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MP275

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

Modification Report

Version 1.0

18 December 2024



About this document

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

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This document also has two annexes:

- **Annex A** contains the redlined changes to the Smart Energy Code (SEC) required to deliver the Proposed Solution.
- **Annex B** contains the full responses received to the Refinement Consultation.

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1. Summary

This proposal was 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. Therefore, all Smart Metering Systems (SMS) currently utilising 2G and 3G networks in the South and Central Region will need to be upgraded to 4G by this deadline.

The 4G CH to be deployed in Central and South are all Dual Band technology. The current charging methodology sets a separate price for Single Band Communications Hubs (SBCH) and Dual Band Comms Hub (DBCH) which is based on the relative proportion of installed SBCH and DBCH hubs at the start of each Regulatory Year (RY). Therefore, without any amendments, the DCC is concerned that in the early years of the 4G rollout, 4G CHs would be allocated a disproportionately high percentage of DCC costs whilst the volume of DBCH hubs increases to replace SBCH.

In addition, on removal and return (to the DCC) of a 2G or 3G CH, DCC's Explicit Charge for return of CHs not redeployed would be levied on the Supplier to cover the remaining cost of the financing. Again, there is a concern this may disincentivise Suppliers from going ahead with large scale replacement programmes.

The DCC is therefore undertaking a review of the current CH Charging Methodology to ensure it is fit for purpose considering the 4G CH rollout. This is in line with the DCC Charging Objective 18.17(c) to ensure its Charges *'do not deter the full and timely installation by Energy Suppliers of Smart Metering Systems at Energy Consumers' premises in accordance with their obligations under the Energy Supply Licence*¹.

The Proposed Solution is two-fold. First, the DCC aim to establish a 'Unitary Charge'. By making all variations of CHs the same price this would remove the disadvantage of 4G CHs in the early years of 4G deployment. Additionally, the DCC would amend the 'CH returned not redeployed' (CHNR) Explicit Charge to not include CHs exchanged as part of the 4G swap-out. Instead, the financing costs associated with the early replacement of 2G/3G CHs would be apportioned to the CH Fixed Charge for the remaining financing agreement.

This solution would be put in place to ensure the methodology by which Suppliers are charged remains equitable, and they are not deterred from carrying out 4G CH installations.

The Proposer requested Urgency which was subsequently granted by Ofgem to ensure these changes are in place before the Price Cap cut-off date. This may influence the April 2025 Ofgem Price Cap.

This modification will impact Large and Small Suppliers. Respondents to the Refinement Consultation stated that while there would be no costs associated with implementing the modification itself, changes to Charging may result in consequential costs of between £100,000 - £1m. The 4G rollout may also incur costs to carry out an essential upgrade to Great Britain's Smart Metering System that are outside the scope of this Modification. This will be an Authority-Determined modification, and the recommended implementation approach will be one Working Day following decision.

¹ [Smart Meter Communication Licence](#) (Condition 18 Charging Methodology for Service Charges, p.112)

2. Issue

What are the current arrangements?

Fixed Communications Hubs Charge and Communications Hubs Stock Level Charge

The DCC currently have a financing agreement for 2G/3G CHs. The DCC require Suppliers to order CHs ten months in advance of delivery. Using this figure, the DCC calculate the total cost at the beginning of the Regulatory Year (RY). The total cost will then be spread across Suppliers over the course of the RY. Each Supplier will incur a monthly cost that is directly proportionate with its market share – an equitable way to ensure costs are distributed among Suppliers.

Under the current arrangements, Charges associated with CHs are recovered by the DCC as follows:

- *CH Stock Level Charge* – a Charge levied on Parties where the DCC has delivered a CH, but the CH is yet to be installed.
- *Fixed CH Charge* – Following the installation of a CH, the Fixed Charge will be payable by the installing Party.

When the DCC delivers a CH, Suppliers begin to pay a CH stock level charge until that CH is installed, after which it gets replaced with a Fixed CH Charge. As Parties will have a rolling stock of CHs to install, as well as a portfolio of already-installed CHs, both these Charges would be included in the Indicative Charging Statements.

The Stock Level Charge is charged per CH directly to a Supplier. If a Supplier orders 500,000 CHs, they will pay the cost of a CH x 500,000. This is a higher monthly amount per CH than the CH Fixed Charge, as it is calculated based on the number of CHs a Supplier has in stock, as opposed to socialised according to market share, as is the case of the CH Fixed Charge.

The CH Fixed Charge is socialised across all Suppliers by market share. This means that if a Supplier installs 500,000 CHs this charge will be the cost of a CH x 500,000 which is then spread across all Suppliers according to their market share. This may provide an incentive to Suppliers to roll out CHs at a similar pace to other Suppliers and ensure costs are spread equitably.

Current Charging Methodology

Currently, under SEC Section K 'Charging Methodology', there is a monthly Fixed CH Charge and CH stock level charge for SBCH and DBCH. 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 SBCHs and DBCHs.

The DCC incurs costs to provide SEC Parties with the CHs each Party has ordered. Across a RY, the DCC will forecast its costs based on known and forecasted order volumes and divides that expected cost by the volume of CH (of each type) at the start of the RY. These forecasted charges will then be levied by the DCC on SEC Parties based on the number of CH in stock/installed each month.

Currently there are significantly more SBCHs in operation than DBCHs. In addition, DBCHs across all areas of Great Britain come at a greater cost when compared to SBCH. Under the current Charging Methodology, the DCC Charges are calculated based on the volume of installed SBCH and DBCH at the start of the RY.

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

Below is an example provided by the DCC in their Charging Statement to illustrate the current Charging Methodology, using a fictional Electricity Supplier.

Charging group	Premises type	GSE actual ESMS volume (SBCH)	Published DCC rates	Total charge
g1 - Import Suppliers	Domestic	300,000	£0.482	£144,600.00
g1 - Import Suppliers	Non-domestic	75,000	£0.482	£36,150.00
Monthly Fixed CH Charge (SBCH)				£180,750.00

Charging group	Premises type	GSE actual ESMS volume (DBCH)	Published DCC rates	Total charge
g1 - Import Suppliers	Domestic	100,000	£1.080	£108,000.00
g1 - Import Suppliers	Non-domestic	25,000	£1.080	£27,000.00
Monthly Fixed CH Charge (DBCH)				£135,000.00

Figure 1 Example of Fixed CH Charges for Enrolled Smart Metering System (ESMS) of a fictional Electricity Supplier (GSE) published in DCC' Charging Statement²

The DCC notes that when the 4G rollout begins, 4G CHs Charges will be calculated based on the DCC's forecast of 4G and non-4G DBCH costs and install volumes over the forthcoming RY.

Communications Hubs returned not redeployed (CHNR) 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 but is 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 recover its costs associated with the 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.

Below is an example of the CHNR Explicit Charge for a fictional Supplier, as shown in DCC's Charging Statement.

² [DCC Charging Statement March 2024/March 2025](#)

Charge name	Charge type	Basis of charge	Units	Published DCC rate	Total charge
CH stock level charge (SBCH)	Explicit Charge	Per SBCH	15,000	£0.70	£10,500.00
CH stock level charge (DBCH)	Explicit Charge	Per DBCH	5,000	£1.63	£8,150.00
CH auxiliary equipment: low-gain cellular aerial	Explicit Charge	Per unit	100	£5.71	£571.00
Monthly Explicit Charge					£19,221.00

Figure 2 Example of Stock Level Charges of a fictional Electricity Supplier (GSE) published in DCC' Charging Statement³

Financing or Funding

Under the current Charging arrangements, 2G/3G CHs are purchased through a financing agreement – the DCC would source the cash to pay for the CHs from third Party Financing, which is paid off over an extended period. The DCC Charges would align with the same period.

In a Funding scenario, the DCC would fund the purchase of CHs from in-year Charges. Whilst Suppliers will still have the Charges spread into monthly payments over the Regulatory Year, the purpose in this scenario is to recover the costs of the ordered CHs within the same Regulatory Year rather than over a ten- or 15-year period.

