



Department for
Energy Security
& Net Zero

Department for Energy
Security & Net Zero
3-8 Whitehall Place
London
SW1A 2HP

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

30 April 2026

Dear Colleague,

Smart Metering Implementation Programme: consultation on minded to position for Project Activity 2 (Customer Engagement) of the DCC Baseline Margin Project Performance Adjustment Scheme for the 4G Communications Hubs and Networks Programme

By this letter and its annexes, the Department for Energy Security & Net Zero ('the Department') is today consulting on our minded to position for Project Activity 2 – Customer Engagement of the Baseline Margin Project Performance Adjustment (BMPPA) Scheme for the 4G Communications Hubs and Networks (CH&N) Programme.

The BMPPA Scheme for the 4G CH&N Programme was consulted on and subsequently made on 21 July 2023, with an updated notice under paragraphs 6.2, 6.3, 6.4, 6.6 and 6.8 of the BMPPA Scheme published on 23 May 2024.

The BMPPA Scheme comprises four "Project Activities" seeking to incentivise the Data Communications Company (DCC) in the following areas:

- Customer engagement in relation to the effective delivery of the 4G CH&N Programme (for Project Activities 1 and 2);
- The timely Live Service Criteria decision to enable the volume manufacture of 4G Communications Hubs (for Project Activity 3) and;
- The absence of issues with the DCC's 4G service (for Project Activity 4).

As set out in the timetable for Project Activity 2 within the notice under paragraphs 6.2, 6.3, 6.4, 6.6 and 6.8 of the Scheme, we are today consulting on our minded to position on the amount of margin the DCC should be permitted to retain in relation to Project Activity 2, and what this means in terms of the value of the Project Activity 2 Quality Factor. Stakeholders' responses to our consultation will serve as a 'right of reply' to our assessment and can include further evidence or examples of the DCC's performance that we should consider.

Yours faithfully,

James Cosgrove

Deputy Director Security & Infrastructure Delivery
Smart Metering Implementation Programme
(An official of the Department authorised to act on behalf of the Secretary of State)

Annex 1: Consultation document

Annex 2: DCC submission (separate document)

Annex 3: SEC Panel submission (separate document)

Annex 1: Consultation document

1) General information

Why we are consulting?

This consultation seeks stakeholders' views on the Department for Energy Security & Net Zero's minded to position for Project Activity 2 (Customer Engagement) of the Baseline Margin Project Performance Adjustment Scheme for DCC's 4G Communications Hubs and Networks Programme.

Timing

Responses to this consultation should be submitted by 5pm on 15 June 2026

Responding to the consultation

Your response will be most useful if it is framed in direct response to the questions posed, by reference to our numbering, though further comments and evidence are also welcome.

Responses should be submitted to: smartmetering@energysecurity.gov.uk

When responding, please state whether you are responding as an individual or representing the views of an organisation.

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please tell us but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our [privacy policy](#).

We will summarise all responses and publish this summary on the SEC website. The summary will include a list of organisations that responded, but not people's personal names, addresses or other contact details.

Territorial extent

This consultation applies to the gas and electricity markets in Great Britain. Responsibility for energy markets in Northern Ireland lies with the Northern Ireland Executive's Department for the Economy.

Quality assurance

This consultation has been carried out in accordance with the government's [consultation principles](#).

If you have any complaints about the way this consultation has been conducted, please email: bru@energysecurity.gov.uk

