



Department
of Energy &
Climate Change

Consultation on Alternative Home Area Network (HAN) Solutions

Consultation document on the delivery model and
regulatory requirements for Alternative HAN

URN:15D/525

17 December 2015



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The consultation can be found on DECC's website: www.gov.uk/decc

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General information

Purpose of this consultation:

This consultation document sets out further proposals on the detailed design of the Alternative HAN arrangements and the regulatory provisions that will be needed to underpin these arrangements.

Issued: 17 December 2015

Respond by: 25 February 2016

Enquiries to:

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Consultation reference: URN 15D/525 – Alternative Home Area Networks Solutions

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. Where possible, please use the [Response Template](#) available alongside this consultation.

The deadline for receipt of your response is 25 February 2016.

Please email your response to smartmetering@decc.gsi.gov.uk

Alternatively you can send it by post to:

Smart Metering Implementation Programme - Delivery
Department of Energy & Climate Change,
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If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. 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.

We will summarise all responses and place this summary on the [GOV.UK website](https://www.gov.uk). This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details. You should therefore let us know if you are not content for the response or any part of it to be published. 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 above.

Quality assurance:

This consultation has been carried out in accordance with the [Government's Consultation Principles](#).

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

1. Introduction and Executive Summary

Introduction

- 1.1 The rollout of smart meters by energy suppliers will play an important part in Britain's transition to a low-carbon economy, as well as helping to meet some of the long-term challenges we face in ensuring an affordable, secure and sustainable energy supply.
- 1.2 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.
- 1.3 Energy suppliers are required to take all reasonable steps to install smart meters in GB domestic and smaller non-domestic premises by the end of 2020. 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.
- 1.4 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 In-Home Display, but will also allow them to link a range of other smart devices consumer access devices (CADs) to the HAN.
- 1.5 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 premises¹ without the need for range extending equipment.
- 1.6 Alternative HAN is the generic name given to the solution(s) that will be needed to provide a HAN in those premises that are unlikely to be served by either the 2.4GHz or 868MHz solutions alone without range-extending equipment.

Purpose of this document

- 1.7 This consultation document sets out further proposals on the detailed design of the Alternative HAN arrangements and the regulatory provisions that will be needed to underpin them.
- 1.8 The consultation is published alongside and develops the positions set out in Home Area Network Solutions: Conclusions on the Implementation of Alternative HAN

¹ Further information on this is available in <https://www.gov.uk/government/consultations/consultation-on-implementing-home-area-network-han-solutions-and-changes-to-technical-sub-committee>

solutions². This Government Response sets out the Government's conclusions on the Alternative HAN elements of the March 2015 Home Area Network Solution consultation - covering consultation questions 9 to 14.

Alternative HAN Principles

- 1.9 Alternative HAN is the generic name given to the solution(s) that will be needed to provide a HAN in those premises that are unlikely to be served by either the 2.4GHz or 868MHz solutions alone (i.e. without range-extending equipment). Based on evidence from technology providers and responses to the Home Area Network Solutions consultation, there is no single technology solution available that is technologically and economically suitable in all of the Alternative HAN installation scenarios. There is also a range of different installation scenarios - including point-to-point in a single premises and shared solutions for multiple dwelling units (MDU's).
- 1.10 As set out in the Home Area Networks Solution Government Response on Alternative HAN, the Government has concluded that:
- **Collective action is needed to secure efficient Alternative HAN solutions** - where energy suppliers collaborate to develop and establish contractual arrangements for the provision of Alternative HAN equipment.
 - **Suppliers should be required to work together on Alternative HAN** - regulatory intervention is needed to drive forward Alternative HAN development. This also acknowledges suppliers' concerns in relation to competition law.
 - **A mandate on suppliers to use the collectively defined Alternative HAN solution should not be required** - the Government believes there will be appropriate incentives to utilise the collectively defined approach without a mandate, and that ruling out other solutions is unnecessary, but this is subject to further consideration in this consultation.
- 1.11 This consultation asks for stakeholders' views on the role of Alternative HAN in the non-domestic sector, in particular to inform decisions on Alternative HAN governance and charging.
- 1.12 During the consultation period the Government continued to engage with stakeholders, primarily through the DECC chaired HAN Strategy Sub-Group to the Technical and Business Design Group (TBDG), to develop our thinking on the detailed design of the Alternative HAN arrangements. We also had detailed discussions with energy suppliers and with the Smart Energy Code (SEC) Panel. We would like to thank participants for this support.
- 1.13 We have considered the scope of regulatory intervention needed to deliver Alternative HAN in a timely way and propose that we set out in regulation:
- high level requirements on suppliers to work together to deliver Alternative HAN solutions;
 - the governance structure for Alternative HAN decision making;

² <https://www.gov.uk/government/consultations/consultation-on-home-area-network-solutions>

- the contracting vehicle for Alternative HAN procurement;
- the charging arrangements for Alternative HAN related costs.

Alternative HAN Delivery Models

- 1.14 This part of the document sets out the potential delivery models for Alternative HAN.
- 1.15 The Government has considered two potential delivery models in detail:
- Model A: A separate supplier only governance structure, established in the SEC, with a new contracting vehicle for Alternative HAN (the Alternative HAN Company).
 - Model B: A supplier sub-committee, established under the current SEC governance structures, with the SEC Company (SECCo) providing the contracting vehicle.
- 1.16 The Government recommends proceeding with a supplier-led delivery approach (Model A). The main advantage of Model A is that it would keep both accountability and authority for making decisions solely with suppliers. This is most appropriate as providing a HAN is part of suppliers' licence obligations and so they should be in control and accountable for as many of the decisions that affect their ability to meet these obligations as possible (under Model B the SEC Panel would legally be responsible, although practically suppliers would likely drive decisions).
- 1.17 We consider that Model A would also be less complex to introduce from a regulatory perspective. In particular, the detailed contractual arrangements between the energy suppliers and the Alternative HAN service providers (through the Alternative HAN Company) would sit outside the regulatory framework. This would not be possible under Model B as we would, to some extent, need to set out in the SEC how services procured by the SECCo would be provided to suppliers (which would have to reflect the contractual relationships between the SECCo and the Alternative HAN service providers).
- 1.18 We have discussed both of these models (in section 3 of this document and described in more detail in Annex A) with a range of stakeholders. Stakeholders have generally shown a preference for Model A, although some prefer Model B. Our minded to position is that we proceed with Model A, and we have included more of the detail of Model A later in this document. However we would welcome views from stakeholders on both models.

Alternative HAN Regulatory Provisions – Model A

- 1.19 This part of the document provides further detail on the components of Model A which is currently our preferred delivery model - it is supported by draft legal text which sits in Annex B.

1.20 The following elements of the regulatory framework are considered:

- **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;
- **Gas & Electricity Supply Standard 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 Code modifications process, charging and other arrangements associated with the Alternative HAN.

Next Steps

1.21 We welcome views from stakeholders on the consultation questions – we will use these comments to develop final policy positions and conclude on the legal drafting.

1.22 In parallel, we are working with energy suppliers to determine how best to facilitate continued supplier activity in this area ahead of establishing formal governance arrangements. We will work closely with Energy UK and energy suppliers as we develop our thinking in this area and keep stakeholders informed of our progress through the TBDG and the Programme's other transitional governance groups.

