Smart Energy Code

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MP275 'Section K changes to support 4G Communications Hubs rollout'

October 2024 ad hoc Working Group – meeting summary

Attendees

SEC Party Category	Working Group Members	Representing
Large Suppliers	Emma Johnson (EJ)	British Gas
	Amy Cox (AC)	EDF
	Alex Hurcombe (AH)	EDF
	Francesca Scott (FS)	EDF
	Joey Manners (JM)	Octopus Energy
	Ralph Baxter (RB)	Octopus Energy
	Mahfuzar Rahman (MR)	Scottish Power
	Kevin Clark (KC)	Utilita
Small Suppliers	Daniel Davies (DD)	ESG Global
Other SEC Parties	Patricia Massey (PM)	BEAMA
	Beth Tatton (BT)	Calisen Metering
	Rob Heath (RH)	Calisen Metering
Network Parties	Jamie Lowe (JL)	Northern Powergrid
	Kelly Kinsman (KK)	National Grid Electricity Distribution
	Shuba Khatun (SK)	SSEN
Ofgem	Cristina Ullastre (CU)	Ofgem
	Grace Royall (GR)	Ofgem
	Ian Chalfon (IC)	Ofgem

Other Participants		
DCC		
Joe Hehir (JH)	Jonathon Helyer (JHe)	
SECAS		
Ali Beard (AB) *WG Chair*	Rachel Black (RBl) *Meeting Secretary*	Georgie Severin (GSe) *Lead Analyst*
Chris Thompson (CT)		

Overview

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

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.

Issues Group Discussion

Changes to the Charging Methodology

A member of the Working Group (AH) questioned the modification as part of the issue is already being addressed in DP276 ‘Communications Hub returned not redeployed’. SECAS (GS) confirmed that following the Change Sub-Committee (CSC) discussion on 15 October 2024, it was recommended that the two issues progress under one modification, given their connection. As a result, DP276 was withdrawn and assimilated as part of this modification.

Another member of the Working Group (RB) highlighted that the Working Group was not presented with sufficient financial information to demonstrate the significance, scale and volatility of the issue as stated. They went on to say that the solution appears sensible on paper, however without understanding what is involved from a finance perspective they could not make a decision. Asking the Working Group members to comment on internal calculations without evidence of how it would look like on a Charging Statement would be difficult. A concern they raised was regarding removing 2G/3G Communications Hubs – once returned, there would be a financial hit. The Proposed Solution would look at socialising this hit. The member concluded this argument saying that the Working Group members do not know the potential numbers associated with these Charges and as such should not be asked to support the modification in principle, without providing tangible information.

The Working Group member (RB) raised another concern regarding the size of these charges and the final numbers that appear on the Charging Statements are linked to the financing of new Communications Hubs. As there is no indication of the number of Communications Hubs volumes to be installed, quantifying the financial aspect will be difficult. The Working Group member highlighted that these concerns were previously raised and there is a desire within industry to understand the costs. The Quarterly Finance Forum (QFF) has provided some of the information highlighted however it might not provide enough to make decisions or approve this modification without understanding its implications.

The DCC/Proposer (JHe) highlighted that there was an engagement session that was run by the DCC in September 2024 whereby the DCC gave an indication of 4G Communications Hubs Fixed Charges – both with the Proposed Solution changes and without. This gave the financial impact of cost per Communication Hub with or without the change.

The Working Group Member (RB) explained that graphs showing this information are hard to understand as they do not give practical examples; they do not show the level of premature replacement Charges by removing the Communications Hub early.

The DCC/Proposer (JHe) emphasised that at a high level, it would be incorrect to charge Parties upfront financing costs remaining on the Communications Hubs at point of return. The DCC/Proposer agreed that while reapportionment of this Charge would be the correct thing to do, the QFF could show what the final rollout costs are likely to be for 2G/3G Communications Hubs. If that information is not covered at QFF, the DCC/Proposer will circle back and ensure that this information is provided. The DCC/Proposer encouraged the Working Group members to bring up the points that need addressing to track its progress over the coming weeks and ensure these have been adequately addressed.

The Chair (AB) circled back to an earlier point regarding socialisation of costs – it would not be fair for Suppliers to pay as soon as the removed Communications Hubs are returned, as it would lead to a large sum to pay in one go. Instead, the cost would be evenly spread over time. The Chair questioned where socialisation would come into play. The Working Group member (RB) explained that would be the cost of cutting finance early which the DCC are proposing to put into CH Fixed Charges which is a socialised cost.

