting on these so that, subject to consideration of any responses received, the whole package can be brought into the regulatory framework at the same time.

2.2 Summary of responses

Make up of respondents

14. Fifteen responses were received in response to the communications hub financing provisions (question 19 in the October consultation). Respondents on this question included the DCC, Ofgem, six large energy suppliers, one small energy supplier, two networks, two trade bodies (covering supply and networks) and a data management company.

General comments

15. Energy network respondents were generally content with the proposals, agreeing that they were a proportionate response to providing reliable and economic third party financing of communications hubs. Some had specific comments on the fourth provision (detailed below).
16. Responses from energy suppliers were mixed, though a number appreciated the logic behind the proposals and agreed that they could deliver benefits to consumers, several thought the third provision in particular was not proportionate, and one appeared opposed in principle to all the provisions. It argued this on the basis that the DCC's existing payment terms (five working days) are favourable enough not to require further provisions to ensure funds were always available to pay these service charges.
17. Another respondent thought the arrangements were complex and potentially provided an excessive level of protection for financiers given the existing arrangements within the SEC.
18. Other comments included:
- a supplier asked for clarity on whether the same provisions applied where CSPs had funded communications hubs directly;
 - another asked for clarity on the order in which the provisions would be practically implemented;
 - others asked for assurances with respect to transparency and opportunities to comment on all current and future communications hubs financing arrangements;

- a supplier said that suppliers should not have to pay in advance if there was a dispute about service quality;
 - a supplier said that SEC drafting is currently silent on the potential frequency by which invoices may be adjusted under SEC J1.8 and asked that this is further considered, suggesting alignment with current Network Operator Charging Methodologies would help; and
 - a supplier said it considered that the communications hubs financing arrangements do not provide flexibility with respect to replacing communications hubs in the event of a technology refresh or if a new CSP was in place and existing hubs had failed within the expected lifespan of the previous CSP's communications hubs. It said suppliers would incur costs replacing them in these scenarios.
19. The DCC was generally content with the proposed provisions although it had a number of detailed drafting points.
20. Ofgem noted the potential for these arrangements to deliver significant cost savings for consumers. It stressed the need to minimise additional risk and complexity and noted the balance of rewards and risks between parties should be appropriate and fair. In particular it said that the three month float would need careful management by the DCC, with any interest payments that accrued being returned to users. Ofgem noted that the DCC would be responsible for ensuring that the arrangements continue to be economic and efficient compared to alternative approaches and that it would scrutinise the DCC's approach as part of its ex post review of DCC costs.
21. A number of respondents made helpful points of clarification on the legal drafting which we will take into account in the final drafting. The final drafting will be published alongside the Government response to the licence change consultation set out below.

2.3 Specific comments on the provisions

First provision

22. A supplier objected to receiving multiple invoices, arguing it had a contract with the DCC (and by implication not with the financiers or CSP) and therefore would expect to receive and process just one invoice.
23. A supplier noted it would be more efficient to have just one invoice although it also noted that it considered the proposal reasonable.
24. Another respondent asserted that there should be an absolute obligation on the DCC to use a separate bank account if this reduced the risk to suppliers of being pursued directly by financiers.
25. A supplier said that in addition to including separate communications hubs charges as an item in J1.2 (invoicing of charges) another potential item should be compensation payments to suppliers.

26. In addition one respondent asked what would happen if the CSP failed to pay the financiers.

Second provision

27. A number of respondents asked for clarity on what the Communications Hub Finance Acceleration Event was and what the triggers for it would be – in particular it was noted that it would not be desirable if it could be easily triggered.
28. One supplier respondent said it saw no benefit in this provision and believed the intent is already dealt with in the existing SEC drafting (in the proceeding clause, K9.6).
29. Another respondent was concerned that individual suppliers at fault (for non-payment) should be pursued first and that the debt should not immediately be socialised. Furthermore, if the debt had been socialised and it was then successfully recovered there should be no double recovery using these provisions.

Third provision

30. Respondents made a number of comments about the third provision (the three month float) and this was generally the provision that attracted the most detailed responses.
31. Suppliers argued that the three month float would increase their working capital costs and that this would be passed onto consumers. However, others recognised the potential benefits that such a float would bring (through lower charges) but believed a one month float would be sufficient.
32. A supplier said that it could not foresee a scenario whereby the float would ever be drawn upon, calling it highly unlikely, and therefore it did not believe that the provision of a three-month float was a proportionate response to the likely risk.
33. It also said that it is not appropriate for industry parties to provide financial security for a regulated monopoly, no matter how short-lived the arrangement. The DCC should have enough credit cover and other securities in place against the initial funding.
34. A number of respondents made comments to the effect that the float should be treated as regulated revenue and therefore returned to users (if any excess remained, especially from interest earned). On a related note one supplier argued that any outstanding amounts paid by a supplier should be returned to it should they leave the market.
35. A supplier said that there was insufficient clarity on section K3.13, in particular on terms such as 'contingency fund'.
36. One supplier argued that this provision would set a dangerous precedent in the market. It did not believe there are other contractual arrangements of this type and said that in its view payment terms were already extremely favourable for DCC.