2. Alternative HAN Principles

Introduction

- 2.1 Alternative HAN is the generic name given to the solution(s) that will be needed to provide a HAN in those premises that are unlikely to be served by either the 2.4GHz or 868MHz solutions alone (i.e. without range-extending equipment).
- 2.2 Based on evidence from technology providers and responses to the March 2015 HAN Solutions consultation, there is currently no single technology solution available that is technologically and economically suitable in all of the Alternative HAN installation scenarios. There will therefore be multiple technology options and a decision on the appropriate technology for each installation scenario will be needed. Given the relatively small scale of the Alternative HAN market, the expected solutions are likely to be range extending equipment such as bridging or repeater devices.
- 2.3 There is a range of different installation scenarios in which an Alternative HAN solution may be required. A solution in which the additional equipment provides range extension for a single premises is known as a point-to-point solution, while a solution in which the additional equipment provides range extension for more than one premises is known as a shared solution (for example in flat blocks where the equipment will be shared).
- 2.4 In the Government Response to the HAN Solutions consultation on Alternative HAN³, we concluded that:
- **Collective action is needed to secure efficient Alternative HAN solutions** - where energy suppliers are able to collaborate to develop and establish contractual arrangements for the provision of Alternative HAN equipment.
 - **Suppliers should be required to work together on Alternative HAN** - regulatory intervention is needed to drive forward Alternative HAN development. This also acknowledges suppliers' competition law concerns.
 - **A mandate on suppliers to use the collectively defined Alternative HAN solution should not be required** - the Government believes there will be appropriate incentives to utilise the collectively defined approach without a mandate, and that ruling out other solutions is unnecessary, but this is subject to further consideration in this consultation.
- 2.5 Stakeholders have listed a wide range of benefits of a collective approach including increasing installation efficiency and reducing costs, improving the customer experience and driving technology development.
- 2.6 As part of the March 2015 HAN Solutions consultation, the Government set out a number of Guiding Principles for Alternative HAN. Consultation respondents were supportive of these principles and Government has considered each of these in

³ <https://www.gov.uk/government/consultations/consultation-on-home-area-network-solutions>

developing the delivery models set out in this consultation. The Guiding Principles are that, as a minimum, the following outcomes should be delivered:

- Subject to exemptions approved by the Secretary of State or the Authority (see section on Exempt Premise List in Part C), achieve 100% coverage (i.e. the selected solutions should fill the gap where the 868MHz and 2.4GHz solutions will not work without additional equipment)
- be economically efficient (evaluated on end-to-end and full life-cycle basis);
- be industry-owned with appropriate, non-discriminatory governance;
- not unduly distort competition in the energy market;
- allow energy suppliers to meet their rollout obligations;
- not impact on the timely delivery of other programme milestones;
- ensure a consistent and positive consumer experience;
- be flexible and scalable to changes in the number of properties requiring an Alternative HAN solution;
- be transparent regarding costs of provision;
- encourage competition between technology providers to innovate, drive down costs and accelerate development of solutions; and
- meet the following technical requirements:
 - utilise open standards where possible
 - be interoperable with SMETS and CHTS compliant equipment;
 - not compromise the end-to-end security

2.7 In this section, we consider whether there is a need to mandate equipment provided through the collective approach, the role of non-domestic suppliers in Alternative HAN and the scope of regulation needed to support delivery of the Alternative HAN solution. The rest of the document goes on to describe the proposed delivery models to deliver the collective approach for Alternative HAN and sets out the proposed legal drafting.

Mandate to use Collective Solutions

2.8 In the HAN Solutions Government Response on Alternative HAN, we set out that we do not propose to introduce a mandate on suppliers to use the solution developed through the collective arrangements.

2.9 There are a number of incentives for suppliers to use the collective solutions, such as:

- 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 additional costs of the alternative provision, notwithstanding that a collective solution had also been procured.
- Suppliers would be dis-incentivised from installing their own equipment if, on change of supplier, there is a risk it could become a stranded asset.
- Suppliers may also be dis-incentivised by having to go through the process of gaining separate approvals from landlords etc.

- 2.10 Given these incentives, we no longer believe that a mandate is necessary to achieve the efficiency gains associated with a collective approach.
- 2.11 In addition, 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 believe that there are a number of undesirable consequences of taking this next step including that it may preclude other genuinely more cost effective solutions.
- 2.12 The benefits of a mandate include that, as all suppliers would be required to use the collective solutions, possible risks at churn would be reduced as the installed Alternative HAN equipment should always be the same.
- 2.13 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 to mandate suppliers to use the collective solutions. Therefore, we propose not to introduce such a mandate.

Consultation Question

- | | |
|----|--|
| 1. | Do you agree with the proposal that we do not need to mandate the use of the collective solutions? |
|----|--|

Non-Domestic Suppliers

- 2.14 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 assume that the majority of Alternative HAN will be in the domestic sector but that some non-domestic suppliers may also want to use Alternative HAN equipment.
- 2.15 The role of non-domestic suppliers has specifically been considered in the following sections:
- Alternative HAN Governance - see part 4 of this document for more information on the Forum
 - Alternative HAN charging - see part 4 of this document for more information on charging

Consultation Question

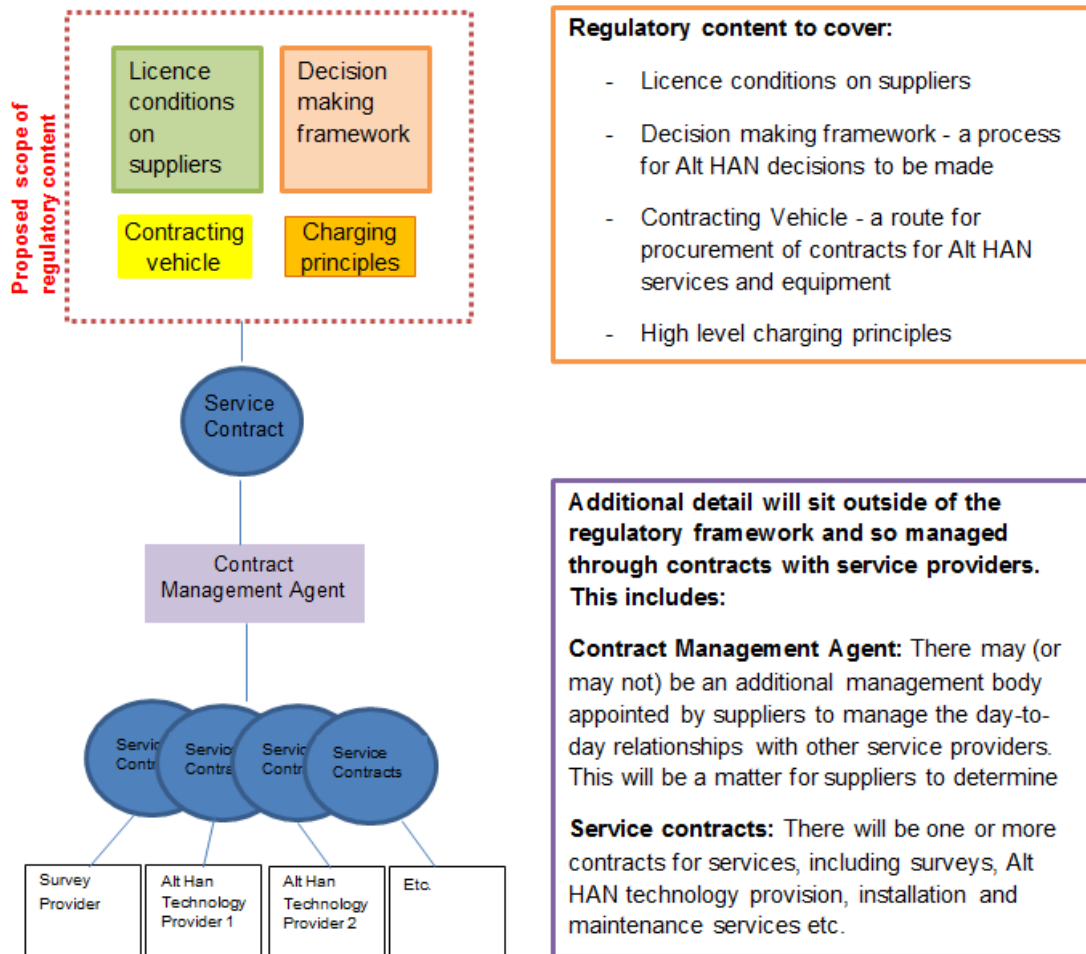
- | | |
|----|---|
| 2. | What role do you think Alternative HAN will play in the non-domestic sector? We |
|----|---|

	would welcome evidence and views from stakeholders on the role of Alternative HAN in the non-domestic sector.
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Scope of regulation

- 2.16 We could implement a range of regulatory options to deliver a collective approach for Alternative HAN. On the one hand we could provide requirements on suppliers to work together (through high level licence conditions) and leave them to determine how they do this. On the other extreme we could develop and incorporate into regulation all of the detailed requirements for Alternative HAN including the technical specifications for equipment and the arrangements for procurement and installation (similar to communications hubs arrangements).
- 2.17 We have carefully considered, working with energy suppliers and other stakeholders, the appropriate level of regulatory intervention required to give suppliers comfort to work together whilst also ensuring that we provide an adequate framework for Alternative HAN to progress at pace. There was strong support from stakeholders, including from energy suppliers, for the Government to set out overarching governance structures, including: decision making routes, charging principles and the contracting vehicle, so that suppliers could quickly focus on delivery issues. There was also general consensus that as there was likely to be a number of technology solutions required and to provide greater flexibility, the technical specifications should form part of the arrangements outside of the SEC rather than form part of the regulatory framework. This is different to the approach taken for communications hubs - we think this is appropriate as Alternative HAN equipment is needed only for the extension of the HAN, which is a supplier responsibility whereas the communications hub is also needed for WAN provision which is the responsibility of the DCC.
- 2.18 We therefore propose outlining in regulation, through a combination of licence conditions and SEC provisions (as presented in Figure 1):
- 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.

