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MP275

‘Section K changes to support 4G Communications Hubs rollout’

Modification Report

Version 0.3

24 October 2024

Corporate member of
Plain English Campaign
Committed to clearer
communication

592



About this document

This document is a draft Modification Report. It currently sets out the background, issue, solution, impacts, costs, implementation approach and progression timetable for this modification, along with any relevant discussions, views and conclusions. This document will be updated as this modification progresses.

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1. Summary

This proposal has been raised by Jonathon Helyer from the Data Communications Company (DCC).

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 by the DCC, 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 in the Central and South Regions will have their associated CH exchanged for a 4G CH ahead of the 2G switch off date.

The DCC is undertaking a review of the current CH Charging Methodology to ensure it is fit for purpose in light of the 4G CH rollout. This will ensure the methodology does not lead to inappropriate incentives for Suppliers and ensure all costs are recovered equitably across the DCC User base (all Regions).

The Proposed Solution is two-fold: for the DCC to bring in a 'Unitary Charge' for all CH variants, thus bridging the gap between Dual Band and Single Band CHs in the early years of 4G deployment; additionally, the DCC would amend the 'CH returned not redeployed' Explicit Charge to not include CHs exchanged as part of the 4G rollout swap-out. Instead, this Charge would be apportioned to the CH Fixed Charge for the remaining financing agreement. This solution would be put in place to avoid high costs to customers in the early years and spread the costs over time to encourage Suppliers to install 4G CHs as quickly as possible.

The Proposer has request Urgency which has been granted by Ofgem in order to ensure these changes are included in the next quarterly indicative Charging Statement. This may influence the April 2025 Ofgem Price Cap.

This will be an Authority-Determined modification, and the recommended implementation approach will be one Working Day following decision.

2. Issue

What are the current arrangements?

Current Charging Methodology

Currently, 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 DCC customers from the point a CH order has been delivered and accepted by that DCC 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 Great Britain 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.

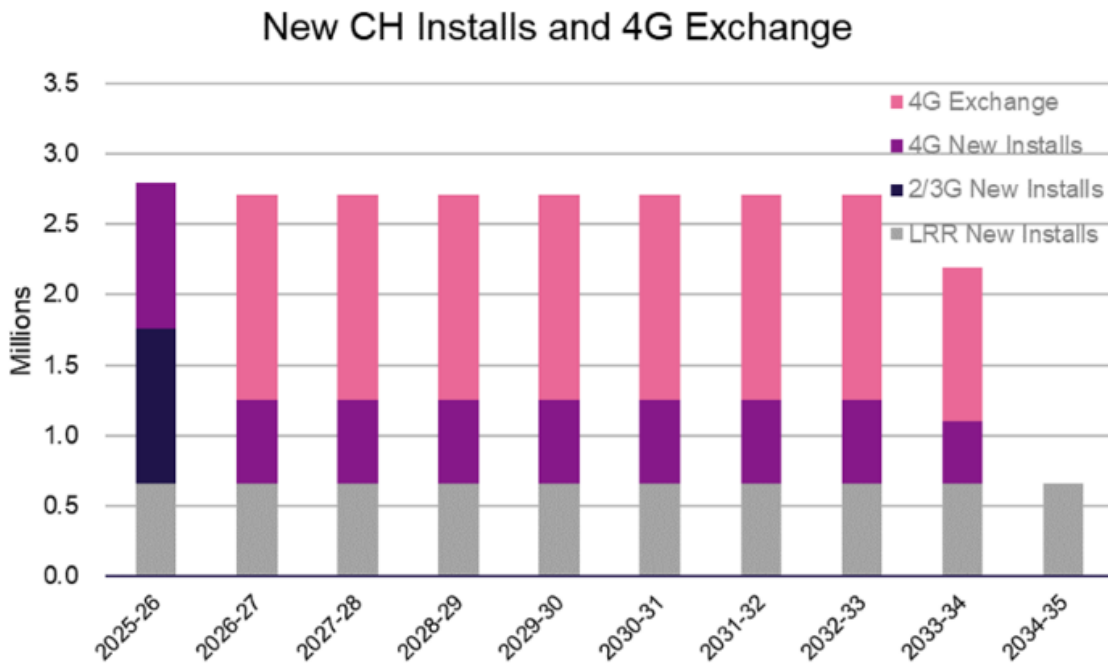


Figure 1: Forecast volume of CHs installs from RY2025/26

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 although there is a business case for 4G in the North Region, the CH installs summarised in Figure 1 are driven by assumptions based on the current policy (4G CH in the South and Central Regions only).