37. A respondent said that the requirement for an advance payment should obviate the need for both a five day payment period for invoices and for credit cover (for communications hubs finance charge).

Fourth provision

38. One supplier said it was concerned that this provision would set a precedent (though it did not provide further detail on why this was problematic).
39. Some network respondents were unclear if the provision meant that they could be pursued directly in the event that the debt had been socialised across DCC users.
40. A supplier said that there should be reciprocal arrangements to cover scenarios where suppliers had been unable to make payments due to issues outside of their control (for example DCC system failure). It also said that default payments should ultimately be paid by the defaulting party and that there should be compensation for suppliers whose roll-out is impacted as a result of failure or constraints to communications hub delivery.
41. Finally one supplier suggested that the fourth provision was not the most appropriate or structured approach to pursuing outstanding monies. Rather it argued for an approach that aligned with the existing industry standard of Supplier of Last Resort. It noted that if a large supplier were to fail to make payments for communications hubs that it had ordered, then this would herald a significant problem, that of a large supplier entering into bankruptcy. In this event existing industry principles, the Supplier of Last Resort process, would be called upon. It argued this should be referenced in the SEC.

2.4 Government response

42. We are grateful to respondents for their comments on both the general concept and to the specific provisions in detail. These responses have enabled us to further assess the impact of the provisions on the DCC's users and ultimately energy consumers, and to weigh them against the expected benefits arising from the more competitive rates of financing that they help to secure.
43. Based on this analysis, we continue to consider that the economic benefits significantly outweigh the costs, reducing charges to suppliers and ultimately to consumers, and that it is therefore appropriate to proceed with the proposals.
44. It is very important to note that the procurement of communications hubs will take place in tranches and that at present these provisions only apply to one third of the initial tranche, in practice having an impact only on approximately 5% of the communications hub base.
45. There will be ample opportunity to revisit the approach before it would be extended to further tranches. Future tranche procurement will be a decision

for the DCC with its CSP partners and subject to ex post review by Ofgem on whether costs were economically and efficiently incurred.

46. In undertaking this procurement exercise we fully expect DCC to engage with its users to understand the practical experience of the first tranche, thus informing whether extending the approach would continue to provide significant value for money benefits.
47. Turning to the comments raised on each of the specific provisions:

First provision

48. Most respondents did not consider this an onerous requirement, though we do recognise there is a certain administrative impact from making payments into separate bank accounts. The benefits that these arrangements support in the form of lower overall charges outweigh these impacts.
49. We agree with respondents who made the point that any interest accruing in this account should be returned to the DCC (and eventually to the benefit of users through lower charges). We have always intended that this money is regulated revenue within the context of the DCC Licence and that therefore interest earned should be treated in this way. We propose to make further consequential changes to the DCC Licence to make this explicit (see chapter 3). On a related point raised on the third provision (see paragraph 34 above) if a supplier were to exit the market having paid its DCC charges then any sums remaining in its contribution to the three month float would be returned.
50. As these payments flow directly from users to the financiers, we do not consider the comment on a CSP failure to pay is relevant. These arrangements essentially bypass the risk of CSP failure (in respect of communications hubs finance charges); this is one of the reasons why they support competitive rates of finance.
51. On the specific point of including compensation payments as a potential item on invoices in J1.2 (Invoicing of Charges) we do not consider this is necessary. The list in J1.2 is not exhaustive and a credit may be treated as a negative payment.
52. We agree with the suggestion that, where the DCC has a communications hub finance arrangement in place, the SEC drafting should specify that the DCC shall arrange for payments to go into a separate bank account and will make this change to the final SEC text. We also agree that when there are separate bank accounts then there will also be separate invoices and will clarify the drafting in this regard.

Second provision

53. In response to those who suggested there is a lack of clarity over what would trigger this provision, it is predominately triggered by a failure to pay after a rectification period.
54. As to whether this provision is already covered in the SEC (see the comment at paragraph 28 above), it is true that the SEC (and DCC Licence) already

provide for the DCC to revisit its charges during the year and to socialise debt across its users if need be. However we consider the specific reference in Section K9 adds to transparency and clarity without creating an additional burden.