Figure 1: Proposed scope of Alternative HAN in the regulatory framework



Consultation Question

3. Do you agree with the proposed scope of regulation on Alternative HAN?

3. Alternative HAN Delivery Models

Introduction

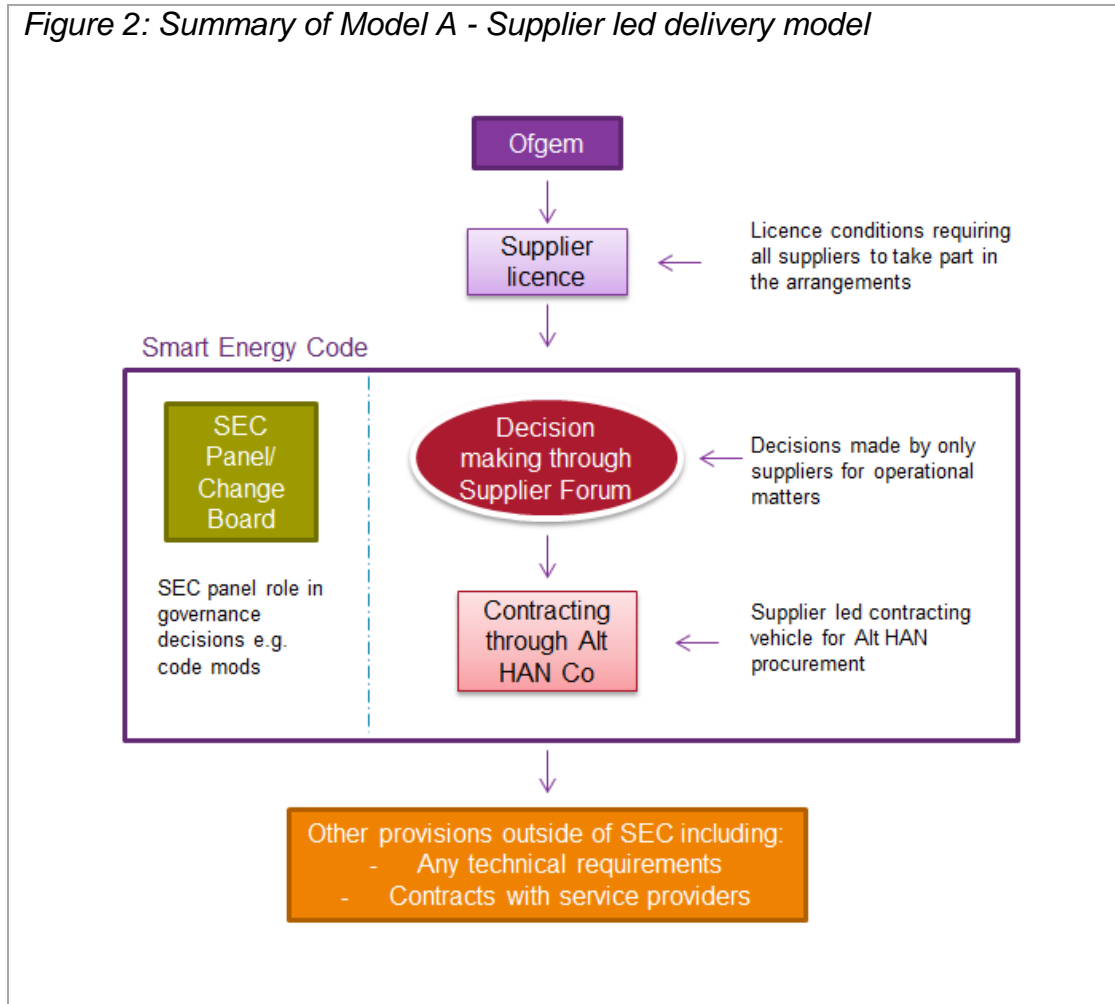
- 3.1 Given the scope of regulation outlined above, the Government has considered how best to deliver that content including where it should sit in the regulatory framework. In this section we consider the different regulatory delivery models that could be used.

Description of Delivery Models

- 3.2 In discussions with stakeholders, there has been a strong preference that any new code content should be incorporated into the SEC (rather than a new code).
- 3.3 Given the scope of regulation set out above, we will need the following:
- **Licence conditions on suppliers:** to require suppliers to work together;
 - **Updates to DCC licence:** to amend the scope of the SEC; and
 - **SEC content:** we will need to establish contractual relationships between suppliers and the contracting vehicle. This will bind parties into a decision making process, legitimise the decisions taken and legally provide for the contracting vehicle to procure solutions consistent with the decisions taken.
- 3.4 We have considered two delivery models in detail:
- **Model A:** A separate supplier only governance structure would be established in the SEC, with a new contracting vehicle for Alternative HAN procurement.
 - **Model B:** A supplier led sub-committee would be established under the current SEC governance structures (i.e. as a sub-committee to the SEC Panel), with SECCo providing the contracting vehicle.
- 3.5 The key trade-offs are around:
- authority and accountability for Alternative HAN decisions; and
 - utilising existing governance routes in the SEC.
- 3.6 The Government is minded to proceed with Model A as it keeps authority and accountability solely with energy suppliers, whilst minimising the level of regulatory content and so ensuring quick mobilisation.

Model A: Supplier led delivery model

3.7 The diagram below sets out the key elements of model A and further details are set out in Annex A:



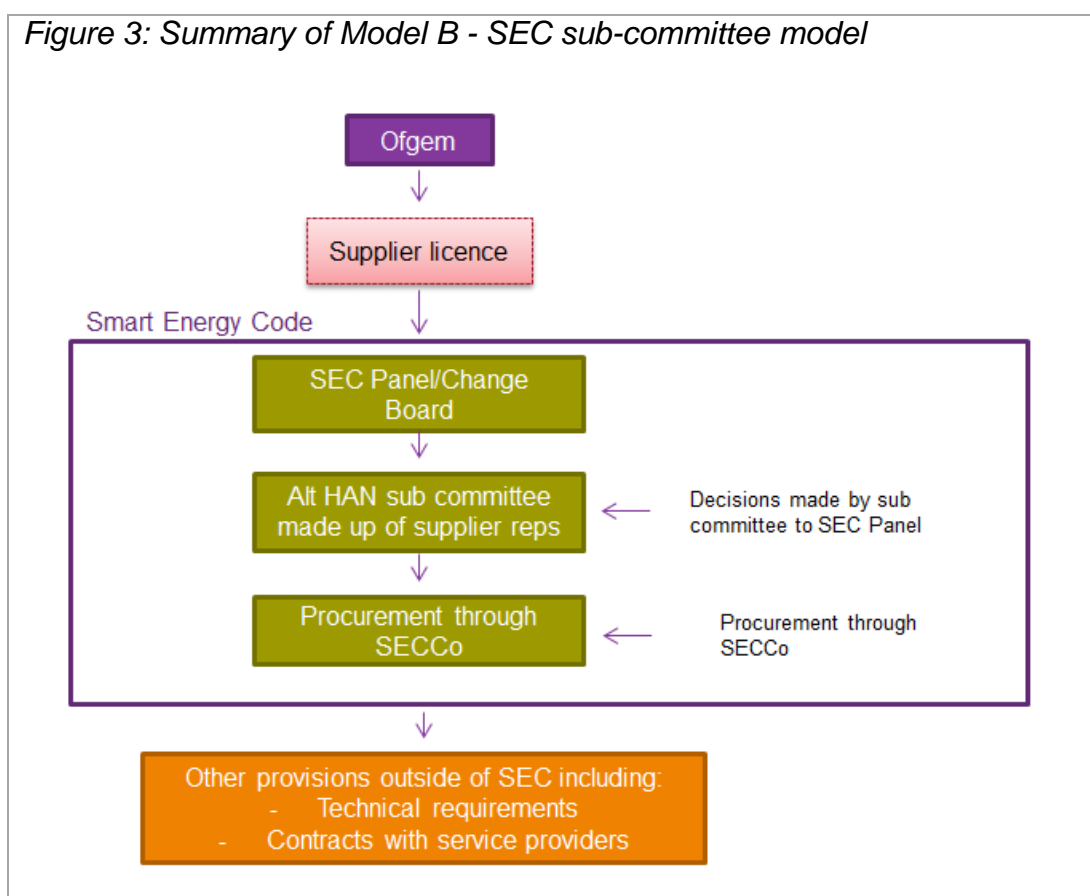
- 3.8 The key advantage of this model is that it keeps both accountability and authority for making Alternative HAN decisions solely with suppliers. Suppliers have licence conditions to provide a functional HAN (operational licence conditions) and so are responsible for ensuring Alternative HAN is delivered where it is needed. It is therefore appropriate that suppliers should hold authority for how they meet their licence conditions, without relying on input from other stakeholders or being dependent on other bodies to take action so that they can meet their licence obligations. This model has a clear link between suppliers' licence conditions and their ability to take part in collective decision making to deliver Alternative HAN.
- 3.9 This model would also utilise existing SEC structures where possible, including the existing SEC modification process for any modifications to SEC content.
- 3.10 The key concern raised with this model has been whether it could be mobilised quickly as it includes creating some new governance structures. To mitigate this, we suggest that there are a variety of transitional activities that Government and industry could carry out to ensure the bodies are in place and operating as early as possible. This could

