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

### December 2024 Working Group – meeting summary

#### Attendees

| SEC Party Category | Working Group Members  | Representing        |
|--------------------|------------------------|---------------------|
| Large Suppliers    | Emma Johnson (EJ)      | British Gas         |
|                    | Julie Brown (JB)       | British Gas         |
|                    | Rochelle Harrison (RH) | British Gas         |
|                    | Sharon Armitage (SA)   | E.ON                |
|                    | Alex Hurcombe (AH)     | EDF                 |
|                    | Amy Cox (AC)           | EDF                 |
|                    | Francesca Scott (FS)   | EDF                 |
|                    | Joey Manners (JM)      | Octopus Energy      |
|                    | Ralph Baxter (RB)      | Octopus Energy      |
|                    | Emslie Law (EL)        | OVO                 |
|                    | Mahfuzar Rahman (MR)   | Scottish Power      |
|                    | Kevin Clark (KC)       | Utilita             |
| Small Suppliers    | Daniel Davies (DD)     | ESG Global          |
|                    | Steve Blackler         | E (Gas&Electricity) |
| Other SEC Parties  | Patricia Massey (PM)   | BEAMA               |
|                    | Beth Tatton (BT)       | Calisen Metering    |
|                    | Rob Heath (RHe)        | Calisen Metering    |
|                    | Martin Bell (MB)       | EUA                 |
|                    | Michael Snowden        | Secure              |
|                    | James Murphy (JM)      | Stark               |
|                    | Nik Wills (NK)         | Stark               |
| Network Parties    | Kirsty Maddock (KM)    | National Grid       |
|                    | Jamie Lowe (JL)        | Northern Powergrid  |
|                    | Alexander Matthew (AM) | SSEN                |
|                    | Shuba Khatun (SK)      | SSEN                |
| Ofgem              | Cristina Ullastre (CU) | Ofgem               |
|                    | Grace Royall (GR)      | Ofgem               |

| Other Participants                     |                                        |                                              |
|----------------------------------------|----------------------------------------|----------------------------------------------|
| DCC                                    |                                        |                                              |
| Bradley Baker (BB)                     | David Walsh (DW)                       | Joe Hehir (JH)                               |
| Jonathon Helyer (JHe)                  | Damien Johnson (DJ)                    |                                              |
| SECAS                                  |                                        |                                              |
| Simon Grimwood (SG)<br><i>WG Chair</i> | Abi Obadan<br><i>Meeting Secretary</i> | Georgie Severin (GSe)<br><i>Lead Analyst</i> |
| Ali Beard (AB)                         | Elizabeth Woods (EW)                   | Ben Giblin (BG)                              |
| Sophia Master (SMa)                    | Marc Rhodes (MRh)                      | Rainer Lischetzki (RL)                       |
| Chris Thompson (CTh)                   |                                        |                                              |

## Overview

The Smart Energy Code Administrator and Secretariat (SECAS) provided an overview of the issue identified, and a view of the Refinement Consultation responses.

## Background

- Currently, SEC Section K 'Charging Methodology' differentiates between Single Band and Dual Band Communications Hubs Charges. With the imminent rollout of 4G Communications Hubs, there are concerns that the disparity between these Charges may disincentivise Suppliers from installing 4G Communications Hubs in the early years of 4G deployment.
- Further, the Communications Hubs returned not redeployed Explicit Charge was not designed to account for a full-scale Communications Hubs swap-out. As such, the upfront cost currently incurred by Suppliers when exchanging a Communications Hub may lead to delays in 4G deployment, to avoid high upfront costs.

## Proposed Solution

The Proposed Solution would be looking at changes to SEC Section K 'Charging Methodology' and it would introduce a Unitary Charge for Communications Hubs. Additionally, it would make changes to the Communications Hubs returned not redeployed Explicit Charge, caveating that Communications Hubs exchanged as part of the 4G rollout would not incur an upfront Charge. The remaining financing costs would instead be reapportioned to the Communications Hubs Fixed Charges.