55. We agree that individual suppliers who have not been paid should be pursued in the first instance (by the DCC). However, as is already provided for in the SEC (K9.4), the DCC can socialise bad debt if it is likely to have a significant impact on its working capital – in this respect the provisions concerning communications hubs finance charges are no different. However, even if debt were socialised the DCC should still continue to pursue the original defaulting party and if this money is recovered it should be returned pro rata to those who have paid through the socialisation process.
56. We continue to consider that this provision would be highly unlikely ever to be used given the wide range of protections in place in the SEC, such as the pay now dispute later provisions and the proposed three month float. However the inclusion of this provision is necessary to support arrangements which result in reduced charges and we consider that its inclusion is therefore justified.

Third provision

57. This provision attracted the most concern. We accept that the requirement to provide a float covering three months of charges for the communications hubs concerned could mean suppliers incur opportunity costs. However, our analysis is that these are significantly outweighed by the savings on offer. If, as one respondent suggested, we were to leave it to the DCC only to arrange credit cover for these charges, then the financiers would adjust their assessment of risk to take account of the DCC's risk profile, rather than the DCC's customers' in total. Even though the DCC is not a particularly risky entity it is clear that its customers, in total, offer a very low risk profile and therefore attract a lower risk premium.
58. A number of suppliers, although not opposed in principle, argued in favour of a one month float. We do not consider that a one month float provides the degree of protection necessary to secure the most competitive rates of finance on offer to fund these hubs over their 10 year lifespan. Having only a one month float increases the risk to financiers that they will not be paid in the anticipated time, and an increase in risk leads to an increased risk premium. Furthermore a one month float increases the risk of an accidental default due to relatively minor incidents, which would be clearly undesirable.
59. Therefore, again, we consider that the additional cost to users in funding an extra two months is significantly outweighed by the savings secured and that the proposal is proportionate. We note again that the impact at this stage will reflect only the first tranche of about 5% of the total number of communications hubs. As set out above (paragraph 45), it will be for the DCC, in consultation with users and its CSPs, to determine the most efficient and economical approach for procuring future tranches, including consideration of whether this duration of float is appropriate.

60. With respect to the suggestion that this is precedent-setting, we agree that these arrangements are not standard practice in the energy industry, although we note that suppliers already have to pay for certain other market mechanisms in advance, for example to Elexon in respect of the operation of the balancing and settlement arrangements. However the approach is not novel in the commercial context more widely. There is no suggestion of mandating its wider application, but nor should its use be ruled out if it is found to be beneficial.
61. We do not agree that this provision would remove the need for payment of DCC charges within five working days. Removing this requirement would create additional risk for the DCC and therefore might require even more payments in advance. It might also introduce more operational complexity in that some DCC invoices would be payable in five days whilst the communications hubs financing charges invoices would have longer terms. Therefore we see no benefit in changing the existing arrangements. However, we agree with the same respondent's suggestion that, in respect of communications hubs financing charges only, the DCC should be able to adjust the level of credit cover required to take account of the three month advance payment. The existing SEC drafting at J3.3 already allows it to take account of the three month float when determining the value at risk with respect to a particular supplier.
62. With respect to the comment that the drafting of K3.13, in particular the term 'contingency fund', is insufficiently defined, we note that the drafting of K3.13 will be incorporated into the methodology for determining communications hubs charges and that this will be the subject of a future consultation.

Fourth provision

63. On the suggestion in paragraph 40 above that there should be reciprocal arrangements in the SEC in the event of, for example, a failure on the part of the DCC, we consider the three month float already protects against this. This is because a systematic failure on the part of the DCC can be dealt with via the existing Management Order licence condition (or potentially in the future through a special administration regime, which it is still our intention to introduce through primary legislation). The three month float provides enough time to deal with such problems if they were to occur.
64. If there was a default that eventually, in extremis, led to third party rights to pursue users directly being exercisable, it is important to note that there would still be an obligation on the DCC to seek payment from the original defaulting party (or parties). This payment, if eventually recovered, would be returned pro-rata to those who had paid as a consequence of the debt socialisation process (see Section K9 of the SEC). In this case it is no different from the existing arrangements in the SEC.
65. We do not consider it necessary or appropriate to reference the Supplier of Last Resort process in the SEC drafting. Indeed we consider that it is precisely because of mechanisms such as Supplier of Last Resort that both the second and fourth provisions are highly unlikely ever to be used. Should a major supplier enter difficulties, we would expect the three month float initially

to mitigate against the risk of the DCC defaulting on payments as it triggered the SEC's debt socialisation process. Should it choose to use them, Ofgem's powers to appoint a Supplier of Last Resort provide further protections. From the perspective of the financiers the correct payments would continue to flow and so there would be no need (or ability) to trigger the fourth provision.