What is the issue?

4G CH rollout is expected to commence in the summer of 2025. All 4G CHs are Dual Band technology so would be included in the DBCH Charges.

Fixed CH charges

Under the current charging methodology, the DCC annual costs are apportioned across the installed SBCH and DBCH volumes at the start of each RY. There are much fewer DBCH hubs installed relative to SBCH hubs. Therefore, the allocation of DCC costs in the early years of the roll-out are spread across a proportionately smaller volume of DBCHs. This distorts the allocation of costs and leads to a disproportionate rise in DBCH charges.

The CHRNR charge

The CHRNR Charge was originally designed to recoup the outstanding financing costs and any DCC costs for a CH that were exchanged/damaged/lost and could not be refurbished. In this instance, however, the exchanged 2G/3G cannot be refurbished as they are being phased out.

³ [DCC Charging Statement March 2024/March 2025](#)

The upfront cost may lead to disincentives for Suppliers to carry out the swap-out in the Central and South Regions. While this cost will be incurred by DCC under the terms of its financing arrangements – 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.

Given that the cost of the CHNR charge is expected to reduce over time as the financing of the CH comes to an end, 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, the current CHNR Charge also changes the nature of which Party incurs this cost as it falls to the Supplier who conducted the activity. The same Supplier could then subsequently lose that consumer through churn.

One of the key objectives of DCC's Charges is cost-reflectivity; by charging in full at the point of return, there is a risk that this objective would not be met.

If the DCC do not consider what changes could be made to the Charging Methodology in the early stages of 4G CH rollout to support it, Suppliers may be deterred from installing 4G CHs.

What is the impact this is having?

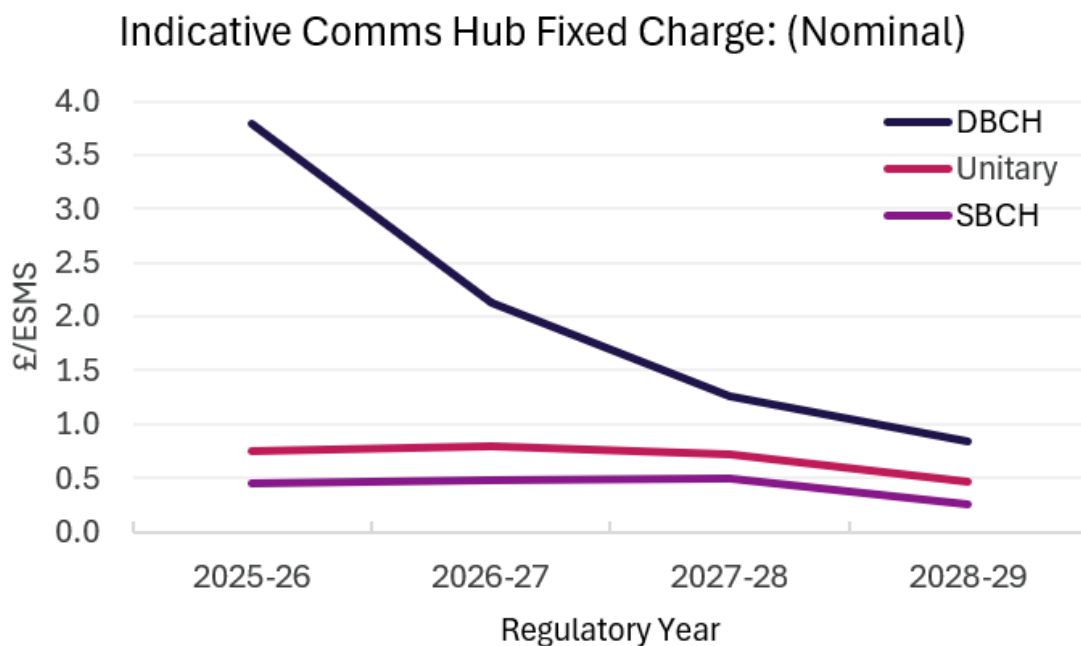


Figure 3: Indicative Dual Band CH (DBCH) and Single Band CH (SBCH) charges with and without changes to the DCC CH Fixed Charging Methodology per ESMS

Figure 3 shows

- The increase in Dual Band CH Charges if no action is taken; and
- The new Unitary Charge model.

Bringing in a Unitary Charge spreads the DCC costs across all CH variants on a more proportionate basis. If this approach was not adopted, a higher allocation of DCC costs would be applied to Dual Band CH Charges 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.

As shown in Figure 3 above, this especially impacts DCC Users in the early years of 4G deployment. Therefore, there are concerns that the current charging mechanism could lead to a disincentive for Suppliers in the early years of 4G deployment.

Impact on consumers

This modification will not have a direct impact on consumers over and above 4G rollout costs.

3. Solution

Proposed Solution

The DCC proposes a single charge (Unitary Charge) covering both Single Band and Dual Band CHs (retaining the weighting factors by charging group). This Unitary Charge would represent the DCC's purchase cost of the CHs delivered in the year across all technologies (2G/3G/4G and Long Range Radio (LRR) CHs) and Regions.

Under such a Unitary Charge the costs of all future CH installations across Great Britain 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.

Compared to the current approach, the DCC notes that a move to a Unitary Charge would result in a relative increase in the charges for the Single Band CHs in Suppliers' portfolios. As 4G CHs will be installed in the Central and South Regions, the growing portfolio of 4G Dual Band CHs will level with the number of Single Band CHs installed, so this would ensure the costs are spread equally.

Indicative Charges with 4G Funding

2024-25 Charges	Charging Group	Unit	With Modification:	Without Modification:	
			Monthly Charge	Monthly Charge	Monthly Charge
				SBCH	DBCH
CH Fixed Charge	Import Supplier (g1)	£/ESMS	£0.830	£0.507	£4.232
CH Fixed Charge	Export Supplier (g2)	£/ESMS	£0.144	£0.088	£0.732
CH Fixed Charge	Gas Supplier (g3)	£/ESMS	£0.623	£0.381	£3.174
Stock Level Charge		£/CH	£1.228	£0.749	£6.419

Figure 4: Illustrative example of Indicative Charges with 4G funding with the Proposed Solution and without

Figure 4 is an illustrative example of what the Indicative Charges may look like. It should be noted that these figures are not reflective of actual cost calculations. However, it should provide Suppliers with an indication of what they might see on the Indicative Charging Statement.

Using the example figures, a fictional import Energy Supplier with 1m CHs would look at a monthly CH Fixed Charge of £830,000 (1,000,000 CH x £0.830), if the Unitary Charge was implemented.

Without the Unitary Charge, the same fictional import Energy Supplier would look at a split monthly CH Fixed Charge, which would depend on the number of CHs that it currently has installed, as follows:

90% of the CHs are SBCH = 900,000 SBCH x £0.507 = £456,300

10% of the CHs are DBCH = 100,000 DBCH x £4.232 = £423,200

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While the overall costs are similar, a higher DBCH cost in the early years of 4G deployment may provide a disincentive to begin the rollout.

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

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 5 Indicative Charges levied on CH returned

The DCC proposes to 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.

The CHRNR Explicit Charge will continue to apply to CHs removed but not redeployed that are not part of the 4G CH swap-out (e.g. a lost or destroyed CH that cannot be redeployed). This includes uncommissioned stock handed back to DCC.

The DCC has stated that this modification is required irrespective of any decision to finance or fund 4G CH assets.

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

SEC Party Categories impacted			
	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.

The DCC would be impacted by this modification as it 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 a direct impact on DCC System traffic. However, removing the disincentive for Suppliers to exchange 2G/3G CHs may result in increased System traffic from the point of 4G rollout.

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 can be found in Annex A.

Devices

This modification will not have a direct impact on Devices.

Consumers

This modification will not have a direct impact on Consumers over and above 4G rollout costs.