2) Background

Project Activity 2 of the 4G CH&N BMPPA Scheme

1. Under Part A of Appendix 2 to Condition 36 of the Data Communications Company (DCC) Licence, the DCC is permitted to apply for additional baseline margin (a “Relevant Adjustment”) under certain circumstances where there has been a variation to the nature of its mandatory business. Ofgem has confirmed that the DCC has applied for a Relevant Adjustment in relation to the internal costs it additionally incurred in delivering the 4G Communications Hubs and Networks (CH&N) Programme.
2. By default, any such additional baseline margin would be put at risk under the Operational Performance Regime administered by Ofgem. However, the DCC Licence also provides for baseline margins associated with projects to instead be put at risk under a Baseline Margin Project Performance Adjustment (BMPPA) Scheme made by the Secretary of State under Appendix 1 of Condition 38 of the DCC Licence.
3. On 21 July 2023, following consultation with industry, the Department for Energy Security & Net Zero (‘the Department’) made a BMPPA Scheme to incentivise the DCC’s delivery of the 4G CH&N Programme.
4. The BMPPA Scheme for the 4G CH&N Programme includes four categories of activities or “Project Activities” being incentivised under the Scheme. The second category “Project Activity 2” seeks to incentivise the DCC’s engagement with its customers over the period 1 April 2024 to 31 March 2025 in relation to the effective delivery of the 4G CH&N Programme and carries a DCC baseline margin at risk of £433k.
5. Under Project Activity 2 of the BMPPA Scheme and as per the notice under paragraphs 6.2, 6.3, 6.4, 6.6 and 6.8 of the Scheme published on 23 May 2024, the DCC and the Smart Energy Code (SEC) Panel are required to prepare a submission to the Department assessing the DCC’s customer engagement over the period 1 April 2024 to 31 March 2025. Once the submissions are received from the DCC and the SEC Panel, the Department is then expected to form a ‘minded to position’ as to what score should be awarded to the DCC under Project Activity 2, which in turn should determine the Project Activity 2 Quality Factor. The Project Activity 2 Quality Factor is a number between zero and one that represents the proportion of the baseline margin at risk under Project Activity 2 that the DCC is allowed to retain. This should consider submissions from the SEC Panel and the DCC and any other information the Department considers relevant. The Department must then consult on its minded to position.
6. On 31 July 2025, both the SEC Panel and the DCC submitted an assessment of the DCC’s performance under Project Activity 2 of the BMPPA Scheme.
7. The Department assessed the DCC and SEC Panel’s submissions and is now consulting upon its minded to position relating to the scores that should be awarded to the DCC under Project Activity 2 of the Scheme and to the Project Activity 2 Quality Factor.

Assessment process and scoring

8. As per the notice under paragraphs 6.2, 6.3, 6.4, 6.6 and 6.8 of the BMPPA Scheme published on 23 May 2024, the DCC's performance under Project Activity 2 of the BMPPA Scheme must be assessed using a set of assessment questions split between three different 'aspects' as set out in **Table 1** below. Each of the three aspects is associated with an 'aspect weighting' that represents its weight in the calculation of the overall score for Project Activity 2.
9. For Project Activity 2, the SEC Panel and the DCC assign each of the aspects a score of up to one decimal place and the scores awarded by the Department can be up to two decimal places, based on the Scoring Framework in **Table 2** below.
10. The overall score for Project Activity 2 is then determined by taking a weighted average of the scores assigned by the Department for each of the three aspects.

Table 1 – Aspects, assessment questions and aspect weightings for Project Activity 2

Aspects	Assessment questions	Aspect weightings
Timing and frequency of engagement	Has the DCC communicated and engaged with its customers at appropriate times to seek their views, allowed sufficient time for customers to provide feedback, and provided timely updates on its activities? (This includes providing general updates, reactive engagement, strategic engagement, and unplanned issues) Please provide your rationale.	25%
Quality of information provided by DCC	Has the DCC's communication and engagement approach with its customers been tailored to the relevant audience and timed appropriately which enabled the audience to understand the issues to act on, and allowed sufficient time for the audience to provide feedback appropriately? (This includes providing customers with clear information on costs, benefits and/or consequences of the decisions and on DCC's broader engagement) Please provide your rationale.	25%
Taking account of customer views	Has the DCC clearly explained how the views of its customers have informed its decision making, and where relevant, why DCC has decided not to incorporate these views? Please provide your rationale.	50%

Table 2 – Scoring Framework for Project Activity 2

Score	Description	Margin retained
3	Strong evidence that the DCC has met the required standard with minor areas for improvement – the DCC is performing to the expected standard.	100%
2	Evidence that the DCC meets the required standard with very few material areas of concern and/or some minor areas of concern.	66.67%
1	Evidence that the DCC meets the required standard but inconsistent with some material areas of concern.	33.33%
0	Limited evidence that the DCC has met the required standard with multiple material issues of concern.	0%

3) Department's minded to scores for Project Activity 2

Aspect 1: 'Timing and frequency of engagement'

Summary of scores

- **DCC score – 3**
- **SEC Panel score – 2**
- **Department's minded to score – 2.7**

Responses from the DCC and the SEC Panel

11. The DCC noted it regularly engaged with its customers throughout RY 2024/25 on five key areas:

Live Service Criteria (LSC)

- The DCC engaged its customers early to align on approach, criteria, and evidence. Updates to Sub-Committees were provided monthly. The DCC discussed the LSC process with SEC Panel Sub-Committee Chairs, outlining suggested methods, necessary criteria, evidence requirements, and decision timelines. The DCC also presented these plans to SECAS for SEC Panel endorsement and met monthly with Sub-Committee Chairs to ensure timely customer input and ongoing engagement.

