SEC
Smart Energy Code

This document is classified as **Clear** in accordance with the Panel Information Policy. Recipients can distribute this information to the world, there is no limit on disclosure. Information may be shared without restriction subject to copyright.

DP276

‘Communications Hubs returned not redeployed’

Modification Report

Version 0.1

7 October 2024

Corporate member of Plain English Campaign
Committed to clearer communication
592

About this document

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

Contents

Contact

If you have any questions on this modification, please contact:

Georgiana Severin

020 7770 6921

Georgiana.Severin@gemserv.com

1. Summary

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

Mobile Network Operators (MNOs) operating in the UK have confirmed that they do not intend to offer 2G and 3G mobile networks past 2033 at the latest. Smart Metering Equipment Technical Specifications 1 (SMETS1) smart meters in all regions of Great Britain operate on the 2G network. The current assumption made by the DCC is that all SMETS1 assets will need to be replaced with SMETS2 meters with their 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, the DCC consider that the majority of the meters in this region will have their associated 2G/3G CH exchanged for a 4G CH ahead of the 2G switch off date.

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

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

2. Issue

What are the current arrangements?

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

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

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

What is the issue?

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

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

As the cost of this charge is expected to reduce over time, this could drive 2/3G CH replacement activity to be delayed and could risk the ability of industry to complete the 4G roll-out ahead of the switch off date. In addition, this would also change the nature of which Party incurs this cost as it

would fall to the Supplier who conducted the activity. The same Supplier could then subsequently lose that consumer through churn.

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

What is the impact this is having?

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 the 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, the DCC would be holding higher levels of cash which were not due for payment of outstanding financing costs until later Regulatory Years (RY).

Impact on consumers

This modification will not have an impact on consumers. However, should a solution not be implemented, consumers may be affected as Charges would increase in the short term.

3. Assessment of the proposal

Areas for assessment

Proposed modifications

The 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 Supplier under the CH fixed charge in line with the outstanding term of the financing agreement.

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

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

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

Sub-Committee input

SECAS will engage the Chairs from the Operations Group (OPSG), the Technical Architecture and Business Architecture Sub-Committee (TABASC), the Security Sub-Committee (SSC), the Smart Metering Key Infrastructure Policy Management Authority (SMKI PMA), the Smart Metering Device Assurance Sub-Committee (SMDASC) and the 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

Appendix 1: Progression timetable

Timetable	
Event/Action	**Date**
Draft Proposal raised	7 Oct 2024
Presented to CSC for initial comment	15 Oct 2024

Timetable	
Event/Action	**Date**
CSC converts Draft Proposal to Modification Proposal	*15 Oct 2024*
Modification discussed with Working Group	*4 Dec 2024*
Refinement Consultation	*11 Dec 2024 – 8 Jan 2025*
Modification discussed with Working Group	*5 Feb 2025*
Modification Report approved by CSC	*18 Feb 2025*
Modification Report Consultation	*19 Feb – 12 Mar 2025*
Change Board Vote	*26 Mar 2025*
Authority decision (anticipated date)	*5 May 2025*

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**
CH	Communications Hub
CSC	Change Sub-Committee
DCC	Data Communications Company
LRR	Long-Range Radio
MNO	Mobile Network Operator
OPSG	Operations Group
RY	Regulatory Year
SEC	Smart Energy Code
SECAS	The Smart Energy Code Administrator and Secretariat
SMDASC	Smart Metering Device Assurance Sub-Committee
SMETS	Smart Metering Equipment Technical Specifications
SMKI PMA	Smart Metering Key Infrastructure Policy Management Authority
SSC	Security Sub-Committee
TABASC	Technical Architecture and Business Architecture Sub-Committee
TAG	Testing Advisory Group