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

As part of the Refinement Consultation, Parties highlighted that there would be a financial impact if MP275 were to be implemented into the SEC. Two respondents advised that the modification would result in consequential costs of around £100,000. Both respondents emphasised that there would be no cost to implement the modification itself, however, the changes in how Charges are calculated would result in changing costs.

Another respondent advised that the solution put forward by this modification would result in costs of over £1m. They highlighted that their organisation would expect to change the rollout and exchange projections to minimise costs and maximise workforce efficiencies and customer experience benefits.

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 been granted Urgency from the Authority to ensure that the solution is in place ahead of the Ofgem April 2025 Price Cap. 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 this.

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 Unitary Charge will encompass LRR SBCH and LRR DBCH. 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 proposed 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. They believed that 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 noted that Suppliers installing CHs would have to comply with Appendix I 'CH Installation and Maintenance Support Materials'. Section 4 of Appendix I states:

App, I.4.2 It is a Supplier Party's responsibility to decide which HAN Variant to install at each customer's premises.

Home Area Network (HAN) Variants are understood to be Single Band CH or Dual Band CH (which will include 4G). 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.

As part of the modification, the Working Group was presented with this area for assessment – the inclusion of a requirement for Parties to take all reasonable steps to install Single Band Communications Hubs in the North Region. A member of the Working Group expressed that the hope of the industry is to be able to install 4G Communications Hubs in the North Region before long. They suggested this may be a separate business case that could be tackled only after knowing the costs of rolling out 4G in the North Region.

Another member of the Working Group stated that they did not believe this requirement to be necessary. Communicating this requirement to installers, irrespective of it being in the North or South region would be difficult as HAN testers are scarcely available. Installers utilise their expertise to determine which Communications Hub would be suitable for the property, and this requirement may undermine their ability to make the right decisions. They stressed that it would lead to confusion and the current way of working should remain unchanged to ensure a working CH is installed.

Another member of the Working Group queried how the 'all reasonable steps' requirement would be managed and how they would be able to determine that all reasonable steps were taken.

As a result of this conversation, the proposal to include an all-reasonable steps requirement has been de-scoped from this modification.

Effects of ending LRR and 2G/3G Financing

As part of the discussion around 4G CH Charges, Parties questioned the impact of ending 2G/3G Financing and the effects it would have on the industry. The DCC confirmed that DCC's costs would

include the repayment of Financing agreements related to 2G/3G and LRR CHs purchased in prior years in addition to the new 4G costs (regardless of whether they are funded or financed).

Sub-Committee input

SECAS has engaged 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	No input required
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.

Scale of costs and volatility

The conversation around the scale of costs and volatility was brought about as the DCC was considering the model to use when purchasing 4G CHs for the rollout. 2G/3G CHs were previously financed (whereby the DCC sourced the capital from a third Party and recovered the costs over a prolonged period), but the DCC put forward the option of a funded model (whereby the DCC would provide the capital and recover the costs within the same RY). 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 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 for CHs upfront. Subsequently, the DCC confirmed this would not be the case. The monthly Charge model would continue as per the current Charging Statements. The full impact of how 4G CH impact DCC charges was shared with stakeholders at a teaching session on the 5 November 2024.

The DCC emphasised that this modification would be needed regardless of the financing/funding conversations around the Outline business case (OBC) that are taking place with respect to 4G Communications Hubs. This is because 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 DBCHs installed, the current Charging Methodology would be disproportionate.

A Working Group member highlighted the need for robust information during the December 2024 Working Group. They had previously presented the concerns regarding volatility as well as concerns regarding the final costs that Suppliers are likely to incur as part of this change. Without this information, it is unlikely that Suppliers will know the full scale of the impact this modification will have. The DCC emphasised that the concerns regarding cost volatility have been noted and this information will be made available to Parties in January 2025, ahead of the Panel discussions on financing or funding the 4G CH rollout. Working Group attendees highlighted this information may arrive later than expected and stressed the need for this to be made available as soon as possible.

Communications Hubs Returned Not Redeployed Charge

The Working Group queried the Proposed Solution for the Communications Hubs returned not redeployed Charge as they believed that it would socialise this cost, and lead to Suppliers possibly paying for two Communications Hubs as if they were still active, when 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 by requiring an upfront cost.

The Working Group questioned when the changes to Communications Hub returned not redeployed Charge would come into effect. The DCC highlighted that the changes would come into effect on 1 April 2025, with the first quarterly Charging Statement of 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 DCC confirmed that the CHNR charge will be applicable for stock returns that have not been commissioned to deter excessive stock build-up of 2/3G CHs at a time when there is a need for inventory management discipline prior to the 4G roll-out.

DCC Teaching Session

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.

As part of the Teaching Session, the DCC was asked to provide further insight into the potential volatility associated with having the CHs funded, as opposed to the current arrangements where CHs are financed. Parties questioned how the Charges would change over time in a scenario where the CHs are funded, compared to a scenario where these would be financed. The funding/financing decision would have no impact on MP275. Under both scenarios there is an inherent issue with the CH Fixed Charge that is differentiated by CH variant resulting in higher charges for DBCH CHs.

Attendees raised questions regarding the costs of ordering more CHs would increase the price per CH. The DCC subsequently confirmed that DCC costs are an average of 2G/3G/LRR Financing costs and 4G Funding costs. As 4G CHs would follow the funded model whereby costs are recovered within the same Regulatory Year, 4G CHs costs will be higher in-year than those of 2G/3G/LRR CHs. This will then be reflected in the DCC's average cost of a CH.

Solution development

Suppliers queried the effects a staggered approach to installing 4G CHs would have on the Charges; based on the current portfolios, DBCH are the minority of installations, and this would be reflected in the Fixed CH Charges and stock level Charges. Prioritising new installs for 4G CHs and taking a staggered approach to exchanging 2G/3G Communications Hubs may impact how the Charges are apportioned and recovered by the DCC, as the year-on-year predictions will lead to levelled Charges as DBCH portfolios expand.

The aim of the Proposed Solution is to ensure that the DCC and its charging mechanism is not deterring from installing 4G CHs. The DCC would not be able to recommend or dictate the approach Suppliers will take to installing 4G CHs.

The changes proposed as part of this modification would look to amend the Charging Methodology only, and any business approach to how to approach the 4G CH rollout would ultimately be a Supplier decision. Any risks that arise from Suppliers' approach to 4G CH rollout are likely outside the scope of this modification.

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 and remove disincentives to 4G roll out.

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 CH 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)⁴ and (g)⁵ as the modification would facilitate the 4G CH rollout, ensuring that costs associated with these are equitably levied across industry.

Industry views

Most respondents to the Refinement Consultation agreed that the modification would better facilitate SEC Objectives (a) and (g). One respondent believed that the modification would also better facilitate SEC Objectives (b)⁶ and (d)⁷. One respondent did not believe that the Modification had provided sufficient information to confirm which SEC Objectives would be impacted. Respondents that believed that the modification would better facilitate the SEC Objectives as the solution would mitigate blockers at the beginning of the 4G rollout.

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 positive impact on this area. 2G/3G networks will be switched off, and the proactive actions taken to make sure consumers' Smart Metering Systems are on the 4G network ahead of the switch off is likely to improve the quality of service.

⁴ facilitate the efficient provision, installation, and operation, as well as interoperability, of Smart Metering Systems at Energy Consumers' premises within Great Britain.

⁵ facilitate the efficient and transparent administration and implementation of this Code.

