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Energy Security  
& Net Zero

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The Authority (Ofgem), the SEC Panel, SEC Parties  
and other interested parties

17 January 2025

Dear Colleague,

**SMART METERING IMPLEMENTATION PROGRAMME: CONSULTATION ON CHANGES TO THE SEC TO PROVIDE FOR AN OPTION THAT WOULD ALLOW SHORT-NOTICE ORDERING OF 2G/3G COMMUNICATIONS HUBS**

The Department for Energy Security & Net Zero (DESNZ) is proposing changes to the Smart Energy Code (SEC), specifically the Network Evolution Transition and Migration Approach Document (NETMAD) (Appendix AU), in order to introduce an option that would, if exercised, support the ordering of 2G/3G Communications Hubs at short notice.

The purpose of introducing the option is to mitigate the risk that, after the deployment of 4G Communications Hubs (4G CH) commences at scale (planned from July 2025) and despite extensive testing, an issue could materialise that requires energy suppliers to reduce the pace of / stop deployment of 4G CHs.

Our understanding is that most energy suppliers plan to transition to 4G CH before the end of 2025. As a consequence, we believe that suppliers would not have stock of, or the ability to order quickly enough, further 2G/3G CHs to maintain the smart meter rollout in the event that the risk came to fruition.

In the short/medium term this would leave demand for smart metering left unmet with consumers missing out and/or having to wait longer for smart metering and potentially material impacts to the Smart Metering Implementation Programme's benefits case. In the longer-term this could risk government's 2030 clean power plan. It would also have potentially adverse consequences for individuals and organisations carrying out smart metering installations.

The background to the proposals and an explanation of how they would work is set out in the consultation document in Annex 1 to this letter. SEC drafting changes to give effect to it are included in Annex 2.

Views and associated reasons should be submitted to [smartmetering@energysecurity.gov.uk](mailto:smartmetering@energysecurity.gov.uk) by 17:00 on 21 February 2025.

Yours sincerely,

**James Cosgrove**  
Deputy Director  
Smart Metering Implementation Programme

(An official of the Department for Energy Security & Net Zero authorised to act on behalf of the Secretary of State).

Annexes:

Annex 1 – Consultation on changes to the SEC to provide for an option that would allow short-notice ordering of 2G/3G Communications Hubs

Annex 2 – Worked Examples

Annex 3 –Draft SEC changes.

# **ANNEX1: CONSULTATION ON CHANGES TO THE SEC TO PROVIDE FOR AN OPTION THAT WOULD ALLOW SHORT-NOTICE ORDERING OF 2G/3G COMMUNICATIONS HUBS**

## **1. Background**

### ***Forecasting and Ordering of 2G/3G Communications Hubs***

- 1.1. The arrangements for forecasting and ordering Communications Hubs are set out in Section F5 of the of the Smart Energy Code (SEC). As part of this, Section F5.1A provides that there may be in place Temporary CH Ordering and Delivery Rules (TCHODR) which can vary the default arrangements set out elsewhere in Section F.
- 1.2. Section F5.10 requires<sup>1</sup> CH Orders in relation to a Delivery Month to be no less than 80%, and no more than 120% of the forecast amount of CHs included for that Delivery Month in the Communications Hub Forecast submitted by that Party in the 12th month prior to the start of the relevant Delivery Month.
- 1.3. Following consultation and SEC Panel approval, the DCC has recently made changes to the TCHODR insofar as it applies to ordering and delivery of 2G/3G CHs in the Central and South Regions<sup>2</sup>. The effect of the changes in the TCHODR is to shorten this 12-month advance timescale to 10 months. We understand that these arrangements will persist through to June 2026.

### ***4G CHs***

- 1.4. The 4G CH and Networks (4G CH&N) programme is currently operating in the Initial Pallet Validation (IPV) phase during which a limited number of 4G Communications Hubs (4G CHs) are being made available and installed in consumers' premises. The purpose of the IPV phase is to prove the DCC's 4G CH&N capability in the live environment and inform the decision to move to mass manufacture and availability of 4G CHs, due to be made on 7 April 2025.

## **2. The risk**

- 2.1. Despite the IPV phase and extensive testing, there is a risk that once 4G CH deployment begins at scale, an issue could materialise that requires energy suppliers to reduce the pace of / stop deployment of the 4G CH.
- 2.2. Our understanding is that most energy suppliers plan to transition to 4G only installs before the end of 2025. As a consequence we believe that energy suppliers and other installing parties would not have stock of, or the ability to order quickly enough, further 2G/3G CHs to maintain the smart meter rollout in the event that the risk came to fruition.
- 2.3. In the short/medium term this would leave demand for smart metering left unmet with consumers missing out and/or having to wait longer for smart metering and potentially material impacts to SMIP's benefits case and longer-term risk to government's 2030 clean

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<sup>1</sup> In practice, orders that do not meet the +/- 20% tolerance can be submitted but they may be adjusted by the DCC.