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, the DCC currently charges separately for Single Band CHs and Dual Band CHs across all of Great Britain which is calculated on the weighted cost of deployed Single Band CHs and Dual Band CHs.

Communications Hubs returned not redeployed Explicit Charge

Where a DCC User returns a CH that cannot be redeployed or notifies DCC of a CH that is lost or destroyed, the DCC will recover the cost of both processing that return, as well as the outstanding proportion of financing attributed to that CH from the DCC User. This is managed via an Explicit Charge in accordance with SEC Section K clause K7.5(p).

Under SEC Section K7.6(i), when a CH is returned and not re-deployed, the DCC would charge Suppliers these costs in full at the point of return. This would mean that when performing a 2/3G CH swap-out for a 4G CH, the Supplier would see an upfront charge. This charge is to ensure the DCC can repay the lender under the agreed terms of the financing arrangement.

This charge is currently calculated based on the average remaining principle of financing arrangements for both 2G/3G CH and Long-Range Radio (LRR) CH.

What is the issue?

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 the DCC's forecast of 4G and non-4G Dual Band CHs over the forthcoming RY.

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 Charge and CH stock level charge faced by the 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 DCC's decision not to finance 4G CH asset costs.

If the DCC do not change the charging methodology in the early stages of 4G CH rollout DCC customers will face large charges that might disincentivise Suppliers for moving to 4G CHs. This is shown in Figure 2 below.

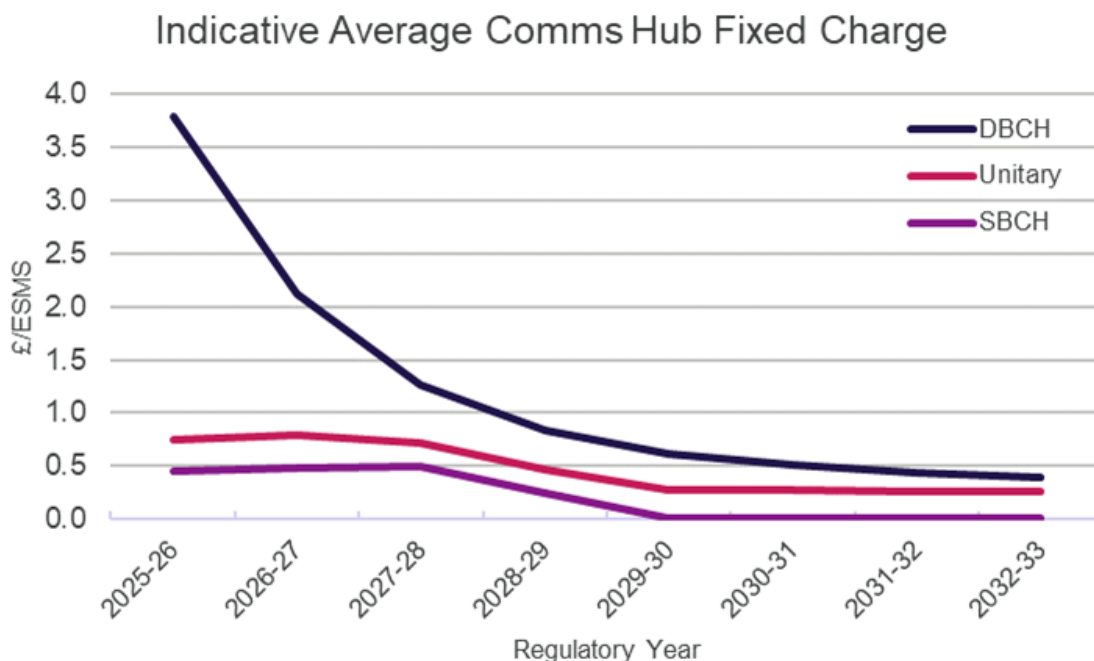


Figure 2: Indicative Dual Band CH (DBCH) and Single Band CH (SBCH) charges without changes to the DCC CH Charging Methodology per Enrolled Smart Metering System

Additionally, the 'CH returned not redeployed' Explicit Charge was not originally envisioned or designed for a full-scale swap-out of all CHs in a region.