⁶ enable the DCC to comply at all times with the General Objectives of the DCC (as defined in the DCC Licence), and to efficiently discharge the other obligations imposed upon it by the DCC Licence

⁷ facilitate effective competition between persons engaged in, or in Commercial Activities connected with, the Supply of Energy

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
CSC converts Draft Proposal to Modification Proposal	15 Oct 2024
Modification discussed with Working Group	24 Oct 2024
Refinement Consultation	24 Oct – 21 Nov 2024
Modification discussed with Working Group	4 Dec 2024
<i>Modification Report approved by CSC</i>	<i>17 Dec 2024</i>
<i>Modification Report Consultation</i>	<i>18 Dec 2024 – 3 Jan 2025</i>
<i>Change Board Vote</i>	<i>10 Jan 2024</i>
<i>Authority decision (anticipated date)</i>	<i>12 Feb 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
CHNR	Communications Hub Returned not Redeployed
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

Glossary	
Acronym	Full term
SMDASC	Smart Metering Device Assurance Sub-Committee
SMETS	Smart Metering Equipment Technical Specifications
SMKI PMA	Smart Metering Key Infrastructure Policy Management Authority
SMS	Smart Metering System
SSC	Security Sub-Committee
TABASC	Technical Architecture and Business Architecture Sub-Committee
TAG	Testing Advisory Group
QFF	Quarterly Finance Forum

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MP275 ‘Section K changes to support 4G Communications Hubs rollout’

Annex A

Legal text – version 1.0

About this document

This document contains the redlined changes to the SEC that would be required to deliver this Modification Proposal.

Section A ‘Definitions and Interpretations’

These changes have been redlined against Section A version 43.0.

Amend Section A1 as follows:

2G/3G Central	is a Region, and refers to the Geographical Region covering central Great Britain and the use of 2G/3G mobile communications technology in that Geographical Region.
<u>2G/3G Communications Hub</u>	<u>means a Communications Hub which is capable of using 2G and/or 3G mobile cellular radio technology to connect to the SM WAN.</u>
2G/3G South	is a Region, and refers to the Geographical Region covering the south of Great Britain and the use of 2G/3G mobile communications technology in that Geographical Region.
4G Central/South	is a Region, and refers to the Geographical Regions covering central Great Britain and the south of Great Britain and the use of 4G mobile communications technology in those Geographical Regions.
4G Communications Hub	means a Communications Hub which is capable of using 4G mobile cellular radio technology to connect to the SM WAN.
[...]	
UNC	means the Uniform Network Code established pursuant to the Gas Transporter Licences.
<u>Unitary Charge</u>	<u>means the Fixed CH Charge and CH Stock Level Charge calculated by the DCC irrespective of HAN variant.</u>
Unique Transaction Reference Number (UTRN)	has, where used in relation to a SMETS2+ Device, the meaning given to that expression in the GB Companion Specification; or, where used in relation to SMETS1 Device, has the meaning set out in SMETS1.
Unknown Remote Party	for SMETS2+ Devices, has the meaning given to that expression in the GB Companion Specification; and, for SMETS1 Devices, has the meaning set out in the SMETS1 Supporting Requirements.

Section K 'Charging Methodology'

These changes have been redlined against Section K version 16.0.

Amend Section K3.8 as follows:

K3.8 In order to provide a degree of transparency of costs, the DCC shall apportion the Estimated Fixed Revenue between:

- (a) the National Fixed Revenue, the Alt HAN Fixed Revenue and the Regional Fixed Revenue for each Region so as to reflect the relative proportion of the cost and expenses that the DCC incurs across all Regions or in particular Regions in providing the Services and in reimbursing the Alt HAN Costs (ignoring the Communications Hub Services, the Test CH Services and the Elective Communication Services and ignoring the costs and expenses designed to be recovered pursuant to the Explicit Charges);
- (b) the Regional Communications Hub Fixed Revenue for each Region so as to reflect the cost and expenses that the DCC incurs in providing, in respect of that Region, the Communications Hub Services and the Test CH Services (ignoring the incremental costs and expenses incurred in providing individual Communications Hubs, and also ignoring the costs and expenses designed to be recovered pursuant to the Explicit Charges); and
- (c) the Regional Communications Hub Device Revenue for each Region so as to reflect the incremental cost and expenses that the DCC incurs in providing, in respect of that Region, each individual Communications Hub of ~~each HAN Variant~~ which is available for that Region (ignoring the costs and expenses designed to be recovered pursuant to the Explicit Charges),

in each case, so that any revenue restriction correction factor adjustment contained within the Estimated Fixed Revenue is apportioned between (a), (b) or (c) above on the basis of the extent to which it arose in relation either to the Services referred to in (a), (b) or (c) respectively.

Amend Section K3.9 as follows:

K3.9 The apportionment described in Sections K3.7 and K3.8 shall be such that:

$$EFR_t = NFR_t + AHFR_t + \sum_{\forall r} RFR_{rt} + \sum_{\forall r} RCHFR_{rt} + \sum_{\forall r \forall h} RCHDR_{hrt}$$

Where:

- EFR_t = the Estimated Fixed Revenue (estimated in accordance with Section K2) for Regulatory Year (t).
- NFR_t = the National Fixed Revenue (estimated in accordance with Section K3.7 and K3.8) for Regulatory Year (t).
- $AHFR_t$ = the Alt HAN Fixed Revenue (estimated in accordance with Section K3.7 and K3.8) for Regulatory Year (t).
- RFR_{rt} = the Regional Fixed Revenue (estimated in accordance with Section K3.7 and K3.8) within each Region (r) for Regulatory Year (t).
- $RCHFR_{rt}$ = the Regional Communications Hub Fixed Revenue (estimated in accordance with Section K3.7 and K3.8) within each Region (r) for Regulatory Year (t).

$RCHDR_{hrt}$ = the Regional Communications Hub Device Revenue (estimated in accordance with Section K3.7 and K3.8) ~~for each HAN Variant (h)~~ within each Region (r) for Regulatory Year (t).

Amend Section K6A as follows:

K6A.2 In respect of each Regulatory Year occurring during the UITMR Period or during or after the COMR Period, the DCC will estimate the average number of Smart Metering Systems that there will be during the Regulatory Year. The DCC shall undertake such estimates for Domestic Premises and Non-Domestic Premises separately (being $EDCH$ and $ENCH$ respectively). For each such Regulatory Year (t), the DCC will estimate the average number of persons within each CH Charging Group (g) for such Smart Metering Systems, and break down such estimates by reference to the Region (r) in which the premises is located ~~and the HAN Variant (h) forming part of each such Smart Metering System~~, such that:

$$\forall g \forall r \forall t ECH_{g_{hrt}} = EDCH_{g_{hrt}} + ENCH_{g_{hrt}}$$

Where:

$EDCH_{g_{hrt}}$ = the DCC's estimate of the average number of persons within each CH Charging Group (g) for Smart Metering Systems for Domestic Premises during that Regulatory Year (t), broken down by Region (r) ~~and HAN Variant (h)~~; and

$ENCH_{g_{hrt}}$ = the DCC's estimate of the average number of persons within each CH Charging Group (g) for Smart Metering Systems for Non-Domestic Premises during that Regulatory Year (t), broken down by Region (r) ~~and HAN Variant (h)~~.

Determining the Fixed CH Charges

K6A.3 For each Regulatory Year (t), the DCC will determine the Fixed CH Charge payable in respect of each month (or part month) of Regulatory Year (t) by each person within each CH Charging Group (g) in respect of each Smart Metering System ~~incorporating each HAN Variant (h)~~ for a Non-Domestic Premises or for a Domestic Premises ($CHC_{g_{ht}}$) as follows:

Where:

$$(CHC_{g_{ht}}) = \frac{\sum_{\forall r} RCHDR_{hrt}}{NM_t} \times \frac{\beta_{gt}}{\sum_{\forall g} (\beta_{gt} \times \sum_{\forall r} ECH_{g_{hrt}})}$$

β_{gt} = the CH Charging Group Weighting Factor (as set out in Section K3) applicable to Regulatory Year (t) and each Charging Group (g)

NM_t = the number of months (or part months) in Regulatory Year (t)

$RCHDR_{hrt}$ = the Regional Communications Hub Device Revenue (determined in accordance with Section K3) for Regulatory Year (t) ~~, HAN Variant (h)~~ and Region (r)

$ECH_{g_{hrt}}$ = the estimated number of persons within each Charging Group (g) for Smart Metering Systems determined in accordance with Section K6A.2 for Regulatory Year (t) ~~, HAN Variant (h)~~ and each Region (r).