66. In response to the question of which SEC Parties would be liable if any outstanding debt arising from communications hubs financing costs were to be socialised, we can confirm that the existing arrangements (Section K9) would apply. Parties would pay a proportion of the debt that matched their proportion of the share of total DCC charges over the preceding 12 months. This would mean that network operators would be liable for a small proportion of the cost, though this would be returned to the extent it was eventually recovered.

Other comments

67. These provisions do not apply to communications hubs financed directly by CSPs, they only apply to third party arrangements, and we will make this clear in the relevant definitions.
68. With regards to the comments around communications hubs technology refresh and / or CSP contract expiry, we consider that these are matters the DCC will have to take into account when it procures new CSP contracts. It will have to take account of system wide costs in determining the most economic and efficient outcome.
69. With respect to the comment about the frequency in which invoices may be adjusted (J1.8) we can confirm that these provisions do not alter the existing process by which invoices are sent out monthly and therefore allow for month on month reconciliation.
70. On the subject of compensation for suppliers in the event of disruption to the supply of communications hubs or disputes over service quality we consider existing provisions should continue. The SEC has 'pay now dispute later' provisions to ensure that the DCC remains capitalised and so can continue to fulfil its role at the heart of GB smart metering in the event of any disputes.
71. In reply to the request for clarity on the order in which the provisions would be utilised, we consider that the first and third provisions (separate accounts and three month float) would be introduced first. The second provision would only apply in the event of a major default and the fourth would only apply when the DCC had failed to properly recover this default payment.

3 Consultation on consequential modification to the DCC Licence

72. Following comments received during the October consultation regarding the first provision discussed above (allowing the DCC to identify separate bank accounts associated with separate invoices for communications hubs financing payments) we consider it is necessary to make some minor consequential changes to the DCC Licence.
73. These changes are necessary to align the policy position, as set out in this response and implemented through the provisions, with the licence drafting. They do not have any direct impact upon users.
74. The first proposed change is to Condition 11.12 (Part D: Management of External Service Provider Contracts), to allow for the flow of payments now envisaged (see licence text in Annex 2).
75. The second proposed change is to make clear that payments for communications hubs financing from users are to be treated as regulated revenue under the licence. As a consequence it is also necessary to allow the DCC to direct such payments into ring-fenced accounts that are held by the financiers (although the DCC will be responsible for determining the amount and frequency of charges).
76. To achieve this we propose moving the DCC's existing obligation to ring-fence its income from its current position in Schedule 5, Annex 1 and place it in Condition 27. We will further modify this to permit the payment of certain income (i.e. communications hubs financing charges) into accounts held by other parties (see licence text in Annex 2).
77. A number of respondents to the October consultation stressed the importance of ensuring this money was treated as regulated revenue, not least because of the three month float and the potential for interest to accrue in this account. As this income is Regulated Revenue within the context of the DCC Licence we believe this is already the case. We have added a 'for the avoidance of doubt' change to the definition of Regulated Revenue in Condition 36 to include these payments within this definition (see licence text in Annex 2). This will ensure that any interest earned in these accounts is returned to the DCC at completion (i.e. when all communications hubs in a particular tranche have been delivered and paid for); if appropriate the sums would then be returned to users through the usual price control mechanism.

3.1 Next steps

78. This consultation closes on 20 January. If, following consideration of responses received, we decide to proceed with modifying the DCC licence we intend to do so using our powers under Section 88 of the Energy Act 2008. This means we will lay the changes before Parliament for 40 sitting days. We would expect to do this in early February, alongside the changes to the SEC

detailed above. Subject to Parliamentary processes, the licence and SEC changes would then become effective in late March 2014.

