



CH Fixed Charges

Problem Statement

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Background

Mobile Network Operators (MNOs) operating in the UK have confirmed that they do not intend to offer 2G and 3G mobile networks past 2033 at the latest. Smart Metering Equipment Technical Specifications 1 (SMETS1) smart meters in all regions of Great Britain operate on the 2G network. The current assumption is that all SMETS1 assets will need to be replaced with SMETS2 meters and associated Communications Hubs (CHs) ahead of the end-2033 backstop. SMETS2 smart meters utilise the 2G and 3G networks only in the Central and South Regions of Great Britain. Therefore, we consider that the majority of these meters will have their associated CH exchanged for a 4G CH ahead of the 2G switch off date.

DCC is undertaking a review of the current CH charging methodology to ensure it is fit for purpose in-light of the 4G CH roll-out. This will ensure the methodology does not lead to perverse incentives for Suppliers and ensure all costs are recovered equitably across the DCC User base.

Relevant objectives of Charging Methodology

Under SEC Section K 'Charging Methodology' clause K3.5, the Fixed CH Charges should be cost reflective of the respective Smart Metering System. Importantly, under clause K3.6, the Fixed CH charges do not differ by Region.

By adopting this methodology, DCC currently charges separately for Single Band CHs and Dual Band CHs across all of GB which is calculated on the weighted cost of deployed Single Band CHs and Dual Band CHs.

What is the issue or problem identified?

Current Charging Methodology

Under SEC Section K there is a monthly Fixed CH Charge and CH stock level charge for Single Band CHs and Dual Band CHs. Charges in relation to CHs are payable by customers from the point a CH order has been delivered and accepted by that customer for both Single Band CHs and Dual Band CHs.

- Single Band CH – The cost of Single Band CHs is recovered for the Supplier based on the portion of Single Band CHs in their portfolio.
- Dual Band CH – The cost of Dual Band CHs is recovered for the Supplier based on the portion of Dual Band CHs in their portfolio.

Currently there is a significantly greater proportion of Single Band CHs in operation. In addition, Dual Band CHs across all areas of GB come at a greater cost when compared to Single Band CH.

Figure 1 below shows the forecasted volume of CHs installs from Regulatory Year (RY) 2025/26 with 2/3G installs in the Central and South Regions ceasing from RY 2026/27.

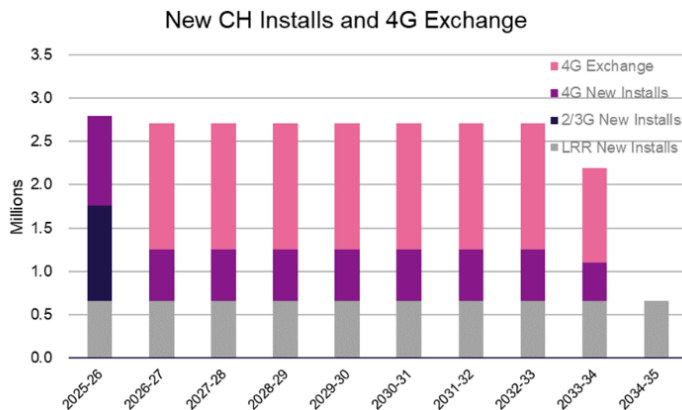


Figure 1: Forecast volume of CHs installs from RY2025/26

As seen in Figure 1, the 4G CH rollout is expected to commence in the summer of 2025. All 4G CHs are Dual Band technology. It should be noted that there's a business case for 4G in the North Region and so the CH installs summarised above are driven by assumptions based on the current policy.

What are the issues with the charges following the introduction of the 4G CH

Under the current charging methodology, the DCC charges must be calculated based on the relative volume of Single Band and Dual Band CHs installed at the start of the RY. This would mean that the 4G Fixed CH charge and CH stock level charge is calculated relative to the existing volume based on DCC's forecast of the weighted average of the number of 4G and non-4G Dual Band CHs over the forthcoming Regulatory Year.

Given there is currently a smaller portion of the market with Dual Band CHs, we would expect this to significantly increase the Dual Band CH Fixed CH Charge and CH stock level charge faced by DCC Users in the early years of 4G deployment. There are concerns that this could lead to a disincentive for Suppliers in the early years of 4G deployment, as they may delay activity to avoid higher charges. This impact is magnified in the short term by the decision not to finance 4G CH asset costs.