Calculating number of CHs for Fixed CH Charge Payment

K6A.5 Following the end of each month (or part month) during each Regulatory Year occurring during the UITMR Period or during or after the COMR Period, the DCC will:

- (a) determine the actual number of Smart Metering Systems that there are as at the end of the 15th day of that month (or, in the case of a part month that ends on or prior to the 15th day of that month, at the end of that part month), and shall do so for Domestic Premises and for Non-Domestic Premises separately;
- (b) calculate the number of persons within each CH Charging Group for such Smart Metering Systems; and
- (c) break down these calculations by reference to Parties (p), and (for transparency in the case of Smart Metering Systems for Non-Domestic Premises only) by reference to the Region in which such premises are located.

K6A.6 The calculations in accordance with Section K6A.5 of the number of Smart Metering Systems as at the end of each month (or part month) (m) during Regulatory Year (t) within each Charging Group (g) broken down by reference to each Party (p), and (for transparency in the case of Non-Domestic Premises only) by reference to each Region (r) ~~and HAN Variant (h)~~, shall:

- (d) in respect of Domestic Premises, be represented as $ADCH_{pg\text{h}mt}$; and
- (e) in respect of Non-Domestic Premises, be represented as $ANCH_{pgr\text{h}mt}$.

Explicit Charging Metrics

K7.5 The Explicit Charging Metrics for each Party and the Charging Period for each month are as follows:

[...]

(o) ('CH returned and redeployed') the number of Communications Hubs which have been returned by that Party during that Charging Period for a reason which is a CH User Responsibility, and which have been (or are intended to be) reconditioned for redeployment pursuant to Section F8 (Removal and Return of Communications Hubs);

(p) ('CH returned not redeployed') the number of Communications Hubs which have been returned, or notified as lost or destroyed, by that Party during that Charging Period for a reason which is a CH User Responsibility, and which have not been (and are not intended to be) reconditioned for redeployment pursuant to Section F8 (Removal and Return of Communications Hubs), but excluding the scenario whereby a 2G/3G Communications Hub is replaced with a 4G Communications Hub;

(q) ('CH wrong returns location') an obligation to pay arising during that Charging Period as a result of the return by that Party of Communications Hubs to the wrong returns location as referred to in Section F8.9 (Return of Communications Hubs);

Explicit Charges

K7.6 The DCC will determine the Explicit Charges for each Explicit Charging Metric and each Regulatory Year:

[...]

(f) in the case of the Explicit Charging Metrics referred to in Sections K7.5(l), (n), (o) and (p) ('CH stock level charge', 'CH auxiliary equipment', 'CH returned and redeployed', and 'CH returned not redeployed'), so as to ensure they are uniform across each month of a Regulatory Year and

across each Region and do not make any distinction linked to use at Domestic Premises or Non-Domestic Premises;

(g) in the case of the Explicit Charging Metric referred to in Sections K7.5~~(f)~~, (o) and (p) ('~~CH stock level charge~~', 'CH returned and redeployed' and 'CH returned not redeployed'), on the basis that there can be different charges for each HAN Variant (including depending on the circumstances of the return of the HAN Variant);

(h) so that the Explicit Charging Metric referred to in Section K7.5(o) ('CH returned and redeployed') for each HAN Variant is not more than the Explicit Charging Metric for that HAN Variant referred to in Section K7.5(p) ('CH returned not redeployed');

Calculating Monthly Payments (COMR Period)

K10.7A For each month (or part month) (m) during a Regulatory Year (t) during the COMR Period, the rollout monthly payment (RMP) in respect of the Charges payable by each Party (p) shall be calculated as follows:

$$\begin{aligned}
 RMP_{pmt} = & \sum_{\forall g} \left(RFC_{gt} \times \left(ADSMS_{pgmt} + \sum_{\forall r} ANSMS_{pgrmt} \right) \right) \\
 & + \sum_{\forall g, \forall h} \left(CHC_{gh,t} \times \left(ADCH_{gh,t} + \sum_{\forall r} ANCH_{ghrt} \right) \right) \\
 & + \sum_{\forall g} \left(DAHFC_{gt} \times ADSMS_{pgmt} \right) + \sum_{\forall g} \left(NAHFC_{gt} \times \sum_{\forall r} ANSMS_{pgrmt} \right) \\
 & + \sum_{i=1}^{i=n} (EC_{it} \times ECM_{ipmt}) + TEP_{pmt} + \sum_{e \in m} UBDP_{pemt} + \sum_{l \in m} LP_{plmt}
 \end{aligned}$$

Where:

RFC_{gt}	= the Fixed Charges payable in respect of months (or part months) during Regulatory Year (t) by persons in Charging Group (g) in respect of Mandated Smart Metering Systems for Domestic Premises and Mandated Non-Domestic Smart Metering Systems for Non-Domestic Premises, calculated in accordance with Section K5;
$ADSMS_{pgmt}$	= the amount described as such in Section K5.9;
$ANSMS_{pgrmt}$	= the amount described as such in Section K5.11;
$CHC_{gh,t}$	= the Fixed CH Charge payable in respect of months (or part months) during Regulatory Year (t) by persons in CH Charging Group (g), for HAN Variant (h) in respect of Smart Metering Systems for both Non-Domestic Premises and Domestic Premises;
$ANCH_{ghrt}$	= the amount described in Section K6A.6;
$ADCH_{gh,t}$	= the amount described in Section K6A.6;
$RAHFC_{gt}$	= the Fixed Alt HAN Charge payable in respect of months (or part months) during Regulatory Year (t) by persons in Alt HAN Charging Group (g) in respect of Mandated Smart Metering Systems for Domestic Premises and Mandated Non-Domestic Smart Metering Systems for Non-Domestic Premises calculated in accordance with Section K5B;
EC_{it}	= the Explicit Charge for an Explicit Charging Metric (i) and a Regulatory Year (t);

ECM_{ipmt}	= the Explicit Charging Metrics incurred by a Party (p) during the Charging Period for that month (m) in a Regulatory Year (t);
TEP_{pmt}	= the total amount payable by a Party (p) in respect of Elective Charges and a month (m) in a Regulatory Year (t);
$UBDP_{pemt}$	= the Unrecovered Bad Debt Payment in respect of a month (m) in a Regulatory Year (t) and each Event of Default (e), as calculated in accordance with Section K9;
LP_{plmt}	= the Liability Payment in respect of a month (m) in a Regulatory Year (t) and each Liability Event (l), as calculated in accordance with Section K9.

Calculating Monthly Payments (Enduring)

K10.8 For each month (or part month) (m) during a Regulatory Year (t) after the COMR Period, the monthly payment (MP) in respect of the Charges payable by each Party (p) shall be calculated as follows:

Where:

$$\begin{aligned}
 MP_{pmt} = & \sum_{\forall g} \left(EFC_{gt} \times \left(ADSMS_{pgmt} + \sum_{\forall r} ANSMS_{pgrmt} \right) \right) \\
 & + \sum_{\forall g, \forall h} \left(CHC_{ght} \times \left(ADCH_{ght} + \sum_{\forall r} ANCH_{ghrt} \right) \right) \\
 & + \sum_{\substack{\forall g \\ i=n}} (DAHFC_{gt} \times ADSMS_{pgmt}) + \sum_{\forall g} \left(NAHFC_{gt} \times \sum_{\forall r} ANSMS_{pgrmt} \right) \\
 & + \sum_{i=1} (EC_{it} \times ECM_{ipmt}) + TEP_{pmt} + \sum_{e \in m} UBDP_{pemt} + \sum_{l \in m} LP_{plmt}
 \end{aligned}$$

Where:

EFC_{gt}	= the Fixed Charges payable in respect of months (or part months) during Regulatory Year (t) by persons in Charging Group (g) in respect of Enrolled Smart Metering Systems for both Non-Domestic Premises and Domestic Premises, calculated in accordance with Section K6;
$ADSMS_{pgmt}$	= the amount described as such in Section K6.7;
$ANSMS_{pgrmt}$	= the amount described as such in Section K6.7;
CHC_{ght}	= the Fixed CH Charge payable in respect of months (or part months) during Regulatory Year (t) by persons in CH Charging Group (g), for HAN Variant (h) in respect of Smart Metering Systems for both Non- Domestic Premises and Domestic Premises;
$ANCH_{ghrt}$	= the amount described in Section K6A.6;
$ADCH_{ght}$	= the amount described in Section K6A.6;
$DAHFC_{gt}$	= the Domestic Fixed Alt HAN Charge payable in respect of months (or part months) during Regulatory Year (t) by persons in Alt HAN Charging Group (g) in respect of Enrolled Smart Metering Systems for Domestic Premises calculated in accordance with Section K6B;

- $NAHFC_{gt}$ = the Non-Domestic Fixed Alt HAN Charge payable in respect of months (or part months) during Regulatory Year (t) by persons in Alt HAN Charging Group (g) in respect of Enrolled Smart Metering Systems for Non-Domestic Premises calculated in accordance with Section K6B;
- EC_{it} = the Explicit Charge for an Explicit Charging Metric (i) and a Regulatory Year (t);
- ECM_{ipmt} = the Explicit Charging Metrics incurred by a Party (p) during the Charging Period for that month (m) in a Regulatory Year (t);
- TEP_{pmt} = the total amount payable by a Party (p) in respect of Elective Charges and a month (m) in a Regulatory Year (t);
- $UBDP_{pemt}$ = the Unrecovered Bad Debt Payment in respect of a month (m) in a Regulatory Year (t) and each Event of Default (e), as calculated in accordance with Section K9;
- LP_{plmt} : = the Liability Payment in respect of a month (m) in a Regulatory Year (t) and each Liability Event (l), as calculated in accordance with Section K9.

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MP275 ‘Section K changes to support 4G Communications Hubs rollout’

Annex B

Refinement Consultation responses

About this document

This document contains the full collated responses received to the MP275 Refinement Consultation.

Question 1: Do you agree that the solution put forward will effectively resolve the identified issue?

Question 1				
Respondent	Category	Response	Rationale	SECAS Response
British Gas	Large Supplier	Yes	We agree that the unitary charge reduces commercial risk of customer churn for energy suppliers and therefore limiting escalating costs of the 4G rollout. We also agree with the need for the solution to include the CH returned but not redeployed charge. However, DCC must commit to being transparent about the changes in CH fixed and CH explicit charges (i.e. Stock Level and CH Returned charges). We would expect DCC to provide an explanation of CH charging variances in its Quarterly Finance Forums and update the QFF's Terms of Reference now as a sign of commitment to provide the variances.	DCC Response: During RY24/25 DCC has sought to provide more detailed information supporting CH costs and future charges at the Quarterly Finance Forums (QFF). DCC welcomes the opportunity to reflect on Supplier feedback and is open to reviewing the information shared at the QFF. DCC is happy to hold bi-lateral meetings with Suppliers to review how the recently extended information now provided meets customer needs.
EDF	Large Supplier	Yes	Recognise the advantage for a unitary comms hub charge to ensure the costs of the 4G Dual Band comms hubs are appropriate to Suppliers and not a disincentive to roll out 4G. Additionally, we recognise and agree with removal of the comms hub returns charge. This is important so that Suppliers carrying out the replacements would not be	DCC response: DCC notes the EDF response which relates to on-going review of the 4G Financing Outlined Business Case (OBC). A separate briefing slide (which will be shared with the Working Group) is prepared to consider the points raised as

Question 1				
Respondent	Category	Response	Rationale	SECAS Response
			charged immediately for the outstanding finance on the 2/3G CH. This would lead suppliers to hold off returning them until the costs reduced. However, we fundamentally disagree with the outcome that proposes DCC funds the entire cost of 4G comms hubs and charges for it within the regulatory year, whilst paying off remaining finance charges on 3G removed hubs. Even if the overall cost to the industry is cheaper than the finance alternative, we calculate that the additional charges could cost EDF alone approximately £6M per year in additional comms hubs charges, for at least the first 3 years. This cost would have to be passed through to customer as additional standing charge with the Standard Variable Tariff. It is still not clear whether the Price Cap calculations for regulatory Year 2025/26 will allow these additional costs to be recovered. We suggest that the financed solution be reconsidered as a better option that spreads the huge impact over a 10 to 15 year period. This would impact the cost to customers in the early years of 4G replacements. We appreciate that the DCC has delivered what was asked of it; the most efficient overall cost. But as the details and impacts have taken so long to be published,	they are not directly linked to MP275 which as DCC has stated is required irrespective of whether the OBC determines a Funding or Financing route for 4G.

Question 1				
Respondent	Category	Response	Rationale	SECAS Response
			we would find it immensely difficult to budget for additional costs in the early years.	
E.ON	Large Supplier	Yes	The proposed solution removes the disincentives for suppliers in the early years of 4G rollout.	
Octopus	Large Supplier	Insufficient information to make a recommendation	As stated by the working group there is more information required to understand the cost impact at both a supplier level and at an industry level. It is necessary to see scenarios that show the possible levels of cost volatility and the size of socialised costs.	DCC response: DCC notes the Octopus response which relates to on-going review of the 4G Financing OBC. A separate briefing slide (which will be shared with the Working Group) is prepared to consider the points raised as they are not directly linked to MP275 which as DCC has stated is required irrespective of whether the OBC determines a Funding or Financing route for 4G.
Scottish Power	Large Supplier	Yes	Whether or not the Unitary Charge genuinely offers the cheapest option, we agree that an ill-judged recovery of the costs of 2G/3G early replacements could manifest in a disincentive to roll out 4G: specifically, through the risk of a 'switching penalty' on the losing supplier on CoS. We accept, then, that the approach to the recovery of the outstanding value of the 2G/3G hubs, as proposed here, would obviate that risk.	DCC response: DCC note the question raised with regards to a comparison of the proposed treatment of the 4G roll out compared to a product recall/technology refresh and will work with SECAS to provide a response.

Question 1				
Respondent	Category	Response	Rationale	SECAS Response
			Nevertheless, we also note the following text from Section 3 of the consultation document: <i>'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.'</i> We have long been aware of the 'technology refresh' clause in the SEC, but have never understood it to be qualified in this way. Indeed, if it were the intent when drafting this section that such refreshed Comms Hubs had to be capable of being redeployed, then we would have expected that to be clearly stated; and yet it is not. We raised this point with Government, in 2023, but never received any real explanation as to why the text in the Code was seemingly being ignored in the context of 4G. If this might be regarded as such an explanation, it is certainly not one with which we agree. It seems quite unlikely that the DCC was ever expected to face such a wholesale refresh as with 4G, and we recognise the scale of the challenge if it was held to account for 'all of the reasonable costs and expenses incurred' by Users pursuant to a technology refresh, as	

Question 1				
Respondent	Category	Response	Rationale	SECAS Response
			the Code suggests it should. Nevertheless, if we are to permit the DCC to abrogate this responsibility, then perhaps it is right that it also relinquishes any further role in the provision of Comms Hubs. As such, our support for this modification is qualified in that it should not be construed in any way as support for the wider plans set out in the DCC's draft OBC. This is because we do not consider that our preference, which was that each of the MAPs also be allowed to assume the role of CHAPs for their assets, was ever properly explored by the DCC in its OBC analysis and consultation	
Utilita	Large Supplier	Yes	These changes serve to mitigate potential financial disincentives in the early stages of the 4G rollout that may delay the start of these activities and risk the rollout being completed ahead of the 2G/3G services being sunset. The introduction of a single charge for Comms Hub fixed and stock level charges should provide a smoothing factor between 2/3G hubs and the new 4G hubs, potentially avoiding a situation wherein 4G installs are deprioritised due to excessive ongoing costs. Changing the way that outstanding costs of Comms Hubs exchanged as part of a 4G swap out are charged away from the Comms Hub Returned Not Redeployed	DCC response DCC notes the response from Utilita and will continue to work with customers through its Quarterly Finance forum to share the future years assumptions and outcome of costs versus forecasts.