include setting up transitional governance arrangements (mirroring the enduring governance arrangements) before the legal text is in place and placing obligations on the enduring governance structure (see detail later in the document on the Alternative HAN Forum) to consider transitional work carried out by industry and to adopt it where appropriate. We also consider that Model A would be significantly less complex to introduce from a regulatory perspective, and so will be quicker to implement.

Model B: SEC sub-committee model

3.11 The diagram below sets out the key elements of model B - further information is in Annex A:

Figure 3: Summary of Model B - SEC sub-committee model



3.12 The key advantage of this model is that it uses more of the structures already set out within the SEC such as the Panel and SECCo and so some stakeholders have argued that mobilisation could be quicker.

3.13 However, in considering the possible legal drafting we have identified a number of potential issues, including:

- the model does not clearly allocate accountability and authority for making decisions solely to suppliers - this clear allocation of responsibility is not possible in Model B, instead the Panel would ultimately be responsible for decisions;
- the model may require significant additional SEC drafting to set out the Alternative HAN services provided to suppliers by the SECCo - as SECCo would

essentially become a service provider to suppliers. SECCo would become a material provider of Alternative HAN services to suppliers, with the SEC being the contract that would need to set out these services. Because at this time we do not know the detail of what these services are, it would be likely to require suppliers and SECCo to work together to develop the SECCo services offering to suppliers as the Alternative HAN arrangements developed. One or more modifications to the SEC to formalise this contractual relationship would be needed as the arrangements developed;

- the model is less clear in allocating responsibility to suppliers because ultimately the SEC Panel will be responsible for decisions and SECCo Board (which mirrors the SEC Panel structure) will also play a role in Alternative HAN contracting decisions, this could make it more difficult for Ofgem to enforce if things go wrong and also means suppliers would not have the sole authority to make decisions that will help them meet their licence obligations.

Proposal

- 3.14 Based on our analysis of Models A and B, we are minded to proceed with Model A.
- 3.15 Model A keeps both accountability and authority for making operational decisions⁴ solely with suppliers - this clear allocation of responsibility is not possible in Model B where the Panel would ultimately be responsible for decisions. Given suppliers have licence conditions to deliver a functional HAN (as part of the operational licence conditions) we consider that it is appropriate that decision making around Alternative HAN sits with energy suppliers.
- 3.16 We consider that Model A requires less regulatory content than Model B. In particular, under Model B we would need to set out in the SEC the relationship between SECCo and suppliers and so would need to understand a lot more of the detail from the underlying Alternative HAN service provider contracts before we could finalise the regulatory content in the SEC (under Model A, these matters could be left for suppliers to determine without the need to impose any particular approach, since the detailed contractual relationship would not need to be included in the SEC).
- 3.17 We have discussed each of these models with a range of stakeholders. The majority of stakeholders have indicated a preference for Model A. However we would welcome views from stakeholders on both models.
- 3.18 We will continue to work with industry to ensure suppliers continue to progress Alternative HAN arrangements in advance of the legal requirements being in place, and as part of this we would consider setting up transitional governance arrangements (mirroring the proposed enduring arrangements) before the legal text is in place and place obligations on the enduring governance structure (see detail later in the document

⁴ Operational decisions include who to contract with and the content of the Alt HAN service provider contracts.

on the Alternative HAN Forum) to consider transitional work carried out by industry and to adopt it where appropriate.

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

4. Alternative HAN Regulatory Provisions

Introduction

- 4.1 This part of the document provides further detail on the components of Model A - it is supported by draft legal text included at Annex B. The following elements of the regulatory framework are considered:
- Licence drafting
 - DCC licence conditions: to extend the scope of the SEC to include Alternative HAN arrangements and changes to DCC's price control conditions;
 - Energy Supply Standard licence conditions: to require energy suppliers to work together to develop Alternative HAN solutions and to update the operational licence conditions to reflect the Alternative HAN arrangements;
 - SEC drafting: to introduce a new supplier only governance body and contracting vehicle for the Alternative HAN. It also describes the modifications, charging and other arrangements associated with the Alternative HAN arrangements.

Licence conditions

Changes to the DCC Licence

- 4.2 We have included 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.

Supplier licence conditions

- 4.3 An extension to the supplier operational licence condition has been proposed to recognise that it may be necessary for a supplier to install Alternative HAN equipment in order to meet the requirements of this condition.
- 4.4 In addition, new supplier licence condition drafting has been proposed to require energy suppliers to work together to develop Alternative HAN services and equipment. The licence conditions limit the scope so that the governance structures set out in the SEC can only be used to consider Alternative HAN and not wider issues. The drafting defines Alternative HAN equipment and also sets out the scope of Alternative HAN services, which includes:
- surveying and database management;
 - technology development;
 - installation and maintenance of equipment services;
 - financing services; and
 - any legal, management, technical or professional services.

- 4.5 In addition, energy suppliers are required to take all reasonable steps to ensure the Alternative HAN arrangements are economic and efficient. This is needed to ensure that each individual supplier is considering this in their input to decisions made by the Forum.
- 4.6 Whilst we are aiming for 100% HAN coverage, we have included provisions to provide exceptions for Alternative HAN equipment being installed in premises where it would be prohibitively expensive. Suppliers would be permitted 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 would be approved by the Secretary of State or, from such date set by the Secretary of State, the Authority. We would require that the document be updated annually and resubmitted for approval, with an ambition to reduce the number of Exempt Premises over time to the extent that any exist. These provisions are similar to the WAN Statement of Service Exemption drafting in the DCC licence.
- 4.7 For the supply licences we have developed the drafting to show how the standard conditions of electricity supply licences would be affected. We also propose that the equivalent changes would be made to the standard conditions of gas supply licences. This includes both the new Alt HAN licence condition and the changes to the operational licence condition.

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

Smart Energy Code

Governance body

Forum constitution

- 4.8 A new body would be established under the SEC 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. For that reason the proposal is that each energy supplier would have one seat on the Forum (a 'member') and each member would be allowed to identify an alternate. This includes both domestic and non-domestic suppliers. Note that one member could represent more than one supplier (i.e. groups of suppliers could have one representative at the Forum).

- 4.9 A chair would be elected to help manage the meetings. The Chair could either be a Forum member or a separate appointment. The chair's costs would be recoverable with the agreement of the Forum.
- 4.10 DECC and Ofgem would have optional, non-voting seats on the Forum. The Forum and the Forum Chair could invite any other parties to attend as necessary.
- 4.11 The Government is proposing that it would help establish the Forum so that it is in place when the legal text takes effect next year, as well as setting up transitional governance arrangements (mirroring where possible the proposed enduring arrangements) in advance of the enduring Forum.