The DCC/Proposer (JHe) explained that there would be no penalty charge and Parties would continue to pay the remaining financing payments. The Working Group member (RB) clarified that currently, Communications Hubs will have associated financing for some years. Once the Communications Hub is removed and replaced, the new Communications Hub on the wall will be financed going forward. Unless the financing on the Communications Hub is paid off at point removal, then Parties would be effectively paying for two Communications Hubs for a property.

They went on to state that as an industry, it would be taking on the consequences of the action and socialising, which does not look like an avoidable task. The DCC/Proposer (JHe) highlighted the cost would be recovered through the Communications Hubs Fixed Charge and agreed with the Working Group member (RB) that this would mean costs would be socialised. The Working Group member (RB) agreed that this change may be unavoidable, but as paying Parties, more information on the total sums should be provided, so Parties know what to expect.

Another Working Group member (AC) questioned whether the Working Group would be more constructive if it was held following the QFF meeting planned for later in the afternoon. The Chair (AB) confirmed that SECAS (GS) would be attending the QFF and any information that can be shared or clarified within the Modification Report will be agreed with the DCC and added.

Another Working Group member (BT) raised a concern that the Communications Hubs returned not redeployed Charge was not originally envisaged to cover a nationwide swap-out. The point of returning Communications Hubs would be to potentially redeploy, which would not be the case in this instance. This was not made clear in the Modification Report at the time of the Working Group. They went on to say that in this instance, the redeployment of Communications Hubs would not be appropriate, as the Communications Hubs removed will be phased out. So, it should be made clear that the Explicit Charge was not envisaged in this manner because in this instance it would not be an option.

The Working Group member (BT) went on to question where the cut-off point would be for the Communications Hubs returned not redeployed Charge – would this be for every 2G/3G Communications Hubs financing left to pay from 1 January 2025 through to the end of 4G deployment, or would it be from the day of removal? The Chair (AB) confirmed that Parties are already paying 2G/3G Communications Hubs, so the Charge would only apply if this 2G/3G Communications Hub is replaced with 4G. Otherwise, it would be a Communications Hub returned not redeployed Explicit Charge. The DCC/Proposer (JHe) confirmed that the changes to Charges would come into effect on 1 April 2025. It would not be an incremental charge, but a change to how it is recovered and avoid leveraging a Communications Hub returned not redeployed charge when it could be connected to the Fixed Charge.

The Chair (AB) referred back to a concern raised by a Working Group member (RB) about socialising costs – the cost will be dependent on how proactive Parties will be in exchanging the Communications Hubs. Large numbers of exchanges in a short amount of time will lead to higher costs in the short term. If Parties spread this out over a period of time, the costs will likely be more spread out.

The Working Group member (BT) questioned if this Charge would cover Communications Hubs that haven't been installed and are unlikely to be at this stage. It is likely that Communications Hubs have been manufactured but will remain uninstalled. The DCC/Proposer (JHe) agreed to look into this and come back with an answer for the Working Group. The Working Group member (BT) questioned whether the Charge will include all the Communications Hubs that were ever installed. The DCC/Proposer (JHe) clarified that it is likely that Communications Hubs purchased and installed a number of years back will already be paid off. Therefore the recovering costs will only apply to those Communications Hubs that have remaining financing in place.

Another Working Group member (AH) highlighted this conversation is straying into QFF discussions, which are confidential. They highlighted that the points raised by the Working Group member (RB) pertain to the Charging Methodology. From the information presented at the DCC engagement meeting in September, this modification would look to change the way 4G will be charged, which is different to rental payments for 2G/3G Communications Hubs. The Working Group member (AH) highlighted their concern over pushing through a modification that changes the methodology currently used by the DCC. If this goes ahead, it might mean Parties having to find upfront cash, which may be difficult. The DCC/Proposer (JHe) clarified that the Modification would be required regardless of the decision on funding or financing the 4G Communications Hubs. The current Methodology spreads the cost of the 4G over the installed Hubs at the start of the RY. As there's fewer numbers of Dual Band Communications Hubs, the charge would be disproportionate.

The DCC (JHe) stated that financing or funding 4G is a separate point and there is no interaction or overlap between the two, but it would be important to understand. They went on to highlight that there will be no choice but to replace the 2G/3G Communications Hub with a 4G one. The Working Group (AH) agreed with the explanation and highlighted that the SEC references 2G/3G Communications Hubs at the moment which would need to be updated to 4G. Thinking of the current Methodology of paying upfront, losing customers through churn with the new Communications Hubs would raise concerns that the money is less likely to be recovered. The member highlighted there is a concern regarding that, however acknowledged that changes may be needed.