<sup>2</sup> <https://www.smartdcc.co.uk/consultations/conclusion-on-the-dcc-consultation-to-proposed-changes-to-the-temporary-communications-hub-ordering-and-delivery-rules/>

power plan. It would also have potentially adverse consequences for individuals and organisations carrying out Smart Meter installations.

### 3. Proposed Changes

- 3.1. In light of the above, DESNZ is proposing to make temporary enabling amendments to the SEC to require that the DCC provides an option for a short notice ordering capability from September 2025, such that an order for 2G/3G CHs could be placed by Parties at the beginning of September 2025 for delivery in December 2025 (this assumes use of air freight at cost for an expedited delivery date). The capability would be available for up to five sequential months at which point the order lead times in the TCHDOR would be sufficient to satisfy any further 2G/3G CH demand.
- 3.2. To deliver this new capability it is recognised that the DCC will need to place advanced orders for 'long lead time' 2G/3G CH components at a cost of roughly £22.8k to secure the capability to provide a full pallet of Single Band 2G/3G CHs for short notice ordering. The costs are subject to ongoing discussions between the DCC and its service providers and are dependent on the volume of components that are ordered. These component costs would be sunk, but assuming the DCC goes on to manufacture the CHs, this would result in an incremental cost of roughly £5.50/CH<sup>3</sup>. These costs would differ if fewer additional CH components were ordered. These costs would differ if fewer additional CH components were ordered. Additional costs of £2-£3/CH would also be incurred in air-freighting the CHs following manufacture.
- 3.3. Whether this capability is required will be determined following the IPV phase, at which point the level of risk will be better understood. If the department decides the risk requires further mitigation, it will make a determination at LSC2 (7 April 2025), by directing the DCC to make advance orders for components such that a specific number of 2G/3G CHs are additionally available for short notice ordering (or not if the risk is considered low). Each month thereafter a new quantity will be communicated until such a time as the probability of the risk is considered low enough when considered against the impact on the rollout.
- 3.4. These enabling changes should not be relied upon by energy suppliers to support their existing 4G CH transition plans. A decision as to whether or not to direct the DCC to make available 2G/3G CHs at short notice has not yet been taken. Energy suppliers should continue to use the existing ordering process to ensure they have sufficient stock of 2G/3G CHs to facilitate their current 4G CH transition plans and contingency stock to manage risk.
- 3.5. Energy suppliers have shared their plans for installation of the 4G CH with the DCC to the end of the IPV phase, scheduled for completion on 7 February 2025, providing that the exit criteria have been met. Installations beyond that date will continue to build confidence in the 4G CH and as such it is important that energy suppliers who have ordered 4G CH make every effort to install as many as possible prior to IPV exit and continue to deploy them at pace after this date to ensure the best possible understanding of risk by 7 April 2025. We would welcome views from energy suppliers regarding their plans for the deployment of any remaining 4G CH beyond IPV exit.
- 3.6. More specifically on the risk mitigation mechanism, the following is proposed:
  - In April 2025, DESNZ can direct the DCC to make available additional CHs at short notice in relation to the Delivery Month of December 2025. The direction would specify the

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<sup>3</sup> Note that the costs would ultimately be recovered through Fixed CH Charges and so spread over all relevant CHs, and not specifically those ordered at short notice.

number of additional CHs required to support the continuity of the smart meter rollout (80k - 140k) and would need to be given by the 15<sup>th</sup> of the relevant month.

- The direction would relate only to Single Band 2G/3G CHs.
- Where the DCC receives a direction, it would be obligated to take all reasonable steps to make the additional CHs available at short notice.
- In practice, this would involve DCC pre-ordering long lead-time components for CHs, and therefore would involve additional costs for DCC as explained above. If those components are unused the costs would ultimately still need to be recovered by the DCC via Fixed CH Charges.
- DESNZ would assess the risks associated with the 4G programme of work, and the additional costs associated with making available CHs at short notice when making the decision to direct the DCC.
- Orders placed under the existing ordering processes in the SEC would be unaffected, and these arrangements would be supplementary to that.
- SEC Parties would be permitted to submit Communications Hub Additional Short Notice Orders (CHASNO) in relation to the relevant Delivery Month. If the option were exercised these would need to be submitted by the start of the month that is three months before the start of the Delivery Month, so before 1 September 2025 for delivery in December 2025 (via air freight).
- We understand from the DCC that the minimum number of additional 2G/3G CHs that could be manufactured would be 80k/month and the maximum 140k/month. The additional CHs would not therefore be manufactured if the aggregate order was for fewer than 80k.
- The delivery date for the additional orders would be towards the middle of the relevant Delivery Month, but ultimately would be as agreed between DCC and those ordering the additional CHs.
- The CHs would be air freighted and subject to an Explicit Charge of £2-£3 per Communications Hub. The submission of an order for additional CHs would be taken as an agreement by the person submitting the order to pay this Explicit Charge.
- The following arrangements would apply to CHASNOs:
  - In advance of any additional orders being placed, DCC would notify SEC Parties of how many additional CHs are available in relation to any particular delivery month. This number might not be the same as the number that could, in principle, be manufactured from the parts that DCC had ordered in advance because it might be the case that there are spares left over from the previous month's ordering. DCC might also be feeding refurbished CHs into the process.
    - Where the aggregate number of CHs ordered in the CHASNOs from all Parties is fewer than the number that are available, each CHASNO would count as a valid CH Order for the month;
- If there are fewer available than ordered, the orders would be processed as follows:
- Orders from Affiliates would be treated as a single collective order.
- Orders exceeding the number of available CHs would be capped down to that number.
  - The orders of those parties who ordered more than 25% of the available CHs would be scaled down (in each case to a minimum of 25% of the number of available additional CHs) pro-rata until such time as aggregate number of CHs in the orders and adjusted orders is equal to the number of available CHs, or to a position where no adjusted order is for more than 25% of those available;
  - If, following the step above, the aggregate of the orders and adjusted orders still exceeds the number of additional CHs available, all orders and