Initial Pallet Validation (IPV)

- The DCC established the Initial Pallet Validation Working Group (IPV WG) to serve as a cooperative forum for timely and transparent discussion and resolution of issues during this phase. The approach and Terms of Reference were agreed by the Communications Transition Group (CTG) in June 2024, 6 months prior to IPV go-live providing sufficient time to understand the purpose of the group and to find suitable volunteers. The IPV WG met 10 times from July to November 2024 with monthly summaries provided to CTG to improve transparency and improve understanding.

4G Wide Area Network (WAN) coverage

- The DCC acknowledged that customers were not satisfied with 4G WAN coverage for IPV, missing the 99.25% target, and with issues being identified late. The risk of insufficient 4G WAN coverage had been tracked in monthly updates since before RY 2024/25. The DCC had planned to confirm the level of 4G WAN coverage in August 2024 after assurance work and drive tests. The DCC analysed results in August 2024 and only contacted customers after independent verification in September 2024 to ensure data accuracy.
- The DCC held an industry workshop on 15 October 2024 to explain the assurance process and options for IPV. After receiving customer feedback, they shared a proposed plan for increasing coverage to 99.25% at TABASC meetings in October and November 2024. Engagement through November 2024 to January 2025 focused on plans to improve coverage.
- The DCC believes engagement was as timely and frequent as possible, given the confirmation date of the issue.

Intimate Communications Hub Interface Specification (ICHIS)

- The DCC noted that it provided CTG with monthly updates on Radio Frequency (RF) noise testing during RY 2024/25, describing the procedures and anticipated outcomes. By June 2024, after the majority of tests were completed, the DCC informed CTG that meters affected by RF noise would not require replacement, reaffirming this conclusion in August 2024 after all testing was finalised.
- The DCC noted it gave regular updates to the Technical Architecture Business Analysis Sub-Committee (TABASC) from May to September 2024 on testing plans, potential impacts, and mitigation steps including the relation between WAN coverage and ICHIS. Once wider 4G WAN coverage analysis findings were known, a clear timetable was set with CTG and TABASC to inform customers. Final conclusions were shared in March 2025, and the proposed way forward was approved. Concurrently the timing of future ICHIS changes were being set out to CTG and TABASC so customers understood when their input would be required.

Regulatory change

- The DCC noted that, to enable the implementation of the 4G CH&N programme, a number of changes to provisions within the SEC and supporting documentation were required. Two key areas were:
 - the introduction of the Initial Pallet Validation Approach Document (IPVAD) and;
 - the Network Evolution Transition & Migration Approach Document (NETMAD).
 - These areas provided regulatory oversight and amendments to the Communications Hub Supporting Information (CHSI, required to support forecasting, ordering and delivery) and during RY 2024/25 the DCC noted they had issued five consultations in support of these.
12. The SEC Panel's response indicated that the DCC's engagement on CH&N delivery was viewed positively overall, highlighting candid briefings and openness from DCC programme managers about testing. The DCC provided timely, relevant content and responded to feedback by adjusting delivery as needed. Papers were shared in advance, allowing adequate review, and the DCC contributed meaningfully to CTG actions. Some issues were, however, reported with the timing and frequency of engagement. Specifically:

- The Panel noted that the 4G coverage shortfall was clearly disappointing and should have been identified proactively by the DCC.
- Parties were informed of the coverage issue at the November 2024 CTG meeting, shortly before the IPV stage was launched on 7 December 2024. It is unclear how long the DCC knew about the problem before notifying CTG. Although coverage was regularly discussed, the DCC gave no indication of concern and previously claimed confidence in meeting targets until the shortfall was announced.
- The Panel shared the view of the Security Sub-Committee (SSC) Chair that engagement on CH&N delivery declined after IPV go-live in Dec 2024 and suggested the DCC should implement follow-up activities like progress updates, lessons learned, and continued engagement, particularly given the SSC's major involvement.