The DCC/Proposer agreed that further information should be provided, which will take form in a teaching session. They highlighted that a session with Parties where the DCC could explain the current Methodology and brief consumers on how changes will work to understand the impact on Parties.

The Working Group member (AH) highlighted that there is slight confusion with this point as the understanding was that Parties will be charged on receipt of 4G Communications Hubs and that would be the full cost of the 4G Communications Hub. The DCC/Proposer clarified that the information provided in September shows the calculation – the cost of the rollout divided by the Communications Hubs already installed would equal the monthly cost of the 4G Communications Hubs. The DCC/Proposer highlighted this will be better addressed at QFF as it there is evidence that it was likely miscommunicated in the past. The DCC/Proposer added that they wanted this modification to move ahead so there is clear guidance on what next year would look like. The DCC/Proposer stressed the importance of these changes to be implemented in time for next year's Charging Statements.

A Working Group member (RB) expressed their belief that the teaching session will add value to Parties. The discussion centres around a very complex operational activity and as such the business case would need to be tested against various scenarios to see the consequences. They highlighted that the wording of the discussion points may cause further confusion on next steps. The teaching session would be helpful to showcase the volatility under different scenarios. The DCC/Proposer agreed to mention this at QFF.

Another member of the Working Group (MR) queried the assumption that when working with Unitary Charge, the numbers of Single Band compared to Dual Band Communications Hubs are significantly higher and therefore would this bear any significance on future assumptions? The DCC/Proposer highlighted that this would be discussed at QFF later in the afternoon.

The Working Group member (MR) clarified they do not attend the QFF. The DCC/Proposer agreed to include this in an appropriate forum, such as the teaching session. The Working Group agreed the date of the teaching session to suit schedules. The Chair highlighted that the teaching session will be useful but would leave a tight deadline for answers to the Refinement Consultation to be submitted.

Ofgem (GR) highlighted that the Refinement Consultation will not have a legal text in the first seven days of it running. The Chair explained that although the legal text will be available at a later date, respondents will have a number of questions that do not pertain to the legal text that they could answer. Ofgem expressed their interest in the teaching session.

Communications Hubs in the North Region

As part of the modification, the Working Group was presented with an area for assessment – the inclusion of a requirement for Parties to take all reasonable steps to install Single Band Communications Hubs in the North Region.

A member of the Working Group (RB) expressed that the hope of the industry is to be able to install 4G Communications Hubs in the North Region before long. They suggested this may be a separate business case that could be tackled only after knowing the costs of rolling out 4G in the North Region.

Another member of the Working Group (AH) stated that they did not believe this requirement to be necessary. Communicating this requirement to installers, irrespective of it being in the North or South region would be difficult as hand testers are scarcely available. Installers would also face difficulty with this requirement as they would not be able to determine which Communications Hub would be better facilitated in the property, depending on building materials and how far technology will propagate. They stressed that it would lead to confusion and the current way of working should remain unchanged to ensure a working CH is installed.

Another member of the Working Group (JM) queried how the 'all reasonable steps' requirement would be managed and how they would be able to determine that all reasonable steps were taken. The Chair highlighted that 'all reasonable steps' is a broad term, which Parties should be able to interpret on a case-by-case basis.

Ofgem views

SECAS received an offline view from Ofgem following the Working Group that they would like to be shared with the Working Group members and highlighted in the minutes.

Ofgem (GR) have highlighted some concerns with the progression of this modification, in particular regarding the problem statement being adequately defined, the detail and rationale for the solution, the subsequent implementation and any consequential effects.

Ofgem (GR) would like to remind the Working Group that anything submitted to the industry for consideration or to the Change Board for vote, regardless of its urgent status, has to have a final report which contains a fully formed solution that's robustly evidenced so that everyone can understand the existing and future processes and the differences between these.

The report also should set out clearly why this is needed, what changes need to take place, the implementation process, including any impacts on important industry challenges such as the smart meter roll out or non-communicating meters alongside identifying all impacted parties.

If the industry is not able to understand these aspects, or evidence is missing from the report it is likely that this modification, like any other, would need to be sent back for further work. This would inevitably delay it further and given its urgent status and timeline, all efforts should be made to avoid this situation.

Next Steps

The following actions were recorded from the meeting:

- The DCC to check the Charge for 2G/3G Communications Hubs that were in stock but never installed ahead of 4G redeployment;
- The DCC to run a teaching session for Parties to provide further information on the Charging Statements and changes proposed; and
- SECAS to issue the Refinement Consultation.