adjusted orders would be scaled down pro-rata to match the number of additional available CHs.

- A further adjustment would be made such that all orders/adjusted orders were for a number of CHs that constituted an integer number of pallet layers.
- Worked examples of how this would operate are included in Annex 2.
- We have asked the DCC to hold a workshop with interested Parties during the consultation period to share more detail on the costs associated with this proposal which are subject to ongoing discussions with service providers.

#### **4. Consultation Questions, request for information and Next Steps**

- Q1 Do you agree with the proposal to modify the Network Evolution Transition and Migration Approach Document (NETMAD) to introduce the changes that provide the option to establish arrangements for short notice ordering of 2G/3G CHs?
- Q2 Do you have any comments on the more detailed implementation of the arrangements?
- Q3 Do you have any comments on the legal changes that are proposed to give effect to the arrangements (please see Annex 2)?
- Q4 Do you have any comments on the proposal to re-designate the modified Network Evolution Transition and Migration Approach Document on 31 March 2025 (or as soon as reasonably practicable within 1 month thereafter)?

#### **Request for Information**

If you are a Party who has ordered and received 4G CH for installation during IPV please share your plans for deployment beyond IPV exit, ideally indicating the number you expect to install by 7 April 2025 and then any further plans for deployment leading to 30 June 2025.

- 4.1. Responses are invited to the above questions and request for information. These, and associated reasons should be submitted to [smartmetering@energysecurity.gov.uk](mailto:smartmetering@energysecurity.gov.uk) by 17:00 on 21 February 2025.

## ANNEX 2 – WORKED EXAMPLES

The worked examples assume that there are 100,000 additional CHs available to be ordered (and does not make adjustment for a single pallet layer).

Scenario 1 capping to 25% and pro-rating for all

| CH Ordering Party | CHASNO Order   | Cap to 25%     | Number to be delivered | % of original order |
|-------------------|----------------|----------------|------------------------|---------------------|
| 1                 | 40,000         | 25,000         | 22,026                 | 55%                 |
| 2                 | 30,000         | 25,000         | 22,026                 | 73%                 |
| 3                 | 8,000          | 8,000          | 7,048                  | 88%                 |
| 4                 | 20,000         | 20,000         | 17,621                 | 88%                 |
| 5                 | 10,000         | 10,000         | 8,811                  | 88%                 |
| 6                 | 1,000          | 1,000          | 881                    | 88%                 |
| 7                 | 500            | 500            | 441                    | 88%                 |
| 8                 | 13,000         | 13,000         | 11,454                 | 88%                 |
| 9                 | 9,000          | 9,000          | 7,930                  | 88%                 |
| 10                | 2,000          | 2,000          | 1,762                  | 88%                 |
| <b>Total</b>      | <b>133,500</b> | <b>113,500</b> | <b>100,000</b>         |                     |

Scenario 2, pro-rating for those who have ordered more than 25% only

| CH Ordering Party | CHASNO Order   | Cap to 25%    | Number to be delivered | % of original order |
|-------------------|----------------|---------------|------------------------|---------------------|
| 1                 | 40,000         | 25,000        | 29,429                 | 74%                 |
| 2                 | 30,000         | 25,000        | 22,071                 | 74%                 |
| 3                 | 8,000          | 8,000         | 8,000                  | 100%                |
| 4                 | 10,000         | 10,000        | 10,000                 | 100%                |
| 5                 | 5,000          | 5,000         | 5,000                  | 100%                |
| 6                 | 1,000          | 1,000         | 1,000                  | 100%                |
| 7                 | 500            | 500           | 500                    | 100%                |
| 8                 | 13,000         | 13,000        | 13,000                 | 100%                |
| 9                 | 9,000          | 9,000         | 9,000                  | 100%                |
| 10                | 2,000          | 2,000         | 2,000                  | 100%                |
| <b>Total</b>      | <b>118,500</b> | <b>98,500</b> | <b>100,000</b>         |                     |

this shows we only need to pro-rate  
down those who ordered >25%

## **ANNEX 3 – DRAFT SEC CHANGES**

Published separately.