CH Returned not Redeployed

Problem Statement

Version: 0.1
Date: 02/10/2024
Proposer: Jonathon Helyer

Background

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

DCC is undertaking a review of DCC's Relevant Charging Methodology in-light of the 4G CH roll-out. This will ensure the methodology does not lead to perverse incentives for Suppliers and ensure all costs are recovered equitably across the DCC User base.

Relevant objectives of charging methodology:

Under SEC Section K 'Charging Methodology' clause K3.5, a key aspect is that DCC charges should be cost reflective.

What is the issue or problem identified?

Current charging methodology:

Where a DCC User returns a CH that cannot be redeployed or notifies DCC of a CH that is lost or destroyed, DCC will recover the cost of both processing that return, and 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).

Currently under SEC Section K7.6(i), when a CH is returned and not re-deployed 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 up-front charge. This charge is to ensure DCC can repay the lender under the agreed terms of the financing arrangement. This is currently calculated based on the average remaining principle of both 2/3G CH and Long Range Radio (LRR) CH financing arrangements.

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

It's important to note that the 'CH returned not redeployed' Explicit Charge was not originally envisioned or designed for a full-scale swap-out of all CHs in a region.

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

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

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

How does this relate to the SEC?

DCC would 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.

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

For the 2/3G CHs returned as part of the 4G CH deployment, the outstanding finance costs will be collected through the DCC Fixed CH Charge in line with DCC's proposed updated Unitary Charges.

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

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

If DCC did not make this adjustment, individual SEC Parties carrying out the replacements would be charged upfront costs of the outstanding finance on the 2/3G CH and the new cost of a 4G CH at swap-out. This may provide an incentive to delay the swap-out. In addition, DCC would be holding higher levels of cash which were not due for payment of outstanding financing costs until later Regulatory Years.

Proposed modifications

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

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