While this cost would need to be incurred due to the requirements to repay the lender – which doesn't change if the CH is in use or not – the upfront nature of this cost could create a disincentive to commence the swap out of 2/3G CHs in the Central and South Regions.

As the cost of this charge is expected to reduce over time, this could drive 2/3G CH replacement activity to be delayed and could risk the ability of industry to complete the 4G roll-out ahead of the switch off date. In addition, this would also change the nature of which Party incurs this cost as it would fall to the Supplier who conducted the activity. The same Supplier could then subsequently lose that consumer through churn.

Considering the key objective of cost-reflectivity, by charging in full at the point of return, this does not reflect the key profile of DCC's costs and will bring forward a relatively high charge at the point of return.

What is the impact this is having?

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 Single Band CH charge.

Bringing in a Unitary Charge could spread the additional charges over a period of time. If this approach 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.

The DCC has proposed the introduction of a Unitary Charge which the 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.

For the 2/3G CHs returned as part of the 4G CH deployment (none of which will be redeployed), the outstanding finance costs will be collected through the DCC Fixed CH Charge in line with DCC's proposed updated Unitary Charges.

This will avoid the following Explicit Charges being levied on the CHs returned:

RY	£/Single Band CH	£/Dual Band CH
2025/26	£18.87	£25.98
2026/27	£12.53	£15.92
2027/28	£5.97	£12.47
2028/29	£1.13	£11.25

Figure 3 Charges levied on CH returned

Impact on consumers

This modification would not have an impact on consumers. However, if the issue remains unresolved, consumers in the North region may be impacted as Charges will be higher.

3. Solution

Proposed Solution

The DCC proposes a single charge (Unitary 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.

The DCC also proposes the removal of the 'CH returned not redeployed' charge where a SMETS2 2G/3G CH is replaced with a 4G CH in the Central and South Regions only. Instead, when a CH is replaced, the required monthly financing repayment would continue to be collected from the Supplier under the CH fixed charge in line with the outstanding term of the financing agreement.

This modification is focused on collecting the outstanding financing charges in the years when the liability is paid and not upfront.

The DCC will update SEC Section K 'Charging Methodology' to reflect that any 2/3G CHs returned as part of the swap out to a 4G CH do not qualify for a 'CH returned not redeployed' Explicit Charge. This differs from a product recall / technology refresh clause in SEC Section F as a CH under this category would be expected to be redeployed after the changes.

Instead, the costs would be collected through CH Fixed Charges as if the CH were still in use.

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

4. Impacts

This section summarises the impacts that would arise from the implementation of this modification.

SEC Parties

SEC Party Categories impacted			
✓	Large Suppliers	✓	Small Suppliers
	Electricity Network Operators		Gas Network Operators
	Other SEC Parties	✓	DCC

This modification will impact Large Suppliers and Small Suppliers as the Parties that both install the CHs and cover the charges. Suppliers will issue their forecast ahead of the change in Charging Methodology for CHs, and the figures may need amendments once the Unitary Charge is included. However, the introduction of a Unitary Charge may be beneficial in the long term, as the discrepancy between Single Band CH and Dual Band CH would be levelled.

Large and Small Suppliers would also be impacted by the change in Charging Methodology for CHs exchanged as part of the 4G swap-out as the change in Charges will mean the current upfront cost will be divided in tranches, proportional to the remaining financing agreement. The apportionment over a longer period of time would be a minor improvement on current arrangements, particularly in the early years of the 4G CH deployment programme.

The DCC would be impacted by this modification as the company will be required to amend their Charging Methodology in respect of CH Charges.

DCC Systems

DCC System changes

This modification will not require DCC System changes.

DCC System traffic

This modification will not have an impact on DCC System traffic.

SEC and subsidiary documents

The following parts of the SEC will be impacted:

- Section A 'Definitions and Interpretation'
- Section K 'Charging Methodology'

The changes to the SEC required to deliver the Proposed Solution will be developed during the Refinement Stage.

Devices

This modification will not impact Devices.

Consumers

This modification will not impact Consumers. However, consumers may, in the long term, indirectly benefit from the changes to CH Charges.

Other industry Codes

This modification will not impact other industry Codes.

Greenhouse gas emissions

This modification will not impact greenhouse gas emissions.

5. Costs

DCC costs

There are no DCC costs associated with this modification.