Forum functions and powers

- 4.12 The Forum would be responsible for making all decisions related to Alternative HAN arrangements - this includes decision on which contracts to let, who to let them to and any subsequent contractual changes.
- 4.13 The Forum would 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 could also appoint professionals to aid decision making; for example, legal advice.
- 4.14 In addition to decision making and delegating work to sub-groups, the Forum would 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.

Forum Objectives

- 4.15 The Forum objectives, which were developed based on the Guiding Principles from the March 2015 HAN Solutions consultation, set out what Forum members need to consider when making decisions on Alternative HAN, including:
- to facilitate the economic and efficient acquisition of Alt HAN Service Capacity and provision of the Alt HAN Services;
 - to facilitate competition between persons engaged in, or in Commercial Activities connected with, the Supply of Energy;
 - to ensure that Energy Consumers' experience of the installation of Alt HAN Equipment at their premises is consistent with their reasonable expectations;
 - to ensure that all activities undertaken by or on behalf of Relevant Supplier Parties in relation to the installation, operation, maintenance, removal and replacement of Alt HAN Equipment are carried out in a fair, transparent, appropriate and professional manner;

- to ensure the protection of Data and the security of Data and Systems used for the purpose of the acquisition of Alt HAN Service Capacity and provision of the Alt HAN Services;
- to ensure that the Alt HAN Arrangements are administered in an economic, efficient and transparent manner; and
- the Forum conducts its affairs in an open and transparent manner.

Forum proceedings

- 4.16 The Forum would determine when and where to meet but this should be at least once every two months. There are also provisions in the legal drafting for meeting notices and minute taking.

Quorum and Forum voting

- 4.17 No decision could be made unless a quorum is present. A quorum is established when either:
- half the Forum members are present; or
 - Forum members that are present make up at least two thirds of the vote.
 - The Chair must also be present.
- 4.18 Decisions would be made based on a majority voting system of Forum members. Note that the Chair will not have a vote (unless they are also a Forum member in which case they will have a vote in that capacity but not separately as the Chair).
- 4.19 In section 2 of this document, we set out that we do not yet know the role of Alternative HAN in the non-domestic sector. We have asked for views from stakeholders on this in order to help develop thinking on the role non-domestic suppliers should play in Alternative HAN governance.
- 4.20 We are therefore consulting on two potential voting options - the first aims to balance non-domestic and domestic views based on Alternative HAN usage and the second focuses on domestic suppliers only. Option 1 is set out in the legal drafting.
- 4.21 We welcome comments from stakeholders on each proposal and in particular views from non-domestic suppliers on their anticipated need for Alternative HAN equipment. We recognise that initially both of the voting proposals afford few votes to non-domestic suppliers and would welcome views as to whether we should afford them still greater weight in the decision making process (which may also translate into a higher proportion of charges).

Option 1 - Combined domestic and non-domestic supplier voting

- 4.22 In this option, we would aim to balance non-domestic and domestic views based on Alternative HAN usage. Both domestic and non-domestic suppliers would be able to vote on Alternative HAN decisions. The share of the votes would then be split based on a measurement of Alternative HAN usage (see box A for more detail).

- 4.23 This option may be preferable given that we assume that non-domestics will want to use the Alternative HAN to some degree but perhaps not necessarily in a manner directly related to their overall market share. If they plan to use and so pay for the solution it is likely that they will also want representation in the decision making processes.

Box A - Summary of how option 1 could work in practice

Alternative HAN voting share would be split based on amount spent on Alternative HAN.

Number of votes per party = $1000 \times$ (their proportion of the total Alternative HAN costs paid to the DCC)

Note this includes:

- A minimum of one vote would be allocated to each supplier
- Both non-domestic and domestic suppliers
- All Alternative HAN costs (Central Charges, Targeted Shared Solution Charges, Targeted Point-to-Point Charges - see later in this document for further information)
- As set out in the legal drafting, the details of how this will be administered will be set out in a SEC subsidiary document called the Forum Voting Protocol.

For the initial vote determination it would be assumed that no Targeted Charges have applied yet and hence the proportions of the vote could simply be determined by domestic market share.

Option 2 - Domestic supplier voting

- 4.24 We assume that the majority of Alternative HAN usage will be in the domestic sector. Therefore, in this option only domestic suppliers would be able to vote. Non-domestic suppliers would be able to attend the Forum and input to decisions. They would also be able to appeal any decision made by the Forum to the Authority if they believed it was inconsistent with the Alternative HAN objectives.
- 4.25 In order to account for scale of interest by different suppliers in Alternative HAN decisions, we propose that each domestic supplier Forum member would have a share of the vote based on their market share for gas and electricity supply that that member represents.
- 4.26 This option might be preferable if there is little or no expected role for Alternative HAN in the non-domestic sector and so non-domestic suppliers do not wish to be part of the Forum governance.

Box B - Summary of how option 2 could work in practice

Alternative HAN voting share is based on domestic market share i.e. the number of meter points each domestic supplier serves.

Number of votes per party = $1000 \times$ (their proportion of domestic meter points)

Note this includes:

- Only domestic suppliers

- As set out in the legal drafting, the details of how this will be administered will be set out in a SEC subsidiary document called the Forum Voting Protocol.

Appeals

- 4.27 Suppliers would be able to appeal decisions made by the Forum to the Authority for final determination. This is consistent with other provisions in the SEC. Appeals could be made based on non-compliance with the Forum objectives and the Authority would determine whether or not the decision was consistent with the objectives.
- 4.28 Suppliers can also appeal any decision made by Forum sub-groups or Alt HAN Co to the Forum.

Transitional Arrangements

- 4.29 In advance of the formal governance arrangements being in place, we are working with energy suppliers to determine how best to facilitate early supplier activity on Alternative HAN, which could include creation of a transitional Forum.
- 4.30 The proposed SEC drafting includes provisions to allow transitional Forum members to become the enduring Forum unless suppliers have identified another representative.
- 4.31 It allows for decisions and work undertaken by a transitional group to be taken on board by the enduring Forum when they come into place. The drafting sets out in what scenarios a transitional decision will be adopted by the Forum - this includes for example decisions to set up sub-groups. The enduring Forum can chose to change these decisions if necessary.

Consultation Question

7.	Do you agree with the policy proposals and legal drafting for the Forum?
8.	Which of the Forum voting options (1 or 2) 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?

Contracting vehicle and secretariat

Alternative HAN Company

- 4.32 The proposed SEC drafting includes provisions to establish the Alternative HAN Company (Alt HAN Co) - the contracting vehicle for Alternative HAN. Alt HAN Co would be used by the Forum as a corporate vehicle to enter into contractual arrangements with service providers. This is similar to the drafting in Schedule 4 of the SEC that established SECCo.
- 4.33 The drafting sets out Alt HAN Co objectives, duties, powers and composition. This includes setting electing the Alt HAN Co Board made up of five large and two small supplier representatives.
- 4.34 Key elements of Alt HAN Co include:
- all suppliers are shareholders in Alt HAN Co; and
 - a group of individuals would be elected as the Board of Alt HAN Co

Alternative HAN Secretariat

- 4.35 There are a number of areas where the Forum, Alt HAN Co and Forum sub-groups may need administrative and secretariat support. This includes for example:
- general administrative support - such as taking minutes, arranging meetings, facilitating votes etc.; and
 - procurement support - helping to manage the contracting process.
- 4.36 The drafting allows the Forum to appoint persons to carry out secretariat functions.

Consultation Question

9.	Do you agree with the policy proposals and legal drafting for the Alternative HAN Company?
10.	Do you agree with the policy proposals and legal drafting for the Alternative HAN Secretariat?

Modifications

- 4.37 In order to efficiently use processes already set out in the SEC, we propose that any modifications to SEC content (for example a modification to the Forum arrangements) should go through the existing modifications process already set out in section D of the SEC. A new SEC Objective to facilitate the establishment and operation of Alternative HAN arrangements would be used when considering modifications to this part of the SEC and the Forum would be asked to input to any modification proposal that had an impact on Alternative HAN.

