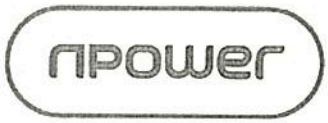

Communications Hub Financing:
Q19 Do you agree that the four additional provisions are proportionate responses to providing reliable and economic third party financing options for Communications Hubs?

We do not support the premise that the four new provisions are proportionate responses in all respects.

Whilst we understand the logic behind the proposed four new provisions that will effectively ring-fence the financial elements of procurement and payment of Communication Hubs, we do not believe that they may collectively form a proportionate approach to financing this equipment.

The fourth provision that allows third party financiers to pursue suppliers for outstanding monies does not seem to be the most appropriate or structured approach to adopt. We would suggest that this is best dealt with by alignment with the existing industry standard approach of Supplier of Last Resort (SoLR).
Firstly, in the event that a large supplier were to fail to make payments for the purchasing of the communication hubs that it has ordered, this would almost certainly signify a potentially greater problem for the industry - that of a large supplier entering into bankruptcy. In this event existing industry principles and practices would be called on, that of Supplier of Last Resort (SoLR). It is this approach that should be clearly referenced within the SEC and the principles followed in practice, as and when required. As Ofgem are the custodian of the SoLR and it is Ofgem that would need to oversee the governance of any payment default activities it seems that best practice would be to incorporate SoLR into the SEC and follow the guidance accordingly.

We do not support the new M11.5 clause that provides third party rights, under a code that they are not signatories to, with the ultimate provision to be able to pursue third party rights under the Code to effectively collect all CH costs in the perceived, but extremely unlikely, event of a series of financial failures by a number of suppliers. The SEC does not require any provision by SEC parties for this scenario and we believe that the credit rating of both Suppliers and the DCC should provide sufficient financial assurance. This again, will place an additional financial burden on consumers.

Typographical and suggested text improvements:
J1.2 suggest insert comma after one or more invoice, or one …..;
J1.2b could not the term "excluding" be used rather than "otherwise than by way of " to aid readability; and
J1.6 – suggest rather than "in pounds sterling" augment this to say or "whatever is the prevailing currency in the UK" in order to future proof the Code (check drafting in other Codes to get applicable drafting).

On a more process-level we would welcome clarification on a number of issues, as follows:

- We would prefer to see the SEC drafting clarify the number of intended invoices that will be submitted to cover payments required to more than one bank account.

There seems to be an inconsistency between drafted text within the consultation document itself (paragraph. 299) which states - "this will result in a second invoice per month for DCC Service Users" and the legal drafting of SEC Sections J1.2 and J1.6, neither of which clarifies this point. In fact, the drafting in J1.6 specifically states - "account or accounts of the DCC specified in the Invoice";

- J1.2f – this drafting makes it sound like the Communications Hub Financing Charges could be included/will be included on one DCC Charges Invoice, and just be identified as a line entry on that invoice for reference purposes. Our reading of the consultation document is that Communications Hub Financing Charges would be payable to a separate bank account and if this is correct then we would need these to be separately invoiced. One invoice should not cover payments to multiple bank accounts;
- J1.8 – Whilst we agree with the need for the provision of an adjustments process, the drafting is currently silent on the frequency of such an approach. In order to provide end Users with transparency and sufficient information to manage Credit Cover etc. we ask that this aspect is further considered. Alignment with current Network Operator Charging Methodologies would help, as these are tried and tested;
- K3.13 – the draft provision of a three-month float seems to stem from considering a scenario whereby several large suppliers fail to pay for the Communications hubs that they have ordered. This is a highly unlikely scenario and as such we do not believe that the provision of a three-month float is a proportionate response to the likely risk. Similarly, any small supplier failure to pay will not require a large financial provision to be established. Further, 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;
- If the provision drafted in K3.13 is to remain further drafting is required to introduce reciprocal arrangements to 'balance' this clause that cover scenarios where suppliers are unable to make payments due to issues outside of their control, for example, DCC system failure. Paragraph 301 of the consultation states that the Networks Operators will be paying communication hub charges - this is incorrect. They will be paying the transactional service charges to the DCC but not any charges relating to a communications hub itself. Further consideration should also be given to default payments ultimately being paid by the defaulting party and that a reciprocal arrangement on the DCC should be included in order to compensate a suppliers' who's roll-out is impacted as a result of failure or constraints to communications hub delivery. What will happen to the interest that will accrue on these deposits? Finally, we assume that as a 'security deposit' that any outstanding amounts will be returned to a supplier should they leave the market. We seek clarification as to the financial benefits for users and consumers that DECC's analysis of this approach has identified, as we currently see an additional pass-through cost.