SECAS costs

The estimated SECAS implementation cost to implement this as a stand-alone modification is one day of effort, amounting to approximately £600. This cost will be reassessed when combining this modification in a scheduled SEC Release. The activities needed to be undertaken for this are:

- Updating the SEC and releasing the new version to the industry.

SEC Party costs

Any SEC Party costs associated with this modification will be determined in the Refinement Consultation.

6. Implementation approach

Recommended implementation approach

SECAS is recommending an implementation date of:

- **One Working Day** (ad hoc SEC Release) following Authority decision.

This modification is Authority-Determined, and the Proposer has requested Urgency from the Authority (which has been granted) to ensure that the information is included in the January 2025 Quarterly indicative Charging Statement. The information included in this Charging Statement may influence the Ofgem April 2025 Price Cap, and as such it would be beneficial for these changes to be in place ahead of the April 2025 Price Cap.

7. Assessment of the proposal

Areas for assessment

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. The 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 the DCC believe that this could lead to unnecessary costs being added to the overall Smart Meter programme.

To ensure that the Unitary Charge is minimised for consumers, the DCC propose that the SEC Working Group consider if this modification should also introduce a requirement for Suppliers to take All Reasonable Steps (ARS) 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 the DCC's calculation of the annual Unitary Fixed CH Charge.

However, SECAS notes that Suppliers installing CHs will have to comply with Appendix I 'CH Installation and Maintenance Support Materials'. Section 4 of Appendix I states:

App, 1.4.2 It is a Supplier Party's responsibility to decide which HAN Variant to install at each customer's premises.

We understand Home Area Network (HAN) Variants to be Single Band CH or Dual Band CH. SECAS would therefore note, on the basis of this obligation in Appendix I, that Suppliers will install a CH that is suitable for the premises the CH is installed in.

Sub-Committee input

SECAS will engage with the Chairs from the Operations Group (OPSG), the Smart Metering Device Assurance Sub-Committee (SMDASC) the Technical Architecture and Business Architecture Sub-

Committee (TABASC), the Security Sub-Committee (SSC), the Smart Metering Key Infrastructure Policy Management Authority (SMKI PMA) and Testing Advisory Group (TAG) to confirm what input is required from these forums. SECAS believes the following Sub-Committees will need to provide the following input to this modification:

Sub-Committee input	
Sub-Committee	Input sought
OPSG	Feedback on whether the changes promote the correct ordering and install behaviour
SMDASC	No input required
SMKI PMA	No input required
SSC	No input required
TABASC	No input required
TAG	No input required

Observations on the issue

Change Sub-Committee Views

The modification was presented to the Change Sub-Committee on 15 October 2024. The Change Sub-Committee members agreed the modification – at the time separated into two issues – should be combined to strengthen the Business Case, particularly as the changes proposed would be required urgently.

The Change Sub-Committee questioned the Urgency request to Ofgem; however, it was clarified that the need for Urgency arose as a result of industry feedback – Parties expressed that the January 2025 Charging Statement should include these Section K ‘Charging Methodology’ changes so Parties have a clear understanding of what these would look like going forward.

Working Group Views

The Working Group highlighted the need for financial information that would demonstrate the significance, scale and volatility of the Proposed Solution. Without this information – and although at first glance the solution would appear to be sensible – it would be difficult for the Working Group to make informed decisions that would help with the progression of the modification. The conversation around 4G Communications Hubs charging had been a point of focus for some time, and there is a desire from Parties to understand the real costs that would be involved in the 4G Communications Hubs rollout.

The Working Group queried the Proposed Solution for the Communications Hubs returned not redeployed Charge as it would socialise this cost, and lead to Suppliers possibly paying for two Communications Hubs as if they were still active, when in reality only one is. The DCC highlighted that this part of the solution would look to recover the remaining financing costs for the exchanged Communications Hubs over time, as the way it is currently set out would likely disadvantage Suppliers.

The Working Group questioned when the Communications Hub returned not redeployed Charge would come into effect. The DCC highlighted that the changes would come into effect on 1 April 2025. The DCC continued to say that the Charge should not be leveraged in full at point of exchange and instead could be connected to the Communications Hubs Fixed Charge.

When discussing 2G/3G Communications Hubs that have yet to be installed, and likely would not be installed before the start of the 4G rollout, the DCC discussed that there would be a stock level Charge associated with these, however whether costs would be associated with their returns had not yet been determined.