Question 1				
Respondent	Category	Response	Rationale	SECAS Response
			(CHNR) explicit charge and being factored into the CH Fixed Charge prevents upfront costs being paid, however, could lead to increased volatility in supplier costs as this charge changes year to year. As part of this modification, this charge will partially be determined by a forecast of 2/3G to 4G CH exchanges to take place in the coming 12 months. We therefore feel it vital that industry have confidence in the DCCs forecasting of these exchange volumes as this will directly impact the level and volatility of this charge should this modification be implemented. It is also critical that Ofgem remain consciously aware of how these costs are recoverable through the Price Cap, and that any corrections to the forecast are reflected in the Smart Metering Net Cost Change (SMNCC) portion of the cap (or the relevant element that replaces the SMNCC as necessary) as swiftly as possible. This further reinforces the need for accurate forecasts on the DCCs part and engagement with the price cap update process	

Question 2: Do you agree that the legal text will deliver MP275?

Question 2				
Respondent	Category	Response	Rationale	SECAS Response
British Gas	Large Supplier	No	The legal text in K7.5(p) needs to be made clearer, and in particular needs to include that the scope is only for SMETS2 2G or 3G communications hubs. The legal text also needs to specify that there is no future CH returned not redeployed charge for 4G CHs that are returned damaged etc., as there will be no finance left to pay.	DCC highlight that there will be a CH Returned not Redeployed (CHNR) charge for 4G CH as there are operational costs to cover through this charge in a 4G Funding scenario.
EDF	Large Supplier	Yes	The legal text appears to deliver the required intent of the change	
E.ON	Large Supplier	Yes	The legal text removes references to HAN variants in the relevant places. 2G CH and 3G CH are defined in the legal text – for completion, should 4G CH also be defined?	DCC agree that this definition should be added to the Section K definitions.
Octopus	Large Supplier	Yes	It will deliver the proposed MP275 but this may lead to non-satisfactory outcomes.	
Scottish Power	Large Supplier	TBC	We have not seen the Section A changes to the Legal Text at this point. We agree that the proposed Section K changes to the Legal Text would deliver the proposal, separate from our views on the proposal that we have set out in this response.	Unitary Charge definition in SEC Section A will be added.

Question 2				
Respondent	Category	Response	Rationale	SECAS Response
Utilita	Large Supplier	N/A	No legal text has been provided.	SECAS acknowledge the legal text was not included in the original files for the Refinement Consultation. This was included at a later date during the Refinement Consultation and added to the Modification's webpage.

Question 3: Do you agree with the proposed implementation approach?

Question 3				
Respondent	Category	Response	Rationale	SECAS Response
British Gas	Large Supplier	Yes	We believe this is a relatively simple change to the charging methodology that reduces commercial risk to energy suppliers.	
EDF	Large Supplier	Yes	We recognise the urgency of the modification to enable the changes in charging to be made for the January 2025 Charging Statement.	
E.ON	Large Supplier	Yes	Given the Charging Objectives, the implementation appears sensible.	
Octopus	Large Supplier	Insufficient information to make a recommendation.	As stated by the working group there is more information required to understand the cost impact at both a supplier level and at an industry level. It is necessary to see scenarios that show the possible levels of cost volatility and the size of socialised costs.	DCC response. DCC are responding to the working group feedback as part of a wider SEC Panel response.
Scottish Power	Large Supplier	No	Whilst we do agree that a Unitary Charge set in the manner defined will give a pricing signal that will aid in the early rollout of 4G, we do not agree with the ownership model proposed in the OBC. As outlined in our response to Question 1, we do believe these need to be considered jointly and as such we suggest that whilst the ownership issue remains outstanding, the 4G	This was noted during the OBC review process.

Question 3				
Respondent	Category	Response	Rationale	SECAS Response
			programme is paused once IPV has completed, to allow the full review of the ongoing strategy to be completed.	
Utilita	Large Supplier	Yes	Given the urgent nature of this modification, the proposed approach is sensible.	

Question 4: Will there be any impact on your organisation to implement MP275?

Question 4				
Respondent	Category	Response	Rationale	SECAS Response
British Gas	Large Supplier	Yes	Due to DCC not financing the 4G CHs we will see a large increase in charges payable to DCC. However, this SEC mod is not concerned with that decision. The DCC will need to improve its transparency in the movement of CH prices between quarters and year on year and give indications throughout the Regulatory Year of potential over / under recovery of CH related costs at the QFF. We need the DCC to explain the movements to energy suppliers to inform our own forecasts and senior management.	DCC Response: During RY24/25 DCC has sought to provide more detailed information supporting CH costs and future charges. DCC welcomes the opportunity to reflect on Supplier feedback and is open to reviewing the information shared at the QFF. DCC is happy to hold bi-lateral meeting with Suppliers to review the extended information provided looking at movements in future years charges and key assumptions.
EDF	Large Supplier	Yes	We do not envisage any system changes as a consequence of this change, However, the implications of 4G comms hubs charging actually have a considerable change on overall costs that need to be pass through to customers. Hence the impact to customers needs to be fully recognised and recoverable through the price cap.	
E.ON	Large Supplier	Yes	Further ongoing scrutiny, especially around Fixed Charges for removed 2G/3G CHs, will be required for DCC charges.	

Question 4				
Respondent	Category	Response	Rationale	SECAS Response
Octopus	Large Supplier	Yes	Our approach to 4G rollout / exchange will need to be adapted to reflect the changes to charges caused by MP275 or alternatives as finally decided.	
Scottish Power	Large Supplier	Yes	The full impact is still to be determined.	
Utilita	Large Supplier	No	The onus of implementing this modification lies with the DCC, so there would be no action required by us to implement.	

Question 5: Will your organisation incur any costs in implementing MP275?

Question 5			
Respondent	Category	Response	Rationale
British Gas	Large Supplier	No	-
EDF	Large Supplier	Less than £100k	Not directly through implementation
E.ON	Large Supplier	No costs	-
Octopus	Large Supplier	Probably over £1m	We would expect to change our rollout/exchange projections in order to minimise costs and maximise workforce efficiencies and customer experience benefits. This will lead to some cost savings and some cost increases. It is therefore not possible to quantify the overall impact. It is, however, likely that the socialised industry costs of early termination of 2/3G CH financing will cause Octopus to pay substantial indirect DCC costs.
Scottish Power	Large Supplier	TBC	The budgetary impact of the MOD is yet to be assessed.
Utilita	Large Supplier	~£110k monthly	While there is no cost to implement the modification itself, the changes to the way Comms Hub charges are calculated would result in changing costs. Therefore, we have calculated the difference between existing single\ dual band rate and the proposed unitary charge outlined in the modification report, with the assumption that our entire estate has been upgraded to SMETS2 installs. This has resulted in the quoted monthly figure included here. For the avoidance of doubt, we have assumed (based on the modification report) that all Comms Hubs will be charged at the new unitary rate regardless of region or communication variant – for example Long Range Radio hubs in CSP North.

Question 6: How long from the point of approval would your organisation need to implement MP275?

Question 6			
Respondent	Category	Response	Rationale
British Gas	Large Supplier	N/A	-
EDF	Large Supplier	No time	We support the change and agree that the changes need to be made before the January DCC charging statement. This will allow the charges to be identified and included within the April 2025 Price Cap discussions.
E.ON	Large Supplier	N/A	-
Octopus	Large Supplier	A few weeks.	We would need to remodel our current proposed rollout profile to minimise costs and maximise workforce efficiencies and customer experience benefits.
Scottish Power	Large Supplier	TBC	The requisite time for implementation depends on the details to be provided.
Utilita	Large Supplier	No lead time	The onus of implementing this modification lies with the DCC, so there would be no lead time required by us to implement.

Question 7: Do you believe that MP275 would better facilitate the General SEC Objectives?