Communications Hub Services:
Q20 Views are invited on the proposals in relation to Communications Hub asset charges and maintenance charges. This includes:

- **Monthly Communications Hub Charge;**
- **HAN Variant Pricing; and**
- **Monthly Maintenance Charge.**

We support the need to have a clear and structured approach to Communication Hub charging but disagree with the proposals as set out.

Communications Hub Asset Charge

Npower are not supportive of charging mechanisms that are not cost reflective or encourage perverse incentives. Our preference is for a user pays model where the relevant party pays the costs associated with the device they are in receipt of. We fundamentally do not see why CH rental charges should differ significantly from Meter MAP charges as this is the fairest most cost reflective model.

The Monthly Asset Charge for the Communications Hub (CH) that becomes effective once Suppliers are in receipt of CHs from DCC should be an Explicit Charge in the SEC. Our first preference would be for equivalence between the standard MAP arrangements and DCC, of not commencing charging until three months after delivery of the asset. There are many strong business drivers to reduce "work in progress" not least liability for the assets, storage costs, the need to fulfil the mandate and the want of Suppliers to meet their customers' expectations. Levying charges in the period before the asset is commissioned will do little to sharpen these incentives.

If charge for the asset is to be levied it should be borne by the appropriate Supplier, and not smeared across DCC Service Users. However, we accept that there could be complexities and costs in individual line-item charges for the assets. Consequently we accept that socialising charges by market share of the installed smart meter base is appropriate. Moreover, given that DECC is minded to levy asset charges on Suppliers before the asset is installed, we see no merit in changing these arrangements once the asset is commissioned.

We require clarification as to the difference between Monthly Asset Charge and Monthly Communications Hub Charge as these, at first sight, would appear to be the same. We do not believe that it is appropriate to be levying charges on suppliers in order to incentivise smart meter installations (paragraph 315), particularly as this will ensure that any associated communications are likely to be routed through a monopoly provider's systems and processes that will generate a consequential revenue stream and could be viewed as collusive. Further, suppliers will need to hold several different types of CH or have a perfect understanding of HAN and WAN propagation for every home for a 'just in time' supply chain to be established. Anything less than this will undermine the concept if this charging is aiming to minimise the amount of stock held by a supplier. Suppliers have numerous obligations placed upon them already to ensure roll-out is completed by 2020, no further or early 'incentives' are therefore likely to have an appreciable impact. Once

again, this is an additional cost that is being placed on suppliers and consumers, for no benefit and should be regarded as such.

While the smearing of costs (321) is a simpler system, it does not lead to the development of a transparent and open approach, in practice. Given our understanding that the DCC will be responsible for the diagnosis of faults and then determining whether or not any penalties should be levied (against itself) we believe that the industry should be able to view the numbers of type faults.

HAN Variant Pricing

As the volume requirement for a dual - band communications box increases, the marginal difference in price between the single and dual band version is likely to reduce. However, as greater variability is introduced into our supply chain and logistics operation through managing multiple versions of different communications technologies, it will increase both the costs and complexity of our operation. For example, it will be very difficult to anticipate and forecast whether a single 2.4GHz solution will work in a property.

We are generally supportive of a cost reflective approach to charging but we note DECC has pragmatically diluted this principle in order to provide a common price across different WAN technologies. We are also likely to have to establish a business process to reconcile the different charges for the communications box to our invoice.

Given these factors, we question whether the cost difference between dual and single band technologies is large enough to support a cost reflective charging principle.

Communication Hub Maintenance Charges

Not withstanding the above, if the CH maintenance charges apply from the point of commission, this approach therefore also assumes that either there is no 'install and leave' scenario or that the suppliers are responsible for maintenance if they do 'install and leave'. We need a policy decision on this topic as the whole CH area of the SEC is ambiguous in this regard. Further, it would be helpful at this stage to understand what the maintenance charges are designed to cover. For example, costs to maintain a CH will be incurred by the Supplier through site visits. If the proposed charges are to cover firmware upgrades to the CHs and assuming that these are genuine charges for services the CSP is actually providing, then the most cost reflective method is preferable. This would involve paying for what we've used and not the DECC's 'minded to smear' position.