The Working Group highlighted the importance of the financial information, which would normally be addressed at the Quarterly Finance Forum (QFF). The difference in Charging Statements and the difference in financing costs would need to be highlighted as part of this modification, as it is likely Suppliers may need to pay upfront. The DCC emphasised that this modification would be needed regardless of the financing/funding conversations that are taking place with respect to 4G Communications Hubs. This is due to the fact that there would be no interaction between the two discussions. The current Charging Methodology spreads the cost of 4G over the installed Hubs at the start of the RY. As there are fewer Dual Band Communications Hubs installed, the current Charging Methodology would be disproportionate.

The DCC agreed to carry out a teaching session with Parties to provide detailed information on the Charging Statement as it is currently presented as well as the way it would be with the Proposed Solution described as part of the modification. The Working Group agreed this would bring valuable insights into the aim of the modification and provide them with the tools to make informed decisions.

8. Case for change

Business case

The DCC is proposing to revise the basis of the Fixed CH Charge and CH stock level charge within SEC Section K 'Charging Methodology', adopting a Unitary Charge for CH. This would replace the current distinction between Single Band CH and Dual Band CH fixed and stock level charges.

Other solutions, such as regional charges for 4G CHs in the Central and South regions and alternative technology charges in the North Region have been considered. However, a key objective of the Charging Methodology is having no regional variations in charges. A Unitary Charge is therefore the only alternative that would maintain this objective.

The DCC's proposal to replace the current upfront Explicit Charge for CHs returned not redeployed for the purpose of 4G CH swap-out by apportioning the financing to the Fixed Charge instead will limit the risk of Suppliers delaying the 4G CH swap-out.

Views against the General SEC Objectives

Proposer's views

The Proposer believes this modification would better facilitate SEC Objectives (a)¹ and (g)² as the modification would facilitate the 4G CH rollout, ensuring that costs associated with these are equitably levied across industry.

¹ facilitate the efficient provision, installation, and operation, as well as interoperability, of Smart Metering Systems at Energy Consumers' premises within Great Britain.

² facilitate the efficient and transparent administration and implementation of this Code.

Industry views

SECAS will gain industry views throughout the Refinement Process and Working Group discussions.

Views against the consumer areas

Improved safety and reliability

This modification will have a neutral impact on this area.

Lower bills than would otherwise be the case

This modification will have a neutral impact on this area.

Reduced environmental damage

This modification will have a neutral impact on this area.

Improved quality of service

This modification will have a neutral impact on this area.

Benefits for society as a whole

This modification will have a neutral impact on this area.

Appendix 1: Progression timetable

Timetable	
Event/Action	Date
Draft Proposal raised	7 Oct 2024
Presented to CSC for initial comment	15 Oct 2024
<i>CSC converts Draft Proposal to Modification Proposal</i>	<i>15 Oct 2024</i>
<i>Modification discussed with Working Group</i>	<i>24 Oct 2024</i>
<i>Refinement Consultation</i>	<i>24 Oct – 7 Nov 2024</i>
<i>Modification discussed with Working Group</i>	<i>11 Nov 2024</i>
<i>Modification Report approved by CSC</i>	<i>19 Nov 2024</i>
<i>Modification Report Consultation</i>	<i>20 Nov – 27 Nov 2024</i>
<i>Change Board Vote</i>	<i>4 Dec 2024</i>
<i>Authority decision (anticipated date)</i>	<i>10 Jan 2025</i>

Italics denote planned events that could be subject to change

Appendix 2: Glossary

This table lists all the acronyms used in this document and the full term they are an abbreviation for.

Glossary	
Acronym	Full term
ARS	All Reasonable Steps
CH	Communications Hub
CSC	Change Sub-Committee
DBCH	Dual Band Communications Hub
DCC	Data Communications Company
ESMS	Enrolled Smart Metering System
LRR	Long-Range Radio
MNO	Mobile Network Operator
OPSG	Operations Group
RY	Regulatory Year
SBCH	Single Band Communications Hub
SECAS	The Smart Energy Code Administrator and Secretariat
SMDASC	Smart Metering Device Assurance Sub-Committee
SMETS	Smart Metering Equipment Technical Specifications
SMKI PMA	Smart Metering Key Infrastructure Policy Management Authority
SSC	Security Sub-Committee
TABASC	Technical Architecture and Business Architecture Sub-Committee
TAG	Testing Advisory Group
QFF	Quarterly Finance Forum