Department's minded to position and rationale

13. After considering the comments, evidence, and scores from the DCC and the SEC Panel, the Department considers that the DCC has demonstrated consistent and well-timed engagement with customers throughout RY 2024/25, focusing on key areas including LSC, IPV, WAN coverage, ICHIS, and regulatory change. The DCC's proactive approach, such as establishing dedicated industry working groups and presenting regular updates to SEC Panel Sub-Committees, ensured customers were involved and informed at each stage, aligning with industry needs.
14. This approach was recognised by the SEC Panel, who commended the DCC for its openness, relevant and timely communications, and provision of advance information to support effective review. The DCC's structured engagement, including monthly updates and workshops, was seen as fostering transparency and enabling collaborative decision-making.
15. Concerns were raised about the DCC's engagement on 4G WAN coverage, especially regarding the quality of information provided. However, penalising the DCC for the timing of its engagement on 4G WAN coverage was deemed unjustifiable, as the DCC needed to complete an independent review before sharing results, which concluded in September 2024, with engagement starting in October 2024. Considering less material issues such as reduced engagement after IPV go-live and short-notice decisions for the SSC, a score of 2.7 was considered proportionate, reflecting strong performance overall with minor areas for improvement.

Aspect 2: 'Quality of information provided by DCC'

Summary of scores

- **DCC score – 2.5**
- **SEC Panel score – 2.3**
- **Department's minded to score – 2.3**

Responses from the DCC and the SEC Panel

16. The DCC noted that the LSC process was developed with close engagement of the SEC Sub-Committees. The DCC noted a key consideration when developing the approach was ensuring to focus on each group's remit and expertise. Specific comments included:
 - The IPV WG was established to discuss the detail of how the initial phase of the 4G Communications Hub (CH) rollout was progressing and to find timely resolution to any issues encountered.

- The IPV WG also provided technical information to other groups. For example, TABASC requested a presentation on a Severity 3 defect encountered as part of IPV. To meet the needs of TABASC, a more detailed technical set of information was provided to TABASC than had been presented to CTG.
 - The significance of 4G WAN coverage meant customers wanted to see as much information as soon as possible. This led to frustration that presentations in October and November 2024 did not include commercial and economic implications. Striking a balance between keeping customers up to date and ongoing commercial conversations that cannot be prejudiced, the DCC recognised that engagement on this topic could have been improved.
 - ICHIS updates were tailored for the audience with CTG receiving more general updates on progression of testing and potential impacts, whilst TABASC received further technical details on the model types used and related testing results.
 - Whilst the language within the regulatory documentation can often be complex and technical, the DCC sought to ensure the accompanying documentation provided a plain English explanation on the purpose of the consultation and any key messages customers may need. The DCC gave webinars to allow its customers to understand the changes being proposed and their potential impacts, and monthly updates to CTG to provide an overview of the progress in regulatory drafting, both of these mechanisms were tailored to the audience.
17. The SEC Panel noted in its response that overall, the DCC had provided clear and honest communication but there were issues with the quality of the DCC's engagement on 4G WAN coverage. Specific comments included:
- The Panel was of the view that communication was effective, with the DCC treating engagement and testing with the level of seriousness it deserved.
 - A response from a large supplier noted that the quality of information was generally good but noted an exception with the information provided relating to the 4G CH financing model. The respondent was of the view that the information presented on this subject was unstructured at times, and it was difficult to understand the DCC's preferred route.
 - The Panel noted that the DCC only identified the issues relating to 4G WAN coverage at a late stage (in October 2024), just prior to IPV go-live on 2 December 2024. They added that the DCC should have anticipated these challenges and proactively addressed them, and that it failed to exercise the necessary foresight and diligence in this instance.
 - The Panel shared the view of the TABASC Chair that the DCC gave confidence to industry throughout 2024 that their existing approach would meet the 4G WAN coverage target. Prior to the 4G coverage issue being communicated to TABASC, the group had regularly queried the DCC regarding how the required 4G WAN coverage would be achieved and whether alternative solutions might be necessary.
 - Knowing that their assurance work was due in August 2024, the level of confidence was considered disproportionate. Reactive solutions were all identified during the scoping phase in 2021-2022 but discounted by the DCC, meaning that these will likely increase costs significantly to retrospectively introduce.
 - The Panel shared the view of the CTG chair that, when the DCC presented the 4G WAN coverage shortfall to CTG in November 2024, it did not provide the cost implications of failing to provide the requisite 4G coverage.

Department's minded to position and rationale

18. The feedback highlighted several significant concerns regarding the DCC's communication and handling of the 4G WAN coverage issue. The information provided on the 4G CH financing model was deemed unstructured and unclear, making it difficult to understand the DCC's preferred approach.
19. The SEC Panel feedback highlighted that the DCC only recognised and addressed the coverage problems at a late stage, just before IPV go-live. The Department is of the opinion that the DCC failed to offer adequate justification for the cause of the coverage shortfall during October and November 2024, and when presenting the shortfall to CTG in November 2024, omitted details about the cost implications. It remains unclear how long the DCC was aware of the issue prior to notifying CTG, with previous communications indicating confidence in meeting coverage targets until the shortfall was announced.
20. These points were considered material concerns, alongside a few minor issues, leading to a minded to score of **2.3** in alignment with the SEC Panel's proposed score.