Question 7					
Respondent	Category	Response	SEC Objective(s)	Rationale	SECAS Response
British Gas	Large Supplier	Yes	(a) ¹ , (b) ² , (d) ³ , (g) ⁴	-	
EDF	Large Supplier	-	(g)		
E.ON	Large Supplier	Yes	(a), (g)		
Octopus	Large Supplier	-	-	Until we are clearer about the level of socialised costs and potential cost volatility we are not able to say whether the adoption (or not) of MP275 materially impacts these questions.	DCC response. DCC are responding to the working group feedback as part of a wider SEC Panel response.
Scottish Power	Large Supplier	Yes	(a)	We believe that the Unitary Charge set in the manner defined in this MOD will send the right pricing signal to enable the 4G rollout to commence. However, we do not believe the wider SEC Objectives can be assessed without a complete review of the	

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

² enable the DCC to comply at all times with the General Objectives of the DCC (as defined in the DCC Licence), and to efficiently discharge the other obligations imposed upon it by the DCC Licence

³ facilitate effective competition between persons engaged in, or in Commercial Activities connected with, the Supply of Energy

⁴ facilitate the efficient and transparent administration and implementation of this Code

Question 7					
Respondent	Category	Response	SEC Objective(s)	Rationale	SECAS Response
				communications technology strategy. Whilst there may be some efficiencies in the short term covered in (a) above, we do not believe potential negative impacts in the medium to longer term have been given sufficient consideration. These negative impacts may manifest themselves in (d) and (e) cited above and deserve proper consideration that will only be possible when that full review has been allowed to complete. See also our responses to Questions 1 and 3.	
Utilita	Large Supplier	Yes	(a)	This modification mitigates potential blockers at the beginning of the upcoming 4G rollout, thereby facilitating General SEC Objective (a). Question 8 Do you believe there will be any impacts on or benefits to consumers if MP275 i	

Question 8: Do you believe there will be any impacts on or benefits to consumers if MP275 is implemented?

Question 8				
Respondent	Category	Response	Rationale	SECAS Response
British Gas	Large Supplier	Yes	The main impact on consumers will be positive, as the proposed charging framework provides a better commercial 4G model. MP275 would also stop any uncompetitive behaviour linked to the higher “value” of a customer with a 4G hub already installed, vs a customer that is still on 2G/3G.	
EDF	Large Supplier	Yes	As noted, the DCC decision to fund 4G comms hub charges	DCC Response: This is a statement with regards to the Funding of Financing of CH to be determined by the 4G OBC/FBC rather than impacted by the MP275 proposals which are needed irrespective of Funding or Financing decision as noted in the Mod.
E.ON	Large Supplier	No	-	
Octopus	Large Supplier	Yes	The level of socialised industry costs and potential cost volatility under different rollout/exchange profiles may lead to increased consumer costs. If these costs are modest then the net value to consumers may be justifiable	
Scottish Power	Large Supplier	Yes	See our response above. We believe the long-term impact on customers has not been given sufficient	DCC Response:

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Question 8				
Respondent	Category	Response	Rationale	SECAS Response
			consideration and, as such, the full review of the communications technology strategy should be allowed to complete.	DCC is working with DESNZ on understanding the detailed impacts on consumers of the 4G OBC/FBC decision. This will be shared with Panel to close out the questions posed when Panel reviewed the 4G Financing OBC.
Utilita	Large Supplier	No	There will be no direct impacts on consumers from the modification.	

Question 9: Noting the costs and benefits of this modification, do you believe MP275 should be approved?

Question 9				
Respondent	Category	Response	Rationale	SECAS Response
British Gas	Large Supplier	Yes	Zero to low costs vs risk mitigation benefit.	
EDF	Large Supplier	Yes	N/A	
E.ON	Large Supplier	Yes	In the absence of credible alternatives, this modification should proceed.	
Octopus	Large Supplier	Insufficient information to make a recommendation.	As stated by the working group there is more information required to understand the cost impact at both a supplier level and at an industry level. It is necessary to see scenarios that show the possible levels of cost volatility and the size of socialised costs.	DCC response: DCC is working on additional analysis which will be shared with the Working Group considering cost volatility and Socialisation of costs.
Scottish Power	Large Supplier	No	We do not feel the MOD should be approved at this point in time, whilst there are wider questions yet to be settled around the potential long-term negative impacts to the customer. See also our further responses above.	DCC Response: As noted above DCC is working with DESNZ on understanding the detailed impacts on consumers of the 4G OBC/FBC decision. This will be shared with Panel to close out the questions posed when Panel reviewed the 4G Financing OBC.

Question 9				
Respondent	Category	Response	Rationale	SECAS Response
Utilita	Large Supplier	Yes	This modification will introduce mitigations to alleviate existing potential financial disincentives that may prevent the 4G rollout from beginning in volume and completing ahead of the 2/3G services being sunset.	

Question 10: Please provide any further comments you may have.

Question 10			
Respondent	Category	Comments	SECAS Response
British Gas	Large Supplier	We agree with urgency of this modification – in particular that the decision needs to be made on MP275 in time for inclusion in the April 2025 price cap calculations. However, we are not clear what happens if there is a delay to the start of the 4G roll out – eg if it were delayed 6 months. What would happen to the CH charges during this time, particularly if their higher cost was embedded in the price cap? There are mechanisms for the DCC to repay any excess funding back to Suppliers, but this may be complicated. Can this be discussed at the December working group? DCC must also update its QFF ToR to include transparency of CH price and charge movements. Finally, whilst we recognise all the work that has gone on behind the scene on this modification, we wanted to flag that it has been challenging to obtain all of the appropriate inputs, due to restrictions on information sharing, specifically due to the MP275 Teach-In session slides having retrospectively been labelled 'RED', and hence un-shareable with other (limited) key colleagues who had not attended the Teach In Session. We appreciate the additional information that has now been included in the updated 19th November modifications report. However, it is important that this situation is not repeated in any future consultation	DCC response: It is noted that there is a risk of higher than required DCC costs/charges reflected in the price cap if there is a delay to the 4G Programme. DCC is progressing with the planned programme activity on the basis that 4G roll-out is currently on target. If DCC over-recovers costs these will be repaid in line with the current Ofgem arrangements. In line with DCC's response to Question1, the DCC will work with QFF attendees to review the quarterly content related to CH costs and charges.
EDF	Large Supplier	N/A	

Question 10			
Respondent	Category	Comments	SECAS Response
E.ON	Large Supplier	We would appreciate clarity around the CHRNR charge for 2-3G CHs that have never been installed on a customer premise (i.e. superfluous 2-3G CH stock that has been ordered by a Supplier as contingency stock to mitigate 4G program delays).	DCC response: As included within the modification overview, a CHRNR charge is planned to be levied for 2/3G CH that have never been installed on consumer premises.
Octopus	Large Supplier	N/A	
Scottish Power	Large Supplier	We have no further comments to make at this stage.	
Utilita	Large Supplier	Whilst supportive of this modification, there are some concerns around how the new costs will be calculated, as both the unitary charge and change to CHRNR impact supplier costs regardless of whether they have begun 4G swap out activities. Particularly the forecasting of 2/3G to 4G swap outs has the potential to increase volatility of costs as this is based on the number of 4G CHs ordered - some of which will be to build stock and not necessarily installed right away, but these will still increase the CH Fixed Charge as if they were to be installed. This charge will also lead to cross-subsidisation of other suppliers installation activities as the charge is a single rate across industry. It would also be beneficial if the DCC could share the break down of the CH Fixed Charge as it is calculated so that there is transparency around how much of this charge is based on CHs on the wall vs the on going recovery of financing costs of replaced 2/3G CHs	DCC Response: DCC has shared the profile of it 2/3G and 4G forecasted profile and will continue to track this and share updates at its Quarterly Finance Forums. DCC has shared the split of 2/3G CH costs and 4G CH costs that make up the CH Fixed charge across the forward-looking charges period that DCC reports on. DCC will continue to report updated splits at the Quarterly Finance Forums.