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

Consultation Question

- | | |
|-----|--|
| 11. | Do you agree with the policy proposals and legal drafting in regards to modifications? |
|-----|--|

Alternative HAN Charging

Introduction to Alternative HAN Charges

- 4.39 In designing a charging framework for Alternative HAN, there are a number of considerations that we have taken into account including that the arrangements are:
- Cost reflective: 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. This should also incentivise the right behaviour such that suppliers only install Alternative HAN where it is needed.
 - Facilitate competition in supply and do not distort competition in associated services: we have considered similar examples such as metering and communication hubs.
 - Do not deter timely installation of Alternative HAN equipment.
 - Are non-discriminatory.
- 4.40 The proposed charging arrangements aim to balance these considerations. The Forum should keep these arrangements under review and propose modifications to the SEC where necessary (as these provisions will be set out in the SEC) when more information is known on Alternative HAN costs. Note that we may also need to reflect on the proposals in light of any future policy decisions related to the DCC opt out for non-domestic suppliers.
- 4.41 This section considers:
- Alternative HAN Charging categories:
 - Alternative HAN Central Charges
 - Alternative HAN Targeted Charges
 - Transitional Charging Arrangements
 - Budgeting and Invoicing
- 4.42 There will need to be transitional charging arrangements to cover the period up to the end of mass rollout (end of 2020) as initially there will be few enrolled smart metering

systems. This chapter first sets out the enduring arrangements and then goes on to explain any changes required in the mass rollout (transitional) period.

4.43 Annex C provides a more detailed breakdown of the proposed charging arrangements.

Alternative HAN Charging Categories

4.44 We have split Alternative HAN charges into three categories:

Figure 4: Alternative HAN Charging Categories

Alt HAN Central Charges

- This includes all costs up to the point of deciding to use a particular technology:
 - Overhead costs: costs of any management services, legal services, administrative services etc.; governance costs such as costs of the Forum, Alt HAN Co and any sub-groups
 - Development of the solution: costs of solution design, cost of survey functions and developing databases
 - Development of the capability to manufacture Alternative HAN equipment (but not the costs of the actual manufacture)

Alt HAN Targeted Charges for shared solution

- Shared solution equipment is for Multiple Dwelling Units (MDUs) i.e. where Alternative HAN serves more than one premise (defined by if it serves more than one gas meter and/or more than one electricity meter).
- The Alt HAN Targeted charges for shared solution will include costs associated with providing the equipment into a premise for shared solutions, including:
 - Operational costs of delivery, installation, maintenance, operation, decommissioning and disposal of Alternative HAN shared solution equipment.
 - Incremental capital costs (including any financial cost) associated with the production of the Alternative HAN shared solution equipment.

Alt HAN Targeted Charges for point-to-point

- Point-to-point is when Alternative HAN equipment serves one premise only, for example a large sprawling premise.
- Through the Forum, suppliers will decide what they need to do in relation to point to point equipment depending on what is more cost effective. For example the Forum may decide to just provide specifications for point-to-point. The costs of this would all fall into the central charges pot and so there would be no point-to-point Targeted Charges. Suppliers would individually procure equipment against the specification. However, if the Forum decide to procure point-to-point solutions, the capital costs of the equipment (including any financing costs) would be covered by a Targeted Charge for point-to-point.

Alternative HAN Central Charges

4.45 **Note that these proposals relate to the enduring charging model - see the next section for the transitional proposals.**

4.46 The Alternative HAN Central Charges describe all of the overhead costs (including on-going overheads) and costs of developing the solution i.e. they cover all of the sunk costs leading up to the point of providing a specific technology.

- 4.47 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.
- 4.48 However we do not yet know the spread of Alternative HAN across the non-domestic sector and so propose that we split the Central Charges based on a ratio of domestic and non-domestic Alternative HAN usage. This would allow us to create a fair charging framework for Central Charges in the absence of information on Alternative HAN usage in the non-domestic sector.
- 4.49 Our recommendation for the enduring Central Charges are:
- Step 1: Central Charges are split between domestic and non-domestic usage based on overall Alternative HAN usage.
 - Given the uncertainty in the quantity of Alternative HAN needed by non-domestic suppliers, we recommend that we adopt a ratio system. The Central Charges are split between domestic and non-domestic suppliers based on overall usage of Alternative HAN in each of these market segments. This means that non-domestic suppliers overall will pay for their 'fair' share proportionate to their overall usage notwithstanding that the actual usage is currently unknown.
 - Step 2: The Central Charges are then split within each sector based on market share of Smart Metering Systems enrolled with the DCC.
 - All suppliers can benefit from these activities and so we consider that it is appropriate to share the costs across all suppliers. We propose to split the Central Charges based on market share of Smart Metering Systems enrolled with the DCC. The alternative would be to split these costs according to Alternative HAN usage - however the fixed costs are sunk (they do not vary as a consequence of an incremental increase in the number of Alternative HAN installations) so recovery based on the number of Alternative HAN usages by suppliers would be no more cost reflective or fair than any other charging base. Furthermore, charging the central costs of Alternative HAN over a smaller charging base is likely to have economically distortionary consequences in that it will be likely to deter suppliers from wishing to install Alternative HAN if the costs are relatively high. This does not mean that charging on the basis of all enrolled Smart Metering Systems is cost reflective (since there is no real cost-reflective charging base for these costs), simply that it is less distortionary.
 - This is equivalent to what we have done in other areas of the charging regime (for example, DCC fixed costs) and ensures that the central sunk costs are recovered from a charging base that results in the least distortionary economic incentives.

Alternative HAN Targeted Charges (for both point-to-point and shared solution)

4.50 Alternative HAN Targeted Charges cover the capital costs of the Alternative HAN equipment and the costs of installing and maintaining the equipment.

4.51 We have considered a range of options including:

- Option 1 - socialising Targeted Charges across suppliers' market share i.e. merging with Central Charges - this would mean that all suppliers would pay a share of all the Alternative HAN costs based on their market share. This is the simplest solution but would not be cost reflective and may not drive the right behaviours.
- Option 2 - In this option the total Targeted Charges from all of the premises using Alternative HAN would be divided amongst the number of meter points using Alternative HAN equipment. This means that there would be an average marginal cost for use of Alternative HAN equipment. This option has the advantage of being more cost reflective than Option 1 (and so incentivising the right behaviours) but also avoids the difficulties of tracking individual costs as with Option 3. It also means that certain premises where Alternative HAN is particularly expensive would not be disadvantaged.
- Option 3 - In this option the targeted charges would reflect the actual costs associated each building. To do this the equipment and installation costs for each specific site would need to be tracked, matched to the suppliers using the equipment at that site and then the costs shared out accordingly. This option is completely cost reflective but administratively burdensome.

4.52 In order to incentivise suppliers appropriately to only install Alternative HAN equipment where it is required whilst not creating an overly burdensome charging arrangement and for reasons of cost-reflectivity, our preferred approach is Option 2. Targeted Charges are spread across all suppliers based on the number of enrolled meters they have using Alternative HAN services with an average cost applied. We propose that we deliver this by applying a monthly charge. This would apply:

- For both non-domestic and domestic suppliers i.e. suppliers pay an equal amount of Targeted Charges when using the Alternative HAN equipment regardless of sector.
- For point-to-point and shared solution scenarios - we recommend this calculation is carried out separately for the two types of Alternative HAN equipment (i.e. there would be one monthly charge based on the average cost of point-to-point and a separate charge based on the average cost of the shared solution). This is because the costs and the suppliers using each type of equipment may vary.
- There would be only one explicit charge for the shared solution i.e. if there are multiple types of shared solution equipment they would not each have their own charge - an average charge would cover all options. Similar arrangements would apply for point-to-point but we have allowed for a slightly greater degree of flexibility because it may be the case that in some point-to-point solutions Alt HAN Co arranges for installation and maintenance whereas in others it may just supply the equipment for the supplier to install and maintain. We are still proposing an average cost over all solution types, but that the relevant costs that are averaged only include those that are incurred by Alt HAN Co for any particular solution.