Aspect 3: 'Taking account of customer views'

Summary of scores

- **DCC score – 3**
- **SEC Panel score – 2.3**
- **Department's minded to score – 2.5**

Responses from the DCC and the SEC Panel

21. The DCC considered it had responded to customer views, highlighting the following evidence:
 - It responded to the SEC Operations Group feedback by replacing detailed monthly updates with concise, high-level summaries focused on operational risks and issues, which were positively received.
 - A key decision with the IPV WG led to earlier reporting on mesh swap candidates, addressing customer feedback.
 - The DCC recognised the importance of 4G WAN coverage to customers and involved them in decision-making; after a workshop in October 2024, the DCC opted for a targeted IPV approach in lower coverage areas to collect data, balancing customer preferences with operational assurance.
 - Following requests from TABASC and CTG in November 2024, the DCC included sites in the IPV phase regardless of whether they met ICHIS specified RF levels and presented related analysis to relevant groups.
 - After each consultation, CTG was provided with a summary of outcomes and next steps to ensure transparency with DCC customers.
22. The SEC Panel noted concerns around the extent the DCC responded to feedback. Specific points included:
 - Industry regularly expressed concern to the DCC on the level of 4G WAN coverage and the DCC did not adequately address these concerns.
 - The DCC initiated a programme to address the 4G WAN coverage issue and provided updates on the progress to fill the gap through 4G WAN coverage enhancement. Information has not been provided on a monthly basis, however, the information and presentations provided were of reasonable quality.

- The Panel shared the view of TAG that the DCC's engagement approach was notably proactive and well executed, reflecting a strong commitment to engaging with its customers and incorporating their views into the presentations.

Department's minded to position and rationale

23. After considering the comments, evidence and scores from the DCC and the SEC Panel, the Department recognises that the DCC did not adequately address concerns from industry regarding the level of 4G WAN coverage throughout 2024. Prior to the 4G coverage issue being communicated to TABASC, the group had regularly queried the DCC regarding how the required coverage would be achieved and whether alternative solutions might be necessary. The DCC provided assurances that the existing approach would suffice. The DCC did not offer adequate justification for the cause of the coverage shortfall despite regular concerns being raised by industry, and when presenting the shortfall to the CTG in November 2024, the DCC failed to provide details about the cost implications despite requests to do so.
24. This represents a material area of concern that justifies a penalty to the DCC's score, but not to the same extent as for Aspect 2 "Quality of information" considering the absence of any other material or minor areas of concern.
25. The Department has reached a minded to score of 2.5 as it is representative of a single material area of concern that has been identified with the way that the DCC took account of views from its customers.

4) Calculation of the Project Activity 2 Quality Factor

26. The Project Activity 2 Quality Factor is a percentage representing the extent to which, in the Department's view, the DCC has successfully engaged with its customers during the period 1 April 2024 to 31 March 2025 by reference to the aspects, aspect weightings, assessment questions and scoring framework in **Table 1** and **Table 2**.
27. Considering the Department's minded to score of 2.7, 2.3 and 2.5 respectively for Aspect 1, Aspect 2 and Aspect 3, the weighted average based on those minded to scores and the aspect weightings across all three aspects set out in **Table 1** has resulted in a Project Activity 2 Quality Factor of **0.833**.
28. This figure was obtained by multiplying the minded to score for each aspect with the aspect weighting factor, then by adding the three sub-totals together, and finally by dividing that sum by the maximum score of 3.
29. In practice, a Project Activity 2 Quality Factor of 0.833 means that the DCC is allowed to retain **83.3%** of its baseline margin that was placed at risk under Project Activity 2 of the BMPPA Scheme, resulting in the DCC losing **16.7%** or c.**£72k** of its baseline margin that was placed at risk under this Project Activity.

5) Consultation questions

Consultation questions	
1.	Do you agree with the Department's minded to score and rationale for Aspect 1?
2.	Do you agree with the Department's minded to score and rationale for Aspect 2?
3.	Do you agree with the Department's minded to score and rationale for Aspect 3?
4.	Do you have any other comments?