Communications Hub Services:
Q21 Views are invited on the proposals in relation to charges following removal of a Communications Hub. In particular, views are invited on the proposals for no fault removals in split fuel households.
Do you agree that any outstanding asset costs should be smeared across all users rather than being charged to the installing or removing Supplier when Communications Hubs that do not serve the second installer's equipment are removed from split fuel households?

We are supportive of the need to establish a transparent, equitable, robust and independent fault investigation process at the earliest opportunity.

Please note that these comments may change when we have sight of the Communication Hub Handover, Installation and Maintenance Support Materials.

Faults and Fault Allocation
Whilst we are supportive of the need to establish a fault investigation process and accept the need to demarcate between a DCC User Fault and a DCC Service Fault these need to be clearly defined, at the offset. The current considerations provide detailed, specific instances that constitute a DCC User Fault but only reference the contracts that the DCC has in place with their Servicer Providers by way of a reciprocal arrangement. This is in no way acceptable. Users are not party to or can directly influence the contractual arrangements between the DCC and its Service Providers. The SEC should be drafted to list the equitable and specific instances that are currently envisaged that can be used to determine exactly where the responsibility of a particular fault lies. Once established there should also be some provision for ensuring that these faults can also be independently verified, as it is inappropriate for the DCC to effectively police itself with regard to the faults that it may be responsible for. Further in considering how faults are rectified consideration must be given to the overall costs incurred by a party, this should include any testing, preparatory work or site visits.

The consultation (333) states that CSPs are only allowed to recover 80% of the remaining asset value in instances of 'no fault removals', but that CSPs are incentivised to recover their costs by reconditioning these returned CHs. Suppliers need to understand how the charging rates will be applied and how these assets will/can be tracked. Further, Suppliers will need to be able to determine associated fault rates and how the fault investigation process will be applied for these 'second-hand' assets and gain assurance that these forms of fault detection are also fully recognised by the intended fault investigation process.

Supplier led faults are not necessarily the fault of the supplier, merely that the supplier has identified the fault, which will be the case in most instances. In order to ensure that the fault investigation process is open, transparent and equitable a set of criteria should be developed and agreed by all parties that can be applied to the individual scenarios that need to be developed to cover both DCC User and DCC Service Faults. At present we have a list of DCC User Faults and reference to contractual arrangement to cover DCC Service Faults, this approach is neither equitable or open and does not effectively establish lines of responsibility.

Exception 1: No Fault Removal – Non-Domestic Opt-out.

As a general concept - we believe that scenarios whereby the Supplier makes a decision that ultimately has a cost associated with it (stranding or otherwise) that it is that Supplier who should carry the costs of that decision and that they are not smeared across all suppliers. This is the most cost-reflective approach that can be adopted and will avoid incentivising perverse behaviour that can lead to industry parties carrying others' costs and so being disadvantaged.

Exception 2: No Fault Removal – Split Fuel Premises.
In paragraph 346, the concept of smearing the cost of an installation of a dual band CH will incentivise the second supplier to ALWAYS install this type of hub in order to improve the chances of a successful communications link being established that will potentially enhance their service provision at the earliest opportunity and at a minimum cost to them directly.

Whilst we understand the need to ensure that a second supplier is not disadvantaged by the actions of the first (installing) supplier it is equally true that systems and processes need to be established that do not disproportionately benefit the second (gas) Supplier where they are dominant in a given area. Further, there is no provision to restrict the behaviour of the second supplier to replace the CH that effectively improves their service provision at the expense of the first (installing) supplier.

Exception 3: No Fault Removals – Early Technology Refresh
We agree that by proposing that the CSP is responsible for covering site visit costs that this will further incentivise CSPs to ensure that their cost-benefit analysis is sound before imposing such a change on suppliers, but further consideration must be given as to the reasoning behind such a mass replacement scenario. New technology refreshes will future-proof a CSPs market position. Will suppliers be expected to pay for both the old, stranded assets and their new replacements? On what criteria and by who's agreement will these replacements be made. Replacing technology early will be costly and disruptive for suppliers and their roll-out strategies. Customers will be disadvantaged, having to be present for replacement equipment to take place, leading to potential bad PR for the Programme. If all of these factors are to be taken into account we are doubtful that a positive benefits case will be able to be made within the CH lifetime. It would be helpful to clarify whether or not technology refreshes are determined by industry consultation or unilateral DCC decision, as appears to be the case from the current drafting. We do not believe that decisions with such large-scale impacts should be left to one party. In fact, we believe that it needs to be subject to a global IA – including all costs and benefits and that the process should be independently policed by Ofgem and not at a DCC level.