Transitional charging

- 4.53 We will need some transitional charging provisions as initially we will not know the right ratios to allocate costs to the domestic and non-domestic sector and we want to avoid disadvantaging early movers. Furthermore, given that the numbers of enrolled smart metering systems will initially be small, we wish to avoid distortionary prices.
- 4.54 In order to address these issues, we are proposing the following transitional modifications to the charging scheme set out above in relation to the Alternative HAN Charges such that:
- Central Charges would be split across domestic suppliers based on their total domestic market share (i.e. the total number of meter points), rather than just 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.
 - Central Charges would be also split 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 only small difference would be that for shared solution properties 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). This is to avoid disadvantaging early movers.
 - We propose that these transitional provisions apply up until the end of mass rollout (end of 2020), to align with the enduring DCC charging regime. After this point the enduring charging arrangements described above would apply.
- 4.55 The table below summarises the proposed transitional and enduring charging arrangements:

Charging Categories	Central Charge	Targeted Shared Solution Explicit Charge	Targeted Point-to-Point Explicit Charge
TRANSITIONAL CHARGES until the end of mass rollout Smart Meter Charging Basis	For domestic suppliers : Market share of all domestic meter points (whether or not enrolled); plus For non-domestic suppliers : Market share of Smart Metering	Meter points with potential to use shared solution Alternative HAN where it is installed.	Meter points using point-to-point Alternative HAN Suppliers will pay the monthly charge for point-to-point equipment from the point of delivery or the

Charging Categories	Central Charge	Targeted Shared Solution Explicit Charge	Targeted Point-to-Point Explicit Charge
	Systems enrolled with the DCC.		point installation (if central installation service). Once installed, the supplier serving that meter point will pay the monthly charge i.e. reflecting customer churn.
ENDURING CHARGES after the end of mass rollout Smart Meter Charging Basis	The Central Charges are split across non-domestic and domestic based on Alternative HAN usage ratio. For domestic sector the charging base is: Market share of domestic Smart Metering Systems enrolled with the DCC. For non-domestic sector the charging base is: Market share of Smart Metering Systems enrolled with the DCC.	Meter points using the shared solution Alternative HAN (including where it has been installed but the SMS has not yet been commissioned).	Same as transitional charges above.

Budgeting and invoicing

4.56 We recommend utilising invoicing through the DCC in order to avoid unnecessary expenditure driven by the duplication of billing systems and processes. This process is set out in the proposed drafting (with further detail outlined in Annex C) and would include:

- 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.
- 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.

4.57 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. The alternative to this approach, which we are not recommending, is that the Authority has to approve each Alt HAN Co budget and that Alt HAN Co would effectively be permitted only to recover revenues approved by the Authority.

Consultation Question	
12.	Do you agree with the policy proposals and legal drafting in regards to the enduring Alternative HAN Charges?
13.	Do you agree with the policy proposals and legal drafting in regards to transitional charging?
14.	Do you agree with the policy proposals and legal drafting in regards to Alternative HAN budgeting and invoicing?

Annex A: Further detail on each delivery model

Topic	Delivery Model A	Delivery Model B
Licence conditions:	<p>New licence conditions would be introduced to:</p> <ul style="list-style-type: none"> Require energy suppliers to jointly collaborate to develop and establish contractual arrangements for the provision of Alternative HAN equipment. Restrict the scope of the Alternative HAN services so they only cover services required in order to provide an Alternative HAN <p>In addition:</p> <ul style="list-style-type: none"> Make changes to the DCC licence to extend the scope of SEC to include the Alternative HAN arrangements. Create supply licence conditions to allow suppliers to apply for exemptions for prohibitively expensive Alternative HAN installations. Extend the operational licence condition to note that Alternative HAN equipment may be required to be installed to fulfil the requirements. 	<p>Make changes to the DCC licence to amend the scope of SEC to include the Alternative HAN arrangements.</p> <p>Amend the operational licence condition to extend the provisions to note that Alternative HAN equipment may be required to be installed to fulfil the operational licence condition.</p> <p>Create supply licence conditions to allow suppliers to apply for exemptions for prohibitively expensive Alternative HAN installations.</p>
Governance body:	<p>Create a Alternative HAN Forum in the SEC, this would:</p> <ul style="list-style-type: none"> Be responsible for all Alternative HAN decisions, including considering and approving Alternative HAN contracts. Be made up of a representative of each supplier - so suppliers 	<p>Create a new sub-committee to the SEC Panel - Alternative HAN sub-committee, this would:</p> <ul style="list-style-type: none"> Be a representative group of suppliers. Consider and vote on Alternative HAN decisions.

Topic	Delivery Model A	Delivery Model B
	<p>have an opportunity to vote on decisions on Alternative HAN.</p> <ul style="list-style-type: none"> • Delegate work or decisions to sub-groups if necessary. <p>DECC and Ofgem could attend meetings and other parties could be invited to attend by the Forum.</p> <p>Sub-group decisions could be appealed to the Forum and Forum decisions could be appealed to the Authority.</p>	<p>DECC and Ofgem could attend meetings and other parties could be invited to attend by the Forum. While the SEC Panel would be ultimately responsible for making Alternative HAN decisions, they could (and likely would) delegate this responsibility to the sub-committee.</p> <p>Any Party could appeal Alternative HAN Sub-Committee decisions to the SEC Panel (who would determine if the correct process had been followed) and SEC Panel decisions could be appealed to the Authority.</p>
Contracting vehicle:	<p>Create a contracting vehicle, the Alternative HAN Company. This would:</p> <ul style="list-style-type: none"> • Act as the corporate vehicle for the Forum, including entering into any contractual arrangements on behalf of the Forum. • Have only suppliers as its shareholders and board members. • Be established through the SEC (similar to SECCo). 	<p>SECCo would be used as the contracting vehicle for Alternative HAN related procurement. As is the case in other industry groups, decisions would likely be made by those affected i.e. suppliers.</p> <p>SECCo would have an obligation to make the Alternative HAN services available to suppliers. We would specify how this operated legally and place an appropriate performance assurance and incentive framework on SECCo (in contrast to Model A where such matters could be left to suppliers to establish outside the regulatory framework).</p> <p>As with other SECCo contracts, any indemnities would have to essentially fall on the Panel as they are ultimately responsible for decisions.</p> <p>Update the role of SECCo as it would become a service provider to suppliers. The SEC would set out the terms and conditions of the services provided by SECCo to suppliers.</p>
Modifications:	For the SEC content associated with Alternative HAN (i.e. not including the contractual arrangements), the normal modifications process in section D of the SEC would apply. A	For the SEC content associated with Alternative HAN (i.e. not including contractual arrangements), the normal modifications process in section D of the SEC would apply. A new SEC

Topic	Delivery Model A	Delivery Model B
	<p>new SEC Objective to facilitate the establishment and operation of Alternative HAN arrangements would be used when considering modifications to this part of the SEC and the Forum would be asked to input to any proposal.</p> <p>Contractual changes would be managed outside the SEC using a contractual change process under the relevant services contract.</p>	<p>Objective to facilitate the establishment and operation of Alternative HAN arrangements would be used when considering modifications to this part of the Code and the Alternative HAN sub-committee would be asked to input into any proposal.</p> <p>For contractual changes, we would define the process by which parties could raise a change and the sub-committee or SECCo would decide on whether to agree to the change.</p>
Charging principles:	These will be the same in each model.	These will be the same in each model.
Contractual content (outside of the SEC):	All other arrangements would be outside of the regulatory framework and set out in contracts, for example there will be one or more contracts for services, including surveys, Alternative HAN technology provision, installation and maintenance services etc.	Set out the role of SECCo as a service provider to energy suppliers (in a similar way that we do for the DCC in its role as a contract manager) – this could be significant additional SEC drafting. Further technical detail could be retained outside of the SEC.