DCC has shared with customers the potential impact of not changing DCC's charging methodology which is shown in figure 2 below. It has also shared with customers the impact on DCC CH stock level charges.

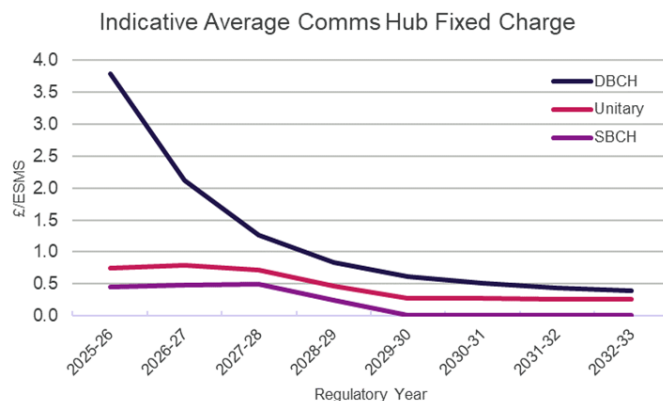


Figure 2: Indicative Dual Band CH and Single Band CH charges without changes to the DCC CH Charging Methodology

How does this relate to the SEC?

DCC is proposing to revise the basis of the Fixed CH Charge and CH stock level charge within SEC Section K 'Charging Methodology'. It will adopt a Unitary Charge for CH which replaces separate Single Band and Dual band CH Fixed Charges and CH stock level charges.

DCC has considered whether there were alternatives to the proposed Unitary Charge. The alternative charging methodology would be to consider regional charges for 4G CHs in the Central and South Regions and alternative technology charges in the North Region.

Whilst this would avoid potentially higher charges for customers in the North, a key objective of the Charging Methodology is that there are no regional variations in charges. A Unitary Charge is the only alternative option which maintains this objective.

What is the impact (including the impacts of doing nothing)?

Figure 2 shows:

- The large increase in Dual Band CH charges if this modification is not adopted; and
- The new Unitary Charge basis which is closer to the SBCH charge.

If this modification was not adopted, higher Dual Band CH charges would be introduced which would increase the relative costs of Suppliers commencing their 4G roll out from RY2025/26. Therefore, it could provide a disincentive to commence the 4G CH roll out in the early years of 4G deployment.

In addition, if the existing Single Band CH/Dual Band CH split was maintained within DCC's Charging Methodology then consumers in the North Region would see an increase in their charges to account for 4G installs in the Central and South Regions where a Supplier fits a Dual Band CH in the North Region.

DCC has proposed the introduction of a Unitary Charge which DCC views as the only alternative to separate technology charges whilst maintaining the critical objectives of the charging methodology to ensure no variation of charges by Region.

Proposed modifications

Basis of the Fixed CH Charge

DCC proposes a single charge covering both Single Band and Dual Band CHs. Under such a Unitary Charge the costs of all future CH installations (2G/3G, 4G and Long Range Radio (LRR) CHs) and CH stock level charges would be recovered from Suppliers based on the portion of both Single Band and Dual Band CHs deployed at the start of the RY. This would remove the dual pricing for CHs under the current charging methodology and ensure the cost of the transition to 4G is shared across all consumers/bill payers.

Compared to the current approach, we note that a move to a Unitary Charge would result in a relative increase in the charges for the Single Band CHs in Suppliers' portfolios. This increase is mitigated partially as in the Central and South Regions all SMETS2 2/3G CHs will need to be replaced with 4G CHs and so this would ensure the costs are spread equally.

This modification is required irrespective of any decision to finance or fund 4G CH assets. DCC notes that the magnitude of higher charges without the proposed Unitary Charge is amplified in a funding scenario.

Technology installed in the North Region

As the Unitary Charge also impacts on the CHs installed via the LRR technology in the North Region, the cost of ordering a LRR Single Band CH and LRR Dual Band CH will be the same. DCC notes that this could create a risk that Suppliers might default to installing LRR Dual Band CHs in the North Region even if circumstances permit a LRR Single Band CH in the given premises. Ultimately this could lead to unnecessary costs being added to the overall smart meter programme.

To ensure that the Unitary Charge is minimised for consumers, we propose that the SEC Working Group consider if this modification should also introduce a requirement for Suppliers to take all reasonable steps to install Single Band CHs in the North Region, where technology permits. This would introduce an obligation to at least try to install a Single Band CH where it will work and therefore contribute a lower total CH cost within DCC's calculation of the annual Unitary Fixed CH Charge.