Fault Removals – Type Fault Compensation
Whilst the consultation (348-350) rightly considers the need to establish fault thresholds, however it is envisaged that this threshold is measured as an annual percentage of the DCC Service Faults that as we have stated earlier need to be more clearly defined and agreed. Further, it must be understood that it is currently only the DCC that is in a position to determine whether a fault threshold has been breached. This, once again, leads to a regulated monopoly party policing itself, which we do not believe is appropriate.

We now understand that during the competitive procurement process the CSPs have been able to optimise the cost of their Communication Hubs to include the cost of

threshold faults (351), how then can any payment back to suppliers where this fault threshold can be proven, be considered as compensation when they have paid for this provision in the first place? Payment of faults only above a threshold value does not compensate for the full costs of the faults incurred by suppliers. This is not an equitable and balanced approach to establishing a Programme of this scale and importance, these are costs that will ultimately be borne by consumers. Further, fault-types and thresholds can only be determined by the DCC, how then can this be challenged?

The threshold value determined in 354 requires agreed definitions to be established around what constitutes a successful install. As early technology is likely to require a settling down period, it is possible that there are proportionately more faults during the early stages of roll-out, i.e. at a time when the industry needs to clearly demonstrate the superiority and robustness of the new technology that has been chosen. Faults therefore need to be dealt with effectively, efficiently and equitably. Further, as different faults will be counted separately it is highly probable that such thresholds will be artificially suppressed. Therefore comparing the overall faults that may be occurring with those that are being dealt with will show a poor compensation rate, again further compounding the financial burden on consumers.

Liquidated Damages (LDs) are levied when the numbers within a fault type exceed a percentage of ALL installed hubs. The only party with this industry - level view is the DCC. This means the DCC will be responsible for determining the type faults, diagnose the faults and determine when it should volunteer to pay LDs. The industry has no clear ability to challenge any of these decisions. This is entirely inappropriate for a regulated monopoly.

We support the inclusion of LDs for batch faults, but cannot comment on whether or not the 10% limit that has been set is appropriate as we have no practical experience. We therefore suggest that consideration is given to maintain a review of the batch failure rate with a view to amending if and where necessary. Faults, including those that can be defined as batch faults, will come in three main varieties – those that fail before or during installation and those that fail at some point in the future either before or after some pre-determined warranty period. The drafting at 356 in the consultation only seems to be taking account of the second of these categories, those that fail after successful installation. We ask that the other categories of failure be considered and included.

As a general principle it has already been discussed that incentives are being put in place to optimise ordering. These considerations do not seem to take account of proposed failure rates that need to be accounted for if supplier roll-out plans are not to be disrupted. As failure rates are an unknown quantity at present it further supports the need for those supplying metering equipment to be in a position to readily support the provision of this equipment to support these roll-out activities.

Some additional, general points that we are seeking clarity on include:

- What is an Elective Communication Service? Is it a separate method of using the SM WAN outside of the DCC Gateway or is it a route for a DCC User to request an elective service request over and above the core set? – SEC drafting needs to clarify

H7.3 A User for a Smart Metering System shall not be entitled to request or receive (and the DCC shall not provide to such User) any Elective Communication Services in respect of that Smart Metering System that would constitute a Restricted Communication Service.

Other comments:
SEC is not clear. From further reading of this section I believe that it does relate to a DCC User requesting an elective service request.

H7.19 The DCC shall, on or around the date falling six months after it commenced provision of an Elective Communication Service pursuant to a Bilateral Agreement, provide to the Code Administrator the following details:
(a) a brief description of the Elective Communication Service;
(b) the frequency with which, and (where stated) the period during which, the Elective Communication Service is to be provided; and
(c) the response time (or latency)Target Response Time within which the Elective Communication Service is to be provided (following the relevant trigger or request for that service).