Annex B: Legal drafting

See separate attachments

Annex C: Alternative HAN Charging Proposals

Central Charges

Time Period 1: During the UITMR Period (Transitional charges until the end of mass rollout)

Summary of charging basis	<p>The Central Charges are charged across:</p> <ul style="list-style-type: none"> ➤ domestic suppliers' market share of domestic meter points; plus ➤ non-domestic suppliers' market share of smart metering systems enrolled with the DCC.
A. Calculating the charges	<p>Information required:</p> <p>Information required to calculate the charge:</p> <ul style="list-style-type: none"> ➤ An estimate of the total annual Central Costs ➤ An estimate of the charging base: <ul style="list-style-type: none"> ○ number of domestic meter points ○ number of non domestic meter points enrolled in DCC
Calculating the charge:	<p>The steps include:</p> <ul style="list-style-type: none"> - Alt HAN Co develops an Alternative HAN budget which includes an estimate of the annual amount needed for central costs. They provide this information each year to DCC. - DCC use registration data to determine the estimated charging base including a) number of domestic meter points; and b) estimate of the number of non domestic meter points expected to enrol in the DCC. - DCC use the information to determine a monthly charge per meter point - this figure will be set out in their charging statement. (i.e. estimate of total central costs for the year divided by number of eligible meter points; divided by 12 to give a monthly charge). This means that the monthly central charge is set for the year ahead.
B. Charging energy suppliers	<p>Each month, the DCC checks registration data and invoices energy suppliers the monthly central charge based on:</p> <ul style="list-style-type: none"> ➤ For domestic, the number of meter points they have. ➤ For non-domestic, the number of smart meter systems

<p>enrolled with the DCC.</p> <p>Alt HAN Co invoice DCC to collect central costs (within the scope of their budget).</p>		
<p>Time Period 2: Post UITMR Period (Enduring Charging)</p>		
<p>Summary of charging basis</p>	<p>The Central costs are charged across non-domestic and domestic energy suppliers based on Alternative HAN usage ratio.</p> <p>These costs are then divided by the charging base:</p> <ul style="list-style-type: none"> ➤ For domestic sector the charging base is: Market share of domestic smart metering systems enrolled with the DCC ➤ For non-domestic sector the charging base is: Market share of smart metering systems enrolled with the DCC 	
<p>A. Calculating the charges</p>	<p>Information required:</p>	<p>Information required to calculate the charge:</p> <ul style="list-style-type: none"> ➤ Information to calculate the ratio: <ul style="list-style-type: none"> ○ Number of non-domestic meter points using Alternative HAN ○ Number of domestic meter points using Alternative HAN ➤ An estimate of the total annual Central Charges ➤ An estimate of the charging base: <ul style="list-style-type: none"> ○ Number of domestic meter points enrolled with the DCC ○ Number of non domestic meter points enrolled in DCC
	<p>Calculating the charge:</p>	<p>The steps include:</p> <ul style="list-style-type: none"> - Alt HAN Co will provide the DCC with: <ul style="list-style-type: none"> ○ the latest real figures of the number of domestic and non domestic meter points using Alternative HAN. ○ an estimate of the annual amount needed for central costs. - DCC will calculate the non-domestic: domestic Alternative HAN usage ratio using the figures provided by Alt HAN Co. - DCC use registration data to determine the charging base including an estimate of number of domestic and non-domestic meter points that will be enrolled with the DCC at the start of the regulatory year. - DCC use all of this information to determine a monthly charge per enrolled Smart Metering System i.e. firstly they

	<p>split the total expected central costs based on a non-domestic to domestic ratio. For each of the domestic and non-domestic pots, they then divide by the amount of expected enrolled Smart Metering Systems; and then divide by 12 to give a monthly charge. Note this means that the monthly central charge will be different for non domestic and domestic suppliers.</p> <ul style="list-style-type: none"> - These figures will be set out in DCC's charging statement. This means that the monthly central charge is set for the year ahead.
B. Charging energy suppliers	<p>Additional information needed to assign the charges:</p> <ul style="list-style-type: none"> ➤ For domestic sector: each supplier's number of smart metering systems enrolled with the DCC each month ➤ For non-domestic sector: each supplier's number of smart metering systems enrolled with the DCC <p>Each month, the DCC checks registration data and invoices energy suppliers the monthly central charge based on:</p> <ul style="list-style-type: none"> ➤ For domestic, the number of smart meter systems enrolled with the DCC. ➤ For non-domestic, the number of smart meter systems enrolled with the DCC. <p>Alt HAN Co invoice DCC to collect central costs (within the scope of their budget).</p>

Targeted Shared Solution Explicit Charges

Time Period 1: During the UITMR Period (Transitional charges until the end of mass rollout)		
Summary of charging basis		<p>The Targeted Shared Solution Charges are charged across:</p> <ul style="list-style-type: none"> ➤ Meter points with shared solution Alternative HAN where it has been installed
A. Calculating the charges	Information required:	<p>Information required to calculate the charge:</p> <ul style="list-style-type: none"> ➤ An estimate of the total annual Shared Solution Costs ➤ An estimate of the charging base: <ul style="list-style-type: none"> ○ number of meter points associated with Alternative HAN shared solution equipment
	Calculating	The steps include:

the charge:	<ul style="list-style-type: none"> - As part of the annual Alternative HAN budget, Alt HAN Co Board set out a unit price for the Targeted Shared Solution Charge.
B. Charging energy suppliers	<p>Each month, Alt HAN Co provide DCC with a list of MPxN's where shared solution Alternative HAN has been installed (this includes where it has been installed but the SMS has not yet been commissioned).</p> <p>DCC use registration data to charge the monthly shared solution charge for each meter point.</p>
Time Period 2: Post UITMR Period (Enduring Charging)	
Summary of changes in enduring regime	<p>The differences in the enduring arrangements are:</p> <ul style="list-style-type: none"> - In the transition arrangements, suppliers are charged based on 'potential to use' i.e. where Alternative HAN has been installed to serve a premise they will be charged, even if they have not yet installed a SMS. - In the enduring arrangements all SMS will have been rolled out and so the charging base transfers to meter points using the shared solution Alternative HAN (i.e. no longer 'potential to use').

Targeted Point-to-Point Explicit Charges

Time Period 1: During the UITMR Period (Transitional charges until the end of mass rollout)	
Summary of charging basis	<p>The Targeted Point-to-Point Charges are charged across:</p> <ul style="list-style-type: none"> ➤ Where point-to-point equipment has been delivered to a supplier and not yet installed, the relevant supplier is charged the monthly charge ➤ Where point-to-point equipment has been installed, suppliers serving meter points using point-to-point Alternative HAN will be charged the monthly charge i.e. reflecting customer churn.
A. Calculating the charges	<p>Information required:</p> <p>Information required to calculate the charge:</p> <ul style="list-style-type: none"> ➤ An estimate of the total annual point-to-point costs ➤ An estimate of the charging base: <ul style="list-style-type: none"> ○ number of meter points using Alternative HAN point-to-point equipment

	<ul style="list-style-type: none"> ○ stock level i.e. number of Alternative HAN point-to-point equipment delivered to suppliers but not installed
Calculating the charge:	<p>The steps include:</p> <ul style="list-style-type: none"> - As part of the annual Alternative HAN budget, Alt HAN Co Board set out a unit price for the Targeted Point to Point Charge.
B. Charging energy suppliers	<p>Each month, Alt HAN Co provide DCC with a list of:</p> <ul style="list-style-type: none"> ○ Suppliers who have point-to-point equipment in stock (but not yet installed) ○ MPxN's where point to point Alternative HAN has been installed. <p>DCC use registration data to charge the monthly point-to-point charge for each meter point.</p>
Time Period 2: Post UITMR Period (Enduring Charging)	
No difference in enduring charging regime.	

Note there are the following processes in place to account for any instances where the budget does not adequately reflect the costs throughout the year:

- The next years budget can be adjusted to over/under recover to fix any errors.
- Alt HAN Co can as an emergency request a change to its budget - it will need to consult on it and resubmit it to DCC so that they can update their charging statement.
- Alt HAN Co can also in extreme circumstances recover directly from suppliers.

Annex D: List of consultation questions

Consultation Questions	
1.	Do you agree with the proposal that we do not need to mandate the use of the collective solutions?
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.
3.	Do you agree with the proposed scope of regulation on Alternative HAN?
4.	Do you agree that we should proceed with Model A? Please provide evidence to support your position.
5.	Do you agree with the proposed amendments to the DCC licence?
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?
7.	Do you agree with the policy proposals and legal drafting for the Alternative HAN Forum?
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?
9.	Do you agree with the policy proposals and legal drafting for the Alternative HAN Company?
10.	Do you agree with the policy proposals and legal drafting for the Alternative HAN Secretariat?
11.	Do you agree with the policy proposals and legal drafting in regards to modifications?
12.	Do you agree with the policy proposals and legal drafting in regards to the enduring Alternative HAN Charges?

Consultation Questions	
13.	Do you agree with the policy proposals and legal drafting in regards to transitional charging?
14.	Do you agree with the policy proposals and legal drafting in regards to Alternative HAN budgeting and invoicing?