## Refinement Consultation responses

The Refinement Consultation received six responses. Of the six respondents, four agreed the modification should be implemented and agreed with the implementation approach. One respondent believed the modification should not be implemented as further work on the Outline Business Case (OBC) would be required, and as such the solution may change. One respondent highlighted that further information on volatility of costs should be provided before a decision is made. However, they did not disapprove of the modification progressing. Two respondents believed that the legal text needed further work before the solution is implemented to make sure the text is as clear as possible.

## Issues Group Discussion

The DCC (DW) questioned whether the costs respondents quoted as part of the Refinement Consultation to implement the modification would be to industry or per individual organisation. SECAS (GS) confirmed the figures quoted by respondents – between £100,000 and £1m – would be individual. A member of the Working Group (EJ) highlighted that the costs appear to be higher than anticipated and questioned what would drive the costs to be this high. SECAS (GS) confirmed that the costs would not be to implement the solution, but consequential changes to business models that may result from this modification being implemented.

Another member of the Working Group (RB) emphasised their reinforcement of the argument that final costs have yet to be determined. In their view, this remains outstanding and they expressed their concern that the information will not be provided to Panel until January 2025. They went on to question the socialised costs and the uncertainty regarding potential productivity, which this modification is not providing any clarity on. The Working Group member concluded that without clarity on the costs, the impact of this modification remains unknown. The DCC (JHe) noted the concerns raised by the Working Group member and explained that the volatility and socialised costs lead back to the Funding or Financing discussion. The DCC (JHe) went on to confirm that the two elements (volatility/socialised cost and Funding/Financing) should be taken together to the Panel presentation in January 2025 as it would be difficult to address one without the other.

The Working Group member (RB) expressed concern that the time may have run out on providing an explanation in order to implement the modification. Another Working Group member (AH) advised that there is an indicative view of what the Communications Hubs Charges will be in the next year and in order to get a view of subsequent years, this modification will have to be approved. They expressed their concern that this modification will not be included in the regulatory Charging Statement. As such, more information should be provided that would provide assurances to their Finance Team.

SECAS (AB) clarified the terms Financing and Funding; Financing relates to the DCC sourcing the capital from third Parties to pay for Communications Hubs and the repayment would be apportioned over a longer period. In a Funding scenario, the DCC would provide the capital to pay for Communications Hubs in a Regulatory Year and recover the costs from Parties within the monthly Charges for the same Regulatory Year. The DCC (JHe) agreed with this definition.

Another member of the Working Group (EL) questioned the costs to implement this modification. The DCC (JHe) confirmed there would be no costs to implement this modification from a DCC perspective.

A Working Group member (RH) questioned whether the Quarterly Finance Forum (QFF) Terms of Reference (ToR) will be updated as part of this modification to ensure the right information is provided. The DCC (JHe) confirmed that the aim of the QFF ToR is to ensure that attendees receive the right information and suggested offline meetings with attendees to review the revised changes. The Working Group member (RH) questioned whether 4G specific Charges will be included in Charging Statements, and the DCC (JHe) confirmed this would be the case.

The Working Group member (RB) expressed concerns with regards to the costs associated with the 4G Communications Hubs rollout. The DCC (JHe) confirmed that an update will be provided to show the 2G/3G costs have been aligned with the 4G rollout.

A Working Group member (EJ) questioned what would happen in the event that the Price Cap is set to a value that takes into account the costs of the 4G rollout, but the rollout is delayed. The Working Group member queried whether this would be taken into account at the next Price Cap. Ofgem (GR) confirmed that the Ofgem Price Cap team will look into this before providing a definitive answer.

The DCC (JHe) explained to Working Group attendees that the DCC is working alongside the Department of Energy Security and Net Zero (DESNZ) before returning to Panel with an update in January 2025. A Working Group member (RB) stated that January 2025 may feel late for an update to receive guidance and preliminary numbers that can be provided to the industry. The member emphasised that any information that can be provided before Christmas 2024 would be greatly appreciated. The DCC (JHe) confirmed it would look into providing information as soon as reasonably practicable.

## Next Steps

The following actions were recorded from the meeting:

- The DCC to provide an update on volatility and preliminary numbers at the January 2025 Panel meeting;
- Ofgem to determine whether delays in 4G rollout will impact the Price Cap and how this would be remedied; and
- SECAS to present this modification to the Change Sub-Committee in December 2024.