Annex 1: Consultation question

Q1	Do you agree that the proposed changes to Conditions 11, 27 and 36, and Annex 5 Schedule 1, are necessary to align the DCC Licence with the communications hubs financing provisions in the SEC?
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Annex 2: Proposed DCC Licence changes

Modify Condition 11.12:

- 11.12 The arrangements to which paragraph 11.11 refers must include such procedures or other matters as may be necessary to ensure that revenues flow:
- (a) from the Licensee to the Relevant Provider for and in connection with the provision of Fundamental Service Capability to the Licensee; ~~and~~ **or**
 - (b) from the ~~Relevant Provider~~ **Licensee (or, where the SEC so provides, from SEC Parties)** to persons engaged pursuant to the Relevant Contract in the business of financing, procuring, providing, or operating Communications Hubs,
- in such manner, at such times, and to such extent as will ensure that:
- (i) the Relevant Provider is able to fulfil its obligations under the Relevant Contract; and
 - (ii) the Licensee is able to be provided with the goods, services, and resources necessary to enable it to fulfil its obligations under this Licence.

Add a new Conditions 27.14A, 27.14B, 27.14C and 27.14D (in a new Part F1):

Part F1: Ring-fencing of the Licensee's revenues

- 27.14A Subject to paragraph 14C, the Licensee must ensure that all revenues that:
- (a) accrue to the Licensee from Service Charges levied in accordance with the provisions of Condition 18 (Charging Methodology for Services) and of Condition 19 (Charging Statement for Services); or
 - (b) are otherwise received by the Licensee in relation to the carrying on of the Authorised Business of the Licensee,
- are paid into and held and maintained in a Secure Account (but without prejudice to the full and timely disbursement from that account of all monies that are properly payable by the Licensee).
- 27.14B For the purposes of paragraph 14A, a “**Secure Account**” is a bank account held within the European Economic Area in the name of the Licensee that:
- (a) is separate from any bank account or bank accounting arrangement, however described, that is held in the name of or is otherwise operated by or on behalf of any Affiliate or Related Undertaking of the Licensee; and
 - (b) is so structured and controlled that the revenues accruing to it and any interest that is earned on them can only be used for the purposes of the Authorised Business of the Licensee as carried on under this Licence.
- 27.14C To the extent provided for in the SEC, the Licensee may direct SEC Parties to pay amounts due by way of certain Service Charges relating to the provision of Communications Hubs into a bank account held in the name of a person engaged

pursuant to an External Service Provider Contract in the business of financing, procuring, providing, or operating those Communications Hubs. The Licensee must ensure that:

- (a) such bank account is one which bears a reasonable rate of interest, which is held within the European Economic Area, and which is exclusively used to receive payments of such amounts;
- (b) the payment of such amounts into such bank account is in settlement of the Licensee's obligation under the External Service Provider Contract (or any direct agreement entered into by the Licensee in relation to the External Service Provider Contract) to pay an equivalent amount in respect of those Communications Hubs (unless returned under paragraph 14C(c));
- (c) any amounts paid by a SEC Party into such bank account in error are promptly returned to that SEC Party together with any interest earned;
- (d) an amount equal to the interest that accrues to such bank account (excluding that referred to in paragraph 14C(c)) is promptly paid to the Licensee;
- (e) the only withdrawals made from such bank account are in the amounts the Licensee is due to pay under its obligations referred to in paragraph 14C(b) and are made when the Licensee is due to pay the same (or are otherwise made in compliance with the Licensee's obligations under 14C(c), (d) or (f)); and
- (f) once the Licensee has paid all of the amounts that it is (or will become) liable to pay under the External Service Provider Contract (or any direct agreement entered into by the Licensee in relation to the External Service Provider Contract) in respect of those Communications Hubs, an amount equal to the balance then held in the bank account is promptly paid to the Licensee.

27.14D The Licensee will:

- (a) keep records, in a form that may be readily inspected and analysed, of every financial transaction or financial event relating to the operation of the Secure Account or any bank account of the nature referred to in paragraph 14C; and
- (b) if the Authority so requests, provide the Authority with access to such records for inspection by it at any time.

Modify definition of Regulated Revenue (Condition 35):

Regulated Revenue	<p>means in relation to each Regulatory Year the actual revenue, measured on an accruals basis:</p> <p>(a) received by the Licensee through Service Charges that are levied in accordance with the provisions of Condition 18 (Charging Methodology for Services) and Condition 19 (Charging Statement for Services); or</p> <p>(b) otherwise received by the Licensee in relation to the carrying on of the Mandatory Business,</p> <p>after the deduction of value added tax (if any) and any other taxes based directly on the amount concerned. Paragraph (a) above shall be deemed to include any and all amounts paid by SEC Parties under the SEC to persons engaged pursuant to an External Service Provider Contract in the business of financing, procuring, providing, or operating Communications Hubs.</p>
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Delete Annex 1 of Schedule 5:

Replace with 'not used'.

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Department of Energy & Climate Change
3 Whitehall Place
London SW1A 2AW

www.decc.gov.uk

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